

AS 26 - INTANGIBLE ASSETS

1) Objective :

Accounting treatment : Recognition
Measurement } Purchase of
Presentation } ITA, Sale of
Disclosure } ITA &
Amortization

- Whether amount spent on ITA - charged / capitalized

2) Definition :

ITA - Identifiable

- non monetary & life ≥ 12 Months.

- without physical substance

→ purpose → production of goods

→ Rendering of services

→ Administrative purpose

→ Rentals.

A) Identifiable.

a) Separable from self generated goodwill.

b) Separately sold / rented / used / exchanged.

c) Identifiability \neq separability

↳ if it can be done under some other means
like generation of FEB.

B) Non monetary:

not cash, but it can be measured in cash
[further - shall be learnt in AS 11.

C. Without physical substance:

- Intangible assets does not have any physical substance.
- But always need a support of physical substance.

↓ Seperable

For TA → AS-10
ITA → AS-26

In Seperable

- check for predominant element

if TA - AS 10

if ITA - AS 26

↓
FOR Both TA & ITA

D. Further ITA need to satisfy the definition of Asset

(i) FEB • able to generate cash / cash equivalents in future.
can be either ↑ benefits

↓ losses / Exp

(ii) control on FEB [i.e. generating FEB, Restricting others to access]

3. Recognition criteria

Asset definition

ITA definition.

4. Scope:

Non applicability:

① When ITA guided by special AS ~~(ie standard)~~ standards ie standard

AS 2

How / What is ITA

ITA held as stock.

[eg: software solutions]

AS 7

Right of construction awarded to contract.

AS 14

Goodwill during Amalgamation

AS 15	Expenditure on retirement / term benefits.
AS 19	Right to use arising in leases.
AS 21, 22, 23, 27	Goodwill during the consolidation.
AS 22	Deferred tax Assets
30, 31, 32	} Contractual rights / obligations arising in financial Assets / financial instruments.
[Withdrawals]	
Ind AS 109, 32, 107	

2) ITA arising in insurance contracts between policy holder & insurance co → IRDA [like right to receive premium]

3) Renewable & Non Renewable resources [like mineral rights, cropping rights] → Ind AS Norms. ↓

- Animal Husbandry
- Agriculture products
- orchards.
- Extraction of mines / minerals
- Gases / oils etc.

B. Applicability:

1) Goodwill	9) Import Quota	<u>Expenditure related to</u>
2. Patents	10) customer like	a) Advertising
3. copy rights	11) Pilot Plan	b) Training cost
4. Trade Marks	12) Intellectual PR	c) Startup cost
5. Mastheads	13) <u>licensing ag</u>	d) R&D exp
6. Publishing titles	Wrt: Motion pictures	
7. Recipes	Video records	
8. secret formula	Plays, manuscripts.	

Note: For leases → Initial recognition → AS-19 ✓
under Subsequent Recognition

- ↳ depreciation of leased Asset - AS 10 ✓
- ↳ Amortisation of leased Asset - AS 26 ✓

5. Recognition & measurement

A) Initial Recognition

depends on MOA

- a) cash / credit
- b) EOA
- c) IOS
- d) R&D.
- e) Govt Grants
- f) Amalgamation.

B) Subsequent Recognition

only cost model
cost price \rightarrow Initial Recog
xxx

- ↳ Acc. Amortisation (xxx)
- ↳ Acc. Impairment loss (xx)
- Carrying Amt / BV. xxx

A) IR

ITA acquired
a) cash / credit

recorded @ cost price = purchase price + DE [which are directly related to Acq/Install of ITA]

↓
Stated in invoice

includes

Quoted prices

- (-) TO / Volume rebate / Qty Dis
- (+) Non Ref Taxes & duties (if not included)
- Ref tax & duties (if included)

DE'S

- (i) Professional fee
- (ii) legal fee
- (iii) Registration charges
- (iv) Brokerage
- (v) Employer cost
- (vi) BC (QA ✓ AS 16)
- (vii) (-) Govt Grants (AS 12)

b) Exchange of Assets

Generally, always commercial substance
Then ITA @ fair value of Asset given up
or
fair value of Asset acquired
[For further provisions refer AS 10]

whichever
is more clearly
evident

c) Issue of securities

ITA has to be recognised @ FV of (sec) issued
or
FV of ITA acquired

whichever
is more clearly
evident.

