

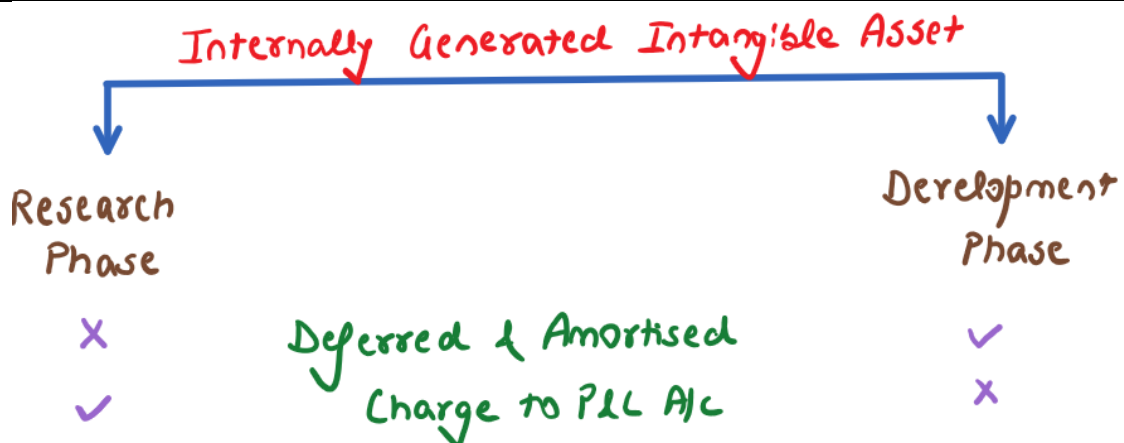
**INTANGIBLE ASSETS**

Objective	<ul style="list-style-type: none"> <li>❖ To prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Accounting Standard.</li> <li>❖ AS 26 requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met.</li> <li>❖ It also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets</li> </ul>
Non-Applicability	<ul style="list-style-type: none"> <li>❖ Intangible assets that are covered by another Accounting Standard <ul style="list-style-type: none"> <li>• Intangible assets held by an enterprise for sale in ordinary course of business (AS-2)</li> <li>• Deferred tax assets AS-22</li> <li>• Leases that fall within the scope of AS-19</li> <li>• Goodwill arising on amalgamation AS-14</li> <li>• Goodwill arising on consolidation AS-21</li> </ul> </li> <li>❖ Financial assets</li> <li>❖ Mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources and</li> <li>❖ Intangible assets arising in insurance enterprises from contract with policy holders.</li> </ul>
Meaning of Asset	<p>An asset is a resource:</p> <ol style="list-style-type: none"> <li>a. Controlled by an enterprise as a result of past events and</li> <li>b. From which future economic benefits are expected to flow to enterprise</li> </ol>
Monetary assets	<p>Realizable for fixed or determinable sum under contract (assets that can be easily converted into a fixed amount of money in the immediate short term)</p> <p><u>Example</u> – Debtors, Bills receivables, etc.</p>
Non Monetary assets	<p>No Fixed amount under contract (not readily converted into a fixed amount of money in the short term)</p> <p><u>Example</u>- Goodwill, Patterns, Trade mark, Copyrights, PPE etc.</p>
Meaning of intangible asset-	<p>It is an</p> <ul style="list-style-type: none"> <li>→ Identifiable</li> <li>→ Non monetary asset</li> <li>→ Without any physical substance</li> <li>→ Held for economic benefits i.e. either for use in production or supply of goods or services, for rental to others or for administrative purposes.</li> <li>→ Under the control of entity</li> </ul>
Essential components	<ul style="list-style-type: none"> <li>❖ It must be identifiable i.e the asset must be separable from other assets.</li> <li>❖ It must be controlled by the enterprise</li> <li>❖ Future economic benefits must be associated with an intangible asset</li> </ul>
Recognition of Intangible asset	<p>An intangible asset should be recognized if and only if</p> <ul style="list-style-type: none"> <li>→ It meets all the essential elements of an intangible assets</li> <li>→ It is probable that future economic benefits will flow to the enterprise</li> <li>→ Cost of the asset can be measured reliably.</li> </ul>

Future economic benefit is also flow from the skill of labour and customer loyalty but usually this flow of benefits cannot be controlled by the enterprise as employees may leave the enterprise anytime or even loyal customers may decide to purchase goods and services from other suppliers. Hence, these items don't even qualify as intangible asset as per the definition given in AS 26

**MEASUREMENT OF INTANGIBLE ASSETS**

Procurement /Separate Acquisition	Cost of Intangible Assets include the following:	
	Purchase price	XX
	Add: Non-refundable taxes & duties	XX
	Add: Directly attributable expenditure on making the asset ready for its intended use.*	XX
	Less: Trade discount & rebates	(XX)
	Cost of Asset	XX
*Example: Professional fees for legal services		
In Exchange For Another Asset or Shares/Other Securities	Cost of Intangible Asset is ➤ Fair Market Value (FMV) of Asset given / Securities issued or ➤ Fair Market Value (FMV) of the Asset acquired whichever is more clearly evident. Note: (a) FMV of the shares /securities to be considered & not Book value (b) Such value is to be seen on the date of transaction	
Acquisition By Way Of Government Grant	Given at concessional rate	On the basis of their acquisition costs
	Given free of cost	Record at nominal value
This may occur when a government transfers or allocates to an enterprise intangible assets such as airport landing rights, licences to operate radio or television stations, import licences, etc.		



