

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

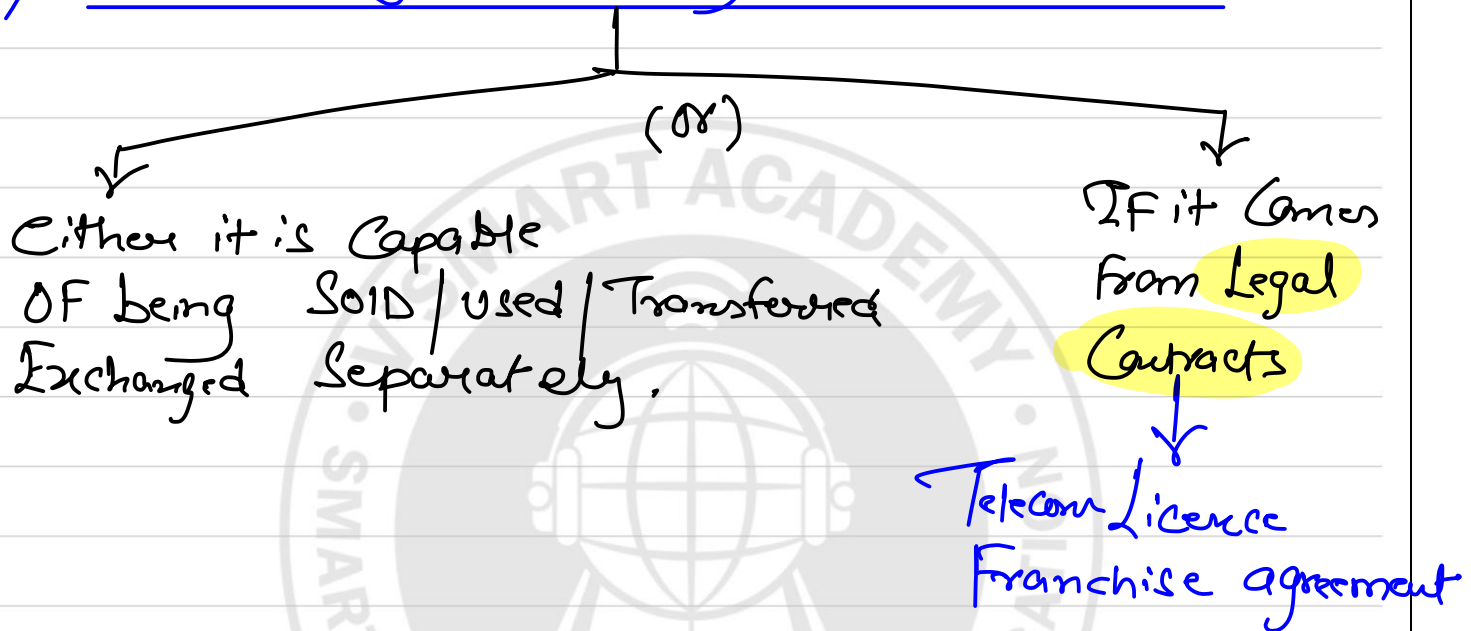
c) Future Economic Benefits are Expected

