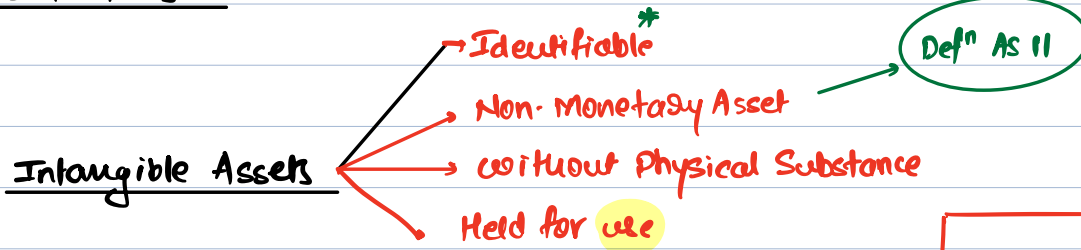


AS 26 - Intangible Assets

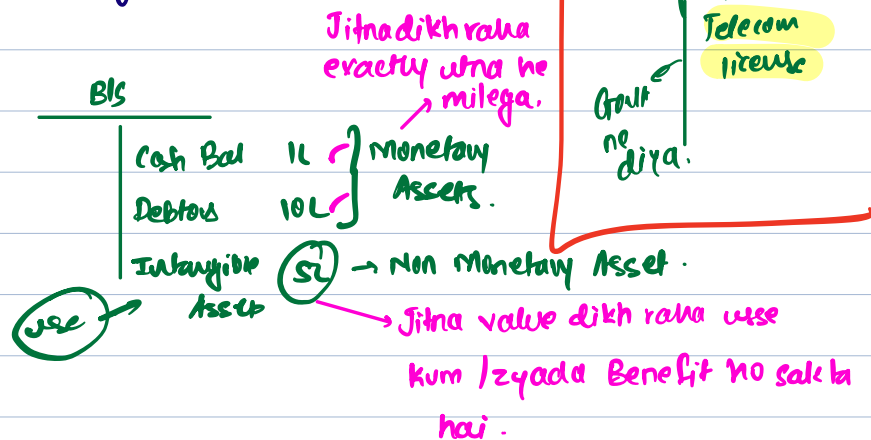
1. Definitions



* Identifiable (2 conditions) Any 1 is to be met

(a) It can be separately sold from other assets (OR)

(b) It arises from a separate legal contract



* Non-Monetary Asset (AS 11)

→ It is Not realisable in fixed or determinable amount.

Intangible Asset → ~~Held for use~~ Held for sale in ordinary course of Busn
↳ ~~AS 26~~ AS 2 - Inventory

* Guidance on asset that incorporates Both Tangible & Intangible elements

→ The entity should assess which element is more significant.

eg: 1) Software purchased in a CD → AS 26

2) Computer machine purchased incorporating software → AS 10 - PPE

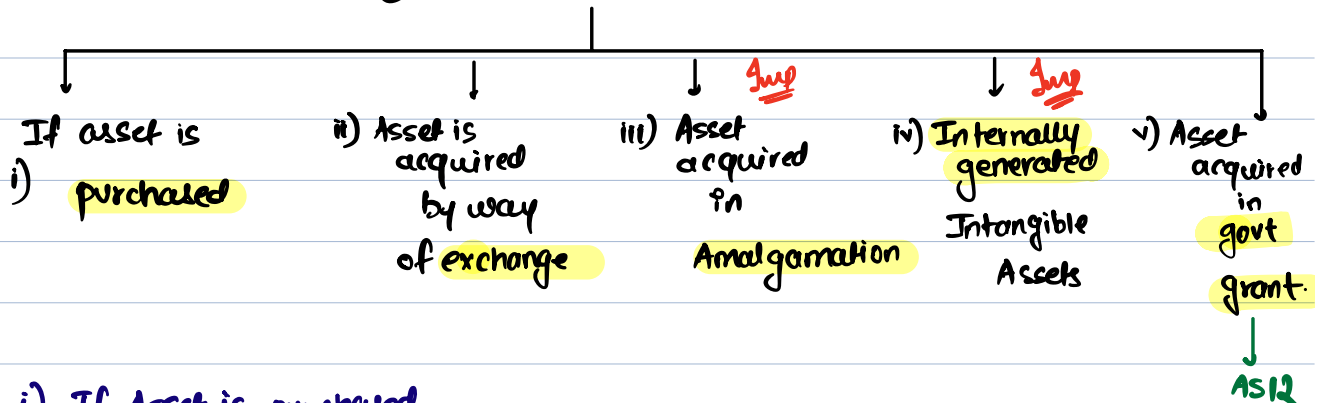
2. Recognition criteria

- Future Economic Benefits
- Cost can be measured reliably.

