L23

UCA ········ business sell ········ Giridhar

UCA → Goodwill → Giridhar

not separable

Haldiram $\xrightarrow{\text{bus. sell}}$ Yash Kumar

Haldiram → Goodwill

not sep.

Ultimate medicare → P_1, P_2, P_3, P_4, P_5

P_5 ········ sold ········ Sneha

$\underbrace{P_1 \quad P_2 \quad P_3 \quad P_4}_{\text{business transfer nahi hua}}$

P_5 → benefits = cash flow

Monetary Items / Non-monetary Items ⇒

31/3

Debtors	→	m	→ fixed / determ. amount
Creditors	→	m	→ " " "
Bank loan	→	m	→ " " "
Deb. Issue	→	m	→ " " "
Invst in Deb	→	m	→
Land	→	nm	
ES issue	→	nm	
Invst in ES	→	nm	
Patent	→	nm	

Intangible Assets :-

1. Identifiable
2. Non-monetary assets
3. without physical substance

} CHARACTERISTICS

USES :- a. production of goods
b. supply of services
c. rental to others
d. admin purpose.

IDENTIFIABLE : Separable / Distinguishable from goodwill.

Goodwill :
↓
If transferred the FEB's of

for an IA to separable
↓
If an IA other than goodwill is

the entire revenue generating activity gets transferred.

sold / rented / exchanged then the FEB's of only that IA are transferred and not of the entire revenue generating activity.

L23

NON - MONETARY :- The amount that can be realised from an IA is not fixed / determinable.

WITHOUT PHYSICAL SUBSTANCE :

1. Software in a CD :- CD is immaterial. Software will still be considered an IA.

2. Motion picture in reel :- Reel is immaterial. Motion picture will still be considered an IA.

3. Operating system in a laptop :-
4. Automation Software in a PPE (mach.) :-

The PPE has a material / significant value & the IA forms an integral part for operating the PPE. The entire asset will be considered as a PPE.

L24

RECOGNITION CRITERIA :- 1. FEB from that asset flow to the entity.
2. Costs can be reliably measured.

Control over the intangible asset

1. Patent → control
2. mining rights → control
3. License to operate buses on a particular route → control
4. Time slots for take off for an airline company → Control
5. Super skill highly specialised staff → no control exists.

HOW TO MEASURE THE COST

IA that is purchased

- Purchased against cash
  1. Basic purchase price
  2. - Trade disc. / rebates
- Purchased against exchange of other assets.
  1. Fair value of asset given up.

IA that is Internally Generated

→ Internally generated goodwill, brands, mastheads, customer lists cannot be recognised as an IA.

Goodwill → cost ✗

3. + Non-refundable taxes
4. + All directly related exp. to make the asset ready for its intended use.

2. Fair value of IA acquired.

w.e. more clearly evident.

Brand / customer lists →
Distinguish from G/W – x
cost – x

1.24

→ All other internally generated Intangible Assets can be recognised provided they fulfill the below mentioned recognition criteria.

Research Phase

Development Phase

→ experiment
→ chaat masala
→ dhaulya
→ ethanol
→ saoji masala

Company is incurring exp. but FEB is not guaranteed in this phase.

↓

This will be w/off to P&L immediately.

Development Phase

→ The knowledge gained during the research phase is applied to develop an Intangible Asset.

↓

The expenditure during Development phase will be capitalised and added to the cost of IA provided the following further conditions are satisfied :-

1. Technical feasibility
2. Intention to complete.
3. Financial, technical resources available
4. Ability to use or sell.
5. Existance of an active market.
6. Expenditure on that asset can be measured.

INITIAL RECOGNITION : At it cost OR PV of future cash flows w.e. lower.

SUBSEQUENT EXPENDITURE :-

Maintains the performance of IA

↓

Expense is Dr. to P&L

Increases the future economic benefits that can be derived from IA.

↓

Expense is capitalised and added to the cost of IA.

L24

Amortisation :-
1. Over the useful life or intangible Asset.
2. Amortisation will be done based on the proportion of FEBs derived. If nothing is mentioned, then based on SLM method.
3. Useful life cannot generally be assumed to exceed 10 years unless a justification for the same is available.
4. Goodwill is generally amortised over a period of 5 years.
5. Residual value is generally to be zero.

