

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.

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

L24

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

↓
IA that is Internally Generated

↓
Purchased against cash

↓
Purchased against exchange of other assets.

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

Goodwill → cost x

1. Basic purchase price
2. - Trade disc. / rebates

1. Fair value of asset given up.

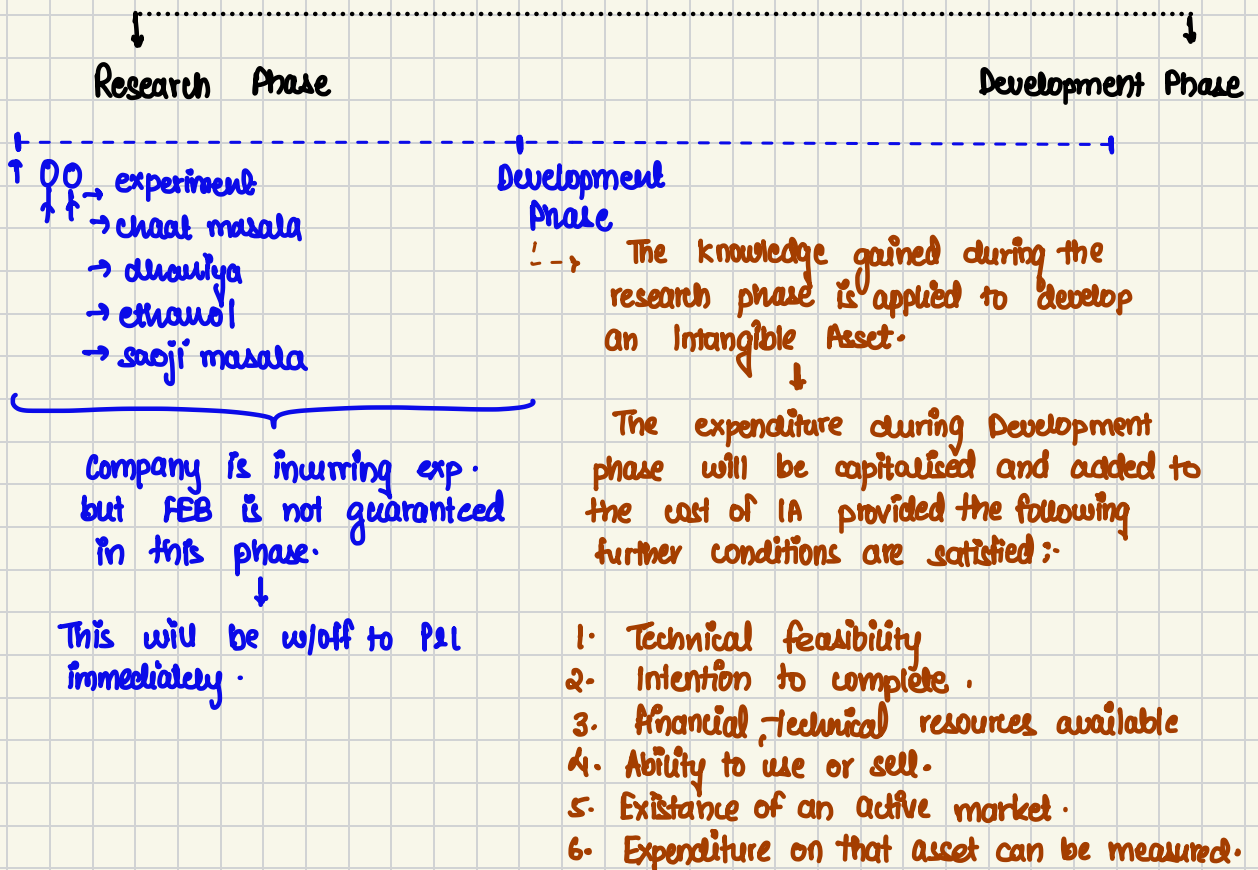
3. + Non-refundable taxes
4. + All directly related exp. to make the asset ready for its intended use.

2. Fair Value of IA acquired.
w.e. more clearly evident.

Brand / Customer lists →
Distinguish from GW - X
cost - X

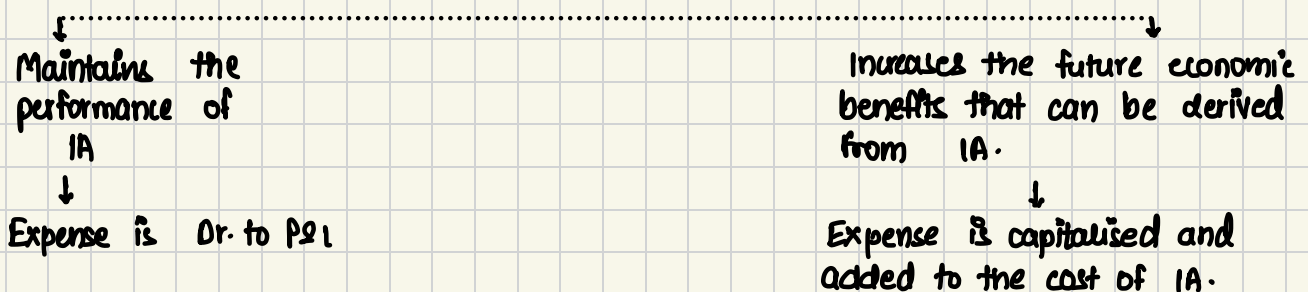
124

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



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

SUBSEQUENT EXPENDITURE :-



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 :- Sq 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.



AS-26: INTANGIBLE ASSETS

QUESTION 3 (RTP NOV 19) same as Question 1 ⇒ Homework.