**\*Development Phase:**

Amount Capitalised = Lower of Cost or Recoverable Amount

Where Recoverable amount = Present value of Future Cash Flows

→ If an enterprise cannot distinguish the research phase from the development phase to create an intangible asset, the expenditure should be treated as if it were incurred in the research phase only.

→ Internally generated goodwill is not recognised as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost.

<p><u>Examples of research activities are:</u> <i>(Research: Acquisition of Knowledge)</i></p> <p>a) Activities aimed at obtaining new knowledge.  b) Search for evaluation &amp; final selection of, applications of research findings/other knowledge  c) Search for alternatives for materials, devices, products, processes, systems or services  d) The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.</p> <p><u>Examples of development activities are:</u> <i>(Development: Application of Knowledge)</i></p> <p>a) The design, construction &amp; testing of pre-production or pre-use prototypes and models.  b) The design of tools, jigs, moulds and dies involving new technology.  c) The design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production and  d) The design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.</p>	
Development phase (PARA 44)	<p>An intangible asset arising from development should be recognized if and only if an enterprise can demonstrate all of the following:</p> <ul style="list-style-type: none"> <li>→ Technical feasibility established</li> <li>→ Marketability proved</li> <li>→ Identification of cost incurred</li> <li>→ Realistic expectation that there will be sufficient future revenue to cover cost</li> <li>→ Intention to complete the asset and use or sell it.</li> </ul>
Cost of an Internally Generated Intangible Asset	<p>The cost of an internally generated intangible asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use from the time when the intangible asset first meets the recognition criteria.</p> <p>The following are <u>not components of the cost</u> of an internally generated intangible asset:</p> <ul style="list-style-type: none"> <li>➤ Selling, administrative &amp; other general overhead expenditure unless this expenditure can be directly attributed to making the asset ready for use.</li> <li>➤ Clearly identified inefficiencies and initial operating losses incurred before an asset achieves planned performance and</li> <li>➤ Expenditure on training the staff to operate the asset</li> </ul>
Recognition of an expense	<p>Expenditure on an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria.</p>
Subsequent Expenditure	<p>Subsequent expenditure on an intangible asset after its purchase or its completion should be <u>recognised as an expense</u> when it is incurred <u>unless</u>:</p> <ul style="list-style-type: none"> <li>→ it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and</li> <li>→ the expenditure can be measured and attributed to the asset reliably.</li> </ul> <p>If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.</p>
<b>AMORTISATION PERIOD (PARA 63)</b>	
Basis of allocation	<p>Depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life.</p>

Presumption as to the useful life	It <u>will not exceed 10 years</u> from the date when the asset is available for use unless there is persuasive evidence that intangible asset has higher useful life.
When should it commence?	Amortisation should commence when asset is available for use.
Notes	Given the history of rapid changes in technology, computer software and other intangible asset is susceptible to technological obsolescence, it is likely that useful life of the software etc. will be much shorter, say 3-5 years
<b>AMORTISATION METHOD</b>	
Which method to follow	<ul style="list-style-type: none"> <li>❖ The method used should reflect the pattern in which assets economic benefits are consumed by enterprise (In the ratio of future cash flows)</li> <li>❖ If that pattern cannot be determined reliably, the SLM should be used.</li> </ul>
<b>REVIEW OF AMORTISATION PERIOD AND METHOD</b>	
<p>The amortisation period and method should be reviewed at least at each financial year end. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern.</p> <p>Such changes should be accounted for in accordance with AS 5</p>	
<b>RECOVERABILITY OF THE CARRYING AMOUNT-IMPAIRMENT LOSSES</b>	
<p>Impairment losses of intangible assets are calculated on the basis of AS 28. In addition to the requirements of AS on Impairment of Assets, an enterprise should estimate the recoverable amount of the following intangible assets at least at each financial year end even if there is no indication that the asset is impaired:</p> <ol style="list-style-type: none"> <li>(a) an intangible asset that is not yet available for use; and</li> <li>(b) an intangible asset that is amortised over a period exceeding ten years from the date when the asset is available for use. AS 26 requires an enterprise to test for impairment, at least annually, carrying amount of intangible asset that is not yet available for use.</li> </ol> <p><i>Example:</i></p> <p>X limited is developing a customized software for ₹ 10 Cr. It will take 3 years to complete development. The present value of future economic benefit is considered to be ₹ 15 Cr. After 2 years, 70% work is completed. However, due to change in market conditions, present value of future economic benefits are estimated to be ₹ 6 Cr only.</p> <p style="padding-left: 40px;">Company should recognize ₹ 1 Cr as impairment loss on "Intangible asset under development" as per AS 28. Only ₹ 6 Cr can be shown as "Intangible asset under development". Company cannot capitalize any further amount till the time recoverable amount increases even if work of ₹ 10 Cr is completed.</p>	
<b>DERECOGNITION OF INTANGIBLE ASSETS I.E. RETIREMENT &amp; DISPOSAL</b>	
When to Derecognize?	Intangible asset should be derecognized (eliminated from balance sheet) <ul style="list-style-type: none"> <li>→ on disposal or</li> <li>→ when no future economic benefits are expected from its use &amp; subsequent disposal.</li> </ul>
Treatment	Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the statement of profit and loss.

