Nahata Professional Academy

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CA FOUNDATION | CA INTERMEDIATE | CA FINAL

IND AS 38

INTANGIBLE ASSETS.

Overview

- Meaning
- Recognition principle
- Initial Recognition & measurement
- Subsequent Recognition

#1 Meaning :-

☞ I.T.A. are those assets which has following 3 features

- No physical substance.
  - ↓
- Non monetary
  - ↓
  - Cannot be contractually
- Identifiable & Separable.

hence it is available sold for a fixed
in a Container determinable amount.
provided Cost of
Container is neglible
as Compared to I.T.A.

It can be
Used, sold
Exchanged
& licensed
independently.

eg.

CD + software → ITA.

Laptop + O.S. → PPE

eg of I.T.A.

→ Trademark
→ Copyright.
→ Patent
→ Software

→ Technical knowhow
→ I.P.R.
→ Prototypes
→ Database

→ Crypto
→ Telecom license.
→ No compete fees
→ Franchise Rights.

Following are not I.T.A. as per IND AS 38

i) market share → Non Identifiable
ii) goodwill → Non Identifiable
iii) marketing & advertising campaign → FEB is

not certain

iv) Staff training cost → No control over human resource.

v) amount spent to obtain a skilled staff :- No control over human resource (but if staff has to work for minimum no. of years than I.T.A)

vi) Deferred Revenue exps → preliminary exps, Share issue exps, underwriting commission, Start up etc. → No F E B.

note :- point iii to vi should be expensed to P/L.

Following are I.T.A. as per other IND AS but IND AS 38 is not applicable.

i) I.T.A. arising in ordinary course of business (IND AS 2)

ii) D.T.A. (IND AS 12)

iii) goodwill (IND AS 103)

iv) Leases (IND AS 116)

v) Financial Assets (IND AS 32)

vi) Ins. Contracts. (IND AS 104)

vii) NCA held for sale (IND AS 105)

viii) Exploration of minerals & its evaluation (IND AS 106)

ix) Toll Roads (IND AS 115)

x) Employee benefits (IND AS 19)

#2 Recognition principle.

→ should satisfy defn of I.T.A.

→ Cost should be measured

→ FEB should flow to entity.

#3 Initial Recognition & measurement.

I.T.A is.

- purchase
- internally generated
- Deferred Credit
- exchange

purchase, internally generated →

1) Cost

2) Journal.

Deferred Credit, exchange → Same as INDAS 16.

1) Cost

Purchase price	xxx
− Trade discount	(xx)
	xxx
+ Non refundable taxes.	xx
+ Directly attributable expenses to bring ITA in RTU condition (as intended by mgmt)	xxx
+ B/C (if Q.A.)	xxx
	xxx

includes
→ legal fees
→ prof. fees
→ Cons. fees
→ Advisor fees
→ Design
→ Customisation cost (Android for samsung)

excludes
→ Staff training cost.
→ Cost of launching ITA.
→ Advertising & promotion
→ Admin, gen. & selling o/H is allocated.
→ Operating losses
→ Annual maintenance fees

→ Testing Cost

→ Employee Cost
(salary paid for coding)

→ Exp. during development phase.

Should be w/off over its useful life.

→ Subsequent cost on ITA.
↳ Annual fee / Royalty as a % of sales.

→ cash discount

→ early settlement discount

→ Int. on loan
(until allowed by IND AS 23)

→ Exp. during Research phase.

ii) Journal

ITA. Dr
To Bank.

note 1 :- if Q is silent, assume all taxes are refundable.

note 2 :- Internally generated ITA (self generated)

if any asset is internally generated w/o any cost

if there is internally generated ITA with

Shall not be recognised in f/s.

eg → i) goodwill
ii) Brand name
iii) publication title.
iv) customerlist

Cost.

Research phase → planned investigation with objective of getting knowledge.

{Researching to find is it possible to make.}

Exp. during R.P. Charged to P/L.

