AS 26 → Intangible Assets

i) Definition

Intangible Assets
- Identifiable*
- Non-Monetary Asset*
- Without physical substance
- Held for use

* **Identifiable** (2 conditions) Any 1 is to be met.

a) It can be sold separately from other assets. OR

b) It arises from a separate legal contract.

B/S
- Land
- Bldg
- Software
- copyright
- Debtors
- Inventorie

G/w
- Self Generated → Cannot be recorded in Books of A/c's → Not Identifiable
- Purchased G/w → Can be recorded in Books of A/c's → Since it is Identifiable (arised in a legal contract)

eg: AK ltd acquired BB Visuals (+) its g/w)

* **Non-Monetary Asset** (AS 11)

→ It is NOT realisable in fixed Amount of cash.

B/S		
Furniture	10L →	Non-Monetary
Copyright	5L →	Non-Monetary
Debtors	15L →	Monetary Asset
Bank Bal	10L →	—"—

Non-Monetary: Jitna value dikh raha hai, uese kum ya zyada mil sakta hai

Monetary: → we will realise fixed Amt.

* **Guidance for asset that incorporates both tangible & intangible elements**

→ The entity should assess which element is more significant.

eg ① Software purchased in a CD → AS 26 (Intangible)

② Computer machine purchased incorporating software → AS 10 (PPE)

Note: Intangible Asset held for sale in ordinary course of Busn
↳ AS 2 (Inventories)

2. **Recognition criteria** → same as AS 10

3. Measurement

- Initial Measurement
  - @ COST
- Subsequent Measurement
  - Only COST MODEL

(A) Initial Measurement

- i) If asset is purchased
- ii) Asset acquired in exchange
- iii) Asset acquired in Amalgamation
- iv) Internally generated Intangible Asset
- v) Asset acquired in Govt Grant → AS 12

i) If asset is purchased

Purchase price (less: trade discount)
(+) Non Refundable duties & taxes
(+) All Directly Attributable Exp → (Same as AS 10)

Exclusions from cost → Same as AS 10

ii) Asset acquired in exchange → Same as AS 10

iii) Asset acquired in Amalgamation

- Any intangible Asset taken over by the purchasing Co. in Amalgamation will be recorded @ Fair value.
- Any excess purchase consideration paid over & above fair value of Net Assets will be recorded as purchased goodwill

Eg: Mukku ltd → Selling Co.

Liab	B.V	Assets	B.V	Fair Value
		PPE	10cr	15cr
Creditors	5cr	Intangible	15cr	20cr
loan taken	10cr	Debtors	5cr	7cr
		Cash	5cr	5cr
		Inventory	3cr	3cr

BV = FV

Total Assets @ FV = 50cr
Total Liab @ FV = (15cr)
Net Assets @ FV 35cr

Purchasing Co.
Ak ltd

Purchase consideration (PC) = 50cr
Less: Net Assets @ FV (35cr)
Purchased Goodwill 15cr

Extra paisa diya.

Ak ltd B/s

Purch. G/W	15 cr
Intangible Asset (@ FV)	20 cr

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iv) Internally generated Intangible Asset

- Internally generated goodwill (Self Generated G/W) → Discussed above in def^n
- Internally generated Intangible Assets (other than goodwill)
  - Research phase
  - Development phase

In research phase entity cannot demonstrate than an intangible Asset exist
↓
Trf all Research phase exp to P/L

It is the phase that converts the results of Research phase into a marketable product
↓
Capitalise all directly attributable exp of dev. phase.

eg

7m | 5m

01/04/26 — Research phase — 31/10/26 — Development phase — 31/03/27

01/04/26
↓
Scientist hire
↓
Mind reading chasma

Research phase → P/L

31/10/26 → 6 conditions

Development phase
↓
Capitalise

* **Development phase Begins only when All 6 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 FEB's.
6) Costs can be measured reliably.

(Hint: 2 completion, 2 A's, 2 Recogn criteria)

* Following Intangible Asset cannot be recorded if they are internally generated:

a) Brands
b) Customer Database
c) Publishing titles & mastheads

Publishing titles → Book ka name (Harry Potter)

Mastheads → Newspaper name (Times of India)

If self generated
↳ Do Not record as Intangible

If they are purchased
↳ Record as Intangible

(B) Subsequent Measurement

↓

Only cost Model

	Cost of Intangible Asset	xx
less:	Accumulated Amortization	(xx)
		xxx

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(4) Subsequent cost incurred

→ If such exp will generate FEB's, then it can be added to cost of Intangible Asset

→ If NO FEB's → Then trf to P|L.

eg ① Software repair cost → Trf to P|L.