<b>DISCLOSURE REQUIREMENTS</b>	
<b>General Disclosures</b>	<p>The financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:</p> <ol style="list-style-type: none"> <li>1. The useful lives or the amortization rates used.</li> <li>2. The amortization methods used.</li> <li>3. The gross carrying amount &amp; the accumulated amortization (aggregated with accumulated impairment losses) at the beginning &amp; end of period.</li> <li>4. Reconciliation of carrying amount at beginning &amp; end of period showing: <ul style="list-style-type: none"> <li>• Additions, indicating separately those from internal development and through amalgamation.</li> <li>• Retirements and disposals.</li> <li>• Amortisation recognised during the period and</li> <li>• Other changes in the carrying amount during the period.</li> </ul> </li> </ol>
<b>Other Disclosures</b>	<p>The financial statements should also disclose:</p> <ul style="list-style-type: none"> <li>➤ If an intangible asset is amortised over more than ten years, the reasons why it is presumed that the useful life of an intangible asset will exceed ten years from the date when the asset is available for use. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the asset.</li> <li>➤ A description, the carrying amount and remaining amortization period of any individual intangible asset that is material to the financial statements of the enterprise as a whole.</li> <li>➤ The existence &amp; carrying amounts of intangible assets whose title is restricted &amp; carrying amounts of intangible assets pledged as security for liabilities and</li> <li>➤ The amount of commitments for the acquisition of intangible assets.</li> <li>➤ The financial statements should disclose aggregate amount of research &amp; development expenditure recognised as an expense during the period.</li> </ul>

## ASSIGNMENT QUESTIONS

### Question 1 Pg no. \_\_\_\_\_

A Company had deferred research and development cost of ₹ 150 lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in lakhs)
I	400
II	300
III	200
IV	100

You are asked to suggest how should Research & Development cost be charged to Profit and Loss account. If at the end of the III year, it is felt that no further benefit will accrue in the IV year, how the unamortised expenditure would be dealt with in the accounts of the Company?

### Question 2 (RTP May 2020) (Similar) Pg no. \_\_\_\_\_

An enterprise acquired patent right for ₹ 400 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under:

Years	Estimated Future Cash Flows (₹ in lakhs)
1	200
2	200
3	200
4	100
5	100

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be ₹ 50 lakhs. Determine the amortization under Accounting Standard 26.

### Question 3 (ICAI Study Material) Pg no. \_\_\_\_\_

Swift Ltd. acquired a patent at a cost of ₹ 80,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹ 10,00,000 per annum. The company had amortized the patent at 10,00,000 per annum in first two years on the basis of economic benefits derived from the product manufactured under the patent. After two years it was found that the product life-cycle may continue for another 5 years from then. The patent was renewable and Swift Ltd. got it renewed after expiry of five years. The net cash flows from the product during these 5 years were expected to be ₹ 36,00,000, ₹ 46,00,000, ₹ 44,00,000, ₹ 40,00,000 and ₹ 34,00,000.

Find out the amortization cost of the patent for each of the years.

### Question 4 (Inter Nov 2023) (5 Marks) Pg no. \_\_\_\_\_

Panna Limited purchased software from Agate Limited for a period of 5 years and capitalized the cost. It provided you the following information:

- Cost of software ₹ 57,60,000.
- Expected Life cycle of the software 5 years

The software was amortized at ₹ 6,40,000 per annum in first three years based on economic benefits derived from the software. After three years, it was found that the software may be used for another 5 years from then. So, Panna Limited got it renewed after expiry of five years for 3 more years.

The net cash flows from the software during these 5 years were expected to be as follows:

Particular	Amount (₹)
Year 1	₹ 23,04,000
Year 2	₹ 29,44,000
Year 3	₹ 28,16,000
Year 4	₹ 25,60,000
Year 5	₹ 21,76,000

You are required to calculate the amortization cost of the software for each of the years.

**Question 5**

Pg no. \_\_\_\_\_

A company acquired for its internal use a software on 28.01.2020 from the USA for US \$ 1,00,000. The exchange rate on that date was ₹ 52 per USD. The seller allowed trade discount @ 5 %. The other expenditure were:

- Import Duty: 20%
- Purchase Tax: 10%
- Entry Tax: 5 % (Recoverable later from tax department)
- Installation expenses: ₹ 25,000
- Profession fees for Clearance from Customs: ₹ 20,000

Compute the cost of Software to be capitalized.

**Question 6**

Pg no. \_\_\_\_\_

NDA Corporation is engaged in research on a new process design for its product. It had incurred an expenditure of ₹ 530 lakhs on research upto 31st March, 2019. The development of the process began on 1st April, 2019 and Development phase expenditure was ₹ 360 lakhs upto 31st March, 2020 which meets assets recognition criteria. From 1st April, 2020, the company will implement the new process design which will result in after tax saving of ₹ 80 lakhs per annum for the next five years. The cost of capital of company is 10%. Explain:

- Accounting treatment for research expenses.
- Cost of internally generated intangible asset as per AS 26.
- Amount of amortization of assets. (Present value of annuity factor of Re. 1 for 5 years@10%=3.7908)

**Question 7**

Pg no. \_\_\_\_\_

K. International Ltd. is developing a new production process. During the financial year ending 31st March, 2019, the total expenditure incurred was ₹ 50 lakhs. This process met the criteria for recognition as an intangible asset on 1st December, 2018. Expenditure incurred till this date was ₹ 22 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2020 was ₹ 80 lakhs. As at 31st March, 2020, the recoverable amount of know-how embodied in the process is estimated to be ₹ 72 lakhs. This includes estimates of future cash outflows as well as inflows. You are required to calculate:

- Amount to be charged to Profit & Loss A/c for the year ending 31st March, 2019 and carrying value of intangible as on that date.
- Amount to be charged to Profit & Loss A/c and carrying value of intangible as on 31st March, 2020

Ignore depreciation.

