

CHAPTER 9

INTANGIBLE ASSETS (IND AS 38)

QUESTIONS FROM ICAI STUDY MATERIAL

Q1: Sun Ltd has an expertise in consulting business. In past years, company has gained a market share for its services of 30 percent and considers recognising it as an intangible asset. Is the action by company is justified?

Ans: Market share does not meet the definition of intangible assets as is not identifiable i.e. It is neither separable and nor arised from contractual or legal rights.

Q2: Company XYZ ltd has provided training to its staff on various new topics like GST, Ind AS etc to ensure the compliance as per the required law. Can the company recognise such cost of staff training as intangible asset?

Ans: It is clear that the company will obtain the economic benefits from the work performed by the staff as it increases their efficiency. But it does not have control over them because staff could choose to resign the company at any time.

Hence the company lacks the ability to restrict the access of others to those benefits. Therefore, the staff training cost does not meet the definition of an intangible asset.

Q3: Pluto Ltd. intends to open a new retail store in a new location in the next few weeks. Pluto Ltd has spent a substantial sum on a series of television advertisements to promote this new store. The Company has paid an amount of ₹ 800,000 for advertisements before 31 March 20X1. ₹ 700,000 of this sum relates to advertisements shown before 31 March 20X1 and ₹ 100,000 to advertisements shown in April 20X1. Since 31 March 20X1, The Company has paid for further advertisements costing ₹ 400,000.

Pluto Ltd is of view that such costs can be carried forward as intangible assets. Since market research indicates that this new store is likely to be highly successful. Please explain and justify the treatment of the above costs in the financial statements for the year ended 31 March 20X1.

Ans: Under Ind AS 38 – Intangible Assets – intangible assets can only be recognised if they are identifiable and have a cost which can be reliably measured. These criteria are very difficult to satisfy for internally developed intangibles. For these reasons, Ind AS 38 specifically prohibits recognising advertising expenditure as an intangible asset. The issue of how successful the store is likely to be does not affect this prohibition. Therefore, such costs should be recognised as expenses. However, the costs would be recognised on an accruals basis. Therefore, of the advertisements paid for before 31 March 20X1, ₹700,000 would be recognised as an expense and ₹ 100,000 as a pre-payment in the year ended 31 March 20X1. The ₹ 400,000 cost of advertisements paid for since 31 March 20X1 would be charged as expenses in the year ended 31 March 20X2.

Q4: 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.

Ans: Particulars	Amount
Cash paid	6,00,000
Deferred consideration (₹ 400,000/1.1)	3,63,636
Purchase Tax	1,00,000
Entry tax (not to be considered as it is a refundable tax)	-
Legal fees	87,000
Consultancy fees for implementation	1,20,000
Total Cost to be capitalised	12,70,636

Q5: 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 years.

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.

Ans:

Particulars	Amount	Amount
Purchase Consideration (A)		50,00,000
Net Asset acquired	30,00,000	
Trade Mark	1,80,000	
Distribution Rights (1,50,000 x 4.36)	6,54,000	
Total (B)		38,34,000

Goodwill on Acquisition		11,66,000

Q6: 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 measurable. 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.

[MTP SEP 2025]

Ans:

INR in '000

Situation	Sun Ltd.	Earth Ltd.
1.	Dr. Software 500 Cr. Telecommunication license 500 Cr. Profit on Exchange Nil	Dr. Telecommunication license 520 Cr. Software 10 Cr. Profit on Exchange 510
2.	Dr. Software 490 Dr. Loss on Exchange 10 Cr. Telecommunication license 500	Dr. Telecommunication license 490 Cr. Software 10 Cr. Profit on Exchange 480
	Note: The company may first recognise Impairment loss and then pass an entry. The effect is the same as impairment loss will also be charged to Income Statement.	
3.	Dr. Software 500 Cr. Telecommunication license 500	Cr. Software 10 Dr. Telecommunication license 10

Q7: Mercury Ltd is preparing its accounts for the year ended 31 March 20X2 and is unsure about how to treat the following items.

1. The company completed a grand marketing and advertising campaign costing ₹ 4.8 Lakh. The finance director had authorised this campaign on the basis that it would create ₹ 8 lakh of additional profits over the next three years.
2. A new product was developed during the year. The expenditure totalled ₹ 3 lakh of which ₹ 1.5 lakh was incurred prior to 30 September 20X1, the date on which it became clear that the product was technically viable. The new product will be launched in the next four months and its recoverable amount is estimated at ₹ 1.4 lakh.
3. Staff participated in a training programme which cost the company ₹ 5 lakh. The training organisation had made a presentation to the directors of the company outlining those incremental profits to the business over the next twelve months would be ₹ 7 lakh.

What amounts should appear as intangible assets in accordance with Ind AS 38 in Mercury's balance sheet as on 31 March 20X2?

Ans: The treatment in Mercury's financials as at 31 March 20X2 will be as follows:

1. Marketing and advertising campaign: no intangible asset will be recognised, because it is not possible to identify future economic benefits that are attributable only due to this campaign. All of the expenditure should be expensed in the statement of profit and loss.
2. New product: development expenditure appearing in the balance sheet will be valued at ₹ 1.5 lakh. The expenditure prior to the date on which the product becomes technically feasible is recognised in the statement of profit and loss. However, its recoverable amount is also given. Therefore, applying the principles of IND AS 36, the revised carrying amount on 31st March 20X2 after impairment will be 1.4 lakhs.
3. Training programme: no asset will be recognised, because there is no control of the company over the staff and when staff leaves the benefits of the training, whatever they may be, also departs.