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 :-



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

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

Refer Q14

(+) any Other DAC

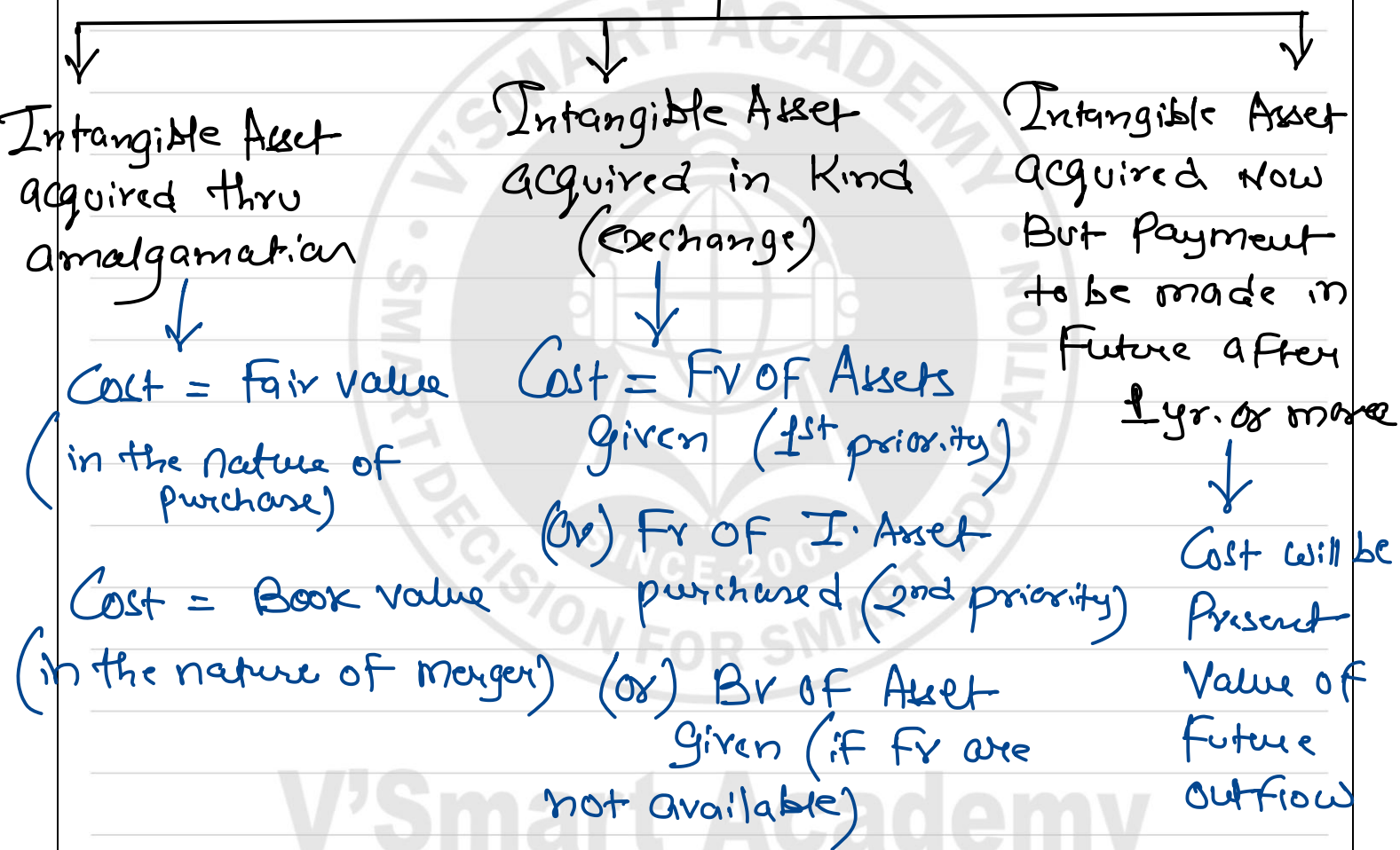
xxx

Eg. Lease Rent of PPE
Used to Develop
Software

Cost of I.A.

(Refer Q3)

b) Other Cases of Cost of Intangible Asset



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 Shameta)

(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 & Intention 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)

10) Amortisation of Intangible Assets (Refer Q16)

V.V.Inep.

Depreciation

Period of Amortisation (Useful life)

Start & End of Amortisation

Method of Amortisation

• Life based on Best available evidence

• Amortisation shall be started when I. Asset is available for use.

1st priority

In the ratio of Expected Future Economic Benefits

• But it may not exceed 10 yrs. Unless there is an evidence to prove that life is more than 10 yrs.

