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## 1. OBJECTIVE :

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. This standard specifies the requirement of recognition, measurement and disclosures of Intangible Assets.

The Standard states that intangible assets are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortised on a systematic basis over their useful lives unless the asset has an indefinite useful life, in which case it is not amortised.

## 2. SCOPE :

This standard is applied to all intangible assets. except

- Intangible Assets which are within the scope of other standard like
- Intangible assets held for sale in ordinary course of business (IND AS 2)
- Deferred tax Assets (IND AS 12)
- Leases (IND AS 17)
- Assets arising from employee benefits (IND AS 19)
- Financial Assets (IND AS 32)
- Goodwill arising from Business Combination (IND AS 103)
- Deferred acquisition costs and intangible assets arising from insurance cost (IND AS 104)
- Non current intangible assets held for sale (IND AS 105)
- Exploration for and Evaluation of Mineral Resources (IND AS 106)
- Assets arising from contracts with customers (IND AS 115)

### Intangible assets contained in or on a physical substance :

Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent) or film. In determining whether an asset that incorporates both tangible and intangible elements should be treated under Ind AS 16, Property, Plant and Equipment, or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant.

For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

### Intangible assets on leases :

In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of Ind AS 17, and are within the scope of this Standard

For example, Pluto Ltd acquired some 'rights' from Mercury Ltd on lease for a period of 15 years. Mercury Ltd has accounted for such rights as an Intangible Assets. Mercury Ltd has estimated that the future economic benefits will be received by the entity for 15 years. At the time of initial recognition, Pluto (the lessee) will recognise such finance lease in accordance with the provisions given in Ind AS 17, Leases. After Initial recognition, such lease for intangibles will be accounted for in the books of Pluto Ltd in accordance with Ind AS 38, Intangible Assets.

### Intangible assets used in the extractive and insurance industries :

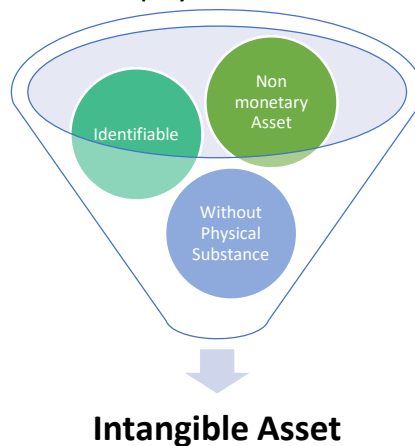
This Standard does not apply to expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of insurance contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

## **3. IDENTIFICATION OF INTANGIBLE ASSETS :**

### **3.1. MEANING OF INTANGIBLE ASSETS :**

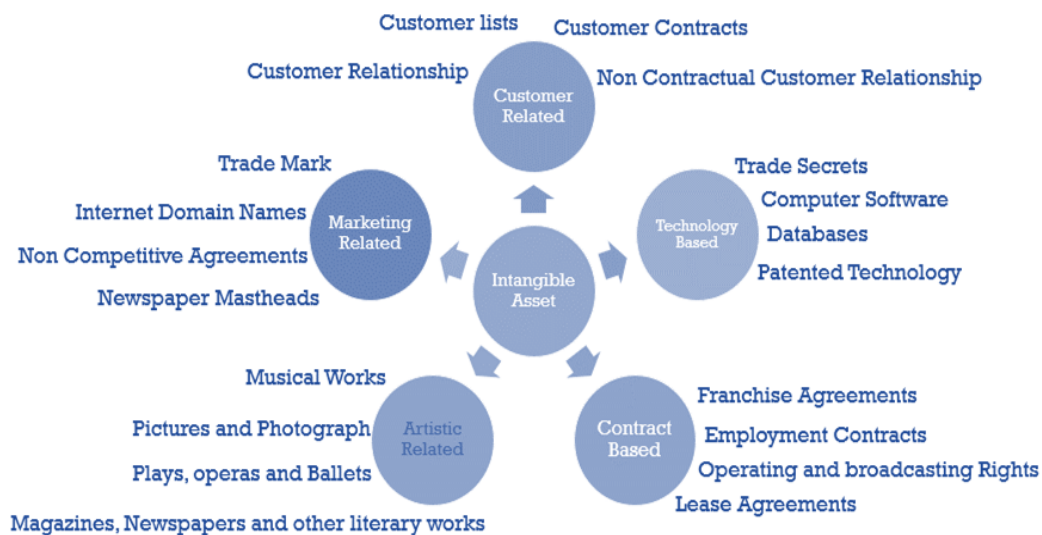
An intangible asset is an

- identifiable
- non-monetary asset without physical substance



Common examples of items encompassed by these broad headings are:

- Computer software
- Patents
- Copyrights
- Motion picture films
- Customer lists
- Mortgage servicing rights
- Fishing licenses
- Import quotas
- Franchises
- Customer or supplier relationships
- Customer loyalty
- Market share and marketing rights.
- Intangible