Q8: Expenditure on a new production process in 20X1-20X2:	INR
1st April to 31st December	2,700
1st January to 31st March	900
	3,600

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?

Ans: Expenditure to be transfer to profit or loss in 20X1-20X2	INR
Total Expenditure	3,600
Less. Expenditure during Development phase	900
Expenditure to be transfer to profit or loss	2,700
1) Carrying Amount of Intangible Asset on 31st March 20X2	
Expenditure during Development Phase will be capitalised	₹ 900
(Recoverable amount is higher being ₹ 1,000, hence no impairment)	
2) Expenditure to be charged to profit or loss in 20X2-20X3	INR

Opening balance of Intangible Asset	900
Add. Further expenditure during development phase	6,000
Expenditure for development phase	6,900
Recoverable Amount	5,000
Amount charged to profit or loss (Impairment Loss)	1,900

3) Carrying Amount of Intangible Asset on 31st March 20X3

Value of Intangible Asset will be recoverable amount i.e. ₹ 5,000

Q9: Saturn Ltd. acquired an intangible asset on 31st March 20X1 for ₹ 1,00,000. The asset was revalued at ₹ 1,20,000 on 31st March 20X2 and ₹ 85,000 on 31st March 20X3.

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.

Ans: Saturn Ltd.

₹ 20,000 revaluation increase on 31st March 20X2 should be credited to the revaluation reserve and recognised in other comprehensive income. ₹ 20,000 of the revaluation decrease on 31st March 20X3 should be debited to revaluation reserve and remaining ₹ 15,000 should be recognised as an expense.

Jupiter Ltd.

₹ 15,000 revaluation decrease on 31st March 20X2 should be recognised as an expense in the Statement of Profit and loss. ₹ 15,000 out of the ₹ 20,000 increase on 31st March 20X3 should be recognised as income. The remaining ₹ 5,000 should be credited to revaluation reserve and recognised in other comprehensive income.

Q10: 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 years. X Limited estimates the production of fertiliser as follows:

Year	(in metric tons)
1	50,000
2	70,000
3	1,00,000
4	1,20,000
5	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 years. 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?

Ans: Based on the above data, it may be suitable for X Ltd. to use unit of production method for amortisation of technical know-how.

The total estimated unit to be produced 4,50,00 MT. The technical know-how will be amortised on the basis of the ratio of yearly production to total production.

The first-year charge should be a proportion of $50,000/4,50,000$ on ₹ 10,00,00,000 = ₹ 1,11,11,111.

At the end of 2nd year, as per revised estimate the total number of units to be produced in future are 3,70,000 MT (ie 65,000 + 85,000 + 1,05,000 + 1,15,000).

The amortisation for second year will be $65,000 / 3,70,000$ on $(10,00,00,000 - 1,11,11,111)$ ie 1,56,15,615.

Amortisation for remaining years (unless the estimates are again revised):

Year 3 = $85,000 / 3,70,000$ on $(10,00,00,000 - 1,11,11,111)$ ie. 2,04,20,420

Year 4 = $1,05,000 / 3,70,000$ on $(10,00,00,000 - 1,11,11,111)$ ie. 2,52,25,225

Year 5 = $1,15,000 / 3,70,000$ on $(10,00,00,000 - 1,11,11,111)$ ie. 2,76,27,628

Q11: An Enterprise has incurred expense for purchase of Technical Know-how for manufacturing a Moped. The Enterprise has paid ₹ 5 crores for the use of Know-how for a period of 4 years. The Enterprise estimates the production of mopeds as follows:

Year	No. of Mopeds
1	25,000
2	50,000
3	75,000
4	1,00,000

On going into production, at the end of the 1st year it achieved its targeted production, but considered to revise the estimates for the next 3 years as follows:

Year	No. of Mopeds
1	35,000
2	65,000
3	80,000

(a) How will the Enterprise amortise the Technical Know-how Fees as per IND AS 38.

(b) Whether this amortisation should be directly charged as an expense or should form part of Production Cost of the Mopeds.

Ans: Based on the revised estimate, total sales are 2,05,000, the first-year charge should be a proportion of 25,000/2,05,000 on ₹ 5 crores, second year will be 35,000/2,05,000, and so on unless the estimates are again revised. If these estimates cannot be determined reliably it would be preferable to charge them off on a straight-line basis, otherwise, as can be seen from the above example, significant amortisation amount is inappropriately postponed to later years.

In the given case, amortisation expense will be included as cost of inventory as technical know-how is used for manufacturing a Moped.

Q12: X Ltd. purchased a patent right on April 1, 20X1, for ₹ 3,00,000; which has a legal life of 15 years. However, due to the competitive nature of the product, the management estimates a useful life of only 5 years. 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 years. 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 years. Determine the value of intangible asset at the end of each financial year? [IBS MTP May25]

Ans: Value as on March 31, 20X2

Original cost	₹ 3,00,000
Less: amortisation	(₹ 60,000)
Net Value	₹ 2,40,000

Value as on March 31, 20X1

On April 1, 20X2, the impairment is recorded by writing down the asset to the estimated value of ₹ 1,50,000, which necessitates a ₹ 90,000 charge to profit & loss (carrying value, ₹ 2,40,000 less fair value ₹ 1,50,000).