**Question 8** *(RTP May 2021)*

Pg no. \_\_\_\_\_

Naresh Ltd. had the following transactions during the financial year 2019-2020:

- Naresh Ltd. acquired running business of Sunil Ltd. for ₹ 10,80,000 on 15th May, 2019. The fair value of Sunil Ltd.'s net assets was ₹ 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, its goodwill exists.

- (ii) Naresh Ltd. had taken a franchise on July 2019 to operate a restaurant from Sankalp Ltd. for ₹ 1,80,000 & at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were ₹ 60,000 during financial year 19-20.
- (iii) On 20th August, 2019, Naresh Ltd, incurred costs of ₹ 2,40,000 to register the patent for its product.

Naresh Ltd. expects the patent's economic life to be 8 years. Naresh Ltd. follows an accounting policy to amortize all intangibles on straight line basis over the maximum period permitted by accounting standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business to be amortized over 5 years (SLM) as per AS 14.

Prepare a schedule showing the intangible assets section in Naresh Ltd. Balance Sheet at 31st March, 2020.

**Question 9** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

ABC Ltd. developed know-how by incurring expenditure of ₹ 20 lakhs, The know-how was used by the company from 1.4.2013. The useful life of the asset is 10 years from the year of commencement of its use. The company has not amortised the asset till 31.3.2020.

Pass Journal entry to give effect to the value of know-how as per Accounting Standard-26 for the year ended 31.3.2020.

**Question 10**

Pg no. \_\_\_\_\_

Base Limited is showing an intangible asset at ₹ 85 lakhs as on 1-4-2020. This asset was acquired for ₹ 112 lakhs on 1-4-2017 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard.

**Solution**

As per para 63 of AS 26 "Intangible Assets," the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimates of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortization should commence when the asset is available for use.

Base Limited has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, Base Limited would be required to restate the carrying amount of intangible asset as on 1.4.2020 at ₹ 112 lakhs less ₹ 33.6 lakhs  $\{112 \text{ lakhs}/10 \text{ years} \times 3 \text{ years}\} = ₹ 78.4 \text{ lakhs}$ .

The difference of ₹ 6.6 lakhs i.e.  $(₹ 85 \text{ lakhs} - ₹ 78.4 \text{ lakhs})$  will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 78.4 lakhs would be amortized over remaining 7 years by ₹ 11.2 lakhs per year.

**Question 11**

Pg no. \_\_\_\_\_

On 31-03-2020, the Balance Sheet of Alpha Ltd. shows an item of Intangible assets at ₹ 30 Lakhs. The asset was acquired on 1-4-2015 for ₹ 80 lakhs and was available for use on that date. The company has been following a policy of amortizing intangible assets over a period of 8 years on straight line basis. How you will deal in the books of accounts if the company determines by applying the best estimate of its useful life on 1-4-2020, and the amortization period to be 10 years, being the best estimate of its useful life from the date, it was available for use.

**Solution**

As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on a systematic basis over its useful life. Also there is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years from the date it is available for use. The amortization should commence when the asset is available for use. As per AS 26, if there has been a significant change in the expected pattern of economic benefits from the asset, the amortization method should be changed to reflect the changed pattern.

The company has been following a policy of amortization over a period of 8 years. As on 01-4-2020, 5 years have passed and the carrying amount stands at ₹ 30 lakhs. If the same treatment were to be continued, this would have been amortized over the next 3 years. But the revised estimate of remaining useful life would extend the period by another 5 years to amortize the carrying amount, the Company would be advised to amortize the carrying value over the next 5 years.

Thus, after revision in estimated useful life, the amount of ₹ 30 lacs would be amortised over next 5 years.

**Question 12 (ICAI Study Material)** \_\_\_\_\_ Pg no. \_\_\_\_\_

AB Ltd. launched a project for producing product X in October, 2019. The Company incurred ₹ 20 lakhs towards Research. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years. Advise the Company as per the applicable Accounting Standard.

**Solution**

As per AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard.

Hence, the expenses amounting ₹ 20 lakhs incurred on the research has to be charged to the statement of profit and loss in the current year ending 31st March, 2020.

**Question 13 (ICAI Study Material)** \_\_\_\_\_ Pg no. \_\_\_\_\_

The company had spent ₹ 45 lakhs for publicity and research expenses on one of its new consumer product, which was marketed in the accounting year 2019-2020, but proved to be a failure. State, how you will deal with the following matters in the accounts of U Ltd. for the year ended 31st March, 2020.

**Solution**

In the given case, the company spent ₹ 45 lakhs for publicity and research of a new product which was marketed but proved to be a failure. It is clear that in future there will be no related further revenue/ benefit because of the failure of the product. Thus according to AS 26 'Intangible Assets', the company should charge the total amount of ₹ 45 lakhs as an expense in the profit and loss account.