Development phase → Yes possible if
→ Technically feasible
→ Resources avail.
→ legally permissible
→ Cost measurable
→ financially viable

Exp. during D.P. shall be capitalized

↳ once expense is classified as R.P. then it cannot be classified as D.P.

↳ C.A of I.T.A cannot be > Recoverable

amount else impairement.

↳ In Biz. Combination

a) I.T.A. t/o can be recognised only @ F.V.

b) acquired research phase is capitali-sed @ F.V.

#4 Subsequent Recognition

a) Subsequent Cost

b) Amortisation

c) Recognition @ each B/S date

- Cost → Same as IND AS 16
- Reval^n → Same as IND AS 16

d) Derecog-nition

a) Subsequent Cost :-

- Capitalised
  - Upgradation & updation cost
    - which increases life efficiency or capacity of asset.
- Revenue
  - modification exps.
    - eg-> Δ in design, logo, Brand name.
  - Exp to preserve I.T.A.
    - eg-> manuscript

b) Amortisation

- methods
  - i) SLM
  - ii) Ratio of efs.
- Useful life
  - Finite
    - -> expected.
  - infinite
    - we will check
- Salvage value
  - always zero i.e. Nil until active market exist.
- impairement
  - as usual as per IND AS 36, if indicators exist.

→ Contractual   for Impairement every year.

J.E.

Amortisation Dr   xxx

To I.T.A. | Acc. Amorti   xxx

d) Derecognition

Disposal | sale → Same as IND AS 16

Retired → try it to IND AS 105 NCA HFS.

Question# 1	TYK 6 ICAI STUDY MATERIAL

X Ltd. purchased a standardised finance software at a list price of ₹30,00,000 and paid ₹50,000 towards purchase tax which is non-refundable. In addition to this, the entity was granted a trade discount of 5% on the initial list price. X Ltd. Incurred cost of ₹7,00,000 towards customisation of the software for its intended use. X Ltd. purchased a 5 year maintenance contract with the vendor company of ₹2,00,000.

At what cost the intangible asset will be recognised?

Question# 2	ILL 4 ICAI STUDY MATERIAL

Venus India Private Ltd acquired a software for its internal use costing ₹10,00,000. The amount payable for the software was ₹600,000 immediately and ₹400,000 in one year time. The other expenditure incurred were:-

- Purchase tax : ₹1,00,000; Entry Tax : 10% (recoverable later from tax department)
- Legal fees: 87,000 Consultancy fees for implementation : ₹1,20,000
- cost of capital of the company is 10%.

Calculate the cost of the software on initial recognition using the principles of Ind AS 38 Intangible Assets.

Solⁿ :-

Initial payment	₹ 600000
+ P.V. of def. payment (4L × 0.9091)	363640
+ purchase tax	100000
+ legal fees	87000
+ consultancy fees	120000
	1270640

Question# 3	TYK 9 ICAI STUDY MATERIAL

X Ltd. acquired a patent right of manufacturing drug from Y Ltd. In exchange X Ltd. gives its intellectual property right to Y Ltd. Current market value of the patent and intellectual property rights are ₹20,00,000 and ₹18,00,000 respectively.

At what value patent right should be initially recognised in the books of X Ltd. In following two situations?

(a) X Ltd. did not pay any cash to Y Ltd.

(b) X Ltd. pays ₹2,00,000 to Y Ltd.

Solⁿ

Case 1

Patent Dr 1800000

To IPR. 1800000

Case 2

Patent Dr 2000000

To IPR 1800000

To Cash 200000

Question# 4 **ILL 6 ICAI STUDY MATERIAL**

Sun Ltd acquired a software from Earth Ltd. in exchange for a telecommunication license. The telecommunication license is carried at ₹5,00,000 in the books of Sun Ltd. The Software is carried at ₹10,000 in the books of the Earth Ltd which is not the fair value.

Advise journal entries in the following situations in the books of Sun Ltd and Earth Ltd:

1. Fair value of software is ₹5,20,000 and fair value of telecommunication license is ₹5,00,000.
2. Fair Value of Software is not measureable. However similar Telecommunication license is transacted by another company at ₹4,90,000.
3. Neither Fair Value of Software nor Telecommunication license could be reliably measured.