3. Measurement

- Initial Measurement → @ cost
- Subsequent Measurement → @ cost less: Amortization

(A) Initial Measurement (@ cost)



i) If Asset is purchased

→ Purchase Price (less: Trade discount & Rebates)

(+) Non Refundable taxes & duties (Refundable taxes are not considered in cost)

(+) Directly Attributable Expenses

Refer AS 10

~~(+) Decomm~~ Exclusion from cost → same as AS 10

ii) Asset is acquired by way of exchange → Same as AS 10

iii) Intangible Assets acquired in Amalgamation

→ Any intangible assets taken over by the purchasing Co. in Amalgamation will be recorded @ **Fair Value**.

→ Any excess Purchase consideration paid over & above fair value of Net Assets will be recorded as **Purchased Goodwill**

→ Selling Co.

Purchasing Co.

Eg

Mukku Ltd

Ak Ltd

<u>Liab</u>	<u>B.V</u>	<u>Assets</u>	<u>B.V</u>	<u>Fair Value</u>
		PPE	10 cr	→ 15 cr
		Intangible Asset	15 cr	→ 20 cr
Credits	5 cr	Inventory	5 cr	→ 7 cr
loan taken	10 cr	Debtors	7 cr	→ 7 cr
		Cash Bal	3 cr	→ 3 cr

BV = F.V.

Total Asset @ FV = 52

(-) Total Liab @ FV = (15 cr)

Net Assets @ FV = 37 cr

Quote → 50 cr.

Extra, Goodwill

Purchase consideration (PC) = 50 crores

(-) Net Asset @ F.V = (37 crores)

Extra Paise → Goodwill 13 crores

Ak Ltd

Intangible Asset 20 cr.

@ Fair value

Purchased goodwill 13 cr.

iv) Internally generated Intangible Assets

Internally generated

Goodwill

Not recognised as Intangible Asset

why?

- 1] It is Not Identifiable
- 2] Cost cannot be measured reliably.

Internally generated intangible assets (other than goodwill)

Research Phase

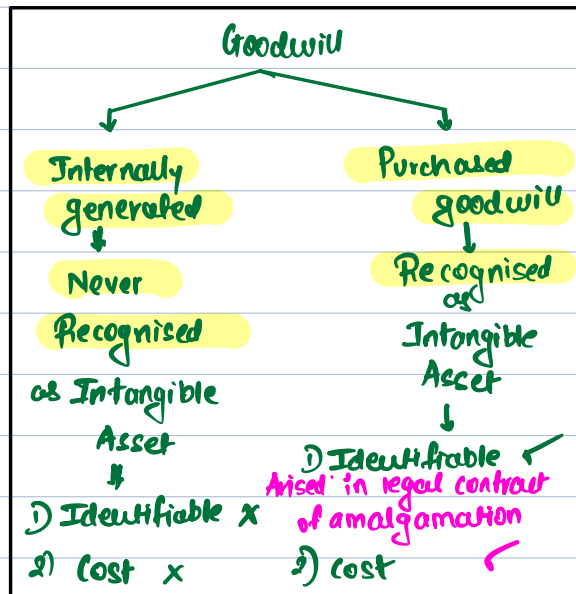
In Research Phase entity cannot demonstrate that an Intangible Asset exists

Trf all Research Phase Exp to P/L

Development Phase

The phase that converts, the results of Research into a marketable product

Capitalise all directly attributable exp of development phase.



Following Intangible Asset cannot be secured if internally generated:

