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# An Analysis of Intangible Assets Reporting Practices of Indian Companies

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## Abstract

*The main objective of this study is to analyse the level of intangible assets reporting practices of top 10 Indian companies. The sample companies were selected as per the rating of ET 500 list 2015, on the basis of market capitalisation. Content analysis on the annual report was used for the analysing the level of intangible assets reporting. ITC was such company which have most disclosure in the field of intangible assets. Internal capital was the maximum disclosed category, followed by External capital. The least disclosed category was Human capital. Study suggested that there is an immediate need of uniform guidelines relating to intangible assets measurement and reporting practices, so that companies can able to consider both tangible assets as well as intangible assets.*

**Keywords:** Intangible assets, Content analysis, Reporting, Indian companies

## Introduction

In modern business environment, Intangible assets are the critical resources that are used to attain future economic benefits of economy. Intangible assets are those assets which have no physical existence. Intangible assets are classified as patent, copyright, trademark and acquired goodwill, but not limited to these; also included the other important elements such as knowledge, customer satisfaction, employee experience, employee education, brands, worldwide networks and many more. If business organisation will follow a balanced approach of tangible assets as well as intangible assets, only then an organisation can able to built sustainable competitive advantage. In Information based economy, the existence of tangible assets such as plant and machinery, land and building are nothing without considering intangible assets. In 2002, The Council of the Institute of Chartered Accountants of India issued the accounting standards on intangible assets (AS 26). With the rapid growth of information technology, in 2009, India made a commitment towards the convergence of Indian accounting standards with IFRS at the G20 summit. In line with this, the Ministry of Corporate Affairs, Government of India (MCA) issued a roadmap for implementation of Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) beginning April 2011. Various academic and professional bodies also made time to time contribution for the defining, classifying, measuring and reporting of intangible assets. This study is used to analyse the level of intangible assets reporting practices for the period

2012-13, after the issuance of roadmap on April, 2011.

## Objective of the study

- To analyze the level of intangible assets reporting practices of top 10 Indian companies for the period 2012-13, as rated by ET 500 list 2015.
- To study the category wise analysis of intangible assets reporting practices of selected Indian companies.
- To study the company wise analysis of intangible assets reporting practices of Indian companies.
- To study the element wise analysis of intangible assets reporting practices of Indian companies.

## Review of Literature

**Guthrie and Petty (2000)** examined the annual reports of 20 Australian companies to measure the extent of intellectual capital reporting practices for the year 1998. In an Irish study, **Brennan (2001)** examined the voluntary Intellectual capital reporting practices of the 11 knowledge based Irish listed companies for the year 1999. **Bontis (2003)** conducted a study on the Intellectual capital disclosure practices of 10000 Canadian Corporations by employing content analysis. **April, Bosma and Deglon (2003)** examined the measurement, reporting and management practices in the 20 South African mining industry. **Goh and Lim (2004)** examined the extent of intellectual capital disclosure of 20 profit- making public listed Malaysian companies for the year 2001. **Oliveras, Gowthorpe, Kasperskaya and Perramon (2008)** conducted a study on the intellectual capital reporting practices of 12 Spanish companies over the period

from 2000 to 2002. **Xiao (2008)** analyzed the annual reports to determine the extent of IC disclosure in China for the year 2007. In India, only a few studies have been carried out to analyze the intangible assets reporting by Indian companies. **Pablos (2005)** examined the main similarities and differences between the Indian intellectual capital report and European intellectual capital report. **Kamath (2008)** studied the relationship between the intellectual capital components like human capital, structural capital and physical capital with the traditional measures of performance of the company such as profitability, productivity and market valuation by selecting 25 leading Indian pharmaceutical companies from the year 1996 to 2006. **Joshi and Ubha (2009)** conducted a study on the intellectual capital reporting practices of 15 leading Indian information technology

### Research Methodology

Top 10 Indian companies as rated by ET 500 list 2015 selected as per market consideration, are used to analyse the level of reporting practices of intangible assets for the period of 2012-13. Published annual reports are used as source of this study. Content analysis on the annual reports is used for the analysing the level of intangible assets reporting practices. Karl Erik sveiby (1997) framework named intangible assets monitor, consisted of 24 elements are used as disclosure index. Sentences are used as recording unit by following the Table-I coding:

**Table-I**

Coding	Score
No information in annual report	0
Information available in annual reports	1

Disclosure index is measured by using this formula:

$$\text{Total number of elements appearing in annual reports} / \text{Maximum number of elements which should appear in annual reports} * 100$$

**Findings of the study**

*Element wise analysis*

As per Table II and Table III, In internal capital category, the maximum disclosed element was Management Philosophy, Information system and Networking system. In external capital category, Business collaboration was maximum disclosed element. In human capital category, Entrepreneurial spirit was maximum disclosed element. The least disclosed element was Favourable contracts.

