AS 26 - INTANGIABLE ASSETS

1) Objective :

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

- Wheather 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) Seperable from self generated goodwill.
b) seperately sold / rented / used / exchanged.
c) Identifibility ≠ seperability
↳ 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 physcial substance:

- Intangiable assets does not have any physcial substance.
- But always need a support of physcial substance.

↓

Seperable

For TA → AS-10
ITA → AS-26

↓

In seperable

- check for predominent 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 (i.e ~~standard~~):

[i.e Standard — HOW / What is ITA]

AS 2 — 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, 23, 27 — Gwill during the consolidation.
AS 22 — Deferred tax Assets
30, 31, 32 [withdrawns] } Contractual rights / obligations arising in
Ind AS 109, 32, 107 } Financial Assets / Financial instruments.

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, croping rights] → Ind AS Norms.

- Animal Husbendry
- Agriculture Products
- orchards.

Extraction of
- mines / Minerals
- Gases / oils etc.

B. Applicability:

1. Good will
2. Patents
3. copy rights
4. Trade Marks
5. Mastheads
6. Publishing Titles
7. Recipies
8. secret formula
9. Import QUOTA
10. customer like
11. Pilot Plan
12. Intellectual PR
13. Licensing ag
    Wrt: Motion pictures
    Video Records
    Plays, Manuscripts.

Expenditure related to
a) Advertising
b) Training cost
c) Startup cost
d) R&D Exp

Note: For leases → Initial recognition → AS-19 ✓
under Subsequent Recognition
- depreciation of leased Asset - AS10 ✓
- 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.

A) IR

a) Cash/credit

recorded @ cost price = Purchase price + DE [which are directly related to ACQ / Install of ITA.

Stated in invoice

Includes

Quoted Prices
(-) TD / 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) Employee cost
(vi) BC (QA ✓ AS16)
(vii) (-) Govt Grant (AS 12)

B) Subsequent Recognition

only cost model

Cost price → Initial Recog	xxx
(-) Acc. Amortisation	(xxx)
(-) Acc Impairment loss	(xx)
Carrying Amt / BV.	xxx

CT TO THE FORMATION OF A
ber of persons: [Sec 3(1)]

b) Exchange of Assets

Generally, always commercial substance

Then ITA @ fair value of Asset given up / or / fair value of Asset acquired } whichever is more clearly evident

[For further provisions refer AS 10]

c) Issue of securities

ITA has to be recognised @ FV of (sec) issued / or / FV of ITA acquired } whichever is more clearly evident.

If not @ face value of csec issued)

d) Reasearch & Development.

e) Govt grant (AS-12)

f) Amalgamation

Nature of merger

i) NO ITA arises

ii) So, cshall not be disclosed

Note: we dont consider existing ITA in the BIS of seller co for this concept

Nature of purchase

↓

A&L - acquired @ fair value

If Purchase consideration > Net Assets → Dr. Goodwill.

PC < Net Assets → Dr. capital reserve. ↓ AS 14.

For other ITA - AS-26

[self generated ITA]

✓ Active market

- No restriction
- can be recognised at Fr value / Fair

✗ recognised @

- ~~Restriction~~

such value so that it shouldnt create (or) increase capital reserve ↓ is limited to value of Gr

6) Self / Internally generated ITA

a) Research & Development

b) Others.

like others Goodwill
Brands
mast heads
Publishing titles
} Shall not be record

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

Note

① Amt spent on this asset can't be seperated from developing business.

2) No need to seperately develop these assets which shall automatically generate when business is developed

3) Dont record the difference between the book value and market value as goodwill.

a) Research & Development:

before starting of commercial production

A) Research phase

Orginally planed and investigated in order to gain - Marketing
Technological
Scientific
} Knowledge & understanding

B) Development phase:

- Application of research findings
- to develop / improve

Materials Products devices methods
Systems Services.

WWW.MASTERMINDS...
...r formation of a company?
...CT TO THE FORMATION OF A COMPANY [SEC 3]:
...ified number of persons: [Sec 3(1)]:

C) Accounting Treatment.

R&D

Seperable

- Research phase - charged [asset def ×]
- Development phase → asset def ✓
  ITA def ✓
  6 conditions ✓

Then capitalise

Otherwise charged

Inseperable

↓

Treat total phase research & charge to P&L A/c

6 conditions
1. Technical Feasibility
2. Intension to complete
3. Technical / Financial / other Reasons
4. Generation of FEB
5. Through usage (or) sale
6. Measured realiability

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 omision

↓

can be rectified and capitalised.

[prior period items → AS-5]

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

Till recognition criteria × → charged.

D) Expenditure on R&D

Includes → in cost pole of R&D
- Material cost
- Labour
- OH's
- Normal loss
- Direct expenses
- Borrowing cost [QA ✓ AS-16]
- (-) Govt Grant

excludes
- BC [QA × AS 16]
- S & D Exp's.
- Administration exp
- Finance & Acc expenses
- Start up cost / Training cost
- Abnormal loss
- internal profit.

7) Expenditure on intangible Assets.

Initial Exp
Incurred @ time of purchase / acq / Installation ITA
↓
capitalized

Subsequent exp.
After purchase / acq

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

↓
Re cold @ NBV / NSP ↓

Note: when NSP cant be determined → recorded @ NBV

JECT TO THE FORM
specified number of persons. Sec 3(1)

9) Expenditure dealt 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 its own policies
→ either charge immediately (or) deferance as captilised

✓ ↓
• charged immediatly to P&L

10) Impairment loss

Compare net bookvalue / carrying amt VS Recoverable value

If NBV > RA ⟶ NPV (or) VIU ↑ PV of FCB

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)

1) Amortization

(A) Meaning / Definition

→ Systamatic Allocation of Amount of ITA over the useful life
↓
Depreciable Amt ⇒ CP - Salvage / Resi'v

Not arbitary / Random allocation
↓
Should be based on Pattern of G of FEB.

(B) Method

Any meathod in the POGOFEB
like SLM,
WDV,
Production units
machine hours

Note IF Management is unable to decide the method of Amortization
↓
Apply SLM.

pecified number of persons.

and

→ If useful life or Amortization not given then there is no Amortization

C) Change in Method of Amortization

Method of Amortization - Acing policy

Change in method of Amortization - Acing 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 yrs: 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 & Renewal is virtually certain (100% sure)

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 he 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 developments (or) estimations

↓

But can be decreased (or) 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/c ing estimates as per AS 5 & To be given a prospetive effect.

13) Disclousres

14. Other points.

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

⇓

not permitted by AS10 Silent in AS 26 (Decided by the mgment

b) ITA life is infinate - No Amoritization (But check for impairment of loss)

↓

like paintings, patents (unlimited etc)

c) A/c Treatment

Amort TO ITA A/C

Used for production of goods + TO cost of production → cost sheet

C/O Amortization

↓

used for Adm / Rental → P&L TO unmodified of PPE (CF/r TO P&L)

Used for TH PPE & PPE TO Amort