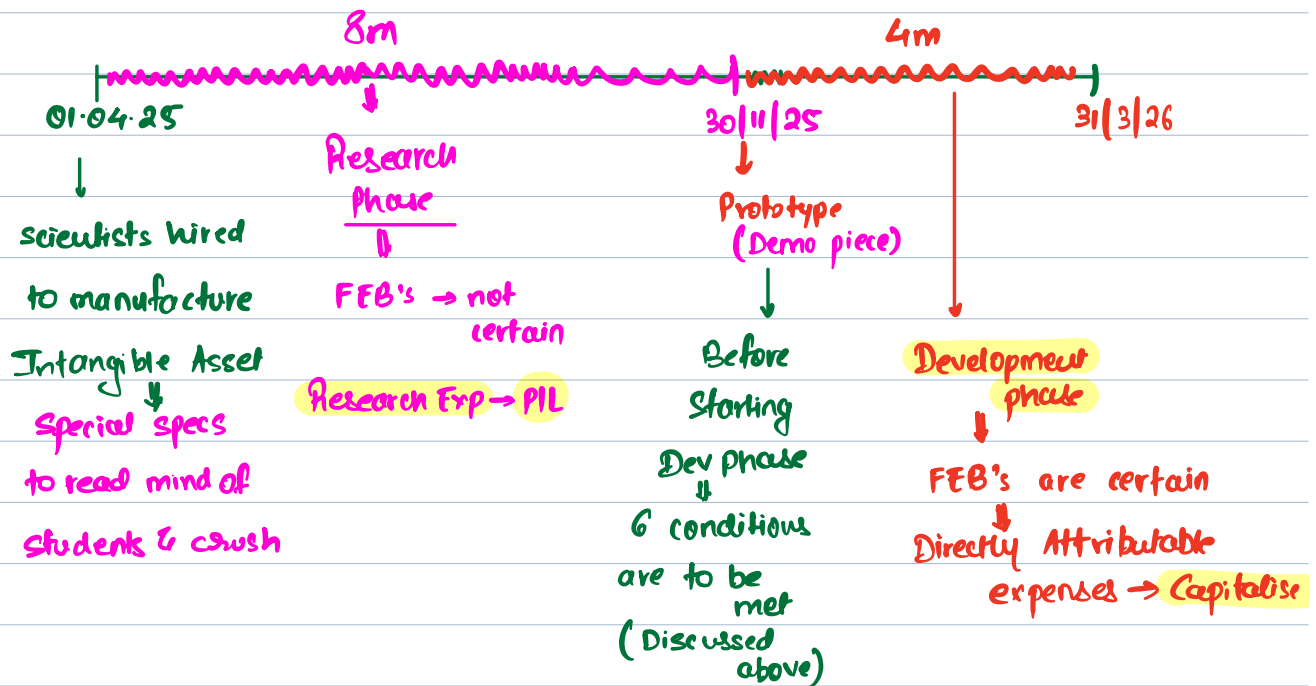
- 1) Brand
- 2) Customer Database
- 3) Publishing titles & Mastheads

* Development phase Begins only when All 6 conditions are met:

- 1] Technical feasibility of completion
- 2] Intention to complete
- 3] Ability to use or sell the Intangible
- 4] Availability of adequate resources like technical, financial etc.
- 5] How it will generate FEB's.
- 6] Cost can be measured reliably.

Hint: 2 completion, 2 A's, 2 Recog criteria.

Eg: Internally generated Intangible Asset



Subsequent Measurement → Only Cost Model

Cost of Intangible Asset

Less: Accumulated Amortization

4. Subsequent cost incurred

FEB

- If such expenditure will generate future economic Benefit, then it can be added to cost of intangible asset.
- If NO FEB's → then ttf to PIL.

eg: Software hang → Engineer repair fees → PIL.

Software → validity increase by 5 yrs → Renewal fees → Capitalise

5. Expenditure Incurred, But NO Intangible Asset

The following expenditure, should always be recognised as an Expense.

- (a) Training Expense
- (b) Advertising Exp / Promotional Exp
- (c) Startup Exp
- (d) Exp of relocation or reorganising activities.
- (e) Research phase Exp.

Kasam Khayfi hai

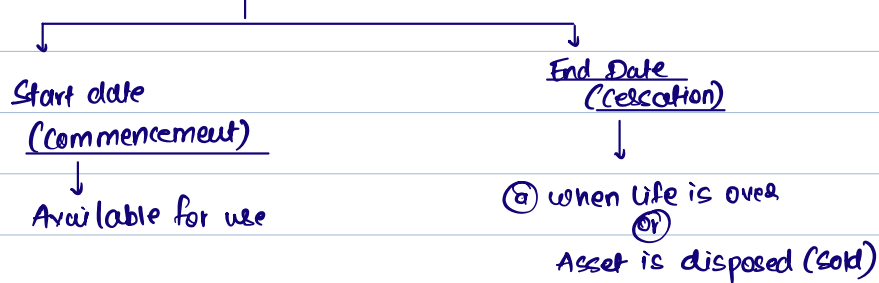
Always P/L

6. Amortization

(A) Methods

- ① SLM ② WDV ③ Units of Production (Same as AS 10)

(B) Amortization Period



Note: when C.A reaches Residual value, no further amortization to be done.