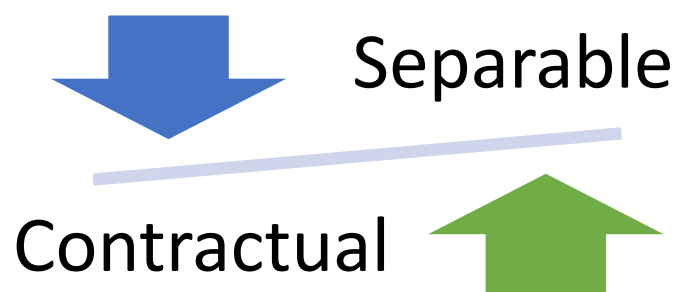


Not necessarily all of the above item meet the conditions of recognizing as an Intangible Assets within purview of this standard:

- Identifiability
- Control over a Resource (Asset) and
- Existence of Future Economic Benefits

Note: If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date.

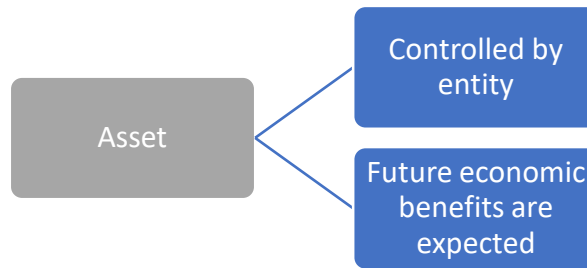
### 3.2 IDENTIFICATION :



#### Question 1 – Sun Ltd.

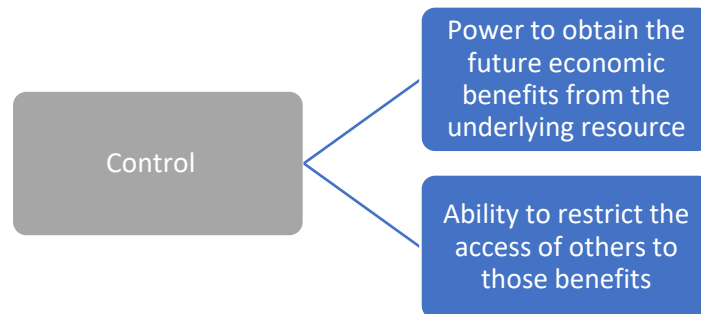
Sun Ltd has an expertise in consulting business. In past years, company has gained a market share for its services of 30 percent and considers recognizing it as an intangible asset. Is the action by company is justified?

### 3.2 TANGIBLE ASSETS :



An asset is a

- (a) resource;
- (b) controlled by an entity
- (c) as a result of past events; and
- (d) from which future economic benefits are expected to flow to the entity.



An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.

#### **Example :**

An entity may have a portfolio of customers or a market share and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to trade with the entity. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (e.g. portfolio of customers, market shares, customer relationships and customer loyalty) to meet the definition of intangible assets



### Question 2 – Company XYZ Ltd.

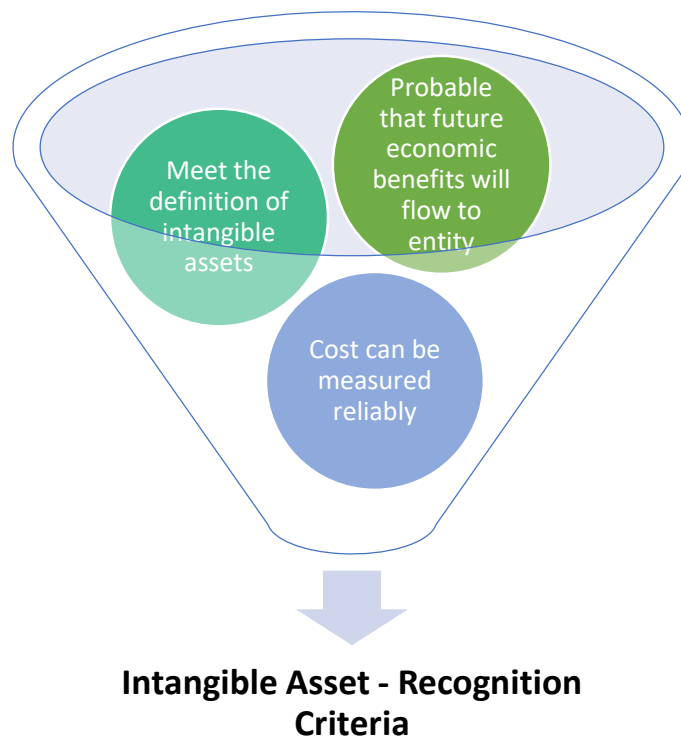
Company XYZ Ltd. has provided training to its staff on various new topics like GST, Ind AS etc. to ensure the compliance as per the required law. Can the company recognise such cost of staff training as intangible asset?