Software validity increase by 5 yrs (Renewal fees) → Capitalise

(5) Expenditure incurred, But NO Intangible Asset

a) Training Exp (to employees)
b) Advt / promotional exp.
c) Startup exp.
d) Exp of relocation or reorganisation activities
e) Research phase exp

} Always trf to P/L (kasam khayi hai) warna single marunga.

(6) Amortization

Amortization → Method, Amortization period } Same as AS 10

Imp (7) Useful life of Intangible Asset

- As per AS 26, the maximum life of Intangible Asset is 10 yrs (Presumption by AS 26)
- life can be more than 10 yrs only when company has evidence
- As per AS 14 (Amalgamation), Purchased goodwill should be amortized over 5 years.

(8) Residual value

→ Since intangible Asset has no physical substance ∴ its scrap / residual value is assumed to be zero.

→ But if there is a committment by 3rd party to purchase the intangible @ the end of useful life, then that price can be assumed to be residual value.

(eg: AK Sir promise Aman to buy CD (Games) @ ₹1000 after 5 yrs)

∴ For Aman Residual value will be ₹1000)

9. Changes in Estimate of Amortization Method, Useful life, Residual value

↳ Change in Acc. Est ∴ Do prospective accounting.

10. De-Recognition

↳ same as AS 10

(except trf of RR to RE)

11. Impairment (AS 28)

(Decline in the value of asset)

Test

(Book value → B/s value)

a) Carrying Amount of Asset = ₹ 175000 (Given)

b) Recoverable Amount of Asset = ₹150000

₹25,000 → Impairment loss

Use — ₹150000

Sale — ₹120000

whichever is higher

J.E.

Imp loss (P/L) A/c Dr 25000

To Asset 25000

Revised CA (after Impairment) = 150000

Eg ①

CA = 2,00,000

RA = 190000

Imp loss 10000

Higher of use or sale

Eg ②

CA = 200000

RA = 220000

~~Imp Gain~~ : –

Impairment	Revaluation	
↓ Compare CA & RA	↓ Compare CA & FV	Impairment & Reval^n are two diff concepts.

12. Other Misc Point

a) Intangible Asset purchased against exchange of shares

The asset is recorded @ Fair value of shares given up OR Fair value of asset acquired, whichever is more clearly evident.

J.E. Intangible Asset A/c Dr

To Eq. Shares

Ques 1

7yrs Not Amortized → C.Y. (x7 - x8)
→ Old 6 yrs (Prev Years)

J.E Amortizat^n (P/L) A/c Dr 2 lakh
AS 5 Prior period items (P/L) A/c Dr 12 lakhs
To Intangible Asset (know-how) 14L
✓ $\left(20L \times \frac{7yrs}{10yrs}\right)$

Q2 to Q8 → Q.B.

Q9 (CDR)

Day ① Cost of Patent	80,00,000	(life 5 yrs)
Less: Yr 1 Amortization	(10,00,000)	
Less: Yr 2 Amortization	(10,00,000)	
C.A @ the end of Yr 2	60,00,000	~~(life 3yrs)~~ Remaining Life 5yrs

Change in useful life is change in Acc. Est ∴ Give prosp effect.

Yr	Amortization Amount	Working.
3	1080000	$\left(60,00,000 \times \frac{36L}{200L}\right)$
4	1380000	$\left(60L \times \frac{46L}{200L}\right)$

5	13,20,000
6	12,00,000
7	10,20,000

Q10 to Q13 → Q.B.

Q14

As per AS 26 - Intangible Assets, there is a presumption that useful life cannot exceed 10 years.
If co. wants to amortize for more than 10 years, it should be supported by evidence.
In this case since there is no evidence, co. should amortize the intangible asset over 10 years.

01.04.16	120 lakhs	(Max life 10yrs)
Less: 6yrs Amortⁿ	(72 lakhs)	$(120 \times 6/10)$
31.3.22 CA	48 lakhs	

CA in Co. Books on 31.3.22 72 lakhs

Reduction in CA required 24 lakhs

J.E.