Amortisation provided for the financial year 20X2-20X3 is ₹ 75,000 (₹ 1,50,000/2) Net value is = ₹ 1,50,000 – ₹ 75,000 = ₹ 75,000.

Value as on March 31, 20X4

As of April 1, 20X3, the carrying value of the patent is ₹ 75,000. Revalued amount of patent is ₹ 3,00,000.

Out of total revaluation gain of ₹ 2,25,000, ₹ 90,000 will be charged to profit & loss and balance amount of ₹ 1,35,000 – (₹ 2,25,000 – ₹ 90,000) will be credited to revaluation reserve.

Amortisation provided for the financial year 20X3-20X4 is ₹ 75,000 (₹ 3,00,000 / 4) Net value as on 31st March, 20X4 = ₹ 3,00,000 – ₹ 75,000 = ₹ 2,25,000.

Q13: X Pharmaceutical Ltd. seeks your opinion in respect of following accounting transactions:

1. Acquired a 4-year license to manufacture a specialised drug at a cost of ₹ 1,00,00,000 at the start of the year. Production commenced immediately.
2. Also purchased another company at the start of year. As part of that acquisition the company acquired a brand with a FV of ₹ 3,00,00,000 based on sales revenue. The life of the brand is estimated at 15 years.
3. Spent ₹ 1,00,00,000 on an advertising campaign during the first six months. Subsequent sales have shown a significant improvement and it is expected this will continue for 3 years.
4. It has commenced developing a new drug 'Drug-A'. The project cost would be ₹ 10,00,00,000. Clinical trial proved successful and such drug is expected to generate revenue over the next 5 years.
Cost incurred (accumulated) till March 31, 20X1 is ₹ 5,00,00,000.
Balance cost incurred during the financial year 20X1-20X2 is ₹ 5,00,00,000.
5. It has also commenced developing another drug 'Drug B'. It has incurred ₹ 50,00,000 towards research expenses till March 31, 20X2. The technological feasibility has not yet been established.

How the above transactions will be accounted for in the books of account of X Pharmaceutical Ltd?
[MTP May 2024]

Ans: X Pharmaceutical Ltd. is advised as under:

1. It should recognise the drug license as an intangible asset, because it is a separate external purchase, separately identifiable asset and considered successful in respect of feasibility and probable future cash inflows.
The drug license should be recorded at ₹ 1,00,00,000.
2. It should recognise the brand as an intangible asset because it is purchased as part of acquisition and it is separately identifiable. The brand should be amortised over a period of 15 years.
The brand will be recorded at ₹ 3,00,00,000.
3. The advertisement expenses of ₹ 1,00,00,000 should be expensed off.
4. The development cost incurred during the financial year 20X1-20X2 should be capitalised.
Cost of intangible asset (Drug A) as on March 31, 20X2
Opening cost ₹ 5,00,00,000
Development cost ₹ 5,00,00,000
Total cost ₹ 10,00,00,000
5. Research expenses of ₹ 50,00,000 incurred for developing 'Drug B' should be expensed off since technological feasibility has not yet established.

Q14: X Ltd. is engaged in the business of publishing Journals. They acquired 100% 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 years.

How should the above transactions be accounted for by X Ltd?

Ans: X Ltd. should recognise an intangible asset in respect of the consideration paid towards 'Non-Compete Fee'.

However, amount paid for obtaining skilled staff amounting to ₹ 30,00,000 does not meet the definition of intangible asset since X Ltd. has not established any right over the resource and should be expensed. The entity has insufficient control over the expected future economic benefits arising from a team of skilled staff.

Therefore, ₹ 50,00,000 will be separately recognised as an intangible asset, whereas amount paid for obtaining skilled staff does not meet the recognition criteria. However, since it is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date.

The value of goodwill is ₹ 1,00,00,000 (₹ 1,50,00,000 – ₹ 50,00,000).

Alternatively, Goodwill can be calculated as under

Purchase Consideration	₹10,00,00,000
Less: Fair Value of Net assets acquired including 'Non-compete Fee' (₹ 8,50,00,000 + ₹ 50,00,000)	₹9,00,00,000
Value of goodwill	₹1,00,00,000

Q15: X Ltd. purchased a franchise from a restaurant chain at a cost of ₹ 1,00,00,000 and the franchise has 10 years life. In addition, the franchise agreement mentions that the franchisee would also pay the franchisor royalty as a percentage of sales made. Can the franchise rights be treated as an intangible asset under Ind AS 38? **[RTP Nov 2021; MTP Nov 22]**

Ans: The franchise rights meets the identification criterion of an intangible asset since it arises from the contractual rights. It is acquired separately and its cost can be measured reliably. In addition, X Ltd. will have future economic benefits and control over them from the franchise rights.

X Ltd. should recognize the franchise right as intangible asset and amortise it over 10 years. Royalty as a percentage of sales paid to the franchisor would be a charge to the profit and loss in the books of the X Ltd.

Q16: An entity regularly places advertisements in newspapers advertising its products and includes a reply slip that informs individuals replying to the advertisement that the entity may pass on the

individual's details to other sellers of similar products, unless the individual ticks a box in the advertisement.

Over a period of time the entity has assembled a list of customers' names and addresses. The list is provided to other entities for a fee. The entity would like to recognise an asset in respect of the expected future economic benefits to be derived from the list. Can the customer list be treated as an intangible asset under Ind AS 38?

