AS 26
Intangible Assets

Asset
- Tangible → AS 10 PPE
- (CA) Inventory → AS 2
- Investment → AS 13 — Shares, Debn, Property, GOLD, Silver
- Leased Asset → AS 19
- Intangible Assets → AS 26
  - R&D
  - Artistic Work (IPR)
  - Goodwill
  - Patent, CopyRyt, Trademark
  - Software / App / Website
  - Tech. Know How

1) What is Asset ?

Any resource from which FEB are expected & which is controlled by entity.

Cash (or) Kind

Revenue
Cost Saving

2) What is Control?

↓

Power

&

to obtain Economic Benefits from that Asset

to restrict others from use of that Asset

3) What is Intangible Asset?

Any Intangible item will be treated as an Asset if it satisfies all the following Conditions :—

a) FEB must be expected to flow
b) It is Controlled by entity
c) It must be Identifiable
d) Without physical substance
e) It is Held For Use in production of G/S, or for supply of G/S or admst. purpose
F) It is non-monetary item.

4) What is Identifiable?

a) Any Intangible item has ability to generate Individual Economic Benefits by Sale/Use/Lease/Exchange etc

Laptop

Op. system → ✗

A/c Software
Antivirus softw.
ERP system
→ ✓ Identifiable

(or)

b) When Intangible item arise from any Contractual agreement.

→ Telecom Licence
Franchise agreement

5) When to Record the Intangible Asset?

When Cost of Asset can be measured Reliably.

6) Initial Recognition of Intangible Asset?

First Time Recording at Cost

↓

PC
+ DAC
+ BC (if I.A is QA)

If Intangible Asset is acquired thru Amalgam. What should be the cost?

Amalg. in the nature of purchase

↓

Cost = Fair Value or agreed value

Amalg. in the nature of merger

↓

Cost = Book Value in Trar

Intangible Asset is acquired thru Govt Grant

↳ Cost = Nominal Value as per AS 12

Self generated Intangible Asset (i.e Software)

Cost ⇒ Employee Benefit exp
(+) PPE (equipments) purchased for software develop.
(+) Lease Rent of premise where software development is carried on
(+) Test Run exp.
(+) Legal cost/expenses
(+) any other DAC

Cost

7) Amortisation of Intangible Assets :-

a) Amortisation period :-

Period of Amortisation shall not exceed 10 yrs. Unless it is evidenced.

b) Amortisation method :- Intangible Asset shall be amortised as per following methods :-

(i) In proportion of Estimated Future Economic Benefits : (or) (1st priority)

(ii) In absence of above method, Use SLM

c) Residual Value :- RV of any Intangible Asset shall be Zero Unless there is a third party Commitment to purchase such Asset after Certain period.

Eg:- We bought Software of 50 lacs. & estimated 5 yrs. of life

Out our estimated period of Use is 2 yrs.

There is a 3rd party Commitment to buy after 2 yrs at 18 lacs.

Calculate Amortisation every year in both Cases :-

a) SLM

b) Estimated FEB are 80 lacs First yr.
40 lacs 2nd yr.

Sol) :-

Cost = 50,00,000
(–) R. Value = 18,00,000

Max. Amortisation to be done = 32,00,000

Period of Amortisation = 2 yrs.

Case 1 :- Amortisation 1st yr = $\frac{3200000}{2}$
= 16 lacs.

——— " ——— 2nd yr = 16 lacs.

Case 2 :- Amortisation

1st

$3200000 \times \frac{2}{3}$

21,33,333/-

2nd

$3200000 \times \frac{1}{3}$

10,66,667/-

8) Subsequent Expenditure on Intangible Asset :-

If such expenditure increases the earning efficiency of I. Asset, such exp shall be added to the carrying Amt of Asset. Otherwise charge it to SPL.

9) DeRecognition of Intangible Asset :-

Intangible Assets shall be DeRecognised in following cases :-

a) When the useful life is over; (or)

b) When Asset is sold / disposed / Leased under F/L

or

c) When I. Asset stops generating FEB.

Gain/Loss on DeRecognition shall be transfer to P&L.

as under:-

Amortisation for next 3 year:-

Year	FEB	Working	Amort Amt.
4	300	$300 \times \frac{300}{750}$	120
5	300	— " —	120
6	150	$300 \times \frac{150}{750}$	60
	750		

10) Research & Development Exp. on Internally generated Int. Asset (Such as Software / Technology)

V. Imp.

Research Exp

↓

always transfer to SPL

↓

At the time of Research FEB are not Certain to be realised Untill Research is successful

Development exp.

