AS 26 - Intangible Assets

1. Definitions

- **Intangible Assets:**
  - Non-Monetary Asset
  - Without Physical Substance
  - Held for use in the business.
  - **Identifiable:** Must meet any one of the following two conditions:
    1. It can be separately sold from other assets or
    2. It arises from a separate legal contract.
- **Non-Monetary Asset (As per AS 11):**
  - It is not realisable in a fixed or determinable amount.
  - *Note:* The monetary/non-monetary concept is only for Balance Sheet items.

Distinction for Assets:

Asset Type	Purpose	Applicable Standard
Intangible Asset	Held for use in the business	AS 26
Intangible Asset	Held for sale in the ordinary course of business	AS 2 - Inventory

Guidance on Assets that incorporate Both Tangible and Intangible elements:

- The entity should assess which element is more significant.
- *Example:* Software purchased in a CD → AS 26.
- *Example:* Computer machine purchased incorporating software → AS 10 - Property, Plant, and Equipment (PPE).

2. Recognition criteria

- **Future Economic Benefits (FEB's):** The asset is expected to generate future economic benefits.
- **Cost Measurement:** The cost can be measured reliably.

3. Measurement

- **Initial Measurement:** Measured at Cost.
- **Subsequent Measurement:** Measured at Cost less: Accumulated Amortization.

Initial Measurement (Cost)

Acquisition Method	Treatment
i) Purchased	Purchase Price (Less: Trade discount and Rebates) + Non-Refundable taxes and duties (Refundable taxes are not considered in cost) + Directly Attributable Expenses. Exclusion from cost is the same as AS 10.
ii) Exchange	Same as AS 10 (Recorded at the Fair Value of the asset received or the Fair Value of the asset given up, whichever is more clearly evident).
iii) Amalgamation	Any intangible asset taken over by the purchasing Company in Amalgamation will be recorded at **Fair Value**. Any excess Purchase Consideration paid over and above the Fair Value of Net Assets acquired will be recorded as **Goodwill**.

Acquisition Method	Treatment
iv) Internally Generated Assets (Other than Goodwill)	The cost incurred in the **Development Phase** will be **Capitalised** if all six conditions are met. Research Phase expenditure must be charged to the Profit and Loss Account.
v) Government Grant	Accounting as per AS 12 - Accounting for Government Grants.

Internally Generated Intangible Assets (Other than Goodwill)

- **Internally generated Goodwill:**
  - Not recognised as Intangible Asset because:
    1. It is **Not Identifiable**.
    2. Cost cannot be measured reliably.
- **Research Phase:**
  - The entity cannot demonstrate that an Intangible Asset exists.
  - All Research Phase Expenses must be transferred to the **Profit and Loss Account**.
- **Development Phase:**
  - This is the phase that converts the results of Research into a marketable product.
  - **Capitalise** all directly attributable expenses of the development phase.
  - **Development phase Begins only when All six conditions are met:**
    1. Technical feasibility of completion.
    2. Intention to complete.
    3. Ability to use or sell the Intangible Asset.
    4. Availability of adequate resources like technical, financial, etc.
    5. How it will generate Future Economic Benefits (FEB's).
    6. Cost can be measured reliably.
  - **Intangible Assets that cannot be recorded if internally generated:**
    1. Brand
    2. Customer Database
    3. Publishing Titles and Mastheads
  - **Hint for Development Phase conditions:** Two conditions related to completion, two related to availability ('A's - Ability, Availability of resources), and two related to Recognition criteria (FEB's, Cost measurement).

---

4. Subsequent Cost Incurred

- **Subsequent Measurement:** Cost of Intangible Asset less: Accumulated Amortization (Only Cost Model is allowed).
- If such subsequent expenditure will generate **future economic benefit**, then it can be **added to the cost of the intangible asset**.
- If **No future economic benefits (FEB's)**, then transfer the expenditure to the **Profit and Loss Account**.
  - *Example:* Software repair fees (no increase in validity) → Profit and Loss.
  - *Example:* Renewal fees (software validity increases by 5 years) → Capitalise.

---

5. Expenditure incurred, But No Intangible Asset

- The following expenditures should always be recognised as an **Expense** (Always Profit and Loss Account):
  - Training Expense
  - Advertising Expense / Promotional Expense
  - Startup Expense
  - Expense of relocation or reorganising activities
  - Research Phase Expense

---

6. Amortization

- **A. Methods:**
    - Straight Line Method (SLM)
    - Written Down Value (WDV) Method
    - Units of Production
    - (Same as AS 10 - Property, Plant, and Equipment)
- **B. Amortization Period:**
    - **Start Date (Commencement):** When the asset is **Available for use**.
    - **End Date (Cessation):** When the life is over OR the asset is disposed (sold).
    - **Note:** When the Carrying Amount (CA) reaches the Residual Value, no further amortization is to be done.
- **Useful life of Intangible Asset:**
    - As per AS 26, the **Maximum life** of an Intangible Asset is **10 years** (Presumption by AS 26).
    - Life can be **more than 10 years** only when the company has **evidence**.
    - As per AS 14 (Amalgamation), Goodwill should be amortised over **5 years** (This is a note from AS 14 context).

---

7. Residual Value

- Since an Intangible Asset has **no physical substance**, its scrap / Residual Value is assumed to be **zero**.
- **Exception:** If there is a **commitment by a third party** to purchase the intangible asset at the end of its useful life, then that price can be assumed to be the Residual Value.

---

8. Changes in Estimate

- Changes in Estimate of Amortization method, useful life, or Residual Value are **changes in Accounting Estimates** (As per AS 5).
- Hence, do **Prospective Accounting**.

---

9. De-Recognition (Removal from Books)

- De-recognise the asset when:
    1. It is sold OR
    2. The life of the asset is over.
- If it is sold, then the **gain or loss on sale** will be transferred to the **Profit and Loss Account**.

---

10. Impairment (AS 28)

- **Impairment Test:** Compare the **Carrying Amount (CA) of the Asset** with the **Recoverable Amount (RA) of the Asset**.
- **Recoverable Amount (RA):** It is the **Higher of:**
    1. Value in Use (Present Value of future cash flows)
    2. Net Selling Price (Sale Price less: Cost of Disposal)
- **Impairment Loss** = Carrying Amount - Recoverable Amount (If CA > RA).
    - *Journal Entry:* Impairment Loss Account Debit to Asset Account.
- **Impairment Gain:** There is **no concept of Impairment Gain**. If the Recoverable Amount is higher than the Carrying Amount, the asset will stay at the Carrying Amount.

---

11. Other Miscellaneous Points

- **Intangible Asset purchased in exchange of shares:**
    - The asset is recorded at the **Fair Value of the asset acquired** OR the **Fair Value of the shares given up**, whichever is **more clearly evident**.

- **Accounting for Previous Years' Mistakes (Prior Period Items - PPI):**
    - As per AS 5, mistakes of previous years are to be treated as **Prior Period Items** and its effect will be considered in the **Current Profit and Loss Account** as a Prior Period Item.
    - *Example:* If amortization was not done in previous years, the missed amount is recorded as "Prior Period Item (Profit and Loss) Account Debit" in the current year.
- **Annual Fees (Percentage of Revenue):**
    - Annual fees based on Net Revenue will be charged to the **Profit and Loss Account as an expense when it is incurred**.
- **Amortization Policy:**
    - If the company follows a policy of charging **full year amortization in the year of purchase/acquisition**, this must be mentioned in the question.