Ans: In this situation, the entity has no legal rights to the customer relationship, but exchange transactions have taken place that evidence separability of the asset and the control that the entity is able to exercise over the asset. Therefore, the list is an intangible asset. However, the entity may not recognise the asset because the cost of generating the customer list internally cannot be distinguished from the cost of developing the business as a whole. It does not meet the conditions specified to recognize an internally generated intangible asset.

Q17: A software company X Ltd. is developing new software for the telecom industry. It employs 100 employs engineers trained in that particular discipline who are engaged in the development of the software. X Ltd. feels that it has an excellent HR policy and does not expect any of its employees to leave in the near future. It wants to recognise these set of engineers as a human resources asset in the form of an intangible asset. What would be your advice to X Ltd?

Ans: Although, without doubt the skill sets of the employees make them extremely valuable to the company, however it does not have control over them. Merely having good HR policies would not make them eligible to be recognised as an intangible asset.

Q18: X Ltd. has acquired a telecom license from Government to operate mobile telephony in two states of India. Can the cost of acquisition be capitalised as an intangible asset under Ind AS 38?

Ans: Cost of acquisition of the telecom license can be capitalised as an intangible asset under the head Licenses, as it will lead to future economic benefits for X Ltd.

Q19: 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?

Ans: In accordance with Ind AS 38, the cost of a separately acquired intangible asset is its purchases price and non refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

Therefore, the initial cost of the asset should be:

	Amount (₹)
List price	30,00,000
Less: trade discount (5%)	(1,50,000)
	28,50,000
Non-refundable purchase tax	50,000

Customisation cost	7,00,000
Total cost	36,00,000

The maintenance contract of ₹ 2,00,000 is an expense and therefore should be taken as a prepaid expense and charged to profit and loss over a period of 5 years

Q20: 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:

Assets	Cost (in ₹)
Property, Plant & Equipment	1,00,000
Intangible asset 1	20,000
Intangible asset 2	50,000
Cash & Bank	1,30,000
Liabilities	
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?

Ans: X Limited will account for the assets acquired from Y Limited in following manner:

Assets	Amount (₹)
Property, plant and equipment	1,50,000
Goodwill	70,000
Intangible asset 1	30,000
Intangible asset 2	70,000
Cash & Bank	1,30,000
Liabilities	
Trade payable	50,000

Note 1- Goodwill is the difference between fair value of net assets acquired and purchase consideration paid when is calculated as follow:

$$\text{Goodwill} = ₹ 4,00,000 - ₹ (1,50,000 + 70,000 + 30,000 + 1,30,000 - 50,000) = ₹ 70,000.$$

Q21: 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:

- ₹ 5,00,000 – as research expenses
- ₹ 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?

Ans: X Ltd. should initially recognise the acquired “in house research project” at its fair value i.e., ₹ 10,00,000. Research cost of ₹ 5,00,000 and cost of ₹ 2,00,000 for establishing technical feasibility should be charged to profit & loss. Costs incurred from the point of technological feasibility/asset recognition criteria until the time when development costs are incurred are capitalised.

So, the intangible asset should be recognised at ₹ 17,00,000 (₹ 10,00,000 + ₹ 7,00,000).

Q22: 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.

Ans: If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

The transaction at the fair value of the asset received adjusted for any cash received or paid. Therefore, in case (a) patent is measured at ₹ 18,00,000, in case (b) it is measured at ₹ 20,00,000 (18,00,000 + 2,00,000).

Q23: X Garments Ltd. spent ₹ 1,00,00,000 towards promotions for a fashion show by way of various on-road shows, contests etc.

After that event, it realised that the brand name of the entity got popular and resultantly, subsequent sales have shown a significant improvement. It is further expected that this hike will have an effect over the next 2-3 years.

How the entity should account for the above cost incurred on promoting such show?

Ans: Expenditure of ₹ 1,00,00,000 though increased future economic benefits, but it does not result in creation of an intangible asset.

Such promotional cost should be expensed off.

Q24: An entity is developing a new production process. During 20X1-20X2, expenditure incurred was ₹ 1,000, of which ₹ 900 was incurred before March 1, 20X2 and ₹ 100 was incurred between March 1, 20X2 and March 31, 20X2. The entity is able to demonstrate that at March 1, 20X2, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be ₹ 500.

During 20X2-20X3, expenditure incurred is ₹ 2,000. At the end of 20X3, the recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be ₹ 1,900.

Ans: At the end of the financial year 20X2, the production process is recognised as an intangible asset at a cost of ₹ 100 (expenditure incurred since the date when the recognition criteria were met, i.e., March 1, 20X2). ₹ 900 expenditure incurred before March 1, 20X2 is recognised as an expense because the recognition criteria were not met until March 1, 20X2. This expenditure does not form part of the cost of the production process recognised in the balance sheet.

At the end of 20X3, the cost of the production process is ₹ 2,100 (₹ 100 expenditure recognised at the end of 20X2 plus ₹ 2,000 expenditure recognised in 20X3). The entity recognises an impairment loss of ₹ 200 to adjust the carrying amount of the process before impairment loss (₹ 2,100) to its recoverable amount (₹ 1,900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in Ind AS 36 are met

Q25: X Ltd. is engaged in 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 designers.
- (b) Incurred ₹ 5,00,000 towards other cost of completion of program design.
- (c) Incurred ₹ 2,00,000 towards cost of coding and establishing technical feasibility.
- (d) Paid ₹ 7,00,000 for other direct cost after establishment of technical feasibility.
- (e) Incurred ₹ 2,00,000 towards other testing costs.
- (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.
- (h) 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?