7: Just Useful life of Intangible Asset

- As per AS 26, the Maximum life of Intangible Asset is 10 yrs. (Presumption by AS 26)
- Life can be more than 10 yrs → Only when company has evidence.
- As per AS 14, Goodwill should be amortised over 5 years.
(Amalgamation)

8. Residual Value

→ Since Intangible has no physical substance, \therefore its scrap / Residual value is assumed to be zero.

→ But, if there is a commitment by 3rd party to purchase the intangible @ the end of useful life, then that price can be assumed to be residual value.

Same as AS 10

9. Changes in Estimate of Amortization method, useful life, Residual Value.

These are changes in Accounting Estimates (As per AS 8)

Hence Do Prospective Accounting

10. De-recognition

→ De-recognise the asset when : (i) it is sold or (ii) life of PPE is over.

→ If it is sold, then gain or loss on sale of PPE will be transferred to P/L.

11. Impairment (AS 28)

Test

① Carrying Amount of Asset = 1,75,000 (Given)
② Recoverable Amount of Asset = 1,50,000

Impairment loss = 25,000

J.E. Imp loss A/c Dr 25,000
To Asset A/c 25,000

Use (Value in use) ₹ 1,50,000
Sale (Net Selling Price) ₹ 1,20,000
whichever is higher
Present Value of future cash flows
Net Selling Price
Less: Cost of Disposal
= Net Selling Price

Revised value of Asset = 1,50,000
(after Impairment)

Ex ② C.A = 200,000

R.A = 190,000

Imp loss = 10,000

Value in use = 170,000

Net selling Price = 190,000

Ex ③ C.A = 2,00,000

R.A = 2,20,000

~~Imp Gain~~ -

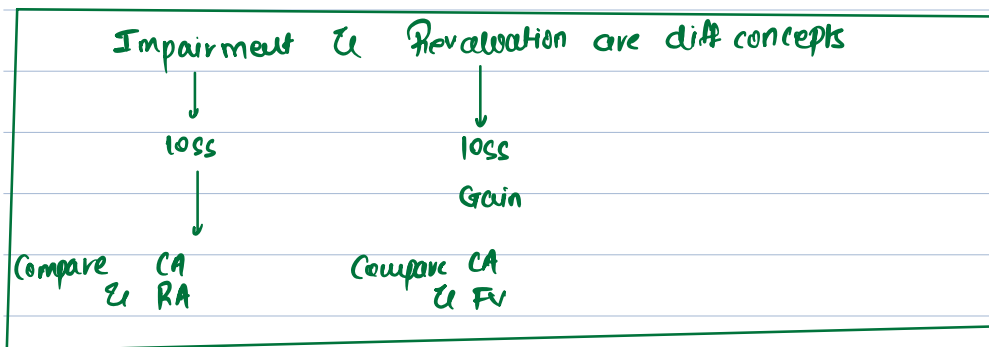
Value in use = 180,000

Net selling Price = 220,000

there is no concept of Impairment Gain

In this asset will

stay at 2,00,000



12. Other Misc Points

① Intangible asset purchased in exchange of shares

The asset is recorded at Fair value of asset acquired (or)

Fair value of shares given up

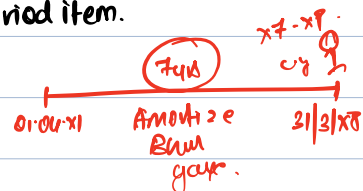
whichever is more clearly evident.

Illus 1

As per AS 26, an intangible asset is to be amortised over their useful life of asset.

As per AS 5, mistakes of previous years are to be treated as prior period items and its effect will be considered in current P/L as prior period item.

7 yrs not amortised $\begin{cases} \rightarrow 1 \text{ yr } (x7-x6) \text{ Current Year} \\ \rightarrow 6 \text{ yrs} \rightarrow \text{Previous Years} \end{cases}$



WN 01.04.11

Cost 20 lakhs (Life 10 yrs)

less: Prior period (12 lakhs)
Amortization of 6 yrs

CA on 31.3.17 8 lakhs

(-) C.Y. Amortization (2 lakhs)

CA on 31.3.18 6 lakhs

J-E

Prior period item (PIL) A/c Dr 12 lakhs

Amortization (PIL) A/c Dr 2 lakhs

TO Intangible Asset 14 lakhs

Illus 2 & 3 \rightarrow H.W.

