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## ORGANIZATIONAL AND METHODOLOGICAL ASPECTS OF THE AUDIT OF INNOVATIVE PRODUCTS

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### *Abstract*

*Nowadays intellectual property or modern innovative product is one of the main wealth of human society. New ideas, approaches, innovative products in the form of modern techniques and technologies are important tools which advance the society. The changes, modernization of society and achievements of science in the production processes give an opportunity to increase the amount of innovative products.*

*This requires working out and development of methodology of accounting system and audit for the perspective of innovation activity. This study examines the features of accounting and auditing process of innovation activity. The programme of auditing process of innovation activity is performed.*

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**Keywords:** intellectual property, innovation activity, innovative product, expenses for innovative products.

### **Introduction**

It is widely recognized that intellectual and innovation property and their sources such as intellectual and innovation activities play significant role in the development of every human society. Types of intellectual and innovation properties are affluence which reflects the potential of the society in science, technics, spirit, education and etc. Their importance in separately taken cells of society such as enterprises, organizations gives incomparable advantage in the development of this entities. Because

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the types of these properties might be one of the main sources of income. All of these aspects indicate the reasonability of characterization of all types of intellectual and innovation properties as important objects of accounting. However, if we summarize mentioned opinions, according to several reasons intellectual and innovation properties as well as their sources such as intellectual and innovation activities are not accounted in the system of accounting and financial statements, and not taken into consideration in audit either theoretically or practically. Hereinafter we approach to find solutions for these problems.

First of all, in our opinion, we should clarify the definition of „intellectual property” and its source as „intellectual activity”. Recently it is widely accepted to admit intellectual activity as „innovation activity” and intellectual property as „innovation product”, respectively. There are several arguable definitions and approaches in literature.

Objects of intellectual properties are separate objects of civil law. Intellect is a term used in studies of the human mind<sup>4</sup>.

Innovation activity occurring in precise time and place includes several processes. This processes are R&D, experimental production, experimental and constructive processes, etc.

As a place of innovation activity where it is created intellectual (innovative) property will be the exact cells of society such as research organizations, enterprises and organizations, families and single individuals. Intellectual (innovative) activities are carried out by labor communities or single person of the cells of society. Intellectual (innovative) property as a result of the intellectual (innovative) activity will be intellectual (innovative) property of labor communities or single person. As a time condition of innovation activity related to create intellectual (innovative) property will be the time, such as year, quarter or month which was spent to create those intellectual (innovative) property. According to recognition, valuation, accounting criteria quantity and quality of intellectual (innovative) property and intellectual (innovative) activity will be reported in statements.

As a rule intellectual property has a intangible form. But its result will materialize. Materialized form of intellectual property which was applied to economical and social life will be reflected in new technics and technologies, in new products. As a immaterialized form of intellectual property it will be new created ideas, new technologies, new services, new software, new projects and etc.

It should be mentioned that immaterialized form of intellectual property might be named as intangible property. Intangible property, created as a result of intellectual activity, is included into personal assets. That is created intangible property moves from one place to another, from one person to another.

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<sup>4</sup>Comments to the second part of civil code of Republic of Uzbekistan. Volume III. Tashkent.: „Iqtisodiyot va huquq dunyosi” publication house, 1998. – p. 20.

As a creator, consumer, object of intellectual property will be appeared human being and like other wealth intellectual property may be more or less. Presently, it is not developed the precise measure unit for this wealth. However, according to national potential of state, nation and society, the intellectual property can be valued.

If we summarize all opinions, we consider that intellectual activity and its result such as intellectual property in precise place and time might be recognized as objects of accounting. And this is an objective necessity. Therefore, we think that it is necessary to elaborate the definition of all mentioned terms, and include these definitions to the theory of accounting, to textbooks and tutorials. In our opinion, as objects accounting we offer to give the following definitions to those terms:

- **Intellectual (mental) activity** is a process of creating new idea, conception, the way of creating new product and services.
- **Intellectual property** is a property which resulted from carrying out intellectual activity in a precise place and time.
- **Innovation** is a special activity related to creating, mastering and applying of new ideas and developments for the purpose of updating and development the process of production and services in different cells of society.
- **Innovation activity** is a complex of processes directed to creating of new ideas and developments for updating of material and technical basis of production and services.
- Product innovation is a continuous and cross-functional process involving and integrating a growing number of different competencies inside and outside the organizational boundaries. Simply put, it is the process of transforming business opportunities into tangible products and services<sup>5</sup>.
- **Innovative product** is created or improved materialized and immaterialized property as a result of conducting innovation activity. Innovation product in the form of materialized property is new technics, new product, new goods. Innovation product in the form of immaterialized property is a new created idea, new technology, new software, projects and etc.