• 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

2nd priority

Use Sim

if 1st method is not available

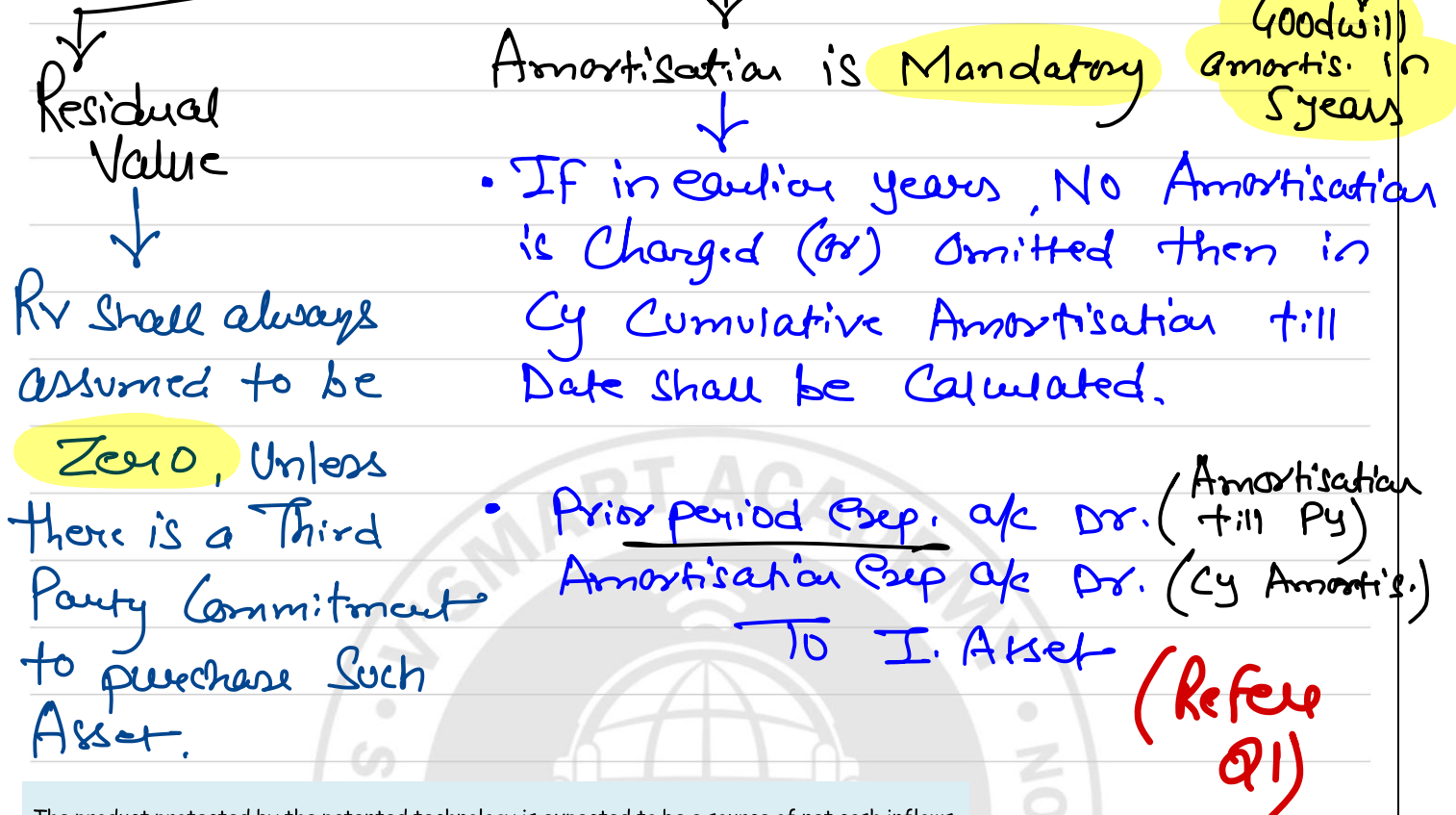
Example of I. Assets with life of more than 10 yrs.

CA. JAI CHAWLA (FCA, M.COM, DISA, IFRS) (7887 7887 05)