Illus 4 to 8 \rightarrow covered in concepts

Illus 9 (W.R)

Day ① Cost of Patent 80,00,000 (Life 5 yrs)

less: Amortization (4r1) (10,00,000) } Given in ques

less: " (4r2) (10,00,000)

CA @ the end of 4r2 60,00,000 ~~Life 3 yrs~~ \rightarrow Revised Life remaining 5 yrs

Change in useful life is change in Accounting estimate \therefore Give prospective effect.

Amortization for yr 3 to yr 7

yr	Amortization Amount		
3	10,80,000	$\left(\frac{60,00,000 \times 36,00,000}{2,00,00,000} \right)$	Do not take P&L as out of 80, 20L was already amortized. & after that change in est \therefore Now 60L will be amortized.
4	13,80,000	$\left(\frac{60,00,000 \times 46,00,000}{2,00,00,000} \right)$	
5	13,20,000	$\left(\frac{60,00,000 \times 44,00,000}{2,00,00,000} \right)$	
6	12,00,000	$\left(\frac{60,00,000 \times 40,00,000}{2,00,00,000} \right)$	
7	10,20,000	$\left(\frac{60,00,000 \times 34,00,000}{2,00,00,000} \right)$	

Illustration 11 (MTP May'20, Oct'21, Apr'23)

During 20X1-X2, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

Particular	₹
Completion of detailed program and design (Phase 1) \rightarrow P&L	50,000
Coding and Testing (Phase 2) \rightarrow P&L	40,000
Other coding costs (Phase 3 & 4) \rightarrow Cap	63,000
Testing costs (Phase 3 & 4) \rightarrow Cap	18,000
Product masters for training materials (Phase 5) \rightarrow Employee training \rightarrow P&L	19,500
Packing the products (1,500 units) (Phase 6) \rightarrow Software Develop Karne ki training \rightarrow Cap	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. (5 Marks)

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, coding and testing. 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.

Phase 1 & 2 \rightarrow Research

Phase 3 onwards \rightarrow Development

selling cost \downarrow
AL

Ques 3

As per AS 26- Intangible Assets, there is a presumption that useful life cannot exceed 10 yrs. If co. feels that it is more than 10 years, it should be supported by evidence. In this case since there is no evidence, the co. should amortize the intangible asset over 10 years.

01.04.2016 120 lakhs (max life 10 yrs)
Less: 6 years Amortization (72 lakhs) $(120 \times \frac{6}{10})$
CA on 31.3.22 48 lakhs

CA in Co. Books on 31.3.22 = 72 lakhs
assuming 15 yrs life

Reduction in CA is required 24 lakhs

As per ICAI, (Revenue Release 2011)

J-E-

Prior Period item (PIL)	24 lakhs
TO Intangible Asset	24 lakhs

Q6

As per AS 26

Patent 1200 lakhs (life 5 yrs)

Yr Amortization

1 300 lakhs

$$\left(\frac{1200 \times \frac{600}{2400}}{1} \right) \rightarrow \text{Total of 5 yrs cash flow}$$

2 300 lakhs

$$\left(\frac{1200 \times \frac{600}{2400}}{2} \right)$$

3 300 lakhs

$$\left(\frac{1200 \times \frac{600}{2400}}{3} \right)$$

Amortization

CA @ the end of 3rd year 300 lakhs $\left(1200 \rightarrow 900 \right)$ (~~Life 2 yrs~~ Revised Life 3 yrs)

Yr Amortization

4

120

$$\left(\frac{300 \times \frac{300}{750}}{1} \right)$$

Yr Cash flow Est

4

300

5

120

$$\left(\frac{300 \times \frac{300}{750}}{2} \right)$$

5

300

6

60

$$\left(\frac{300 \times \frac{150}{750}}{3} \right)$$

6

150 (Given)
750

Ques 7

Brand $\begin{cases} \rightarrow \text{self generate} \rightarrow \text{cannot record as intangible asset} \\ \rightarrow \text{purchased} \rightarrow \text{can be recorded as intangible asset} \end{cases}$

Explanation: Refer Q.B.

Ques 8 \rightarrow H.W.