It is necessary to add that intellectual and innovation property is strongly interdependent with each other.

If we analyze deeper of their evolution, innovation property derived from intellectual labor. Further it is shown the interdependence of processes related to the forming and using of these properties (Figure 1).

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<sup>5</sup> Cooper, R.G., Edgett, S.J., Kleinschmidt, E.J., *Portfolio Management for New Products* Addison – Wesley, Reading, MA. 1998.

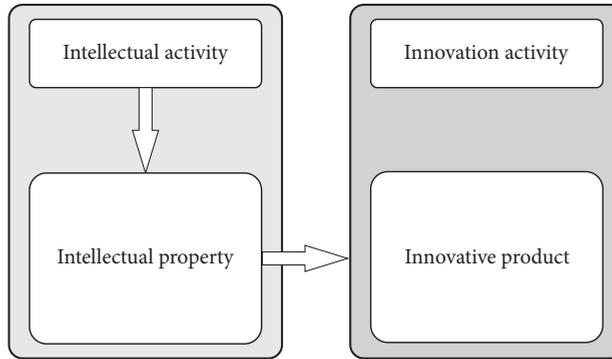


Figure. 1. The evolution of processes related to forming and using of intellectual and innovation properties

The most important means for increasing intellectual wealth are science and education. The participants in this processes are professors, teaching professionals and scientific groups who work in educational and scientific institutions.

**Research scientific work** is an activity directed to obtain new knowledge. In turn this activity is divided into fundamental research and practical research.

**Fundamental research** is experimental or theoretical activity directed to study the main rules of structure, existence and development of human being, society and nature.

**Practical research** is a research directed to the application of new knowledge for achieving practical goals and solving of concrete tasks.

**Scientific and technical work** is an activity directed for obtaining and applying of new knowledge for solving technological, engineering, economical, social, humanitarian and other problems.

**Experimental development and design project work** is process of testing of new knowledge obtained by research or practical experiments. This process gives an opportunity for improvement of new knowledge and practical skills in creating new material wealth, processes, installations, services, system or methods.

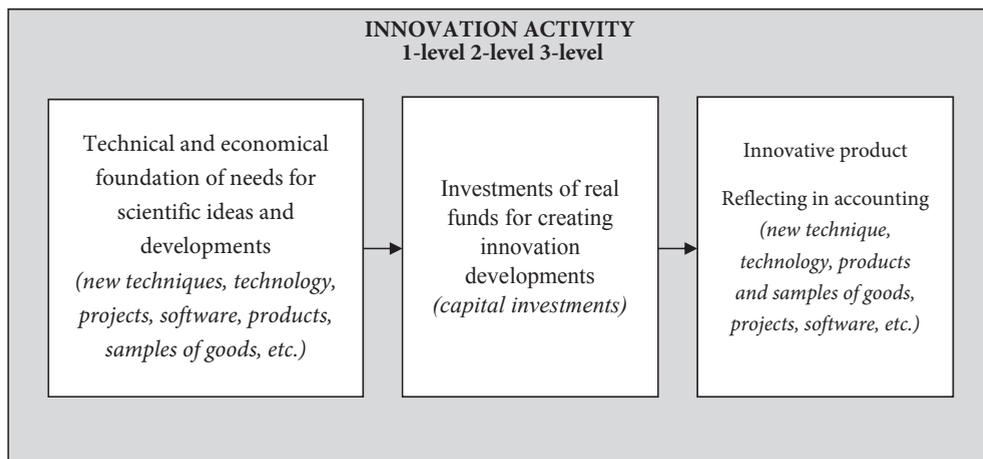
There are several types of innovation activity. Because enterprises may lead this activity by themselves or by inviting special organizations which is involved in carrying on scientific (research), technical or experimental development and design projects.

Innovation activity involves several levels. Below it is shown interdependence of these levels (Figure 2).

Innovation activity according to its meaning is a structural part of internal investments. In turn, besides investment processes internal investments include processes such as capital construction, buying of new techniques and technologies, modernization, extension, reconstruction of existing production powers. Therefore internal investment activity is a broad conception, and innovation activity is rather narrow

conception. Fund directed to innovation activity are part of total capital investments which is related to adoption and applying of new ideas, new products and services.

it is necessary to underline that in the economic literature, for example in textbooks and methodical grants of a problem the account and audit of innovative products are not displayed in enough. It in practice somewhat gives rise to difficulties to auditors. Therefore, we will more low stop on some organizational and methodical aspects of carrying out of auditor check of innovative products.