The future economic benefits flowing from an intangible asset may include:

- (a) Revenue from the sale of products or services;
- (b) Cost savings; or

Other benefits resulting from the use of the asset by the entity.

## 4. RECOGNITION OF INTANGIBLE ASSETS :



### Question 3 – Pluto Ltd.

Pluto Ltd. intends to open a new retail store in a new location in the next few weeks. Pluto Ltd has spent a substantial sum on a series of television advertisements to promote this new store. The Company has paid an amount of Rs.800,000 for advertisements before 31st March, 2011. Rs.700,000 of this sum relates to advertisements shown before 31st March, 2011 and Rs.100,000 to advertisements shown in April, 2011. Since 31st March, 2011. The Company has paid for further advertisements costing Rs.400,000. Pluto Ltd is of view that such costs can be carried forward as intangible assets. Since market research indicates that this new store is likely to be highly successful. Please explain and justify the treatment of the above costs in the financial statements for the year ended 31st March, 2011



#### Question 4 – Mercury Ltd.

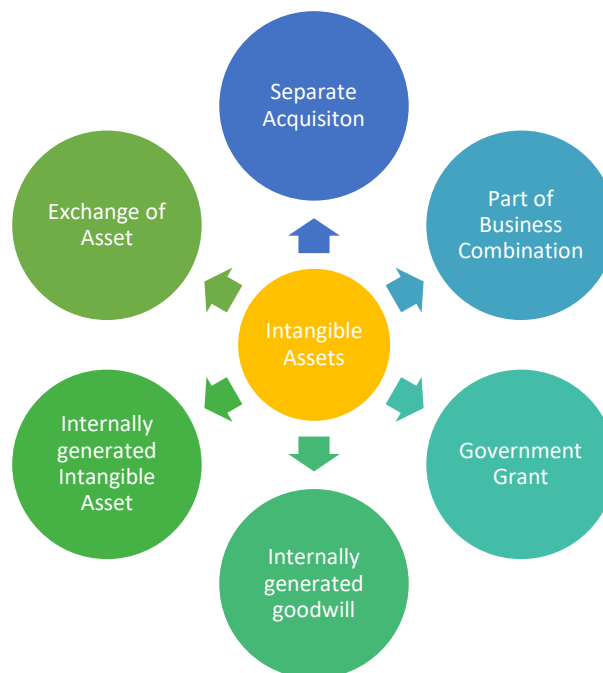
Mercury Ltd. is preparing its accounts for the year ended 31st March, 2012 and is unsure about how to treat the following items.

- (a) The company completed a grand marketing and advertising campaign costing Rs.4.8 lakh. The finance director had authorised this campaign on the basis that it would create Rs.8 lakh of additional profits over the next three years.
- (b) A new product was developed during the year. The expenditure totaled Rs.3 lakh of which Rs.1.5 lakh was incurred prior to 30th September, 2011, the date on which it became clear that the product was technically viable. The new product will be launched in the next four months and its recoverable amount is estimated at Rs.1.4 lakh.
- (c) Staff participated in a training programme which cost the company Rs.5 lakh. The training organisation had made a presentation to the directors of the company outlining that incremental profits to the business over the next twelve months would be Rs.7 lakh.

What amounts should appear as intangible assets in accordance with Ind AS 38 and Ind AS 36 in Mercury's balance sheet as on 31st March, 2012?

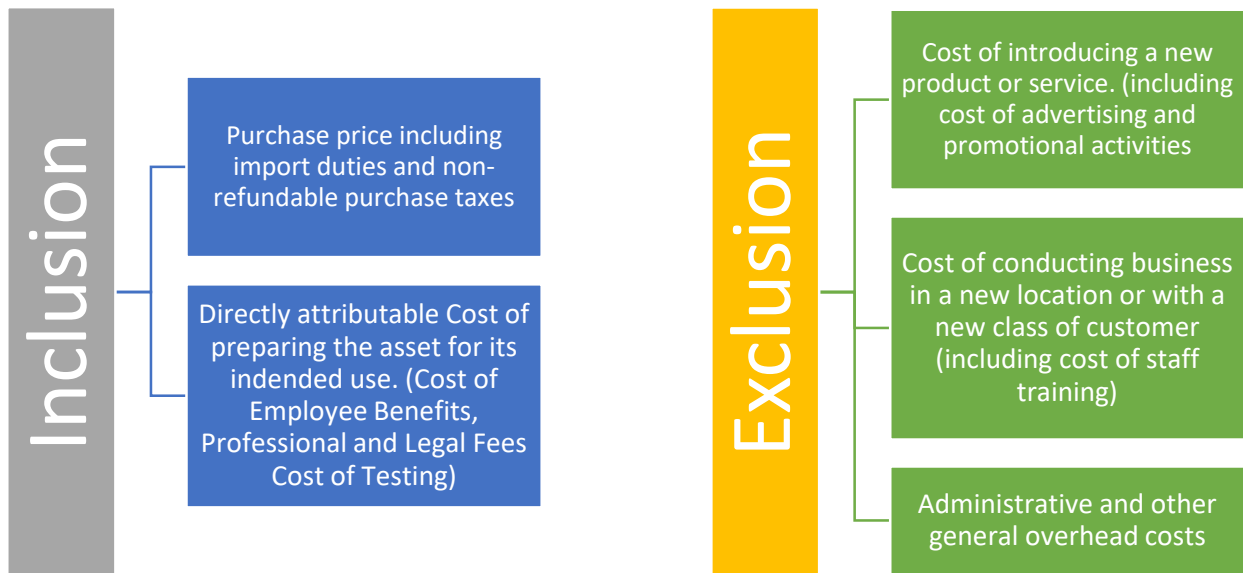
#### 5. MEASUREMENT OF INTANGIBLE ASSETS :