**Question 14 (ICAI Study Material)** \_\_\_\_\_ Pg no. \_\_\_\_\_

A company with a turnover of ₹ 250 crores and an annual advertising budget of ₹ 2 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 25 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ₹ 2 crore incurred on extensive special initial advertisement campaign for the new product. Is the procedure adopted by company correct?

**Solution**

According to AS 26 'Intangible Assets', "expenditure on an intangible item should be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset". AS 26 mentions that expenditure on advertising and promotional activities should be recognised as an expense when incurred.

In the given case, advertisement expenditure of ₹ 2 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of ₹ 25 crores. Here, no intangible asset or other asset is acquired or created that can be recognised. Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of ₹ 2 crores to the Profit and Loss account of the year is correct.

**Question 15 (ICAI Study Material)**

Pg no. \_\_\_\_\_

During 2019-20, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

	Amount (₹)
Completion of detailed programme and design (Phase 1)	50,000
Coding and Testing (Phase 2)	40,000
Other coding costs (Phase 3 & 4)	63,000
Testing costs (Phase 3 & 4)	18,000
Product masters for training materials (Phase 5)	19,500
Packing the product (1,500 units) (Phase 6)	16,500

After completion of phase 2, it was established that the product is technically feasible for the market. You are required to state how the above referred cost to be recognized in the books of accounts

**Solution**

As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed program design or working model.

In this case, ₹ 90,000 would be recorded as an expense (₹ 50,000 for completion of detailed program design and ₹ 40,000 for coding and testing to establish technological feasibility/asset recognition criteria).

Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (63,000+ 18,000+ 19,500) = ₹ 1,00,500. Packing cost ₹ 16,500 should be recognized as expenses and charged to P & L A/c.

## PRACTICE QUESTIONS

### Question 1

Pg no. \_\_\_\_\_

A company had deferred research and development cost of ₹450 Lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in lakhs)
I	1200
II	900
III	600
IV	300

You are asked to suggest how should research and development cost be charged to Profit and Loss Account assuming entire cost of 450 Lakhs is development cost. If at the end of 3<sup>rd</sup> year, it is felt that no further benefit will accrue in the 4<sup>th</sup> year, how the unamortized expenditure would be dealt with in the accounts of the Company?

#### Solution

Based on sales, research and development cost (assumed that entire cost of ₹ 450 lakhs is development cost) is allocated as follows:

Years	Research & Development cost allocation (₹ in lakhs)
I	$450/3,000 \times 1,200 = 180$
II	$450/3,000 \times 900 = 135$
III	$450/3,000 \times 600 = 90$
IV	$450/3,000 \times 300 = 45$

If at the end of the 3<sup>rd</sup> year, the circumstances do not justify that further benefit will accrue in the 4<sup>th</sup> year, then the company has to charge the unamortised amount i.e. remaining ₹ 135 lakhs  $[450 - (180 + 135)]$  as an expense immediately.

### Question 2 (Inter Nov 2020) (5 Marks) / (RTP Nov 2023)

Pg no. \_\_\_\_\_

Swift Limited acquired patent rights to manufacture Solar Roof Top Panels at a cost of ₹ 600 lacs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of future cash flows which are estimated as under:

Year	1	2	3	4	5
Cash Flows (₹ in lacs)	300	300	300	150	150

After 3<sup>rd</sup> year, it was estimated that the patents would have an estimated balance future life of 3 years and Swift Ltd. expected the estimated cash flow after 5<sup>th</sup> year to be ₹ 75 Lacs. Determine the amortization cost of the patent for each of the above years as per AS 26.

#### Solution

Amortization of cost of Patent as per AS 26

Year	Estimated future cash flow (₹ in lakhs)	Amortization Ratio	Amortized Amount (₹ in lakhs)
1	300	.25	150
2	300	.25	150
3	300	.25	150
4	150	.10	60
5	150	.10	60
6	75	.05	30
		1.00	600

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (300: 300: 300: 150: 150). The unamortized amount of the patent after third year will be ₹ 150 lakh (600-450) which will be amortized in the ratio of revised estimated future cash flows (150:150:75 or 2:2:1) in the fourth, fifth and sixth year.

**Question 3** *(RTP Nov 2018)*

Pg no. \_\_\_\_\_

Desire Ltd. acquired a patent at a cost of ₹ 1,00,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset on SLM. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹ 45,00,000, ₹ 42,00,000, ₹ 40,00,000, ₹ 38,00,000 and ₹ 35,00,000. Patent is renewable and company changed amortization method from 3rd year (i.e. from SLM to ratio of expected new cash flows).

You are required to compute the amortization cost of the patent for each of the years (1st year to 7th year).