Ans: Costs incurred in creating computer software, should be charged to research & development expenses when incurred until technical feasibility/asset recognition criteria have been established for the product. Here, technical feasibility is established after completion of detailed program design.

In this case, ₹ 9,00,000 (salary cost of ₹ 2,00,000, program design cost of ₹ 5,00,000 and coding and technical feasibility cost of ₹ 2,00,000) would be recorded as expense.

Cost incurred from the point of technical feasibility are capitalised as software costs. But the conference cost of ₹ 70,000 would be expensed off.

In this situation, direct cost after establishment of technical feasibility of ₹ 7,00,000, testing cost of ₹ 2,00,000 and cost of producing product masters for training material of ₹ 3,00,000 will be capitalised.

The cost of software capitalised is = ₹ (7,00,000 + 2,00,000 + 3,00,000) = ₹ 12,00,000.

Q26: X Ltd. has started developing a new production process in financial year 20X1-20X2. Total expenditure incurred till September 30, 20X3, was ₹ 1,00,00,000 . The expenditure on the development of the production process meets the recognition criteria on July 1, 20X1. The records of X Ltd. show that, out of total ₹ 1,00,00,000, ₹ 70,00,000 were incurred during July to September 20X1. X Ltd. publishes its financial results quarterly. How X Ltd. should account for the development expenditure?

Ans: X Ltd. should recognise the intangible asset at ₹ 70,00,000 and ₹ 30,00,000 which was already recognised as an expenses in first quarter should not be capitalised.

Q27: 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?

Ans: The intangible assets are revalued to ₹ 1,50,00,000 on an amortised replacement cost basis, which is a 150% increase from its original cost. Thereby applying the existing ratio of accumulated depreciation to the cost the revalued gross amount would be ₹ 2,50,00,000 gross and ₹ 1,00,00,000 on amortisation.

QUESTIONS FROM RTP/MTP/EXAMS

Q28: A Ltd. intends to open a new retail store in a new location in the next few weeks. It has spent a substantial sum on a series of television advertisements to promote this new store. It has paid for advertisements costing ₹ 8,00,000 before 31st March, 2018. ₹ 7,00,000 of this sum relates to advertisements shown before 31st March, 2018 and ₹ 1,00,000 to advertisements shown in April, 2018. Since 31st March, 2018, A Ltd. has paid for further advertisements costing ₹ 4,00,000. The accountant charged all these costs as expenses in the year to 31 March 2018. However, CFO of A Ltd. does not want to charge ₹12,00,000 against 2017-2018 profits. He believes that these costs can be carried forward as intangible assets because the company's market research indicates that this new store is likely to be highly successful.

Examine and justify the treatment of these costs of ₹ 12,00,000 in the financial statements for the year ended 31st March, 2018 as per Ind AS. **[RTP Nov 2018]**

Ans: Ind AS 38 specifically prohibits recognising advertising expenditure as an intangible asset. Irrespective of success probability in future, such expenses have to be recognized in profit or loss. Therefore, the treatment given by the accountant is correct since such costs should be recognised as expenses.

However, the costs should be recognised on an accruals basis.

Therefore, of the advertisements paid for before 31st March, 2018, ₹ 7,00,000 would be recognised as an expense and ₹ 1,00,000 as a pre-payment in the year ended 31st March 2018.

₹ 4,00,000 cost of advertisements paid for since 31st March, 2018 would be charged as expenses in the year ended 31st March, 2019.

Chp Nov 26

Q29: ABC Pvt. Ltd., recruited a player. As per the terms of the contract, the player is prohibited from playing for any other entity for coming 5 years and have to in the employment with the company and cannot leave the entity without mutual agreement. The price the entity paid to acquire this right is derived from the skills and fame of the said player. The entity uses and develops the player through participation in matches. State whether the cost incurred to obtain the right regarding the player can be recognised as an intangible asset as per Ind AS 38?

[RTP Nov 2020]

Ans: As per Ind AS 38, for an item to be recognised as an intangible asset, it must meet the definition of an intangible asset, i.e., identifiability, control over a resource and existence of future economic benefits and also recognition criteria.

With regard to establishment of control, paragraph 13 of Ind AS 38 states that an entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

Further, paragraph 15 of Ind AS 38 provides that an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

Since the right in the instant case is contractual, identifiability criterion is satisfied. Based on the facts provided in the given case, the player is prohibited from playing in other teams by the terms of the contract which legally binds the player to stay with ABC Ltd for 5 years.

Accordingly, in the given case, the company would be able to demonstrate control. Future economic benefits are expected to arise from use of the player in matches. Further, cost of obtaining rights is also reliably measurable. Hence, it can recognise the costs incurred to obtain the right regarding the player as an intangible asset. However, careful assessment of relevant facts and circumstances of each case is required to be made.