Soln :-

Sun Ltd.	Earth Ltd.
acq. → software.	Acq → Tele.
giveup → Tele. com. lic.	giv. up → software
i) Soft Dr 5	i) Tele. Lic. Dr 520000
To Tel. Lic 5	To Soft. 10000
	To P/L 510000
ii) Soft. Dr 4.9	ii) Tel. Lic. Dr 490000
P/L Dr 0.1	To soft. 10000
To tel. Lic. 5	To P/L 480000
iii) Soft. Dr 5	iii) TCL Dr 10000
To tel. Lic. 5	To Soft. 10000

Question# 5 **TYK 1 ICAI STUDY MATERIAL**

X Ltd. is engaged in the business of publishing Journals. They acquired 50% stake in Y Ltd., a company in the same industry. X Ltd. paid purchase consideration of ₹10,00,00,000 and fair value of net asset acquired is ₹8,50,00,000. The above purchase consideration includes:
(a) ₹30,00,000 for obtaining the skilled staff of Y Ltd.
(b) ₹50,00,000 by way of payment towards 'Non-compete Fee' so as to restrict Y Ltd. to compete in the same line of business for next 5 year
How should the above transactions be accounted for by X Ltd?

Sol^n :-

Net assets Dr	850 L.	
Non compete fee Dr	50 L.	
goodwill Dr	100 L. (B/f)	
To Vendor		1000L.

Question# 6 **ILL 5 ICAI STUDY MATERIAL**

On 31st March 20X1, Earth India Ltd paid ₹50,00,000 for a 100% interest in Sun India Ltd. At that date Sun Ltd's net assets had a fair value of ₹30,00,000. In addition, Sun Ltd also held the following rights:
Trade Mark named "GRAND" - valued at ₹180,000 using a discounted cash flow technique.
Sole distribution rights to an electronic product. Future cash flows from which are estimated to be ₹150,000 per annum for the next 6 year
10% is considered an appropriate discount rate. The 6 year, 10% annuity factor is 4.36.
Calculate goodwill and other Intangible assets arising on acquisition.
Also calculate Impairment loss, if recoverable amount of NA of Sun Ltd after 2 years is ₹30,00,000

Sol^n :-

N.A. other I.T.A.	3000000
+ GRAND	180000
+ Distribution Rights. (150000 x 4.36)	654000
F.V.	3834000
P.C.	5000000
G/W	1166000

I.L.

C.A	5000000
R.A.	3000000
IL	2000000
− g/w	(1166000)
I.L. of N.A.	834000

Question# 7 **TYK 7 ICAI STUDY MATERIAL**

X Limited in a business combination, purchased the net assets of Y Limited for ₹4,00,000 on March 31, 20X1. The assets and liabilities position of Y Limited just before the acquisition is as follows :

Property, Plant & Equipment	1,00,000
Intangible asset	20,000
Intangible asset	50,000
Cash & Bank	1,30,000
Trade payable	50,000

The fair market value of the PPE, intangible asset 1 and intangible asset 2 is available and they are ₹1,50,000, ₹30,000 and ₹70,000 respectively.
How would X Limited account for the net assets acquired from Y Limited?

Sol^n :-

PPE	150000
ITA 1	30000
ITA 2	70000
CB	130000
− TP	(50000)
N.A.	330000
P.C.	400000
Goodwill	70000

entry

NA of Y. Dr 330000

Goodwill Dr 70000

To Vendor 400000

Question# 8 **TYK 12 ICAI STUDY MATERIAL**

X Ltd. is engaged is developing computer software. The expenditures incurred by X Ltd. in pursuance of its development of software is given below:

(a) Paid ₹2,00,000 towards salaries of the program designer R.P.

(b) Incurred ₹5,00,000 towards other cost of completion of program design. R.P.

(c) Incurred ₹2,00,000 towards cost of coding and establishing technical feasibility. R.P.

(d) Paid ₹7,00,000 for other direct cost after establishment of technical feasibility. D.P.