**Table-II**

Element wise analysis of Indian companies

S.N.	Elements	Total Number of Companies Disclosed	Element wise Score
1	Patent	8	33
2	Copyright	3	13
3	Trademark	5	21
4	Management Philosophy	9	38
5	Corporate Culture	6	25
6	Management Processes	8	33
7	Information System	9	38
8	Networking System	9	38
9	Financial Relations	8	33
10	Brand	8	33
11	Number of Customers	3	13
12	Customer Loyalty	1	4
13	Company's Name	9	38
14	Distribution Channel	6	25
15	Business Collaboration	10	42
16	Licensing Agreement	4	17
17	Favorable Contract	0	0
18	Franchising Agreement	2	8
19	Employee Know How	6	25
20	Employee Education	4	17
21	Vocational Qualification	5	21
22	Work Related Knowledge	9	38
23	Work Related Competencies	7	29
24	Entrepreneurial Spirit	10	42

Source: Annual reports of respective companies

**Table-III**

Ranking of Elements on the Basis of Score

S.N.	Elements	Element wise Score	Ranking of Elements
1	Business Collaboration	42	1

2	Entrepreneurial Spirit	42	1
3	Management Philosophy	38	2
4	Information System	38	2
5	Networking System	38	2
6	Company's Name	38	2
7	Work Related Knowledge	38	2
8	Patent	33	3
9	Management Processes	33	3
10	Financial Relations	33	3
11	Brand	33	3
12	Work Related Competencies	29	4
13	Corporate Culture	25	5
14	Distribution Channel	25	5
15	Employee Know How	25	5
16	Trademark	21	6
17	Vocational Qualification	21	6
18	Licensing Agreement	17	7
19	Employee Education	17	7
20	Copyright	13	8
21	Number of Customers	13	8
22	Franchising Agreement	8	9
23	Customer Loyalty	4	10
24	Favorable Contract	0	11

Source: Annual reports of respective companies

*Companies wise analysis*

In company wise analysis, ITC was such company which have most disclosure in the field of intangible assets, with the maximum score of 79. The least disclosure was made by Oil and Natural Gas Corporation limited with the score of 33. This has been shown in Table-IV:

**Table-IV**  
Company wise analysis of Indian Companies

S.N.	Companies	Score	Ranking
1	ITC	79	1
2	Larsen & Toubro	75	2
3	Wipro Limited	75	2
4	TCS	71	3
5	RIL	71	3
6	Infosys	71	3
7	Coal India limited	54	4
8	Sun Pharmaceuticals limited	46	5
9	Hindustan Unilever Limited	46	5
10	ONGC	33	6

**Source:** Annual reports of respective companies

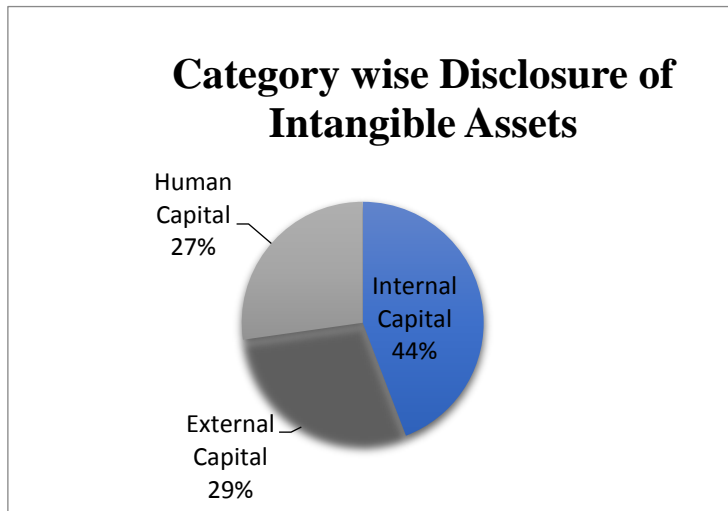
Category wise analysis

In category wise analysis of top 10 Indian companies, Internal capital was the maximum disclosed category with the score percentage of 44.6, followed by External capital with the score percentage of 28.85. The least disclosed category was Human capital with the score percentage of 27.51, as shown in Table- V and Figure-I:

**Table-I**

Category	Score	Score(%)
Internal Capital	271	44.6
External Capital	179	28.85
Human Capital	171	27.51

**Figure-I**



**Source:** Annual reports of respective companies

**Conclusion**

The main objective of this study is to analyse the level of intangible assets reporting practices of top 10 Indian companies. The sample companies were selected as per the rating of ET 500 list 2015, on the basis of market capitalisation. Published annual reports were used as the important source of this study. Content analysis on the annual report was used for the analysing the level of intangible assets reporting. The findings showed that in internal capital category, the maximum disclosed element was Management Philosophy, Information system and Networking system. In external capital category, Business collaboration was maximum disclosed element. In human capital category, Entrepreneurial spirit was

maximum disclosed element. The least disclosed element was Favourable contracts. ITC was such company which have most disclosure in the field of intangible assets, with the maximum score of 79. Internal capital was the maximum disclosed category with the score percentage of 44.6, followed by External capital with the score percentage of 28.85. The least disclosed category was Human capital with the score percentage of 27.51. Study suggested that there is an immediate need of uniform guidelines relating to intangible assets measurement and reporting practices, so that companies can able to consider both tangible assets as well as intangible assets. This advancement will helpful for stakeholders to make effective investment decisions by

considering intangible assets and tangible assets in equal manner.

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