**Figure. 2.** Processes forming of innovation activity

Innovative product is the final result (result) of innovation. **Innovative product** – the tangible and intangible property resulting from innovation.

New equipment, new product and new goods is an innovative product obtained in the form of tangible property.

Created new idea, a new service, new software, and other projects is an innovative product in the form of intangible property (Figure 3).

Innovative product is one of the peculiar objects of accounting and auditing. These basic properties can include the following issues:

**Firstly**, the cost of innovative products, which spent entity. Within the meaning and nature of the costs of innovative products are added to the cost of released products (works, services), so these costs are not recorded in the accounts in «Primary production», which reflects the cost of production.

**Secondly**, the cost of products may give the innovative profit for the next period, instead of on the same or vice versa - and the costs cannot give gains even in the following periods. Therefore, it is advisable to show the costs during the report on innovative products in the account «Costs of the next period» until obtaining economic results.

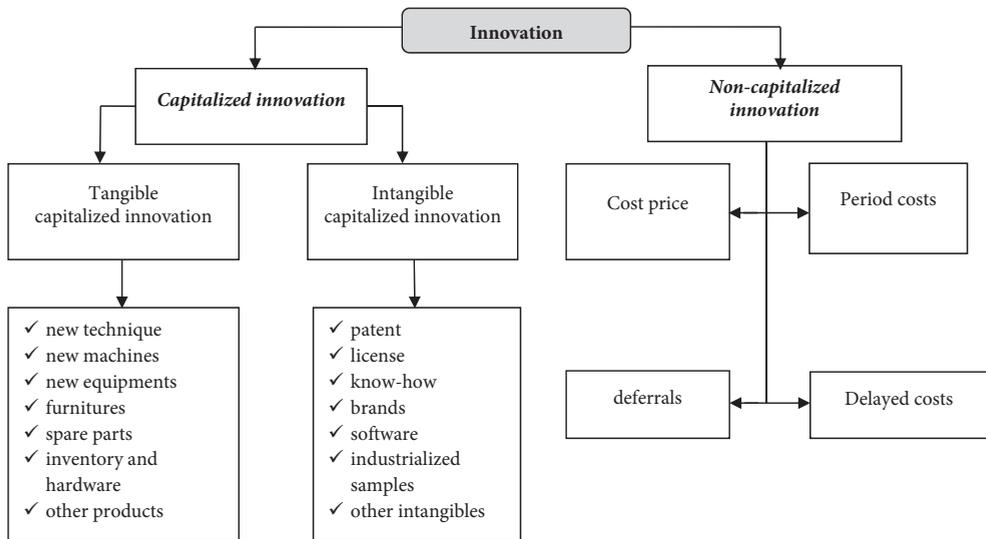


Figure 3. The general view of final result of innovation activity

**In the third**, expenses for innovative products by results of following achievements can be recognized in the form of an active or a period expense subjects of leaders household activity. In the first case of an expense collected on account «Expense of a following period» of by the form received result can be translated into the accounting account appointed for display (to display to display) this or that active and should be written out from the account. If expenses for innovative materials are not recognized as an active or not possibility to define, they should be recognized as period expenses. In this case, expenses collected on account «Expenses of the future periods» at first the period will be transferred into account – «period Expenses», by such way will be found (thus) from the account

**In the fourth**, expenses spent for innovative products make the cost price of innovative products. The cost price of innovative products includes the following articles on expenses:

- A salary to employees calculated for participation in creation of an innovative product and other payments
- Cost raw materials and materials spent on innovative products;
- The sum of ageing of the main means, non-material actives, cheap and quickly growing old things which have been used in creation of an innovative product;
- Other additional expenses connected with an innovative product.

“**Regulations on the part of the cost of production and sale of goods (works, services) and on the formation of financial results**”<sup>6</sup> According to the Charter about structure of expenses, expenses connected with sale of innovative products are not included into the cost price of these products, and pays off from the profitable account of the general economic activities as expenses of the period of managing subjects.