(e) Incurred ₹2,00,000 towards other testing costs. D.P.

(f) Cost of producing product masters for training material is ₹3,00,000. ×

(g) A focus group of other software developers was invited to a conference for the introduction of this new software. Cost of the conference aggregated to ₹70,000. ×

On March 15, 20X0, the development phase was completed and a cash flow budget was prepared. Net profit for the year was estimated to be equal ₹40,00,000. How X Ltd. should account for the above mentioned cost? MAY 19.

Soln :- According to IND AS 38, I.T.A., any cost incurred during Research phase will be expensed off, whereas any cost incurred during development phase will be capitalised. Development phase will get started from establishment of technical feasability.

Therefore ₹ 900000 (salary cost, design cost, and coding and est. technical

feasability) will be recorded in S.O.P/L as expense.
and ₹ 900000 (Cost after technical feasability and testing cost) will be capitelised.

Question# 9 ILL 8 ICAI STUDY MATERIAL

Expenditure on a new production process in 20X1-20X2:
On 01.04 to 31.12 ₹2,700
On 01.01 to 31.03 ₹900
The production process met the intangible asset recognition criteria for development on 1st January 20X2. The amount estimated to be recoverable from the process is ₹1,000.
What is the carrying amount of the intangible asset at 31st March 20X2 and the charge to profit or loss for 20X1-20X2?
Expenditure incurred in FY 20X2-20X3 is ₹6,000.
At 31st March 20X3, the amount estimated to be recoverable from the process (including future cash outflows to complete the process before it is available for use is ₹5,000.
What is the carrying amount of the intangible asset at 31st March 20X3 and the charge to profit or loss for 20X2-X3?

Soln :-

On 31-3-02

31-12-01	1-1-02 to 31-3-02
Research phase.	D. Phase.
₹ 2700	C.A. 900
Charged to P/L as exp.	R.A. 1000
	∴ No I.L.
	& ITA @ ₹ 900

On 31-3-2003

Op.	900
+ Expense	6000
C.A.	6900
R.A.	5000
I.L.	1900

will be charged to P/L.

∴ C.A. on 31-3-2003 of ITA = ₹5000

Question# 10 **TYK 8 ICAI STUDY MATERIAL**

X Ltd. acquired Y Ltd. on April 30, 20X1. The purchase consideration is ₹50,00,000. The fair value of the tangible assets is ₹45,00,000. The company estimates the fair value of "in-process research projects" at ₹10,00,000. No other Intangible asset is acquired by X Ltd. in the transaction. Further, cost incurred by X Ltd. in relation to that research project is as follows:

(a) ₹5,00,000 - as research expenses

(b) ₹2,00,000 - to establish technological feasibility

(c) ₹7,00,000 - for further development cost after technological feasibility is established.

At what amount the intangible asset should be measured under Ind AS 38?

Soln :-

I.R.

PPE Dr 45 L.

ITA Dr 10 L.

To Vendor 5000000

To G. on BIP 500000

S.R.

ITA Dr 700000
R.P. (P/L) Dr 700000
To Bank 14 L.

∴ ITA = 1000000 + 700000 = 1700000

Question# 11	TYK 14ICAI STUDY MATERIAL

X Ltd. decides to revalue its intangible assets on April 1,20X1. On the date of revaluation, the intangible assets stand at a cost of ₹1,00,00,000 and accumulated amortisation is ₹40,00,000. The intangible assets are revalued at ₹1,50,00,000.

How should X Ltd. Account for the revalued intangible assets in its books of account?