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Licence Franchise Toll Road

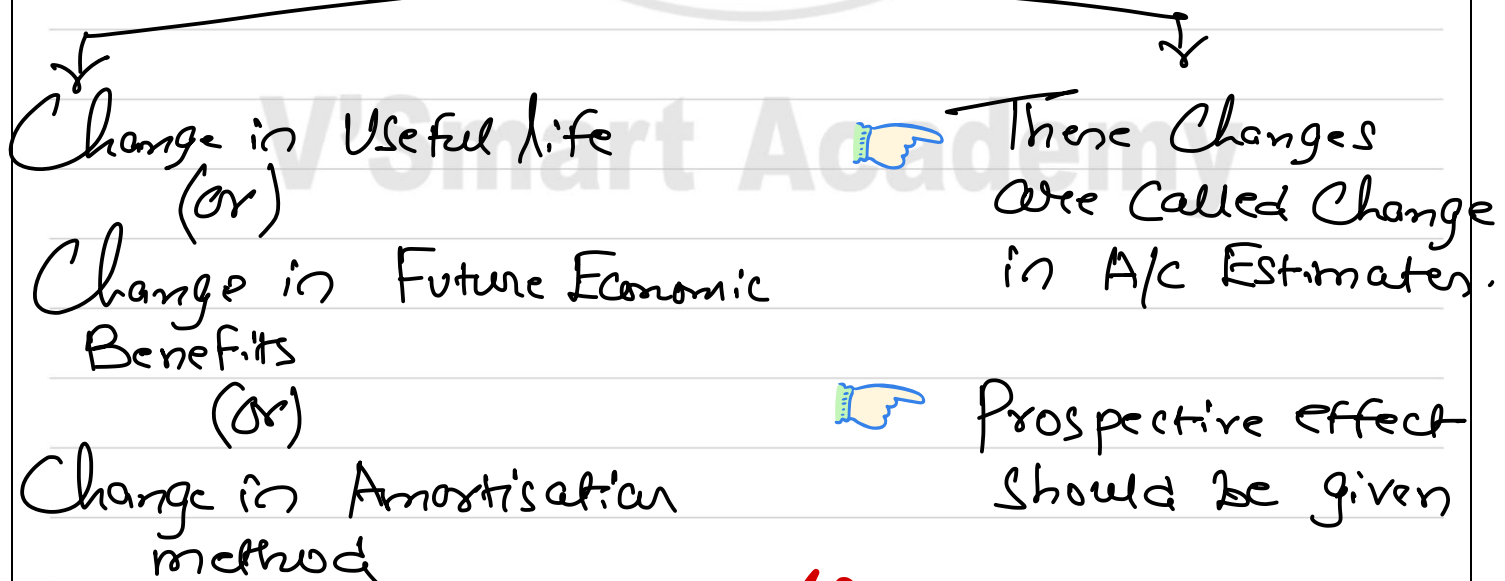
Other Important Points for Amortisation



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



11) Impairment & Derecognition of Intangible Asset

When Recoverable
Amt is lower
Than CA

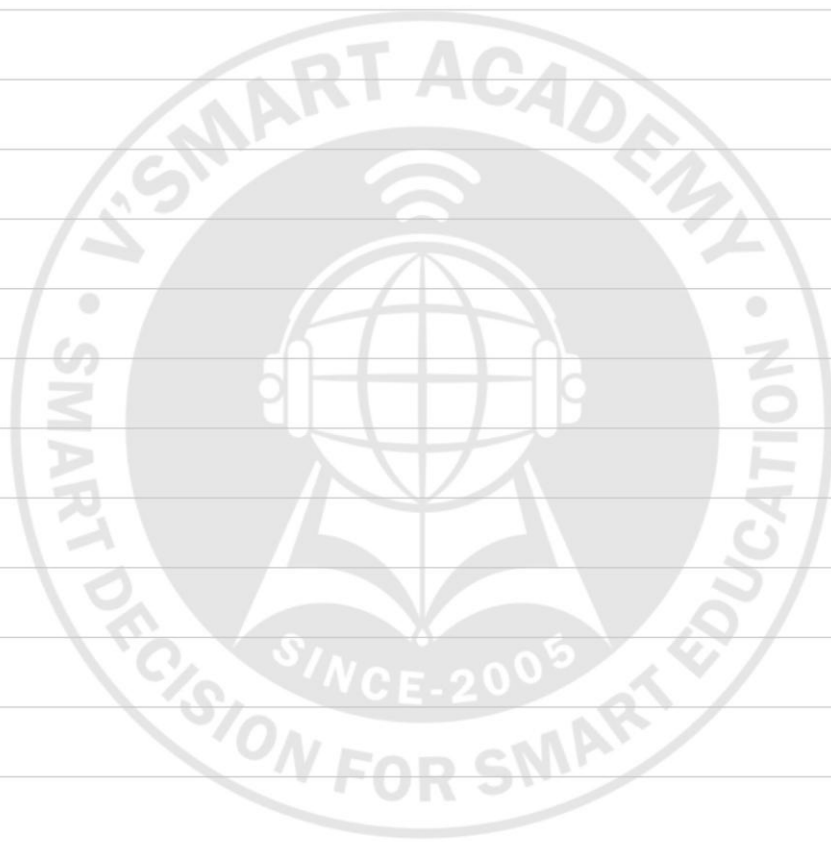
↓
Recognise Impairment
Loss in P&L

$$I/L = CA - RA$$

↓
(Refer Q8)

