AS 26 : INTANGIABLE ASSETS

1) Objective :

Accounting Treatment : Recognition, Measurement, Presentation, Disclosure } Purchase of ITA, Sale of ITA & Amortization

- Wheather amont spent on ITA - charged/capitalized

2) Definition :

ITA - Identifiable
- non monetary & life $\geq$ 12 Months.
- without physical substance

→ purpose → production of goods
→ Rendering of services.
→ Administrative purpose
→ Rentals.

A) Identifiable.

a) Seperable from self generated goodwill.
b) Seperately sold / rented / used / exchanged.
c) Identifibility ≠ seperability
↳ if it can be done under some othermeans like generation of FEB.

B) Non Monetary:

not cash, but it can be measured in cash
[further - shall be learnt in AS 11.

C. Without physcial substance:

- Intangiable assets does not have any physcial substance.
- But always need a support of Physcical substance.

Seperable

For TA $\rightarrow$ AS-10

ITA $\rightarrow$ AS-26

In seperable

- check for predominent element

if TA - AS 10

if ITA - AS 26

For Both TA & ITA

D. Further ITA need to satisfy the definition of Asset

(i) FEB • able to generate cash / cash equivalents in future

can be either ↑ benefits

↓ losses / EXP

(ii) control on FEB [i.e generating FEB, Restricting others to access]

3. Recognition criteria

Asset defenition

ITA defenition.

4. Scope:

Non applicability:

① When ITA guided by special AS ~~i.e standard~~ [i.e Standard | How / What is ITA]

Standard	How / What is ITA
AS 2	ITA held as stock. [eg: Software solutions]
AS 7	Right of construction awarded to contract.
AS 14	Goodwill during Amalgamation

TO THE FORMATION OF A COMPANY [SEC 3]
[Sec 3(1)]

AS 15 Expenditure on retirement / term benefits.
AS 19 Right to use arising in leases.
AS 21,~~22~~,23,27 Gwill during the consolidation.
AS 22 Deferred Tax Assets
30, 31, 32 [withdrawns]
Ind AS 109, 32, 107 } contractual rights / obligations arising in financial Assets / financial instruments.

2) ITA arising in insurance contracts between policy Holder & insurance co → IRDA [like Right to receive premium]

3) Renewable & Non Renewable resources [like mineral rights, croping rights] → Ind AS Norms.

- Animal Husbendry
- Agriculture products
- orchards.

Extraction of
- mines / Minerals
- Gases / oils etc.

B. Applicability:

1. Good will
2. patents
3. copyrights
4. Trade Marks
5. Mastheads
6. Publishing Titles
7. Recipies
8. secret formula
9. Import Quota
10. customer like
11. Pilot Plan
12. Intellectual PR
13. Licensing ag
    w.r.t. Motion pictures
    Video Records
    Plays, manuscripts.

Expenditure relates to
a) Advertising
b) Training cost
c) startup cost
d) R&D Exp

Note: For leases → Initial recognition → AS-19 ✓
under Subsequent Recognition
- depreciation of leased Asset - AS10 ✓
- Amortisation of leased Asset - AS 26 ✓

5. Recognition & measurement

A) Initial Recognition
↓
Depends on MOA
a) cash / credit
b) EOA
c) IOS
d) R&D.
e) Govt Grants
f) Amalgamation.

B) Subsequent Recognition
Only cost model

cost price → Initial Recog	xxx
(-) Acc. Amortisation	(xxx)
(-) Acc Impairment loss	(xx)
Carrying Amt / BV.	xxx

A) IR
a) Cash/credit – ITA acquired
recorded @ cost price = Purchase price + DE (which are directly related to Acq / Install of ITA)
↓
Stated in invoice
Includes
Quoted Prices
(-) TD / Volume Rebate / Qty Dis
(+) Non Ref Taxes & duties (if not included)
− Ref tax & duties (if included)

DE'S
(i) Professional fee
(ii) legal fee
(iii) Registration charges
(iv) Brokerage
(v) Employee cost
(vi) BC (QA ✓ AS16)
(vii) (-) Govt Grant (AS 12)

...CT TO THE FORMATION OF A CO...
...of persons: [Sec 3(1)]:

b) Exchange of Assets

Generally, always commercial substance

Then ITA @ Fair value of Asset given up
or
Fair value of Asset acquired
] whichever is more clearly evident

[For further provisions refer AS 10)

c) Issue of Securities

ITA has to be recognised @ FRV of (sec) issued
or
FRV of ITA acquired
] whichever is more clearly evidend.

(if not @ face value of (sec issued)

d) Reaserch & Development.

e) Govt grant (AS-12)

f) Amalgamation

Nature of merger

i) No ITA arises

ii) So, shall not be disclosed

Note: we dont consider existing ITA in the B/S of seller co for this concept

Nature of Purchase

↓

A&L - acquired @ fair value

if Purchase consideration > Net Assets → Dr. Goodwill.

PC < Net Assets → Cr. capital reserve.
↓
AS 14.

For other ITA - AS-26
[Self generated ITA]

Active market

✓
- No restriction
- can be recognized at Fr value fair

×
- Recognised @ ~~Restriction~~ such value so that it shouldnt create (or) increase capital reserve ↓ is limited to value of G...

6) Self / Internally generated ITA

a) Research & Development

b) Others.

Like Others Goodwill, Brands, mast heads, Publishing Titles — Shall not be record

Since
- can't be identified
- cant be reliably measured
- ITA def ×
- Asset def ×

Note

① Amt spent on this asset can't be speparated from developing Business.