Q30: PQR Ltd. is a gaming developer company. Few years back, it developed a new game called 'Cloud9'. This game sold over 10,00,000 copies around the world and was extremely profitable. Due to its popularity, PQR Ltd. released a new game in the 'Cloud9' series every year. The games continue to be the bestseller. Based on Management's expectations, estimates of cash flow projections for the 'cloud9 videogame series' over the next five years have been prepared. Based on these projections, PQR Ltd. believes that cloud9 series brand should be recognised at INR 20,00,000 in its financial statement. PQR Ltd. has also paid INR 10,00,000 to MNC Ltd. to acquire rights of another video game series called the 'Headspace' videogame series. The said series have huge demand in the market. Discuss the accounting treatment of the above in the financial statements of PQR Ltd. **[RTP May 2021]**

Ans: In order to determine the accounting treatment of 'cloud9 videogame series' and 'Headspace', definition of asset and intangible asset given in Ind AS 38 may be noted:

"An asset is a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits are expected to flow to the entity."

"An intangible asset is an identifiable non-monetary asset without physical substance."

In accordance with the above, for recognising an intangible asset, an entity must be able to demonstrate that the item satisfies the criteria of identifiability, control and existence of future economic benefits.

In order to determine whether 'cloud9 videogame series' meet the aforesaid conditions, following provisions of Ind AS 38 regarding Internally Generated Intangible Assets may be noted:

As per paragraph 63 and 64 of Ind AS 38, internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets. Expenditure on such items cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

Accordingly, though the cash flow projections suggest that the cloud9 brand will lead to future economic benefits, yet the asset has been internally generated; therefore, the Cloud9 brand cannot be recognised as intangible asset in the financial statements.

In order to determine whether 'Headspace' meet the aforesaid conditions, following provisions of Ind AS 38 regarding 'Separately acquired Intangible Assets' should be analysed.

As per paragraphs 25 and 26 of Ind AS 38, normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for separately acquired intangible assets. In addition, the cost of a separately acquired intangible asset can usually be measured reliably.

This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

The Headspace game has been purchased for INR 10,00,000 and it is expected to generate future economic benefits to the entity. Since Headspace game is a separately acquired asset and the future benefits are expected to flow to the entity, therefore, an intangible asset should be recognised in respect of the 'Headspace' asset at its cost of INR 10,00,000. After initial recognition, either cost model or revaluation model can be used to measure headspace intangible asset as per guidance given in paragraphs 74-87 of Ind AS 38. In accordance with this, Headspace intangible asset should be carried at its cost/revalued amount (as the case may be) less any accumulated amortisation and any accumulated impairment losses.

Q31 Super Sounds Limited had the following transactions during the Financial Year 2019-2020.

- (i) On 1st April 2019, Super Sounds Limited purchased the net assets of Music Limited for ₹ 13,20,000. The fair value of Music Limited's identifiable net assets was ₹ 10,00,000. Super Sounds Limited is of the view that due to popularity of Music Limited's product, the life of goodwill is 10 years.
- (ii) On 4th May 2019, Super Sounds Limited purchased a Franchisee to organize musical shows from Armaan TV for ₹ 80,00,000 and at an annual fee of 2% of musical shows revenue. The Franchisee expires after 5 years. Musical shows revenue were ₹ 10,00,000 for financial year 2019-2020. The projected future revenues for financial year 2020-2021 is ₹ 25,00,000 and ₹ 30,00,000 p.a. for remaining 3 years thereafter.
- (iii) On 4th July 2019, Super Sounds Limited was granted a Copyright that had been applied for by Music Limited. During financial year 2019-2020, Super Sound Limited incurred ₹ 2,50,000 on legal cost to register the Patent and ₹ 7,00,000 additional cost to successfully prosecute a copyright infringement suit against a competitor. The life of the Copyright is for 10 years. Super Sound Limited follows an accounting policy to amortize all intangible on SLM (Straight Line Method) basis or any appropriate basis over a maximum period permitted by relevant Ind AS, taking a full year amortization in the year of acquisition.

You are required to prepare:

- (i) A Schedule showing the intangible section in Super Sound Limited Balance Sheet as on 31st March 2020, and
- (ii) A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of Super Sound Limited for the year ended 2019-2020.

[Exam JAN 21 (10 Marks); MTP Nov 22; RTP Nov 24]

Ans: (i) Super Sounds Limited

Balance Sheet (Extract relating to intangible asset) as at 31st March 2020

	<i>Note No.</i>	₹
Assets		

(1) Non- current asset Intangible assets	1	69,45,000
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(ii) Super Sounds Limited

**Statement of Profit and Loss (Extract)
for the year ended 31st March 2020**

	<i>Note No.</i>	₹
Revenue from Operations		10,00,000
Total Revenue Expenses:		
Amortization expenses Other expenses	2	16,25,000
Total Expenses	3	7,20,000

Notes to Accounts (Extract)**1. Intangible Assets**

		Gross Block (Cost)			Accumulated amortization			Net Block	
		Opening Balance	Additions	Closing Balance	Opening Balance	Additions	Closing Balance	Opening Balance	Closing Balance
		₹	₹	₹	₹	₹	₹	₹	₹
1.	Goodwill* (W.N.1)	-	3,20,000	3,20,000	-	-	-	-	3,20,000
2.	Franchise** (W.N.2)	-	80,00,000	80,00,000	-	16,00,000	16,00,000	-	64,00,000
3.	Copyright (W.N.3)	-	2,50,000	2,50,000	-	25,000	25,000	-	2,25,000
		-	85,70,000	85,70,000	-	16,25,000	16,25,000	-	69,45,000

* As per Ind AS 36, irrespective of whether there is any indication of impairment, an entity shall test goodwill acquired in a business combination for impairment annually. This **implies that goodwill is not amortised annually but is subject to annual impairment, if any.**

** As per the information in the question, the limiting factor in the contract for the use is time i.e., 5 years and not the fixed total amount of revenue to be generated. Therefore, an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate and amortisation based on time can only be applied.