An intangible asset should be measured initially at cost.



Generally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits associated with asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow.

## SEPARATE ACQUISITION :



### Question 5 – Jupiter Ltd.

Jupiter Ltd. Acquires new energy efficient technology that will significantly reduce its energy costs for manufacturing

1. Costs of new solar technology – 10,00,000
2. Trade discount provided – (1,00,000)
3. Training course for staff in new technology – 50,000
4. Initial testing of new technology – 35,000
5. Losses incurred while other parts of plant shut down during testing and training – 25,000

Calculate the amount of Intangible Asset.



### Question 6 – Venus India Private Ltd.

Venus India Private Ltd acquired a software for its internal use costing Rs.10,00,000. The amount payable for the software was Rs.600,000 immediately and Rs.400,000 in one year time. The other expenditure incurred were:-

- Purchase tax : Rs.1,00,000
- Entry Tax : 10% ( recoverable later from tax department)
- Legal fees: Rs.87,000
- Consultancy fees for implementation : Rs.1,20,000
- Cost of capital of the company is 10%.

Calculate the cost of the software on initial recognition using the principles of Ind AS 38 Intangible Assets.



### **PART OF BUSINESS COMBINATION :**

An acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination

If an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset.



#### **Question 7 – Business Combination**

Business Combination On 31st March, 20X1, Earth India Ltd paid Rs.50,00,000 for a 100% interest in Sun India Ltd. At that date Sun Ltd's. net assets had a fair value of Rs.30,00,000.

In addition, Sun Ltd also held the following rights:

Trade Mark named "GRAND" – valued at Rs.180,000 using a discounted cash flow technique.

Sole distribution rights to an electronic product. Future cash flows from which are estimated to be Rs.150,000 per annum for the next 6 years.

10% is considered an appropriate discount rate.

The 6 year, 10% annuity factor is 4.36.

Calculate goodwill and other Intangible assets arising on acquisition.

### **GOVERNMENT GRANT :**

In accordance with Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, an entity should recognise both the intangible asset and the grant initially at fair value.

### **EXCHANGE OF ASSETS :**

One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

1. The cost of such an intangible asset is measured at fair value
2. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

No intangible asset can be recognised unless its cost can be measured reliably. If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost. However, if the fair value of the asset received is more clearly evident, then fair value of the asset received is taken up as cost.



#### **Question 8 – Sun Ltd.**

Sun Ltd. acquired a software from Earth Ltd. in exchange for a telecommunication license. The telecommunication license is carried at Rs.5,00,000 in the books of Sun Ltd. The Software is carried at Rs.10,000 in the books of the Earth Ltd which is not the fair value.

Advise journal entries in the following situations in the books of Sun Ltd and Earth Ltd:-

- 1) Fair value of software is Rs.5,20,000 and fair value of telecommunication license is Rs.5,00,000.

- 2) Fair Value of Software is not measurable. However similar Telecommunication license is transacted by another company at Rs.4,90,000.
- 3) Neither Fair Value of Software nor Telecommunication license could be reliably measured.

### **INTERNALLY GENERATED GOODWILL :**

This standard prohibits the recognition of internally generated goodwill as an asset.

Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (i.e. it is not separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost.

### **INTERNALLY GENERATED INTANGIBLE ASSET :**

It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:

1. identifying whether and when there is an identifiable asset that will generate expected future economic benefits; and
2. determining the cost of the asset reliably.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, this standard includes additional recognition criteria for internally generated intangible assets which expand on the general recognition criteria.

To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

1. a research phase; and
2. a development phase.

If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

### **Research phase :**

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

- No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.
- In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is recognised as an expense when it is incurred.

### **Examples of research activities are :**

- activities aimed at obtaining new knowledge;

- the search for, evaluation and final selection of, applications of research findings or other knowledge;
- the search for alternatives for materials, devices, products, processes, systems or services; and
- the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

### Development Phase :

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an entity can demonstrate all of the following:

1. Technical feasibility of completion of Intangible asset to make it available for use or sale
2. Intention to complete the intangible asset and use or sell it
3. Ability to use or sell the intangible asset.
4. How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
5. Adequate resources (like technical, financial or others) to complete the development.
6. Ability to measure reliably the expenditure attributable to the intangible asset during its development.