&
Derecognition
OF I. Asset
due to Sale,
Lease, W/OFF
↓
Gain/Loss in P&L

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Q9Working Note

<u>Intan Asset</u>	<u>Amnt.</u>	<u>Life</u>	<u>Amortis.</u>	<u>Clasg. Bal.</u> 31/3/20
Goodwill	10,80,000 (-) 5,16,000 <u>5,64,000</u>	5 yrs.	11,2800	45,200
Franchise	18,00,000	6 yrs.	30,000	1,50,000
Patent	2,40,000	8 yrs.	30,000	2,10,000
			<u>1,72,800</u>	<u>8,11,200</u>

NOTE:- Annual Fees @ 10% = $60000 \times 10\% = 6000$
 Shall be directly transfer to P&L,

Nareesh Ltd.

Bfs as on 31/3/20

<u>Assets :-</u>	Note	
Intangible Assets	1	8,11,200

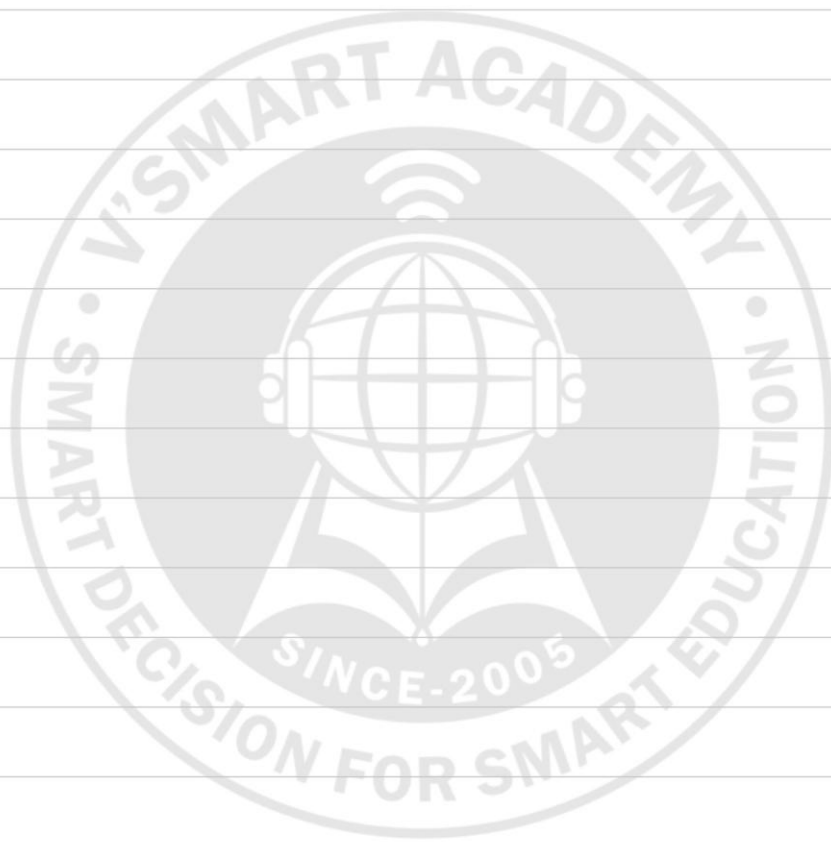
Note 1:- Intangible Asset

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

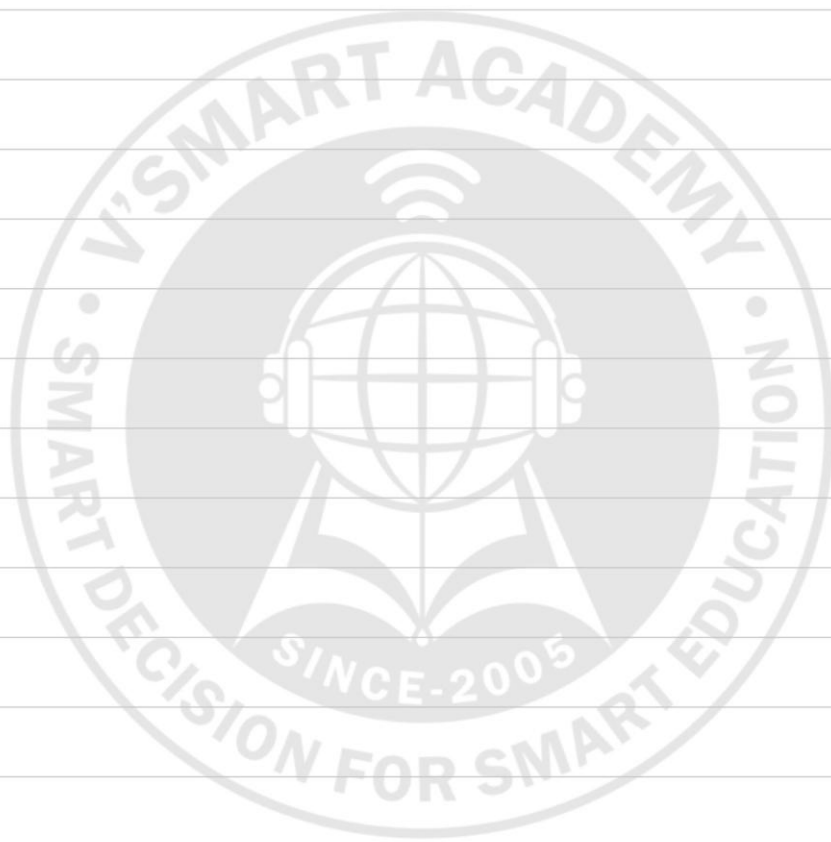
SPL (Extract)

Revenue from oper.	60000
<u>Expenditure</u>	
a) Dep. & Amortis..	1,72,800
b) Other exp. (Annual Fees)	6000

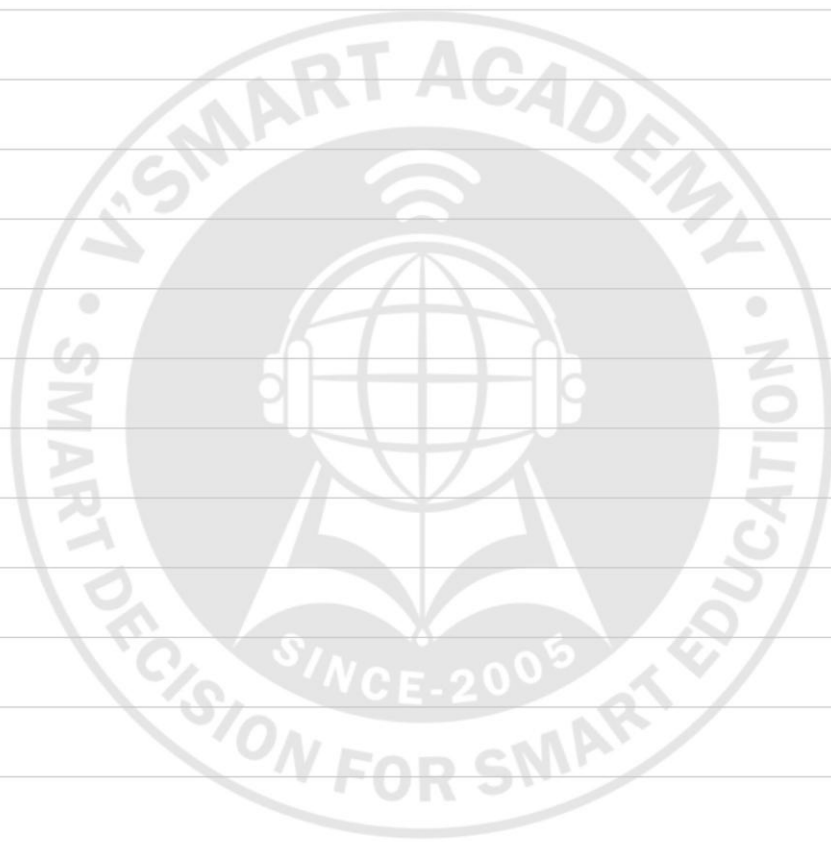
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