Ques 9 \rightarrow Refer Q.B

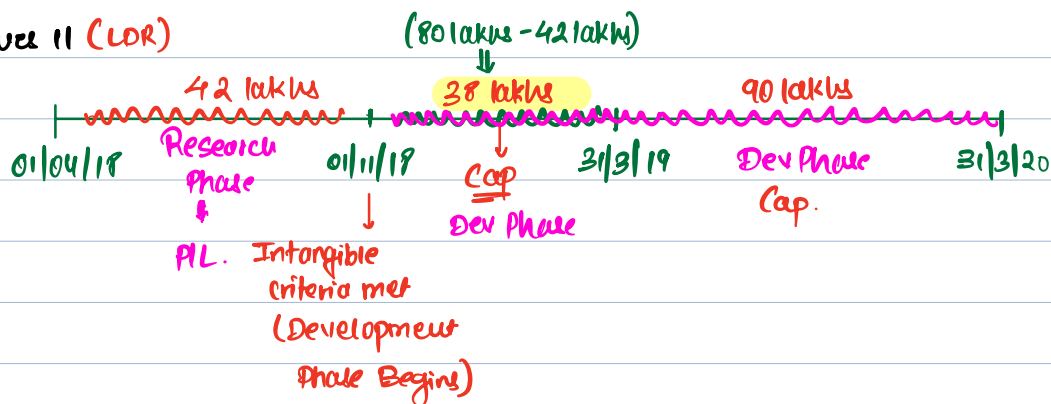
Ques 10 (LOR)

Purchase Price of software	₹ 150000
Less: Trade discount @ 2.5%	(₹ 3750)
	₹ 146250
Cost in ₹ (₹ 146250 \times ₹ 100/₹)	₹ 1,46,25,000
(+) Impost duty on cost @ 10%. (1,46,25,000 \times 10%)	₹ 14,61,500
	₹ 1,60,87,500
(+) Additional impost duty @ 5%. (1,60,87,500 \times 5%)	8,04,375
	1,68,91,875
(+) Installation Exp	150000
(+) Professional fees	50000
Cost of software to be capitalised	<u>1,70,91,875</u>

Note:

Entry Tax is recoverable \therefore it is not included as a part of cost.

Ques 11 (LOR)



As per AS 26, Expenditure incurred on Research phase will be trf to P/L & expenditure incurred during development phase, will be capitalised.

Development phase criteria was met on 01/11/2018 \therefore Expenditure Before 01/11/18 belongs to research phase & will be transferred to P/L

i) Expenditure trf to P/L during 31.3.19

Research phase Exp till 01/11/2018 \rightarrow 42 lakhs (Trf to P/L)

ii) Carrying Amount on 31.3.19

Development Phase Exp \rightarrow 38 lakhs (C.A as on 31.3.19)
from 01.11.18 to 31.3.19

iii) Expenditure trf to P/L on 31.3.20

01.04.19 CA of Intangible	38 lakhs
(+) 2019-20 (Dev Phase Exp)	90 lakhs
CA on 31.3.20	128 lakhs
RA on 31.3.20	82 lakhs (Given)
Impairment loss	46 lakhs (Trf to P/L)

iv) C.A of Intangible on 31.3.20 (after Impairment) = 82 lakhs (128 lakhs \rightarrow 46 lakhs)

Ques 4 (WR)

Not asked (Extra Part)

Balance Sheet (Extract) as on 31-3-21		Profit & Loss Extract for 2020-21	
I] Assets			
Non-Current Assets		Net Revenue	150000
Intangible Assets (wni)	14,00,000	Expense	
		Amortization	275000
		10% Annual fee ** (150000 x 10%)	15000

WN

Intangible Assets

Particulars	Op (Gross Block)	Amortization	Cl (Net Block) 31-3-21
① Goodwill $\left[\begin{array}{l} \text{PC} \rightarrow 25\text{L} \\ (-) \text{Net Assets (18-75L)} \end{array} \right]$	625000 (life 5yrs)	(125000) (625000 x 1/5yr)	5,00,000
② Patent	600000 (life 8yrs)	(75000) (600000 x 1/8yrs)	5,25,000
③ Franchise	450000 (life 6yrs)	(75000) (450000 x 1/6yrs)	3,75,000
			<u>14,00,000</u>

Note

- ① Annual fee of 10%. Based on Net Revenue, will be charged to P/L as an expense when it is incurred.
- ② Co. follows policy of charging full year amortization in year of purchase/
acquisition
mentioned in ques