PF NOT @ FACE VALUE OF csec issued)

d) Research & Development.

e) Govt grant (AS-12)

f) Amalgamation

Nature of merger

- i) NO ITA arises
- ii) so, shall not be disclosed

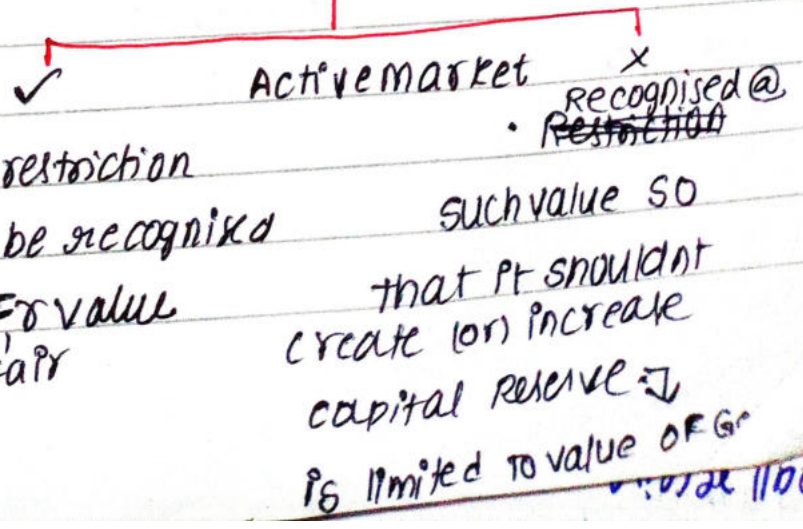
Note: we dont consider
existing ITA in the B/S of
seller CO for this concept

Nature of purchase

A&L - acquired @ fair value
 PF Purchase consideration >
 Net Assets → Dr. Goodwill,
 PC < Net Assets → Dr. capital
 reserve.
 AS 14.

For other ITA - AS-26

[Self generated ITA]



6) Self / Internally generated ITA

a) Research & Development

Note

- 1) Amt spent on this asset can't be separated from developing business.
- 2) No need to separately develop these assets which shall automatically generate when business is developed
- 3) Don't record the difference between the book value and market value as goodwill.

b) Others
like others Goodwill
Brands
mast heads
Publishing titles

Shall not be record

- Since - can't be identified
- can't be reliably measured
 - ITA def x
 - Asset def x

a) Research & Development:

before starting of commercial production

A) Research phase

Originally planned and investigated in order to gain - Marketing

Technological
Scientific } Knowledge & understanding

B) Development phase:

- Application of research findings
- to develop/improve

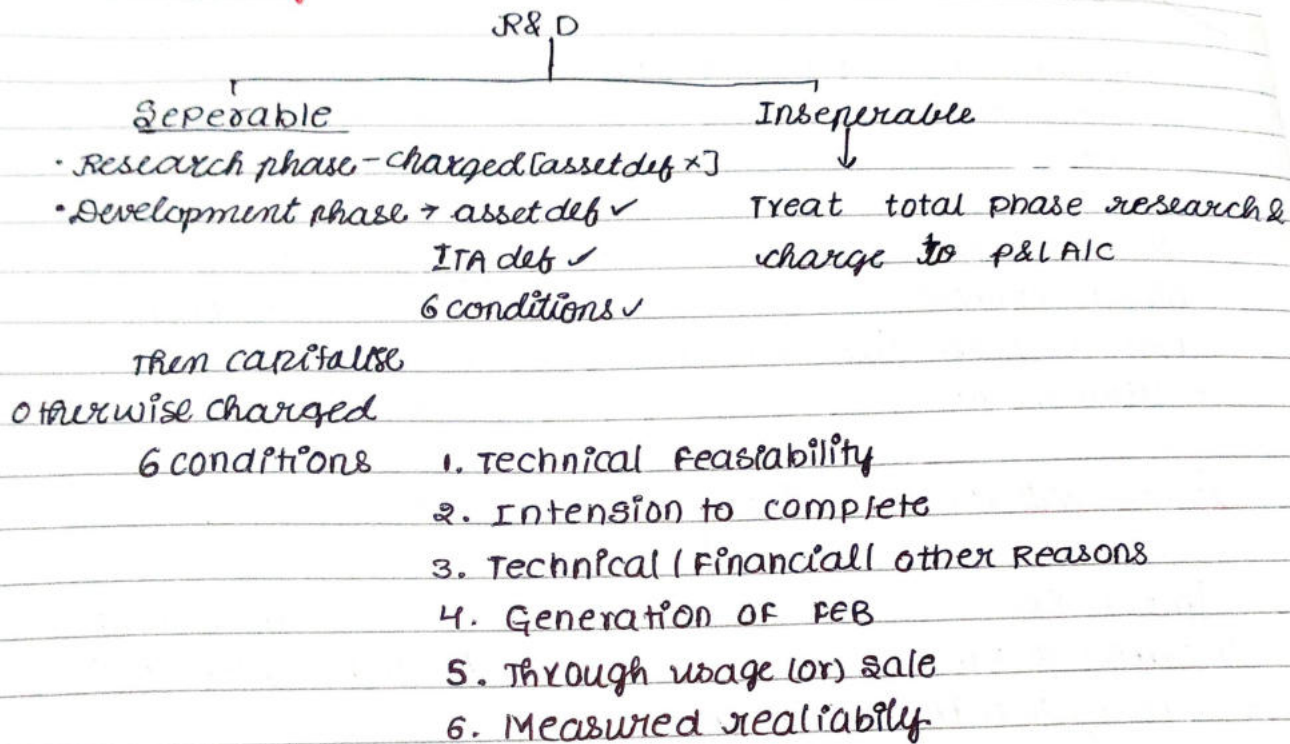
Materials
Systems

Products
Services

devices

methods

C) Accounting Treatment.



Note:

① Sometimes research can also be conducted on Research findings.

★ ② once charged can never be capitalized.

Exception: If charged due to error or omission

↓

can be rectified and capitalised.

[prior period items
↳ AS-5]

3) capitalised only from such point when recognition criteria is satisfied

!!! Recognition criteria x → charged.

D) Expenditure on R&D

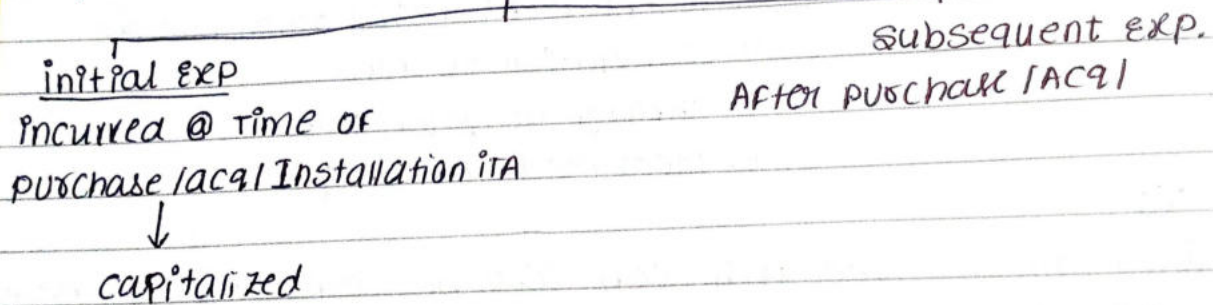
Includes → incost Poice of R&D

- Material cost
- Labour
- OH'S
- Normal loss
- Direct expenses
- Borrowing cost [QAV AS-16]
- (-) Govt Grant

excludes

- BC CGAX AS 16)
- S & D EXP'S
- Administration exp
- Finance & ACC expenses
- Startup cost / Training cost
- Abnormal loss
- Internal profits

7) Expenditure on intangible Assets.



