

ABSTRACT

The “New Economy” as a concept gained significance during the latter half of the nineties, especially in reference to the development of the Internet business. While the traditional economy was about the efficient production of goods, the new economy is about creating, moving and managing networked information. Two key features that distinguish the new economy from the old are that firstly, innovation counts more than mass production and secondly, the key assets of a company are intangible in nature as opposed to the traditional dominance of fixed assets in the balance sheet. The keys to increasing shareholder value in this new knowledge-based economy are the intangible assets that a firm possesses. The Indian economy also has been moving from an industrial economy to a knowledge-based information economy with companies in the software, telecommunications and pharmaceutical sectors dominating the stock markets. In the context of the increasing importance of intangibles as the key economic resource for an enterprise, there is a need to provide accurate and reliable information in the financial statements relating to these resources.

The issue of accounting and reporting of intangible assets has been the subject of debate and research for more than a century now. Financial reports around the world are said to lack critical information relating to intangibles, which have a significant impact on the valuation of firms. This has been mainly due to issues relating to identification, ownership, measurement and valuation of these “invisible” assets. However, in spite of these drawbacks, a few companies like Skandia AFS and Dow Chemicals voluntarily publish information (financial and non-financial) relating to their intangibles annually in their financial statements.

The objective of the thesis is to establish a framework for accounting and reporting intangible assets in the financial statements of the firm. The specific case of the research and development capabilities of the organisation has been considered as it is increasingly being recognized as a critical activity for companies in the new economy. The feasibility of providing value relevant R&D information through mandatory and voluntary disclosures has been examined.