Sol^n :-

₹ in Lakhs

Cost =	100 →	250
− Acc. Am	(40)	(100)
C.A.	60	150
R.A.	150	

60, 150 → ₹ 90

∴ ↑ in Asset = 90 ⇒ $\frac{90}{60} \times 100$

∴ incr. by 150%

Option 1

Acc. Am. Dr 40
To ITA 40

Option 2

ITA Dr 150
To Acc Am 60
To RR 90

ITA Dr 20
To RR 20

Question# 12 ILL 9 ICAI STUDY MATERIAL

1. Saturn Ltd. acquired an intangible asset on 31 st March 20X1 for ₹1,00,000. The asset was revalued at ₹1,20,000 on 31st March 20X2 and ₹85,000 on 31[st] March 20X3.
2. Jupiter Ltd. acquired an intangible asset on 31st March 20X1 for ₹1,00,000. The asset was revalued at ₹85,000 on 31st March 20X2 and at ₹1,05,000 on 31st March 20X3.

Assuming that the year-end for both companies is 31st March, and that they both use the revaluation model, show how each of these transactions should be dealt with in the financial statements.

Solⁿ :-

₹ in Lacs.

	① Saturn Ltd.	2) Jupiter Ltd.
31-3-2001	I.T.A. Dr 1 To C/B 1	I.T.A. Dr 1 To C/B 1
31-3-2002	I.T.A. Dr 20K. To RR 20K	P/L Dr 15K To ITA 15K
31-3-2003	R.R. Dr 20K P/L Dr 15K To ITA 35K.	ITA Dr 20K. To P/L 15K To RR 5K.

Question# 13 ILL - 11 ICAI STUDY MATERIAL

X Ltd. purchased a patent right on April 1, 20X1, for ₹3,00,000; which has a legal life of 15 year However, due to the competitive nature of the product, the management estimates a useful life of only 5 year Straight-line amortisation is determined by the management to be the best method. As at April 1, 20X2, management is uncertain that the process can actually be made economically feasible, and decides to write down the patent to an estimated market value of ₹1,50,000 and decides to amortise over 2 year As at April 1, 20X3, having, perfected the related production process, the asset is now appraised at a value of ₹3,00,000. Furthermore, the estimated useful life is now believed to be 4 more year.

Determine the value of intangible asset at the end of each financial year?

Sol^n :- Statement of Patents.

Date	Particulars		Amount
1-4-01	B. Cost.		300000
31-3-02	amortise	3L/5	(60000)
1-4-02	C.A. of Patent.		240000
	Rev. loss.	(B/f)	(90000)
	Rev. amount		150000
31-3-03	Amortise	(150000/2)	(75000)
1-4-03.	C.A.		75000
	+ Rev. gain	(B/f)	225000
	Rev. amount.		300000
31-3-04	Amortise	(3L/4)	(75000)
	C.A.		225000
31-3-05	Amortise		(75000)
	C.A.		150000
31-3-06	Amortise		(75000)
	C.A.		75000
31-3-07	amortise		(75000)
1-4-07	C.A.		0

Question# 14 ILL - 10 ICAI STUDY MATERIAL

X Limited engaged in the business of manufacturing fertilisers entered into a technical collaboration agreement with a foreign company Y Limited. As a result, Y Limited would provide the technical know-how enabling X Limited to manufacture fertiliser in a more efficient way. X Limited paid ₹10,00,00,000 for the use of know-how for a period of 5 year X Limted estimates the production of fertiliser as follows:

YEAR	(IN MT)
I.	50,000
II.	70,000
III.	1,00,000
IV.	1,20,000
V.	1,10,000

At the end of the 1st year, it achieved its targeted production. At the end of 2nd year, 65,000 metric tons of fertiliser was being manufactured, and X Limited considered to revise the estimates for the next 3 year The revised figures are 85,000,1,05,000 and 1,15,000 metric tons for year 3, 4 & 5 respectively.

How will X Limited amortise the technical know-how fees as per Ind AS 38?

Solⁿ :- Statement showing calcⁿ of Amortisation

₹ in lacs.

Yr	Op. balance	Amortisation	Cl. bal.
1	1000	$\frac{50000}{450000} \times 1000 = 111.111$	889
2	889	$\frac{65000}{370000} \times 889 = 156$	733
3	733	$\frac{85000}{305000} \times 733 = 204$	529
4	529	$\frac{105000}{220000} \times 529 = 252$	277

5	277	$\frac{115000}{115000} \times 277 = 277$	0