**In the fifth**, expenses for innovative products and expenses not recognised as an active will be written out from the account at the expense of the gross revenue of managing subjects. Here therefore these expenses be direct should be considered for surtax calculation. According to the code operating since 2008 expenses spent for innovative products will not be subtracted from base of the taxation during the accounting period. But they in regular intervals should be found in the future during profitable service life from base of the taxation to define to defined time. If this term is not defined, is found within 10 years.

The above-stated and other property testifies about great value of conducting the correct account, and also strict control innovative products.

One of important conditions of carrying out of audit of innovative products is a presence of questions for check of this object (**on this object**), their correct drawing up, exact definition of degree of auditor risk and the coordination of the client with the director in the auditor plan and the program of auditor check.

Innovation audits can help managers and decision makers improve their product innovation process<sup>7</sup>.

Not conformity of the auditor plan and its program of carrying out to these requirements can lead not enough effective check of process of formation of an innovative product by auditors and their assistants, accordingly, finally can lead to increase in auditor risk.

In literatures and standard documents the program of audit of innovative products is not resulted. For this reason we (**from authors**) develop the author's project of this program. It is shown in table 1. In our opinion, carrying out audit of an innovative product at the heart of the offered program can give chance to the permission of the problems set forth above.

**Table 1.** The program of auditor check of innovative products

The auditor organization	_____
The client enterprise (the enterprise of the client)	_____
Term of carrying out of audit	_____
Date of carrying out of audit	_____

<sup>6</sup> Approved by Decree N-54 of the Cabinet of Ministry of Republic of Uzbekistan on 5.02.1999.

<sup>7</sup> Patterson, M.L., (1998). From experience: linking product innovation to business growth. *Journal of Product Innovation Management* 15, 390-402.

The responsible auditor \_\_\_\_\_

Degree of auditor risk \_\_\_\_\_

	Checked questions	Result of achievement
	Existence of documents on necessity of scientific ideas and operating time (the new technics, technology, projects, programs, a product, samples of a product and others) proved from the technical and economic side.	To recognize existence of documents on necessity of scientific ideas and operating time (the new technics, technology, projects, programs, a product, samples of a product and others) proved with the technical and economic side.
	Existence of documents (the agreement, the contract, offers and others) which can be proved for allocation of a real money resource (the capital investment) for creation of innovative products.	To recognise existence of documents (the agreement, the contract, offers and others) which can be proved for allocation of a real money resource (the capital investment) for creation of innovative products.
	Existence of documents (the agreement, the contract, offers and others) connected with manufacture of an innovative product (the new technics, technology, projects, programs, a product, samples of a product and others).	To recognise existence of documents (the agreement, the contract, offers and others) connected with manufacture of an innovative product (the new technics, technology, projects, programs, a product, samples of a product and others).
	Conformity of an order of display of the account of innovative products on accounts with is standard-legal documents.	To recognise conformity of an order of display of the account of innovative products on accounts with is standard-legal documents.
	Existence of the report of innovative products and their real drawing up	To recognise Existence of the report of innovative products and their real drawing up or to define deviations
	Correct formation of the cost price of innovative products and their correct conducting	To recognise correct formation of the cost price of innovative products and their correct conducting or to define deviations
	Timely conducting the income innovative products and correct registration of the warrant of cash desk of the income	To recognise timely conducting the income innovative products and correct registration of the warrant of cash desk of the income or to define deviations
	Timely conducting the expense innovative products and correct registration of the warrant of cash desk of the expense	To recognise timely conducting the expense innovative products and correct registration of the warrant of cash desk of the expense or to define deviations
	Timely and correct conducting the storehouse report	To recognize timely and correct conducting the report of storehouse or to define deviations
	To write out from the account the expenses, spent for innovative products both not recognized as an active and display to accounts instead of the gross revenue of managing subjects	To recognize written off expenses, spent for innovative products both not recognized as an active and display to accounts instead of the gross revenue of managing subjects or to define deviations

## Conclusions

The main properties of audit of innovative products that initial documents, calculations, accounting records should be checked up without exception. Also, before check carrying out self-manual documenting concerning creation of innovative products, their account and display in the account, correct definition of properties of material and non-material (intangible) kinds of innovative products and their correct estimation are an overall objective of auditors. Full performance of these works, here strict observance to standard documents is a guarantee not to increase of auditor risk.

In our opinion, observance of the order set forth above at performance of audit of innovative products is of use only both to auditors and their clients.

We consider that it is necessary to create National Audit Standards in compliance with International Audit Standards and add accounts to card of accounts (the 21st National Standard of Accounting of Republic of Uzbekistan) which take into consideration innovation activity and its result such as innovation products.

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