**Solution**

Desire Limited amortised ₹ 20,00,000 per annum for the first two years i.e. ₹ 40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortization may be found as follows

Year	Net cash flows	Amortization Ratio	Amortization Amount
1	-	0.200	20,00,000
2	-	0.200	20,00,000
3	45,00,000	0.225	13,50,000
4	42,00,000	0.210	12,60,000
5	40,00,000	0.200	12,00,000
6	38,00,000	0.190	11,40,000
7	35,00,000	0.175	10,50,000
Total	2,00,00,000	1.000	1,00,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹ 60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd

**Question 4** *(Inter May 2018) (5 Marks)*

Pg no. \_\_\_\_\_

A company acquired a patent at a cost of ₹ 160 lakhs for a period of 5 years and the product life cycle is also 5 years. The company capitalized the cost and started amortising the asset at ₹ 16 lakhs per year based on the economic benefits derived from the product manufactured under the patent. After 2 years it was found that the product life cycle may continue for another 5 years from then (the patent is renewable and the company can get it renewed after 5 years). The net cash flows from the product during these 5 years were expected to be ₹ 50 lakhs, ₹ 30 lakhs, ₹ 60 lakhs, ₹ 70 lakhs and ₹ 40 lakhs. Find out the amortization cost of the patent for each of the years.

**Solution**

Company amortized ₹ 16,00,000 per annum for the first two years. Hence, Amortization for the first two years (₹ 16,00,000 X 2) = ₹ 32,00,000.

Remaining carrying cost after two years = ₹ 1,60,00,000 – ₹ 32,00,000 = ₹ 1,28,00,000

Since after two years it was found that the product life cycle may continue for another 5 years, hence the remaining carrying cost ₹128 lakhs will be amortized during next 5 years in the ratio of net cash arising from the sale of the products of Fast Limited.

The amortization cost of the patents may be computed as follows:

Year	Net cash flows	Amortization Ratio	Amortization Amount
1	-	0.1	16,00,000
2	-	0.1	16,00,000
3	50,00,000	0.2	25,60,000
4	30,00,000	0.12	15,36,000
5	60,00,000	0.24	30,72,000
6	70,00,000	0.28	35,84,000
7	40,00,000	0.16	20,48,000
Total	2,50,00,000	1.000	1,60,00,000

**Question 5** *(Inter Jan 2021) (5 Marks)*

Pg no. \_\_\_\_\_

A Company acquired for its internal use a software on 01.03.2020 from U.K. for £ 1,50,000. The exchange rate on the date was as ₹ 100 per £. The seller allowed trade discount @ 2.5%. The other expenditures were:

- Import Duty 10%
- Additional Import Duty 5%
- Entry Tax 2% (Recoverable later from tax department).
- Installation expenses ₹ 1,50,000.
- Professional fees for clearance from customs ₹ 50,000.

Compute the cost of software to be Capitalized as per relevant AS

**Solution**

Calculation of cost of software (intangible asset) acquired for internal use

	Amount
Purchase cost of the software (UK £)	1,50,000
Less: Trade discount @ 2.5% (UK £)	(3,750)
	1,46,250
Cost in ₹ (UK £1,46,250 x ₹ 100)	1,46,25,000
Add: Import duty on cost @ 10% (₹)	14,62,500
	1,60,87,500
Add: Additional import duty @ 5% (₹)	8,04,375
	1,68,91,875
Add: Installation expenses (₹)	1,50,000
Add: Professional fee for clearance from customs (₹)	50,000
Cost of the software to be capitalized (₹)	1,70,91,875

Note: Since entry tax has been mentioned as a recoverable / refundable tax, it is not included as part of the cost of the asset

**Question 6**

Pg no. \_\_\_\_\_

Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred ₹ 10 lakh on research during first 5 months of the financial year 2019-20. The development of the process began on 1st September, 2019 and upto 31st March, 2020, a sum of ₹ 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.

From 1st April, 2020, the Company has implemented the new process design and it is likely that this will result in after tax saving of ₹ 2 lakh per annum for next five years.

The cost of capital is 10%. The present value of annuity factor of ₹ 1 for 5 years @ 10% is 3.7908. Decide the treatment of Research and Development Cost of the project as per AS 26.

**Solution**

**Research Expenditure** – According to AS 26 'Intangible Assets', the expenditure on research of new process design for its product ₹ 10 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. It is presumed that the entire expenditure is incurred in the financial year 2019-20. Hence, it should be written off as an expense in that year itself.

**Cost of internally generated intangible asset** – it is given that development phase expenditure amounting ₹ 8 lakhs incurred upto 31st March, 2020 meets asset recognition criteria. As per AS 26, for measurement of such internally generated intangible asset, fair value should be estimated by discounting estimated future net cash flows.

Savings (after tax) from implementation of new design for next 5 years	2 Lakhs p.a.
Company's cost of capital	10%
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (₹ 2 lakhs x 3.7908)	7.582 Lakhs

The cost of an internally generated intangible asset would be lower of cost value ₹ 8 lakhs or present value of future net cash flows ₹ 7.582 lakhs.

Hence, cost of an internally generated intangible asset will be ₹ 7.582 lakhs.

The difference of ₹ 0.418 lakhs (i.e. ₹ 8 lakhs – ₹ 7.582 lakhs) will be amortized by Plymouth for the financial year 2019-20.

**Amortisation** – The company can amortize ₹ 7.582 lakhs over a period of five years by charging ₹ 1.516 lakhs per annum from the financial year 2020-2021 onwards

**Question 7 (Inter Nov 2020) (5 Marks)**

Pg no. \_\_\_\_\_

M/s. Pasa Ltd. is developing a new production process. During the financial year ended 31st March, 2019, the total expenditure incurred on the process was ₹ 80 lakhs. The production process met the criteria for recognition as an intangible asset on 1st November, 2018. Expenditure incurred till this date was ₹ 42 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2020 was ₹ 90 lakhs. As on 31.03.2020, the recoverable amount of know how embodied in the process is estimated to be ₹ 82 lakhs. This includes estimates of future cash outflows and inflows.