Inclusion

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

- Costs of materials and services used or consumed in generating the intangible asset
- Costs of employee benefits (as defined in BAS 19) arising from the generation of the intangible asset
- Fees to register a legal right
- Amortisation of patents and licences that are used to generate the intangible asset

This standard prohibits reinstatement of expenditure previously recognised as an expense.

## Exclusion

selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;

identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and

expenditure on training staff to operate the asset.



### Question 9 – Venus Ltd.

Venus Ltd. is preparing its accounts for the year ended 31st March, 2012 and is unsure how to treat the following items.

- Company has completed a big marketing and advertising campaign costing Rs.2,40,000. The finance director had authorized this campaign on the basis that it would create Rs.5,00,000 of additional profits over the next three years.
- A new product was developed during the year. The expenditure totaled Rs.1,50,000 of which Rs.1,00,000 was incurred prior to 30th September, 20X1, the date on which it became clear that the product was technically viable. The new product will be launched in the next four months and its recoverable amount is estimated at Rs.70,000.
- Staff participated in a training programme which cost the company Rs.300,000. The training organization had made a presentation to the directors of Baxter outlining that incremental profits to the business over the next twelve months would be Rs.500,000.

What amounts should appear as assets in Venus Ltd. Balance sheet as at 31st March, 2012?



### Question 10 – Venus Ltd.

Development Phase Expenditure on a new production process in 2011-2012:

	Rs.
1st April to 31st December	2,700
1st January to 31st March	900
	3,600

The production process met the intangible asset recognition criteria for development on 1st January, 2012. The amount estimated to be recoverable from the process is Rs.1,000.

What is the carrying amount of the intangible asset at 31st March, 2012 and the charge to profit or loss for 2011-2012?

Expenditure incurred in FY 2012-2013 is Rs.6,000.

At 31st March, 2013, the amount estimated to be recoverable from the process (including future cash outflows to complete the process before it is available for use) is Rs.5,000.

What is the carrying amount of the intangible asset at 31st March, 2013 and the charge to profit or loss for 2012-2013?

## 6. RECOGNITION OF AN EXPENSE :

Expenditure on an intangible item should be recognised as an expense when it is incurred unless: it forms part of the cost of an intangible asset that meets the recognition criteria; or the item is acquired in a business combination and cannot be recognised as an intangible asset. In such case, it forms part of the amount recognised as goodwill at the acquisition date.

This standard states that the following types of expenditure should always be recognised as an expense:

1. expenditure on research (except when it is acquired as part of a business combination);
2. expenditure on start-up activities (i.e. start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with Ind AS 16. Startup costs may consist of:
  - a. establishment costs such as legal and secretarial costs incurred in establishing a legal entity;
  - b. expenditure to open a new facility or business (i.e. pre-opening costs);
  - c. expenditures for starting new operations or launching new products or processes (i.e. pre-operating costs);
3. expenditure on training activities;
4. expenditure on advertising and promotional activities (including mail order catalogues); and
5. expenditure on relocating or reorganising part or all of an entity

## 7. SUBSEQUENT MEASUREMENT :

An entity should choose either the **cost model** or the **revaluation model** as its accounting policy.

**Revaluation Model :** After initial recognition, an intangible asset is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.



**Cost Model :** After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses.



**Frequency of revaluations :**

1. Revaluations should be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.
2. Some intangible assets may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in fair value.