↓

a) Development begins only when Research is successful

b) Expenditure on Develop. can be capitalised & treated as Int. Asset on Fulfillment of Following Conditions:-

(i)

There is Technical Feasebility OF Completion OF Development.

Are SKills Required to Complete the Development; available

Kabiliyat

(ii)

Entity should have Clear Intention to Complete the Development.

BOD (5 members)

Pakka irada

(iii)

Ability to generate FEB after the Development

Product ko marketable Karne ki shamta

(iv)

Demonstration OF FEB i.e How the entity will generate FEB & How many years.

(v)

Adequate Financial Resources to Complete the Development

Paisa Aukaat

(vi)

Cost Can be measured Realiably

Eg:—

Research started — 50 lacs. — 1st yr → P&L a/c of 1st yr.

30 lacs. — 2nd yr. → P&L a/c of 2nd yr.

Development started — 3rd yr. → 6 Conditions not yet fulfilled (Creteria not satisfied) → 40 lacs. → P&L a/c of 3rd yr.

mid — 4th yr. → Creteria for I.A fulfilled in mid

First Half — 20 lacs. → P&L a/c

Second Half — 60 lacs. → Capitalised

Once the exp. is charged to P&L & later on if Creteria to Record I. Asset is satisfied, such exp can never be reversed.

→ This is not Prior period Item.

→ This is change in A/c estimate

11) Customer list

- Self generated → No I.A should be recorded
- Acquired → I.A can be recorded if all (6)+1 conditions satisfied

12) To Amortise any I.A., always consider Useful life instead of Legal life.

13) Asset comprise of Tangible & Intangible elements :-

- If Intangible element is Integral part of Hardware → Do not recognise separately
- If Intangible element is not Integral part i.e it can be used separately → Intangible element can be recorded separately.

Q1

1) As per AS 26, Amortisation of Intangible Assets is mandatory.

2) If in preceding years, entity has omitted to amortise the I. Asset then it is treated as PPI as per AS 5

3) As per AS 5, PPI need to be disclosed & presented separately in the Cy.

4) As per the above provision, following treated shall be made :-

Total Useful life = 10 yrs

Current year ending on 31/3/x8

No. of years I.A is used till 31/3/x8 = 7 yrs

Amortisation for 6 yrs (PPI) = 12 lacs.

$\frac{20}{10} \times 6$

Cy Amortisation = 2 lacs.

i) Amortisation A/c Dr. 2 lacs.
Amort. (PPI) A/c Dr. 12 lacs.
To I. Asset 14 lacs.

2) Profit & Loss Dr. 14
To Amortisation 2
To Amortisation (PPI) 12

Q7

Development Exp Capitalised = 180 lacs.

Recoverable Amt = 151.63 lacs.
(PV of Future Eco. Benefit)

Impairement Loss = 28.37 lacs.
P&L

Q8

Provision :- Expenditure on Development is transferred to P&L a/c Unless the Creteria to recognised intangible Asset is Satisfied.

Once the Creteria of recognition of I.A. is Satisfied, Further Expenditure on Development shall be Capitalised.

a) For the year ending 31/3/21 :-

(i) Exp for 1/4 to 31/12 (Creteria not Satisfied) = 68,00,000

It shall be transfer to P&L

(ii) Expenditure for 1/Jan to 31/3 = 30,00,000
(Capitalised since Criteria satisfied on 1/Jan)

b) For the year ending 31/3/22 :-

Opng. Bal. of I. Asset = 30,00,000
(+) Further Exp. on Develop. = 72,00,000

Total Cost of Know How = 1,02,00,000

Impairment of Intangible Asset :-

When the Carrying amt is more than Recoverable Amt, Impairement Loss shall be recognised as under :-

Imp. Loss = CA − RA
= 1,02,00,000 − 52,00,000
= 50,00,000

I/L is transferred to P&L a/c

Revised CA (after Impairement) = 52,00,000

Q9

WN-1 Amortisation of Intangible Assets :-

Assets	Cost	Useful Life	Amortisation
Goodwill (1080000 - 516000)	564,000	5	1,12,800
Franchise	1,80,000	6	30,000
Patent	2,40,000	8	30,000
	9,84,000		172800

Balance Sheet (extract)

	Note	
Non-current Assets		
(i) Intangible Assets	1	8,11,200

Notes to A/c

1) Intangible Asset

Particulars	Amt.
a) Goodwill Cost	564000
b) Franchise Cost	180000
c) Patent Cost	240000
Gross	= 984000
(-) Accumulated Amort. (WN-1)	= 172800
	811200