K Ltd. launched a project for producing product X in October, 2018. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2019. 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.

Answer:

Quote: 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.

Analysis: 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.

Conclusion: 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, 2019.

QUESTION 4 (RTP MAY 20)

A company acquired patent right for ₹ 1200 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:

Year	1	2	3	4	5
Estimated future cash flows (₹ in lakhs)	600	600	600	300	300

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 ₹ 150 lakhs. You are required to determine the amortization pattern under Accounting Standard 26.

Answer:

Year	Estimated future cash flows (₹ in lakhs)	Amortization Ratio	Amortized Amount (₹ in lakhs)
1	600	.25	300

STUDENT NOTES

Y4 = Patent
 $= 1200 - 900$
 $= 300$
 $Y4 = \frac{300 \times 300}{750}$
 $Y5 = \frac{300 \times 300}{750}$
 $Y6 = \frac{150 \times 300}{750}$
 $Y1 = \frac{600 \times 1200}{2400}$
 $Y2 = \frac{600 \times 1200}{2400}$
 $Y3 = \text{'' ''}$



1

2

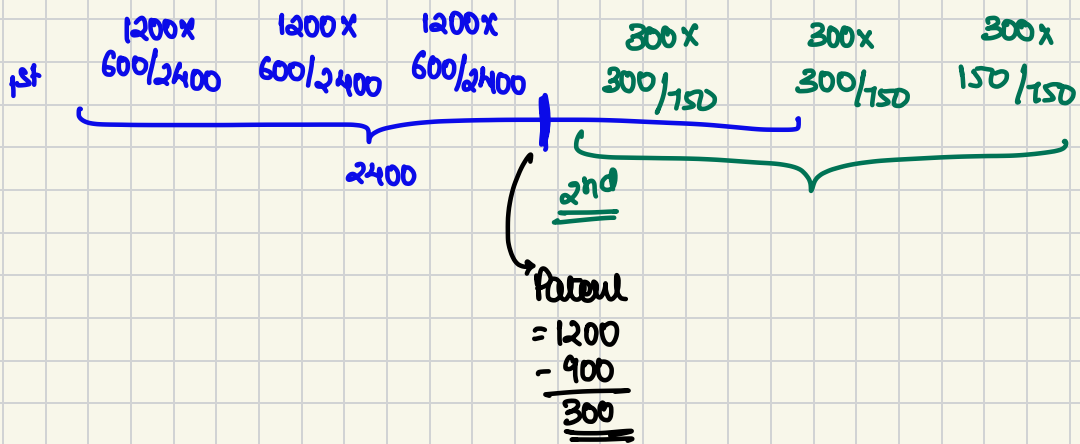
3

1
7/4
Beg.

4

5

6



$$C = 584,000 \rightarrow 19-20$$

$$- A = 112,800 \rightarrow Y1$$

$$\checkmark 451,200 \quad 31.3.20$$

AS-26: INTANGIBLE ASSETS

$$GW = 1080,000 - 516,000 = 564,000 / 5 \times 1$$

STUDENT NOTES

- (i) 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. 19-20
- (ii) Naresh Ltd. had taken a franchise on July 2019 to operate a restaurant from Sankalp Ltd. for ₹ 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were ₹ 60,000 during the financial year 2019-2020.
- (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. 19-20

Prepare a schedule showing the intangible assets section in Naresh Ltd. Balance Sheet at 31st March, 2020. 19-20 ✓

Answer:

Naresh Ltd.

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

	Note no.	₹
Assets		
(1) Non-current assets		
Intangible assets → Heading	1	8,11,200

Notes to Accounts (Extract) → "Part of FS"

	₹	₹
Intangible Assets		
Goodwill (Refer to note 1)	4,51,200 ✓	
Franchise (Refer to note 2)	1,50,000 ✓	
Patents (Refer to note 3)	2,10,000 ✓	8,11,200 ✓

Working Note: → Step 1

		₹
1	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	10,80,000 ✓
	Less: Fair value of net assets acquired	(5,16,000) ✓
	Goodwill	5,64,000
	Less: Amortization as per AS 14 i.e. over 5 years (as per SLM)	(1,12,000) ✓
	Balance to be shown in the balance sheet	4,51,200 ✓



AS-26: INTANGIBLE ASSETS

$$240000/8 = 30000$$

$$180000/6 = 30000$$

Franchisee

Patent

		₹
2	Franchise	✓ 1,80,000
	Less: Amortization (over 6 years)	✓ (30,000)
	Balance to be shown in the balance sheet	✓ 1,50,000
3	Patent	2,40,000 ✓
	Less: Amortization (over 8 years as per SLM)	(30,000) ✓
	Balance to be shown in the balance sheet	2,10,000 ✓

STUDENT
NOTES

QUESTION 7 (RTP NOV 21)

$$120/10 = 12 \times 4 = 48$$

$$120 - 48 = 72 \text{ lakhs}$$

A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2021. This asset was acquired for ₹ 120 lakhs on 01.04.2017 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 the accounting treatment of the above with reference to the relevant Accounting Standard.

Answer:

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.

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 01.04.2021 at ₹ 72 lakhs i.e. ₹ 120 lakhs less ₹ 48 lakhs ($\frac{120 \text{ lakhs}}{10 \text{ years}} \times 4 \text{ years} = 48 \text{ Lakhs}$)

$$120 - 48 = 72 \quad 16L \downarrow \quad 88$$

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 amortized over remaining 6 years by amortizing ₹ 12 lakhs per year.

QUESTION 8 (RTP MAY 22)

(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

