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.

123

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.

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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 GW − 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

↑ OO → 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.

STUDENT NOTES

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**	6
Estimated future cash flows (₹ in lakhs)	600	600	600	300	300	150

2400 =

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.

Y4 = Patent = 1200 − 900 = 300

Y4 = $\frac{300}{750} \times 300$

Y5 = $\frac{300}{750} \times 300$

Y6 = $\frac{150}{750} \times 300$

Y1 = $\frac{600}{2400} \times 1200$

Y2 = $\frac{600}{2400} \times 1200$

Y3 = 〃 〃

Answer:

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

1 2 3 1 4 5 6

y/4

Beg.

	1200x	1200x	1200x	300x	300x	300x
1st	600/2400	600/2400	600/2400	300/750	300/750	150/750

2400

2nd

Parent

= 1200

− 900

300

C = 564000 → 19-20
− A = 112800 → Y1
451200 31·3·20

GW = 1080000 − 516000 = 564000/5 × 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.

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"

detailed presen.

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

Working Note: → Step 1

		₹
1 Goodwill	Goodwill on acquisition of business Cash paid for acquiring the business (purchase consideration) Less: Fair value of net assets acquired Goodwill Less: Amortization as per AS 14 i.e. over 5 years (as per SLM) Balance to be shown in the balance sheet	 10,80,000 (5,16,000) 5,64,0000 (1,12,000) 4,51,200

CA Tejas Suchak

STUDENT NOTES

240000/8 = 30000 180000/6 = 30000

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

QUESTION 7 (RTP NOV 21) 120/10 = 12×4 = 48L 120-48 = 72 lakhs

16L

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:

Reserves & Surplus

P&L: Surplus

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.

Y1 = P
Y2 = P
Y3 = P
Y4 = P
Y5 = P

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 $\left(\frac{120\ lakhs}{10\ years}\ x\ 4\ years = 48\ Lakhs\right)$

120-48 = 72 88 16L↓

P&L a/c: Surplus.

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