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ACCOUNTING STANDARD - 26

INTANGIBLE ASSETS

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An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

Monetary Asset

Money held and assets to be realised in fixed amounts of money

Non-Monetary Asset

Other than Monetary Asset

Whether a particular Intangible Asset should be recognised / recorded or not depends upon whether it meets the recognition criteria :

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Recognition Criteria

1. Probable future economic benefits must flow to the enterprise

2. Cost of Intangible asset can be measured reliably

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Intangible Asset may be of acquired, self-generated unidentifiable and self-generated identifiable

Intangible Asset should be measured initially at cost

Self – Generated Intangible Asset

Self Generated Intangible Assets like Goodwill, should not be recorded / recognised in books of accounts

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Acquired Intangible Asset

If Intangible asset is acquired by way of cash,

Cost = Purchase Cost

(+) Import Duty

+ Non Refundable Taxes or levies

+ Directly Attributable cost

(-) Trade Discount

(-) Rebates

Acquisition by way of Government Grant-Refer AS - 12

If Intangible Asset is acquired by way of issue of shares or other securities, Record at the fair market value of the Asset or Securities issued which is more clearly evident

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**Purchase of Intangible Assets
In Exchange for another Asset – follow AS - 10**

Acquisition by way of Amalgamation - Refer AS - 14

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Para 50:

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets

Reason Para 51:

Such items cannot be distinguished from the cost of developing the business as a whole

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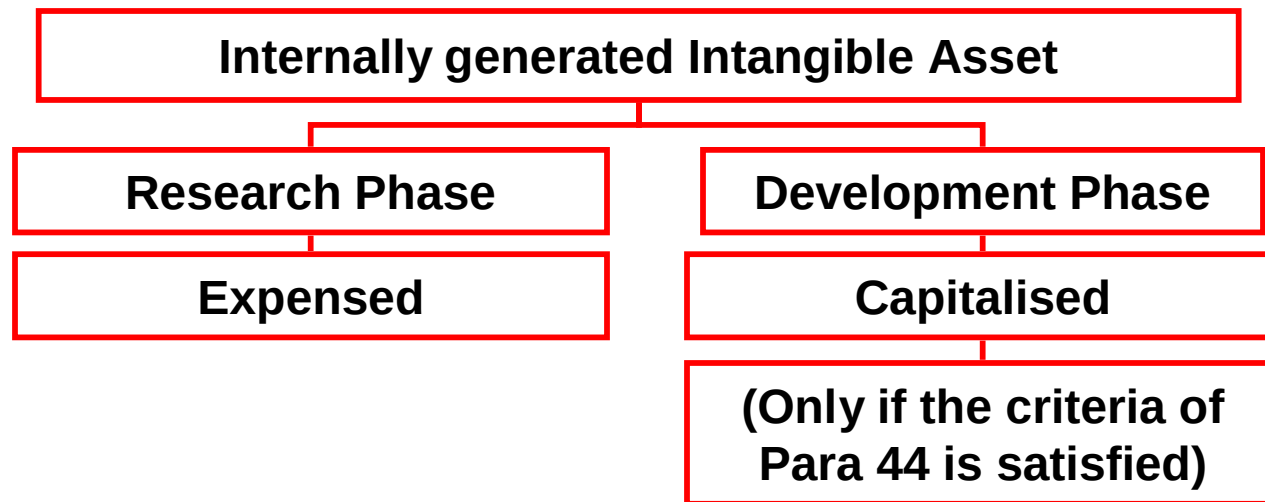
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Some Important issues with respect to Acquisition by way of Amalgamation

- 1. See whether recognition criteria is met at the time of amalgamation. If so, an Intangible Asset can be recognised by the transferee even if that intangible asset had not been recognised by the transferor**
- 2. If the cost of an intangible asset cannot be measured reliably, it is not recognised by transferor but it is included in goodwill**
- 3. Unless there is an active market for an intangible asset acquired in an amalgamation in the nature or purchase, the cost initially recognised for the intangible asset is restricted to an amount that does not create or increase any capital reserve arising at the date of amalgamation**

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Conditions for Recognizing Intangible Asset arising from Development stage

If and only if, an enterprise can demonstrate the following

- 1. The technical feasibility of completing the intangible asset so that it will be available for use or sale;**
- 2. Its intention to complete the intangible asset and use or sell it**
- 3. Its ability to use or sell the intangible asset**
- 4. How the intangible asset will generate probable future economic benefits**
- 5. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and**
- 6. Its ability to measure the expenditure attributable to the intangible asset during its development reliably**

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Cost of Self Generated Intangible Asset

Expenditure on materials or services

- + Salaries, Wages and other employment related costs of personnel**
- + Any directly attributable expenditure**
- + Specific Overheads and reasonable allocation of general Overheads**

Less:

- a. Selling, administrative expenses, and other general overhead expense**
- b. Expenditure on training staff**

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Note: Para 56 [Important]

**In some cases, expenses are incurred to provide future economic benefits.
But Intangible asset cannot be recognised**

a. Expense on research

b. Expenses on start up activities [legal and secretarial cost, pre-opening/operating cost] unless included in fixed asset as per AS-10

c. Expenditure on training activities

d. Expenditure on advertising and promotional activities

e. Expenditure on relocating or re-organizing part or all of an enterprise

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Whether Past expensed item can be rebooked as Intangible Asset?

Expenditure on an intangible item that was initially recognised as an expense by a reporting enterprise in previous annual financial statements or interim financial reports should not be recognised as part of the cost of an intangible asset at a later date.

After initial recognition, can the subsequent expenditure be capitalised or expensed?

Capitalised – Only if the asset generates greater FEB & Cost can be measured reliably. If not, expense it.

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Measurement Subsequent to Initial Recognition

Cost Less: Accumulated Amortisation Less: Accumulated Impairment Loss

How would amortization be carried out?

**Allocate on a systematic basis over the best estimate of its useful life.
Don't exceed the period beyond 10 years unless it is justified**

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What is the recommended method of amortization?

The method followed should reflect the pattern in which the asset's economic benefits are consumed by the enterprise.

If that pattern cannot be determined reliably, then straight line method should be used

For arriving at depreciable amount of IA, what is to be considered for RV?

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75. The residual value of an intangible asset should be assumed to be zero unless:

- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or*
- (b) there is an active market for the asset and:
 - (i) residual value can be determined by reference to that market; and*
 - (ii) it is probable that such a market will exist at the end of the asset's useful life.**

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Can review of amortization period & Method possible?

The amortisation period and the amortisation method should be reviewed at least at each financial year end. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern. Such changes should be accounted for in accordance with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

Retirement and Disposal

An intangible asset should be derecognized on disposal or when no future economic benefits are expected from its use and subsequent disposal

Gain or loss on disposal of Intangible Asset will be recognised in P & L a/c

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