You are required to work out:

- (1) What is the expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2019?
- (2) What is the carrying amount of the intangible asset as on 31st March, 2019?
- (3) What amount of expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2020?
- (4) What is the carrying amount of the intangible asset as on 31st March, 2020?

**Solution**

As per AS 26 'Intangible Assets'

- (i) Expenditure to be charged to Profit and Loss account for the year ending 31.03.2019 ₹ 42 lakhs is recognized as an expense because the recognition criteria were not met until 1st November, 2018. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.
- (ii) Carrying value of intangible asset as on 31.03.2019  
At the end of financial year, on 31st March 2019, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 38 (80-42) lakhs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st November 2018)

(iii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2020

	(₹ in lacs)
Carrying Amount as on 31.03.2019	38
Expenditure during 2019 - 2020	90
Book Value	128
Recoverable Amount	(82)
Impairment loss	46

₹ 46 lakhs to be charged to Profit and loss account for the year ending 31.03.2020

(iv) Carrying value of intangible asset as on 31.03.2020

	(₹ in lacs)
Book Value	128
Less: Impairment loss	(46)
Carrying amount as on 31.03.2020	82

**Question 8** *(Inter Dec 2021) (5 Marks)*

Pg no. \_\_\_\_\_

Surgical Ltd, is developing a new production process of surgical equipment. During the financial year ended 31st March 2020 the total expenditure incurred on the process was ₹ 67 lakhs. The production process met the criteria for recognition as an intangible asset on 1st January 2020. Expenditure incurred till this date was ₹ 35 lakhs. Further expenditure incurred on the process for the financial year ending 31st March 2021 ₹ 105 lakhs. As on 31st March 2021, the recoverable amount of technique embodied in the process is estimated to be ₹ 89 lakhs. This includes estimates of future cash outflows and inflows. Under the provisions of AS 26, you are required to ascertain:

- The expenditure to be charged to Profit & Loss Account for year ended 31st March 2020;
- Carrying amount of the intangible asset as on 31st March 2020;
- Expenditure to be charged to Profit and Loss Account for the year ended 31st March 2021;
- Carrying amount of the intangible asset as on 31st March 2021.

**Solution**

As per AS 26 'Intangible Assets'

- Expenditure to be charged to Profit and Loss account for the year ended 31.03.2020 ₹ 35 lakhs is recognized as an expense because the recognition criteria were not met until 1st January 2020. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.

(ii) Carrying value of intangible asset as on 31.03.2020

At the end of financial year, on 31st March 2020, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 32 (67-35) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1<sup>st</sup> January 2020).

(iii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2021

	(₹ in lacs)
Carrying Amount as on 31.03.2020	32
Expenditure during 2020 - 2021	105
Book Value	137
Recoverable Amount	(89)
Impairment loss	48

₹ 48 lakhs to be charged to Profit and loss account for the year ending 31.03.2021

(iv) Carrying value of intangible asset as on 31.03.2021

	(₹ in lacs)
Book Value	137
Less: Impairment loss	(48)
Carrying amount as on 31.03.2021	89

**Question 9** (RTP Nov 2021)

Pg no. \_\_\_\_\_

A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2020. This asset was acquired for ₹ 120 lakhs on 01.04.2016 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on accounting treatment of the above with reference to relevant Accounting Standard.

**Solution**

As per para 63 of AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life.

There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use.

Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2020 at ₹ 72 lakhs i.e. ₹ 120 lakhs less ₹ 48 lakhs.

The difference of ₹ 16 Lakhs (₹ 88 lakhs - ₹ 72 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 72 lakhs will be amortised over remaining 6 years by amortizing ₹ 12 lakhs per year.

**Question 10**

Pg no. \_\_\_\_\_

RC Ltd. is showing an intangible asset at ₹ 72 lakhs as on 31-3-20. This asset was acquired for ₹ 120 lakhs as on 01-04-14 and the same was used from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years, on straight line basis. Comment on the accounting treatment of asset with reference to AS- 26 and also give the necessary rectification journal entry.

**Solution**

As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. The Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, the company would be required to restate the carrying amount of intangible asset as on 31.3.2020 at ₹ 48 lakhs i.e. ₹ 120 lakhs less ₹ 72 lakhs (₹ 120 Lakhs / 10 years x 6 years = 72 Lakhs). The difference of ₹ 24 Lakhs (₹ 72 lakhs - ₹ 48 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 48 lakhs will be amortized over remaining 4 years by amortizing ₹ 12 lakhs per year.

The necessary journal entry (for rectification) will be

Revenue Reserves	Dr. ₹ 24 Lakhs	
To Intangible Assets		₹ 24 Lakhs

(Adjustment to reserves due to restatement of the carrying amount of intangible asset)

**Question 11** *(RTP May 2018) / (RTP Nov 2019) / (RTP Nov 2022)* Pg no. \_\_\_\_\_

K Ltd. launched a project for producing product X in October, 2019. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2020. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years. Advise the Company as per the applicable Accounting Standard.

**Solution**

As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions

specified in para 44 of the standard. An intangible asset (arising from development) should be derecognized when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.

Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2020.

**Question 12** Pg no. \_\_\_\_\_

A Pharma Company spent ₹33 lakhs during the accounting year ended 31st March, 2020 on a research project to develop a drug to treat "AIDS". Experts are of the view that it may take four years to establish whether the drug will be effective or not and even if found effective it may take two to three more years to produce the medicine, which can be marketed. The company wants to treat the expenditure as deferred revenue expenditure. Comment.

**Solution**

As per para 41 of AS 26 'Intangible Assets', no intangible asset arising from research (or from the research phase of an internal project) should be recognized. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred. Thus, the company cannot treat the expenditure as deferred revenue expenditure. The entire amount of ₹ 33 lakhs spent on research project should be charged as an expense in the year ended 31st March, 2020.

**Question 13** *(RTP May 2019)* Pg no. \_\_\_\_\_

A Company with a turnover of ₹ 375 crores and an annual advertising budget of ₹ 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 37.5 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ₹ 3 crores incurred on extensive special initial advertisement campaign for the new product. Is the procedure adopted by Company correct?

**Solution**

According to AS 26 'Intangible Assets', "expenditure on intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset".

AS 26 mentions that expenditure on advertising and promotional activities should be recognised as an expense when incurred.

In the given case, advertisement expenditure of ₹ 3 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of ₹37.5 crores. Here, no intangible asset or another asset is acquired or created that can be recognized.

Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of ₹3 crores to the Profit and Loss account of the year is correct

**Question 14** *(Inter Nov 2019) (5 Marks) / (RTP May 2023)*

Pg no. \_\_\_\_\_

As per provisions of AS-26, how would you deal to the following situations:

- (1) ₹ 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.
- (2) During the year 2018-19, a company spent ₹ 7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.
- (3) A company spent ₹ 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹ 25,00,000 by disclosing it as a prior period item.
- (4) A company with a turnover of ₹ 200 crores and an annual advertising budget of ₹ 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹ 20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of ₹ 50,00,000 incurred on extensive special initial advertisement campaign for the new product

**Solution**

As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless

- a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and
- b) expenditure can be measured and attributed to the asset reliably.

If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

- (1) In the given case, the legal expenses to defend the patent of a product amounting ₹ 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.
- (2) The company is required to expense the entire amount of ₹ 7,00,000 in the Profit and Loss account for the year ended 31st March, 2019 because no benefit will arise in the future.
- (3) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus the company cannot capitalize the amount of ₹ 25,00,000 and it should be recognized as expense
- (4) Expenditure of ₹ 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

**Question 15** *(RTP Nov 2020)*

Pg no. \_\_\_\_\_

X Ltd. carried on business of manufacturing of Bakery products. The company has two trademarks "Sun" and "Surya". One month before, the company comes to know through one of the marketing managers that both trademarks have allegedly been infringed by other competitors engaged in the same field. After investigation, legal department of the company informed that it had weak case on trademark "Sun" and strong case in regard to trademark "Surya". X Ltd. incurred additional legal fees to stop infringement on both trademarks. Both trademarks have a remaining legal life of 10 years.

How should X Ltd. account for these legal costs incurred relating to the two trademarks?

**Solution**

As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless

- a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and
- b) expenditure can be measured and attributed to the asset reliably.

If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset. The legal costs incurred for both the trademarks do not enable them to generate future economic benefits in excess of its originally assessed standard of performance. They only ensure to maintain them if the case is decided in favour of the company. Therefore, such legal costs incurred for both trademarks must be recognized as an expense.

**Question 16** *(RTP May 2022)*

Pg no. \_\_\_\_\_

- (a) PQR Ltd. has acquired a Brand from another company for ₹ 100 lakhs. PQR Ltd. contends that since the said brand is a very popular and famous brand, no amortization needs to be provided. Comment on this in line with the Accounting Standards.
- (b) X Ltd. is engaged in the business of newspaper and radio broadcasting. It operates through different brand names. During the year ended 31st March, 2021, it incurred substantial amount on business communication and branding expenses by participation in various corporate social responsibility initiatives. The company expects to benefit by this expenditure by attracting new customers over a period of time and accordingly it has capitalized the same under brand development expenses and intends to amortize the same over the period in which it expects the benefits to flow. As the accountant of the company do you concur with these views? You are required to explain in line with provisions of Accounting Standards.

**Solution**

- (a) AS 26 'Intangible Assets' provides that an intangible asset should be measured initially at cost. After initial recognition, an intangible asset should be carried at cost less any accumulated amortization and any accumulated impairment losses. The amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life for computing amortization. There is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years from the date when the asset is available for use. It must be ensured that the value of brand is amortized in accordance with AS 26, as brand is considered to be intangible asset. The contention of PQR Ltd. that Brand is very popular and famous, hence no amortization needs to be provided is not correct as there is no persuasive evidence that the useful life of the intangible asset will exceed 10 years.

- (b) As per AS 26 on Intangible Assets, expenditure on an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. An intangible asset should be recognized if, & only if:
  - (i) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and
  - (ii) the cost of the asset can be measured reliably.

In the given case, no intangible assets or other asset is acquired or created that can be recognized, the accounting treatment by the company to amortize the entire expenditure over the period in which it expects the benefits to flow is not correct and the same should be debited to the profit and loss statement during the year ended 31st March, 2021.