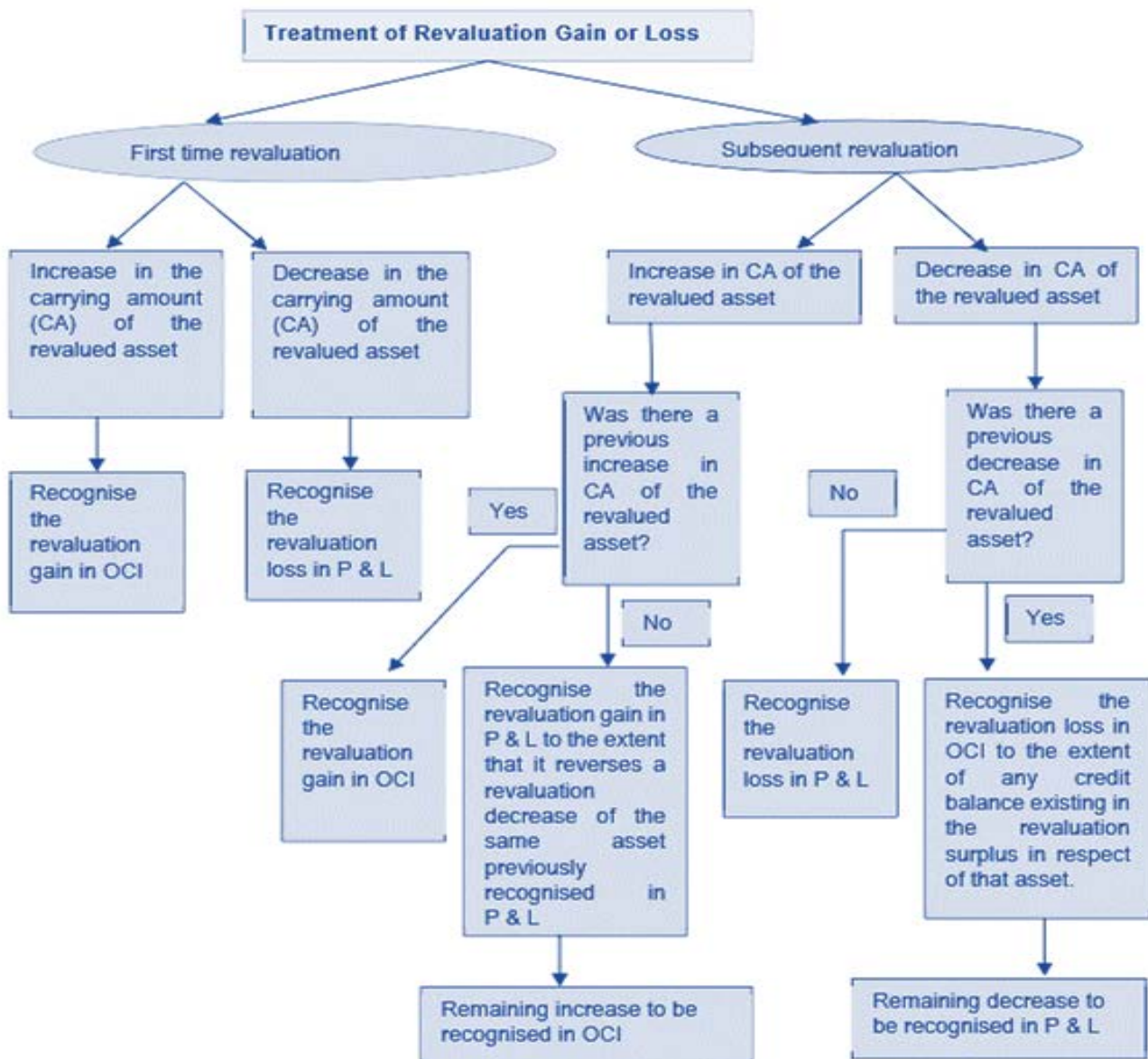
**Scope of revaluations :**

1. If an intangible asset is accounted for using the revaluation model, all the other assets in its class should also be accounted for using the same model, unless there is no active market for those assets.
2. If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset is carried at its cost less any accumulated amortisation and impairment losses.

**Treatment of surplus or deficit arising on revaluation :**

1. If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.
2. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
3. If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss.
4. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.





### Question 11 – Saturn Ltd.

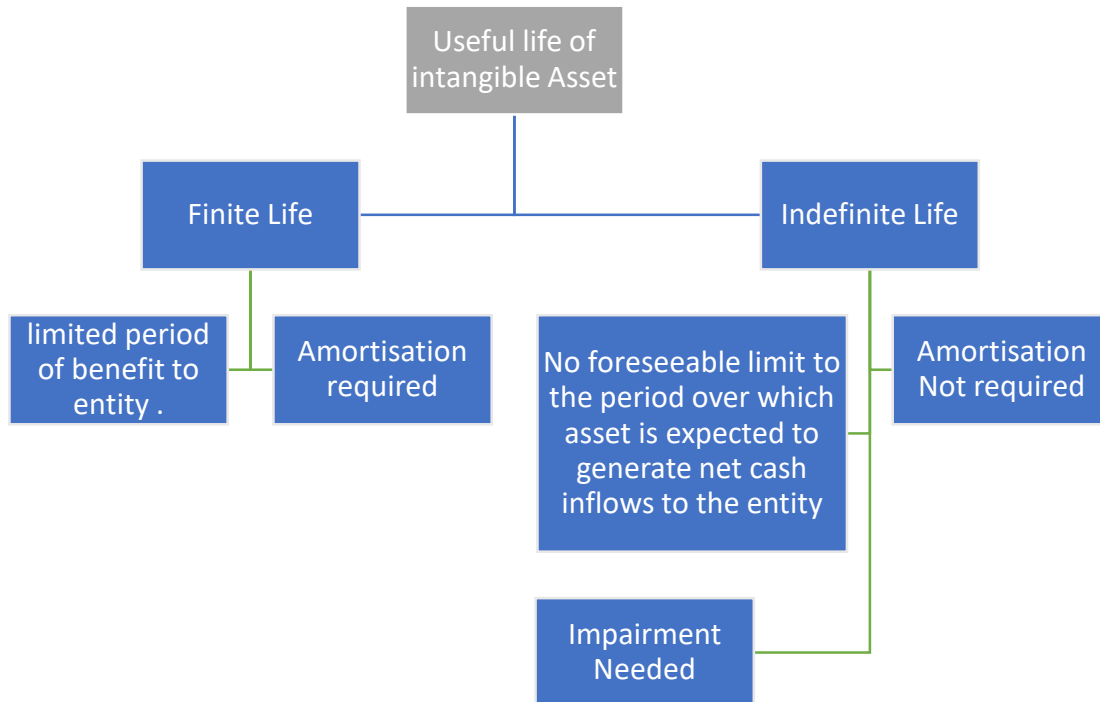
1. Saturn Ltd. acquired an intangible asset on 31st March, 2011 for Rs.1,00,000. The asset was revalued at Rs.1,20,000 on 31st March, 2012 and Rs.85,000 on 31st March, 2013.
2. Jupiter Ltd. acquired an intangible asset on 31st March, 2011 for Rs.1,00,000. The asset was revalued at Rs.85,000 on 31st March, 2012 and at Rs.1,05,000 on 31st March, 2013.

