AS 26
Intangible Assets

Asset
- Tangible → AS 10 PPE
- Inventory (CA) → AS 2
- Investment → AS 13
  - Shares, Debn, Property, Gold, Silver
- Leased Asset → AS 19
- Intangible Assets → AS 26
  - R&D
  - Artistic work
  - Goodwill
  - (IPR)
  - 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

Laptops

Op. system → X

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

(or)

b) When Intangible item arise from any Contractual agreement.
→ Telecome 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 DA 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

But 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	2nd
$3200000 \times \frac{2}{3}$	$3200000 \times \frac{1}{3}$
21,33,333/-	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 reliably

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.

4th yr. — mid → 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.

AS 26 - INTANGIBLE ASSETS (I.A.)

1 7 Conditions of I.A.

1. Identifiable
2. No Physical Substance
3. Non Monetary (no Fixed value all Time)
4. Enterprise can Control i.e. Ownership
5. Expected Future Eco. benefits. (FEB)
6. Held for Use (not for sale)
7. Cost can be Measured Reliably

If all above Conditions fulfilled then I.A. Can be Recognised

2 Some Important Terms

- **FEB**
  - Increase in Revenue
  - Saving in Cost / Tax
- **Identifiable**
  - Separate Identity & Distinguishable from Goodwill
  - Can be Sold/ Rented Exchanged Independently
  - Can Arise from Contract Eg. License
- **Control**
  - Power to receive FEB
  - Restrict others from use of Asset
- **Non-Monetary**
  - No Fixed or Determinable Amt. (Eg. Fixed Asset)

3 Recognition & Measurement of I.A. (V.Imp)

- **Recognition**
  - If & only if -
    - Probable FEB are Expected to flow
    - &
    - Cost can be Measured Reliably
- **Measurement**
  - Initial Measurement at COST

4 How to Measure the Cost?

I.A. Purchased → Cost

- **Separately Acquired**
  - Cost of Acq. (COA) + Non Refundable Duties/Taxes + Direct Exp (DAC)
- **Shares / Securities Exchanged**
  - FV of IA Acquired or FV of Securities issued — whichever is more Clearly Evident
- **Acquired by Govt. Grant**
  - Concessional Rate → COA → Cost of Acquisition (actual Amt. paid)
  - Free of Cost → Nominal Value — 1/- 101/-
- **Asset Exchanged**
  - FV of IA Acquired or FV of Asset Given up — whichever is more Clearly Evident
- **Acquired in an Amalgamation**
  - Whether Separately Identified ?
    - Yes
      - Purchase Method → at FV
      - Merger Method → at Same BV
    - No
      - Purchase Method → Included in Goodwill

I.A ⇒ PP + DAC

PPE ⇒ PP + DAC + Decomm. Cost

Internally Generated I.A.

- **Goodwill** Do not Recognise
- **Research & Development Exp.**
  - Research Phase → Expense in P&L Immediately in the Same Year
  - Development Phase → Cost = Asset (if 6 conditions are met)
    - Technical Feasibility of Completion
    - Intention to Complete
    - Ability to Sell or Use
    - Generation of FEB
    - Adequate Resource (Financial & other) available
    - Cost can be Measured Realiably

AS 26 - INTANGIBLE ASSETS (I.A.)

5 Amortisation → Treat as Expense

- **Method**
  - In the Pattern of FEB Consumption on Asset - Ist Priority
  - If Pattern can't be Determined → SLM
- **Period**
  - Generally upto 10 years
  - If more than 10 years
    - Provide proper Evidence
    - Estimate Recoverable Amt. Annually & Provide for Imp. Loss through P&L (AS 28)
- **Residual Value**
  - Generally Zero
  - Exception : Commitment to Purchase by 3rd Party is available
- **Review of Method & Period**
  - At least Once in a year
  - → If there is a change, then it is a Change in A/c Estimate
  - → Prospective effect on Financial Statement

6 Other Imp Areas

- **Subsequent Exp.**
  - Capitalized if FEB Expected to Increase
- **Following are Not I.A. (always P&L)**
  1. Preliminary Exp.
  2. Pre-Operating Exp.
  3. Staff Training Cost
  4. Heavy Advertisement Exp.