2. Amortization expenses

Franchise (W.N.2.)	16,00,000
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Copyright (W.N.3.)	25,000	16,25,000
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3. Other Expenses

Legal cost on copyright	7,00,000	
Fee for Franchise (10,00,000 × 2%)	20,000	7,20,000

Working Notes:

		₹
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business	13,20,000
	<i>Less:</i> Fair value of net assets acquired	(10,00,000)
	Goodwill	3,20,000
(2)	Franchise	80,00,000
	<i>Less:</i> Amortisation (over 5 years)	(16,00,000)
	Balance to be shown in the balance sheet	64,00,000
(3)	Copyright	2,50,000
	<i>Less:</i> Amortisation (over 10 years as per SLM)	(25,000)
	Balance to be shown in the balance sheet	2,25,000

Q32: D Ltd. a leading publishing house, purchased copyright of a book from its author for publishing the same. As per the terms of the contract, if D Ltd. chooses to make the payment upfront then, copyright consideration of ₹ 80,00,000 is to be paid (which is in line with general practice in such arrangements). However, the contract also provided that, in case D Ltd. chooses to pay the consideration after 2 years, then it will be required to pay ₹ 1,00,00,000. At what value should the intangible asset be recognised as per Ind AS 38? **[RTP May 2022]**

Ans: As per paragraph 32 of Ind AS 38, "If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with Ind AS 23, Borrowing Costs."

In the given case, if the payment for an intangible asset i.e. copyright is deferred beyond normal credit terms, the cash price equivalent ₹ 80,00,000 should be considered as its cost and the intangible asset will be recorded initially at this value.

The difference of ₹ 20,00,000 between cash price equivalent (i.e. ₹ 80,00,000) and the total payment (i.e. ₹ 1,00,00,000) should be recognised as interest expense over the period of credit (i.e. 2 years in this case), unless it is eligible for capitalisation in accordance with Ind AS 23, Borrowing Costs.

Q33: An entity has an intangible asset in the form of a product protected by patented technology which is expected to be a source of net cash inflows for at least 15 years. It has been recognised in the books on initial date at ₹ 12,00,000. 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 at the date it was acquired, and the entity intends to sell the patent in five years. Company is amortising the asset in 15 years considering its residual value to be Zero. Annual amortization charged to Profit and Loss is ₹ 80,000. State, whether the accounting treatment done by the Company is in accordance with Ind AS 38? If not, then calculate the annual amortization of the intangible asset and also the amount at which it will be reflected in the balance sheet. **[RTP Nov 2022]**

Ans: For determination of amortisation of the intangible asset, which has finite useful life, two elements need to be determined: useful life and residual value.

Useful life is defined as:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

In the instant case, since the entity expects that the asset will be available for use by it for the period of 5 years and thereafter it will be transferred, the useful life of the asset is 5 years.

For residual value, paragraphs 100-102 of Ind AS 38 states that the residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
- (b) there is an active market (as defined in Ind AS 113) for the asset and:
 - (i) residual value can be determined by reference to that market; and
 - (ii) it is probable that such a market will exist at the end of the asset's useful life.

The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used.

On application of above paragraphs, the depreciable amount of the patent will be determined after deducting the residual value, which is 60 % of its fair value at the date of its acquisition. Accordingly, the patent will be amortised over its useful life of 5 years, with a residual value equal to 60% of its fair value at the date of its acquisition. The patent will also be reviewed for impairment in accordance with Ind AS 36. Therefore, the accounting policy of amortising the

asset over a period of 15 years considering its residual value of Zero is not in accordance with Ind AS 38.

Computation of correct amount of residual value and annual amortization:

		₹
Cost of Intangible asset		12,00,000
Residual value	(60% of ₹ 12,00,000)	7,20,000
Depreciable value of intangible asset	(12,00,000 – 7,20,000)	4,80,000
Useful life		5 years
Annual amortisation	(4,80,000 / 5)	₹ 96,000 p.a.

Q34: An entity acquired two trade secrets (secret recipes) in a business combination. Recipe A is patented. Recipe B is not legally protected.

How the acquisition of Recipe A and Recipe B would be accounted for by the entity as per relevant Ind AS. **[RTP May 2023]**

Ans: Para 11 and 12 of Ind AS 38 states that the definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

Further, an asset is identifiable if it either:

- (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

In the given case, Recipe A meets the contractual-legal criterion for identification as an intangible asset because it is protected by a patent. This recipe is identified and recognised separately from goodwill while accounting the business combination.

Since Recipe B is not protected by a patent, it does not meet the contractual-legal criterion for identification as an intangible asset. However, Recipe B is identified as a separate intangible asset because it meets the separability criterion. Such recipes can be, and often are, exchanged, licensed or leased to others. Therefore, the unpatented Recipe B should be accounted for as a separate intangible asset acquired in the business combination.