Example :- 5g license is acquired by Reliance for 15 years, then they can justify an amortisation period exceeding 10 years.

Mining rights acquired from government for a period of 49 years, then mining rights can be amortised over 49 years.

Profit /loss on Disposal :- Profit / Loss on disposal of IA will be credited / charged to P&L a/c.

1 2 3 1 4 5 6

Y4

Beg.

1st

1200x 1200x 1200x 300x 300x 300x

600/2400 600/2400 600/2400 300/750 300/750 150/750

2400

2nd

Parent

= 1200

− 900

300

AS-26: INTANGIBLE ASSETS- SUMMARY CHART

L25

Intangible Assets :-

Characteristics
Identifiable
Non-monetary asset
Without physical substance

Uses
Production of goods
Rendering of services
Rental to others
Administrative purpose

Identifiable :-
→ Separable / Distinguished from goodwill
↓
If by selling / renting / exchanging the IA only the FEB related to the IA are transferred and not the FEBs of the entire revenue generating activity.

Non-monetary asset :-

→ Assets that cannot be expressed in fixed/ determinable amounts of money.

Without physical substance :-

Incorporating in an immaterial Tangible Item :-

It retains its Intangible character

Incorporating in material Tangible Item :-

It losses its Intangible character and is clubbed with Tangible Asset.

Recognition Criteria :-

1. FEB attributable from the IA flow to the entity.
2. Cost can be reliably measured.

Control is necessary.

COST OF AN INTANGIBLE ASSET

Intangible Asset is purchased.	Internally generated IA.

Intangible Asset is purchased

Acquired through cash	Acquired through exchange of other asset
→ Purchase Price → (–) Trade discount (–) rebates (+) Non-recoverable taxes (+) Directly attributable exp.	→ F.V of asset given up. → F.V of IA acquired. w.e. more clearly evident.

Internally generated IA

* Goodwill, brands, publishing titles, mastheads, customer lists cannot be recognised.

As for other assets

Research phase	Development Phase
↓ Stage of acquiring infor., judging technological feasibility. ↓ Expense → Dr. P&L.	↓ Stage of applying the information acquired during research phase and developing IA. ↓ Expense can be capitalised if ; 1. Technical feasibility 2. Financial & technical resource availability. 3. Intention to complete. 4. Ability to use or sell. 5. Existance of market. 6. Cost can be measured.

* Internally generated IA should be valued at lower of ;

1. Cost
2. Present value of FEBs.

Subsequent Expenditure on IA

Incremental FEBs	Incremental FEBs
↓ YES ↓ Capitalise	↓ NO ↓ Dr to P&L

Amortisation of IA

→ Generally 10 years or useful life of the IA.
→ If useful life > 10 years, the same will have to be justified.
→ Method :- If pattern of FEB's is reliable then on the basis of FEB's or else SLM.
→ Goodwill to be amortised over a period of 5 years.

Retirement of IA

→ If IA is retired from active use then continue to carry in the books at the carrying amt and test for impairment on each B/s Date.

→ Impairment loss if any will be debited to P&L.

Disposal of IA

→ Profit loss on Disposal will be treated in P&L a/c.

P/L = NSP – Carrying Amount.

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Y1 2L
Y2 2L
Y3 2L
Y4 2L
Y5 2L

} FEB → PV → 31.3.21 R.A. / cost } lower → IA value

RA = 200000 × 3.7908
= 758160

31.3.21 Y0 — 100 — +10%
31.3.22 Y1 200000 — 110 — +10%
31.3.23 Y2 200000 — 121 — +10%
Y3 200000 — 133.1 — +10%
Y4 200000 — 146.41
Y5 200000 — 161.05

$x = 2L \times 100/110 = 181818$

$x = 2L \times 100/121 = 165289$

$x = 2L \times 100/133.1 = 150263$

$x = 2L \times 100/146.41 = 136603$

$x = 2L \times 100/161.05 = 124185$

758158

3.7908

IR = 10% → $\frac{1}{1.10}$ = = = = = GT

3.7908
↓
2L
↓
758160

3.7908 — 5
x — 1000000

$x = \frac{200000}{1000000} \times 3.7908$

= 758158