AS 26
Intangible ASSETS

→ Ownership Rights

1) Meaning of Asset :- Any item/Resource which :-

a) is Controlled by the Entity &

b) & From which Future Economic Benefits Can be expected

↳ Revenue generation

2) Control means :- having power to restrict Others from Use of Asset & having power to generated FEB for own purpose.

3) Meaning of Intangible Asset :-

Any Intangible Item will be treated as Intangible Asset if it Fulfills all the below Conditions :-

a) No Physical Substance (Licence, Patent, Copyright)

b) Controlled by entity

c) Future Economic Benefits are Expected

d) Such Intangible must be Identifiable.

e) Non monetary item (Value should not be fixed all the Time)

F) Held For Use in Ordinary Course of Business

4) What do you mean by Identifiable :-

(or)

Either it is Capable OF being Sold / used / Transferred Exchanged Separately.

If it Comes from Legal Contracts

Telecom Licence
Franchise agreement

5) Following will not be treated as Intangible Asset (Expenditure on them is directly transfer to P&L) :-

(Refer Q10 & Q11)

a) Preliminary Exp.

b) Self Generated Goodwill (Not Identifiable)
(Refer Q14)

c) Heavy Advertising or promotional / marketing expenses.

d) Staff Training Cost

e) Pre Operating Expenses of Business

f) Self generated Customer list

g) Self Generated Brand

6) When to Record an Intangible Asset in the Books?

When Cost of Asset Can be measured Reliably.

7) Cost of Intangible Asset :-

(a) Purchased (or) Self Developed Intangible Assets

Refer Q14

Purchase Cost	XXX
(–) Trade Discount	(XX)
(+) Non Refundable Taxes & Duties	XXX
(+) Depreciation of PPE Used to Develop Intangible Assets (Technology / Software)	XX
(+) Test Run Expense (net)	XX
(+) Legal Expenses	XX
(+) Professional Fees Paid	XX

(+) any Other DAC xxx

eg. Lease Rent of PPE Used to Develop Software

Cost of I.A.

(Refer Q3)

b) Other Cases Of Cost Of Intangible Asset

- Intangible Asset acquired thru amalgamation
  - Cost = Fair value (in the nature of purchase)
  - Cost = Book value (in the nature of merger)
- Intangible Asset acquired in Kind (exchange)
  - Cost = FV of Assets given (1st priority) (or) FV of I. Asset purchased (2nd priority) (or) BV of Asset given (if FV are not available)
- Intangible Asset acquired now But Payment to be made in Future after 1yr. or more
  - Cost will be Present Value of Future Outflow

(Refer Q14)

8) Research & Development Expenses

Imp. For Theory Question

a) **Research** :- it is activity to Find New Innovations or Technology.

All Research Expenses should be immediately transfer to P&L (No Capitalisation, No D&A)

b) **Development** :- An activity which Converts Research Findings to an Asset
(Development OF Software (or) Technology)

Development Expenses should be Capitalised if Following Conditions are Fulfilled :-

(i) It is expected that there is Technical Feasibility OF Completion of Intangible Asset

Team of Skilled person & Resources.

(ii) There should be an Intention to Complete the Development

(iii) There should be Sufficient Ability with Entity to Sell the Final product (Product Ko marketable Banane ki shamta)

(iv) Whether the Developed Int. Asset will give "Future Economic Benefits" or not

(v) There should be Sufficient Financial Resources to Complete the Development.

(vi) The Expenditure on Development (Cost) can be measured reliably.

Note:- The Date when product/Intangible Asset becomes Technically feasible (OR) the date when it is established (Prove) that there is Technical Feasibility & Intension of Completion, then Such Date would be the Start point for Capitalisation of Development Exp.

(Refer Q2)

Note:- Once the Development of Intangible Asset is Complete then Commercial production Starts. Expenses of Commercial production Such Packaging are not to be Capitalised.

(Refer Q2)

9) Subsequent Expenditure on already Recognised Intangible Asset :-

Such Expense shall be Capitalised if it Increases the predetermined efficiency of Asset.

Note: Legal Cost to defend the infringement of Trademark (to stop the infringement) doesn't increase the earning efficiency hence it shall always be transferred to Profit and loss irrespective of whether case is in favour of entity or not. (Refer Q5)

V.V.Imp.

10) Amortisation of Intangible Assets (Refer Q16)

Amortisation → Depreciation

Period of Amortisation (Useful life)

- Life based on Best available evidence
- But it may not exceed 10 yrs. Unless there is an evidence to prove that life is more than 10 yrs.

Example of I.Assets with life of more than 10 yrs.

- Licence
- Franchise
- Toll Road

Start & End of Amortisation

- Amortisation shall be Started when I.Asset is available for Use.
- Amortisation shall be Stopped when :-
  a) CA = RV
  b) I.Asset is Derecognised due to Sale or w/off
  c) I.Asset is Retired from Active Use & HFS

Method of Amortisation

1st priority → In the Ratio of Expected Future Economic Benefits

2nd Priority → Use SLM if 1st method is not available

Telecom Rights Licence

Other Important Points For Amortisation

Residual Value

RV Shall always assumed to be Zero, Unless there is a Third Party Commitment to purchase Such Asset.

Amortisation is Mandatory

- If in earlier years, No Amortisation is Charged (or) Omitted then in Cy Cumulative Amortisation till Date Shall be Calculated.
- Prior period Exp. a/c Dr. (Amortisation till Py)
  Amortisation Exp a/c Dr. (Cy Amortis.)
  To I. Asset

(Refer Q1)

Goodwill amortis. in 5years

The product protected by the patented technology is expected to be a source of net cash inflows for at least 15 years. The entity has a commitment from a third party to purchase that patent in five years for 60 per cent of the fair value of the patent and the entity intends to sell the patent in five years.

The patent would be amortised over its five-year useful life to the entity, with a residual value equal to the present value of 60 per cent of the patent's fair value at the date it was acquired.

Change in Estimates For Amortisation

Change in Useful life
(or)
Change in Future Economic Benefits
(or)
Change in Amortisation method

☞ These Changes are Called Change in A/c Estimates.

☞ Prospective effect Should be given

(Refer Q4)

11) Impairment & DeRecognition of Intangible Asset

&

When Recoverable Amt is lower than CA

↓

Recognise Impairment Loss in P&L

↓

(Refer Q8)

$I/L = CA - RA$

DeRecognition of I. Asset due to Sale, Lease, W/off

↓

Gain/Loss in P&L

Q9

Working Note

Intan Asset	Amt.	Life	Amortis.	Closg. Bal. 31/3/20
Goodwill	10,80,000 (-) 5,16,000 564000	5 yrs.	112800	451200
Franchise	1,80,000	6 yrs.	30.000	1,50,000
Patent	2,40,000	8 yrs.	30.000	2,10,000
			172800	8,11,200

Note :- Annual Fees @ 10% = 60000 × 10% = 6000 shall be directly transfer to P&L.

Naresh Ltd.
B/s as on 31/3/20

	Note	
Assets :-		
Intangible Assets	1	8,11,200

Note 1:- Intangible Asset

a) Goodwill (WN)	4,51,200
b) Franchise (WN)	1,50,000
c) Patent (WN)	2,10,000
	8,11,200

SPL (extract)

Reven. from oper.	60000
Expenditure	
a) Dep. & Amortis.	172800
b) Other exp. (Annual fees)	6000