Q35. A company engaged in the provision of Information Technology Products and Services incurred following expenditure during the development phase of its software product that is to be offered to its customers. The entity also purchases software from third parties for incorporating

into its end software product offered to its customers. The company is in the process of launching it in the market for licensing to customers. The company also takes services of external professional software developers for such software development purpose. Costs incurred in relation to the development of its software product for the year ended 31st March, 20X2 are as follows:

Particulars	Amount (₹ thousands)
Purchase price of imported software	600
Employment costs (Note 1)	1,200
Testing costs	1,800
Other costs directly related to customization (Note 2)	450
Professional fees paid for external software developers	220
Costs of training provided to staff to operate the asset	195
Costs of advertising in market	1,560
Administrative and general overheads	825

Note 1: The software was developed in nine months ended 31st December, 20X1 and was capable of operating in the manner intended by the entity. It was brought into use on 31st March, 20X2. The employment costs are for the period of twelve months (i.e. up to 31st March, 20X2). The employees were engaged in developing the software and related activities.

Note 2: Other costs directly related to development include an abnormal cost of ₹ 50,000 in respect of repairing the damage which resulted from a security breach.

What will be the amount of the software development costs that can be capitalized by explaining the reason for each element of cost? [RTP Nov 2023]

Ans. In the given fact pattern, the entity should apply the recognition and measurement principles relevant for an internally generated intangible asset. The entity has to ensure compliance with additional requirements relating to internally generated intangible assets in addition to general recognition criteria and initial measurement of intangible asset. In the instant case, for the measurement of software development cost, entity must evaluate the costs incurred for recognition of an intangible asset arising from development phase with reference to paragraphs 65 to 67 of Ind AS 38.

According to the said paragraphs, the initial carrying amount of the software will be computed as follows:

Particulars	Amount (₹ in thousands)	Amount to be capitalised as Intangible Assets (₹	Remarks

		in thousands)	
Purchase price of imported software	600	600	The cost of materials or / and services used or consumed in generating the intangible asset and any directly attributable cost of preparing the asset for its intended use.
Employment costs (Note 1)	1,200	900	Employment costs for the period of nine months are directly attributable costs. Therefore, the cost to be capitalized is ₹ 900 thousand (i.e., $9/12 \times ₹ 1,200$ thousand) for nine months as the asset was ready for its intended use by that time. It is assumed that ₹ 100 thousand is equally incurred each month. Capitalisation of eligible costs should cease when the asset is capable of operating in the manner intended by management.
Testing costs	1,800	1,800	The cost of testing whether the asset is functioning properly is a directly attributable cost. (Refer paragraph 59 of Ind AS 38)
Other costs directly related to development (Note 2)	450	400	Cost of identified inefficiencies deducted, i.e., ₹ 450 thousand – ₹ 50 thousand.
Professional fees paid for bringing the software to its working condition	220	220	The cost of materials or/and services used or consumed in generating the intangible asset
Costs of training provided to staff	195	Nil	Expenditure on training staff to operate the asset cannot be capitalised. (Refer paragraph 67 of Ind AS 38)
Costs of advertising in market	1,560	Nil	Selling, administrative and other general overhead expenditure cannot be capitalised. (Refer paragraph 67 of Ind AS 38)

Administrative and general overheads	825	Nil	
Total	6,850	3,920	

Accordingly, the initial carrying value of the software is ₹ 39,20,000. The remaining costs will be charged to profit or loss.

Q36: Beauty Ltd. purchased a patent right of a face-wash on 1st April, 2020 for ₹ 4,20,000; which has a legal life of 10 years. Due to the highly competitive nature of the product, the management of the company estimates a useful life of only 6 years. Straight line amortization is determined by the management to be the best method. As at 1st April, 2021, 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 ₹ 2,00,000 and also decides to amortize it over 2 years. As at 1st April, 2022, having perfected the related production process, the asset is now appraised at a value of ₹ 3,50,000. Furthermore, the estimated useful life is now believed to be 3 more years. You are required to determine the value of intangible asset at the end of financial year:

- 2020-2021;
- 2021-2022;
- 2022-2023.

Also, discuss the treatment of revaluation gain in financial year 2022 -2023.

[Exam Nov 23 (4 Marks)]

Ans: Value as on 31st March 2021

Original cost	₹ 4,20,000
Less: Amortisation (4,20,000 / 6 years)	(₹ 70,000)
Net carrying value as on 31st March 2021	₹ 3,50,000

Value as on 31st March 2022

On 1st April 2021, the downward revaluation is recorded by writing down the asset to the estimated value of ₹ 2,00,000, which necessitates a ₹ 1,50,000 charge to profit & loss (carrying value ₹ 3,50,000 less fair value ₹ 2,00,000).

Amortisation provided for the financial year 2021-2022 is ₹ 1,00,000 (₹ 2,00,000/2) Net value as on 31st March 2022 = ₹ 2,00,000 – ₹ 1,00,000 = ₹ 1,00,000.

Value as on 31st March 2023

As on 1st April 2022, the carrying value of the patent is ₹ 1,00,000. Revalued amount of patent is ₹ 3,50,000.

Out of total revaluation gain of ₹ 2,50,000, ₹ 1,50,000 will be charged to profit & loss and balance amount of ₹ 1,00,000 (₹ 2,50,000 – ₹ 1,50,000) will be credited to revaluation reserve.

Amortisation provided for the financial year 2022 -2023 is ₹ 1,16,667 (₹ 3,50,000 / 3) Net value as on 31st March 2023 = ₹ 3,50,000 – ₹ 1,16,667 = ₹ 2,33,333.

NOTES

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