Assuming that the year-end for both companies is 31st March, and that they both use the revaluation model, show how each of these transactions should be dealt with in the financial statements. Explain the treatment for revaluation of intangible asset. Ignore computation of amortization on them for ease of understanding.

At 31st March, 2013, the amount estimated to be recoverable from the process (including future cash outflows to complete the process before it is available for use) is Rs.5,000.

What is the carrying amount of the intangible asset at 31st March, 2013 and the charge to profit or loss for 2012-2013?

## 8. USEFULL LIFE :

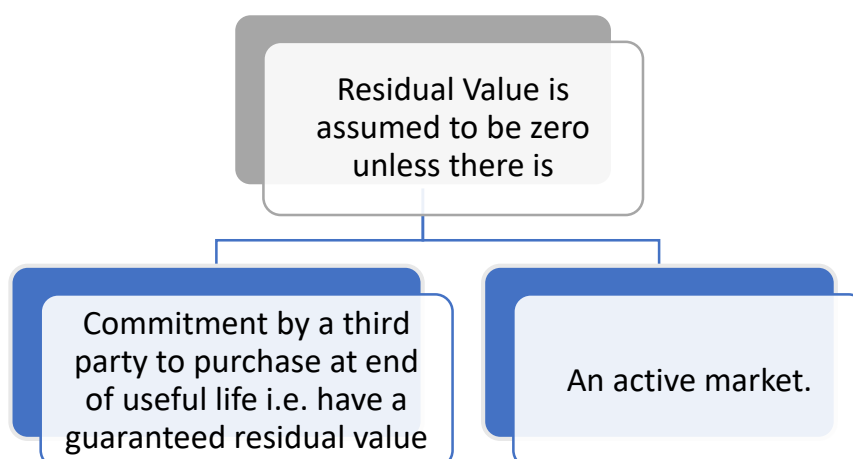


The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised, and an intangible asset with an indefinite useful life is not amortised and tested for impairment.

## 9. INTANGIBLE ASSET WITH FINITE USEFULL LIVES :

### Depreciable amount :

The depreciable amount of an intangible asset with a finite useful life is allocated on a systematic basis over its useful life. The depreciable amount of an asset is defined as the cost of an asset, or other amount substituted for cost, less its residual value.