2) No need to seperately develop these assets which shall automatically generate when business is developed

3) Dont record the difference between the book value and market value as goodwill.

a) Research & Development:

before starting of commercial production

A) Research phase

Orginally planed and investigated in order to gain - Marketing, Technological, Scientific — Knowledge & understanding

B) Development phase:

- Application of research findings
- to develop / improve

Materials Products devices methods

systems Services.

C) Accounting Treatment.

R&D

Seperable	Inseperable
· Research phase – charged [asset def ×]	Treat total phase research & charge to P&L A/C
· Development phase → asset def ✓	
ITA def ✓	
6 conditions ✓	

Then capitalise
otherwise charged

6 conditions
1. Technical feasiability
2. Intension to complete
3. Technical / Financial / other Reasons
4. Generation of FEB
5. Through usage (or) sale
6. Measured realiabily

Note:
① Sometimes research can also be conducted on Research findings.
★② Once charged can never be capitalized.
Exception: If charged due to error or omission
↓
can be rectified and capitalised.
[prior period items → AS-5]

3) capitalised only from such point when recognition criteria is satisfied
Till recognition criteria × → charged.

D) Expenditure on R&D

Includes → in cost price of R&D
- Material cost
- Labour
- OH'S
- Normal loss
- Direct expenses
- Borrowing cost [QA ✓ AS-16]
- (-) Govt Grant

Excludes
- BC (QA × AS 16)
- S & D exp's
- Administration exp
- Finance & Acc expenses
- Startup cost / Training cost
- Abnormal loss
- Internal profit.

7) Expenditure on intangiable Assets.

Initial exp
Incurred @ time of purchase / acq / Installation ITA
↓
capitalized

Subsequent exp.
After purchase / Acq /

8) Retirement & Disposal
↳ P/(L) = SP - BV
↓
Charged to P&L A/C

↓
- No active usage
- No FEB
- Held for sale but not yet sold
↓
Recorded @ NBV / NSP ↓

Note: when NSP can't be determined → recorded @ NBV

...ECT TO THE FORM...
...specified number of persons. [Sec 3(1)]

9) Expenditure delt by AS 26.

DRE / Fictitious Assets

Relating to securities	Not relating to securities
a) Discount on issue of deb	a) preliminary expenses
b) loss on issue of deb	b) advertisements
c) share issue exp	c) promotions
d) underwriter commission	d) Inauguration expenses
e) brokerage or commission on issue of shares.	e) preopening expenses
	f) preoperating expenses
	g) training
	h) research
	i) start up cost

AS 26

✗ → Companies can have its own policies
→ either charge immediately
(or) deferance is captilised

✓ → • charged immediatly to P&L

10) Impairment loss

compare net bookvalue / carrying amt vs Recoverable value

If NBV > RA ⟶ NPV (or) VIU ↑
VIU ⟶ PV of FCB.

Difference → IOL → charged to P&L

Note.

a) generally the above test is performed only when there is an indication of impairment (as per AS 28)

b) But, as per AS 26, even when there is no indication the entity has to perform.
Impairment test in following situations
(i) ITA under development → not yet ready / available for the
(ii)

11) Amortization

(A) Meaning / Definition

→ Systamatic Allocation of Amount of ITA over the usefullife

Amount → Depreciable Amt ⇒ CP - Salvage / Resi.v.

usefullife → Not arbitary / Random allocation
↓
Should be based on Pattern of G of FEB.

(B) Method

Any meathod in the POGOFEB
like SLM,
WDV,
Production units
machine hours

Note: If Management is unable to decide the method of Amortization
↓
Apply SLM.

ecified number of persons.

→ If useful life of Amortization not given then there is no Amortization.

C) change in Method of Amortization

Method of Amortization - Alcing Policy

change in method of Amortization - Alcing estimate
↓
Prospective basis

D) Period of Amortization

a) Start Amortization when ITA ready to use / available for use but not Actual use / put to use

b) Rebuttable (deemed) presumption = 10 years

more than 10 yrs { But a different life Period is permitted Provided that Management needs to give "Persuasive / conclusive" evidence.

c) while choosing a different Period - consider

Economic factors | whichever is lower. | legal factors
capable of generating FEB | | Licence & control

Economic factors
or
legal factors ↓

Generally Amortization Period not more than licence period

Exception when licence can be renewed & Renewal is virtually (100% sure) certain } Amortization period = licence period + Renewal period.

Residual value

generally RV for ITA = zero

Exemption : RV is determined

a) when commitment given by 3rd Party that he will purchase ITA after useful life.

b) when there exist an active Market @ end of useful life.

Can residual value be changed for change in estimations in future?

Residual value cannot be increased for future developments (or) estimations
↓
But can be decreased (or) may become zero.

12. Review and Revision of estimates

1) IOL - impairment of loss
2) value in use
3) net selling price.
4) useful life.
5) method of Amortisation

change in A/cing estimates as per AS 5 & To be given a prospective effect.

13) Disclosures

14. Other points.

a) method based on expected revenue (cf's generation)
⇓
not permitted by AS 10 silent in AS 26 (decided by the mgment

b) ITA life is infinite - No Amortization (But check for impairment of loss)
↓
like paintings, patents (unlimited etc)

c) A/c Treatment

Amort
TO ITA A/c

used for production of goods
↓
+ TO cost of production
↓
Bal sheet

c/o Amortization
↓
used for Adm / Rental ⟶ P&L
TO amortization (T/r to P&L)

Used for TA/PPE
↓
PPE To Amort. ...