8) Retirement & Disposal

$$P(L) = SP - BV$$

Charged to P&L A/C

- No active usage
- No FEB
- Held for sale but not yet sold

Record @ NBV / NSP ↓

Note: when NSP cant be determined → recorded @ NBV

9) Expenditure deft by AS 26.

DRE / fictitious Assets

Relating to securities

- a) discount on issue of deb
- b) loss on issue of deb
- c) share issue exp
- d) underwriter commission
- e) brokerage or commission on issue of shares.

Not relating to securities

- a) preliminary expenses
- b) advertisements
- c) promotions
- d) inauguration expenses
- e) preopening expenses
- f) preoperating expenses
- g) training
- h) research
- i) start up cost



AS 26



Companies can have their own policies
 → either charge immediately (or) deferance is capitalised

• charged immediately to P&L

10) Impairment loss

Compare net book value / carrying amt vs Recoverable value

$$NBV > RA \longrightarrow NPV \text{ (or) } VIU \uparrow$$

PV of F&B

Difference → IOL → charged to P&L

Note

a) generally the above test is performed only when there is an indication of impairment (as per AS 28)

b) But, as per AS 26, even when there is no indication the entity has to perform.

impairment test in following situations

(i) ITA under development → not yet ready / available for the

(ii)

11) Amortization

(A) Meaning / Definition

→ systematic Allocation of Amount OF ITA Over the
(useful life)

↓
Depreciable Amt ⇒ CP - Salvage / Resid

↓
Not arbitrary / Random allocation

↓
Should be based on Pattern of G. OF FEB.

(B) Method

Any method in the POG OF FEB

like SLM,

WDV,

Production units

machine hours

Note IF Management is unable to decide the method OF Amortization

↓
Apply SLM.

and

→ If useful life of Amortization not given then there is no Amortization.

C) change in Method of Amortization

Method of Amortization - Accounting policy

change in method of Amortization - Accounting estimate
↓
prospective basis

D) Period of Amortization

a) Start Amortization when ITA ready to use / available for use but not actual use / put to use

b) Rebuttable (deemed) presumption = 10 years

more than 10 years: { But a different life period is permitted provided that Management needs to give "Persuasive / conclusive" evidence.

c) while choosing a different period - consider

Economic factors

capable of generating FEB

whichever is lower.

Legal factors

licence & control

Economic factors
or
legal factors ↓

Generally Amortization period not more than licence period

Exception

when licence can be renewed

& 100% sure
Renewal is virtually certain

Amortization period = licence period + renewal period.

Residual value

generally RV for ITA = zero

Exception : RV is determined

a) when commitment given by 3rd party that she will purchase ITA after useful life.

b) when there exist an active market @ end of useful life.

Can residual value be changed for change in estimations in future?

Residual value cannot be increased for future development (ol) estimations

↓
But can be decreased (ol) may become zero.

12. Review and revision of estimates

- 1) IOL - impairment of loss
- 2) value in use
- 3) net selling price.
- 4) useful life.
- 5) method of Amortisation

change in A/cing estimates
as per AS 5
&

To be given a prospective effect.

13) Disclosures

14. Other points.

a) method based on expected revenue (CF's generation)

↓
not permitted by AS 10. Silent in AS 26 (Decided by the mgmt)

b) ITA life is infinite - NO Amortization (But check for impairment of loss)

like paintings, patents (unlimited etc)

c) A/c treatment
Amort

TO I/A A/C

used for production of goods
↓
+ TO COST OF PRODUCTION

cost sheet

C/O Amortization

used for Adm / Rental

→ P&L
TO AMMORTIZATION OF
(T/r or P&L)

used for
T/A P/E
↓
P/E TO AMMORTIZATION