Prior period item (PI) 24 lakhs
To Intangible Asset 24 lakhs

Q16 Patent (Cost) = 1200 lakhs (life 5yrs)

Yr	Amortization	Working
1	300 lakhs	$\left(1200 \times \frac{600}{2400}\right)$
2	300 lakhs	
3	300 lakhs	

C.A (@ the end of Yr 3) = $(\underbrace{1200}_{\text{Cost}} (-) \underbrace{900}_{\text{Amortization for 3yrs}})$

= ₹ 300 lakhs (life ~~2yrs~~ 3yrs)

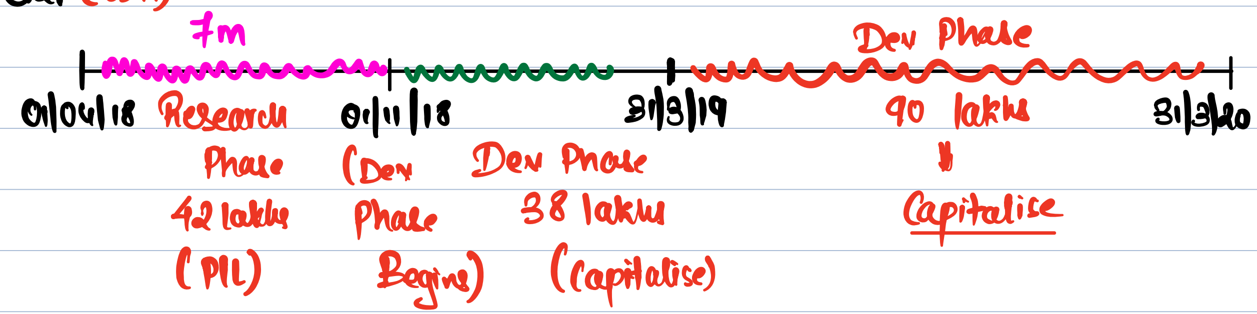
Yr	Amortization	Working
4	120 lakhs	$\left(300 \times \frac{300}{750}\right)$
5	120 lakhs	$\left(300 \times \frac{300}{750}\right)$
6	60 lakhs	$\left(300 \times \frac{150}{750}\right)$

Yr	C.F
4	300
5	300
6	150
	750

Q20 (LDR)

Purchase price of software	₫ 150000
Less: Trade discount @ 2.5%	(₫ 3750)
	₫ 146250
Cost in ₹ (₫ 146250 × ₹ 100/₫)	₹ 1,46,25,000
Add: Import duty @ 10% (14625000 × 10%)	₹ 14,62,500
	₹ 1,60,87,500
Add: Additional Importer duty @ 5% (1,60,87500 × 5%)	8,04,375
	1,68,91,875
Add: Install^n	150000
Add: Prof. fee	50000
Cost of Software to be capitalised	1,70,91,875

Q21 (LDR)



i) Expenditure trf to P/L during 31.3.19

Research phase exp till 01/11/18 → 42 lakhs (Trf to P/L)

ii) Carrying Amt of Intangible on 31.3.19

Development phase exp → 38 lakhs

iii) Expenditure trf to P/L on 31.3.20

01/04/19 CA of Intangible	38 lakhs
(+) 19-20 (Dev Phase exp)	90 lakhs
CA on 31.3.20	128 lakhs
RA on 31.3.20	82 lakhs
Imp loss	46 lakhs

(Trf to P/L)

iv) CA of Intangible on 31.3.20 (after Impairment) = 82 lakhs

(128 lakhs (-) 46 lakhs)

Q22 (LOR)

B/s (Extract) as on 31.3.21

I] Asset	
Non Curr Asset	
Intangible Asset (WN1)	14,00,000

Not asked (extra part)

P/L (Extract) for 20-21

Net Revenue	150000
Exp	
10% Annual fees	15000
Amortization (WN1)	275000

WN ①

Particulars	Opn (Gross Block)	Amortization	Cls (Net Block)
① Goodwill (PC 25L (−) NA 18.75L	625000 (life 5yr)	(125000) (625000 × 1yr/5yr)	5,00,000
② Patent	600000 (life 8yr)	(75000)	525000
③ Franchise	450000 (life 6yr)	(75000)	375000
		275000	14,00,000