

Seasons' Greetings!

The advent of the festive season has been the harbinger for a spate of significant economic events and some bold policy decisions by the Government - hike in diesel prices, imposition of subsidized LPG cap, clearing of FDI in multi-brand retail & aviation, PSU restructuring proposals, announcing an SEB (State Electricity Boards) restructuring plan, approval of Companies Bill 2011; all aimed at bolstering the flagging economy. With the government going full throttle on the 'big-bang' reforms, bulls are having a party on Dalal Street as the 30-stock BSE Sensex reclaimed the 19000 mark after a gap of 18 months even amidst general perception that it is a sentiment driven rally while fundamentally the situation remains the same.

Now, let us turn our attention to the theme topic, 'Accounting for Intellectual Capital'. As a measurement-communication devise of economic events, the history of Accounting can be traced to the beginning of the recorded history. The clay tables found in some of the most ancient civilizations of the world suggest that accounting was an integral part of all socio-economic activities in an organised society. However, accounting apart from being a record-keeping device of a simple society, is also a highly adaptive social technology, always responding to the needs of the contemporary society.

In the history of the evolution of Accounting, Industrial Revolution and the emergence of corporate form of organisations are considered to be the major milestones. Accounting, in keeping with its reputation of being a flexible technology, has responded to support the emerging system of trade and commerce. But now in the wake of a technological revolution, the hallmark of the present time, the system of accounting appears to be inadequate. This accounting system was meant for an economy with preponderance of physical assets like land, building and plant and machinery. But these assets now constitute only a fraction of the market value of the most successful companies. Our accounting system starkly fails to capture what is considered to be the prime movers of economic values: the knowledge capitals or the intellectual capitals of the organisations. In this age, widely hailed as the new economy, companies are spending phenomenal sums on assets that go unrecorded in the books of accounts. In consequence, accounting provides at best an incomplete picture, and at worst a misleading picture to the stakeholders. It is imperative that the contribution of human capital needs to be recognized and accounted for, for better and correct interpretation of the financial results of the company.

In the past a number of research in India and abroad have shown that our present accounting system portrays only a fraction of what the market is willing to pay for the company. The hiatus between the market value and the book value is generally ascribed to the intellectual capital. The scholars in the field feel that the present system of accounting needs to be overhauled to accommodate those values in the books of account.

The present issue of the Management Accountant is themed upon such an important issue. I am sure that our contributors will keep an indelible mark of scholarship and originality while delving on this issue.

Happy reading!



Editorial