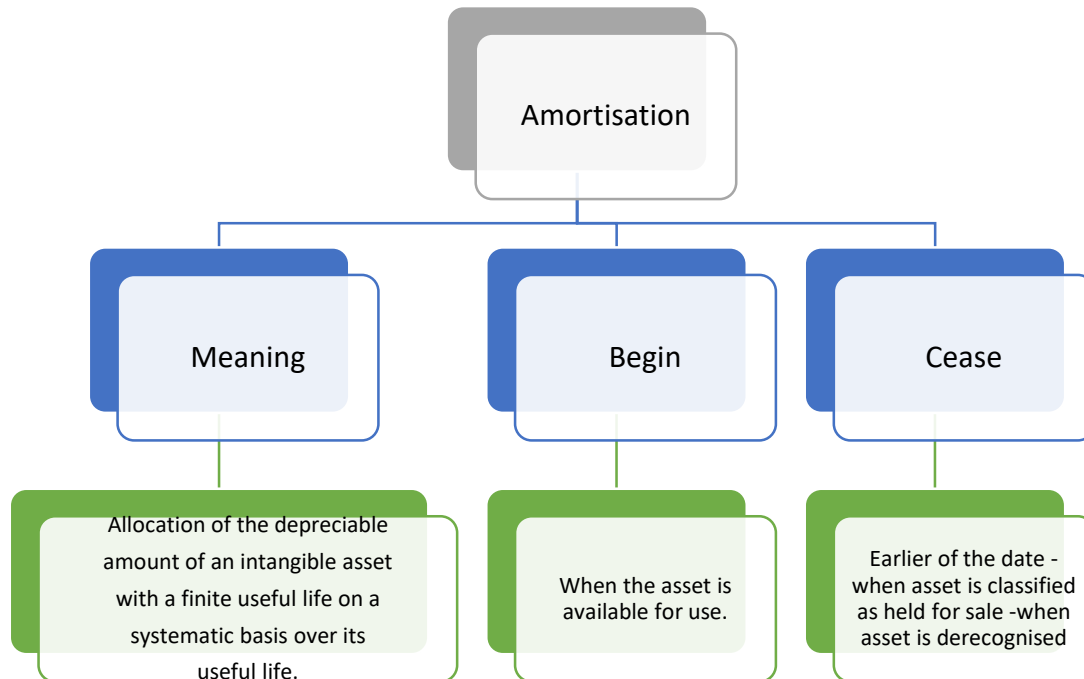




## Residual Value :

### Review of amortisation period

The amortisation period for an intangible asset with a finite useful life should be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortization period should be changed accordingly. Such change is accounted for as a change in accounting estimates in accordance with Ind AS 8.



### AMORTIZATION METHOD :

The amortisation method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method should be used.

A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method.

#### **Example : An acquired customer list**

A direct-mail marketing company acquires a customer list and expects that it will be able to derive benefit from the information on the list for at least one year, but no more than three years. The customer list would be amortised over management's best estimate of its useful life, say 18 months. Although the direct-mail marketing company may intend to add customer names and other information to the list in the future, the expected benefits of the acquired customer list relate only to the customers on that list at the date it was acquired. The customer list also would be reviewed for impairment in accordance with Ind AS 36, Impairment of Assets, by assessing at the end of each reporting period whether there is any indication that the customer list may be impaired.

**Example : An acquired patent that expires in 15 years**

The product protected by the patented technology is expected to be a source of net cash inflows for at least 15 years. The entity has a commitment from a third party to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and the entity intends to sell the patent in five years.

The patent would be amortised over its five-year useful life to the entity, with a residual value equal to the present value of 60 per cent of the patent's fair value at the date it was acquired. It may be noted that the estimated useful life has to be considered with reference to the entity only though the total life of the patent is much higher i.e., 15 years. The patent would also be reviewed for impairment in accordance with Ind AS 36 by assessing at the end of each reporting period whether there is any indication that it may be impaired.

**Example : An acquired copyright that has a remaining legal life of 50 years**

An analysis of consumer habits and market trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

It needs to be noted that although the remaining legal life of the patent is 50 years, however the useful life from the entity's perspective is only 30 years. The copyright would be amortised over its 30-years estimated useful life. The copyright also would be reviewed for impairment in accordance with Ind AS 36 by assessing at the end of each reporting period whether there is any indication that it may be impaired.

**Example A: An acquired broadcasting licence that expires in five years**

The broadcasting licence is renewable every 10 years if the entity provides at least an average level of service to its customers and complies with the relevant legislative requirements. The licence may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition. The acquiring entity intends to renew the licence indefinitely and evidence supports its ability to do so. Historically, there has been no compelling challenge to the licence renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future. Therefore, the licence is expected to contribute to the entity's net cash inflows indefinitely.

The broadcasting licence would be treated as having an indefinite useful life because it is expected to contribute to the entity's net cash inflows indefinitely. Therefore, the licence would not be amortised until its useful life is determined to be finite. The licence would be tested for impairment in accordance with Ind AS 36 annually and whenever there is an indication that it may be impaired.

**Example : The broadcasting licence in Example A**

The licensing authority subsequently decides that it will no longer renew broadcasting licences, but rather will auction the licences. At the time the licensing authority's decision is made, the

entity's broadcasting licence has three years until it expires. The entity expects that the licence will continue to contribute to net cash inflows until the licence expires.

Because the broadcasting licence can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired licence would be amortised over its remaining three-year useful life and immediately tested for impairment in accordance with Ind AS 36.

**Example :** An acquired airline route authority between two European cities that expires in three years

The route authority may be renewed every five years, and the acquiring entity intends to comply with the applicable rules and regulations surrounding renewal. Route authority renewals are routinely granted at a minimal cost and historically have been renewed when the airline has complied with the applicable rules and regulations. The acquiring entity expects to provide service indefinitely between the two cities from its hub airports and expects that the related supporting infrastructure (airport gates, slots, and terminal facility leases) will remain in place at those airports for as long as it has the route authority. An analysis of demand and cash flows supports those assumptions.

Because the facts and circumstances support the acquiring entity's ability to continue providing air service indefinitely between the two cities, the intangible asset related to the route authority is treated as having an indefinite useful life. Therefore, the route authority would not be amortised until its useful life is determined to be finite. It would be tested for impairment in accordance with Ind AS 36 annually and whenever there is an indication that it may be impaired.

**Example :** An acquired trademark used to identify and distinguish a leading consumer product that has been a market-share leader for the past eight years

The trademark has a remaining legal life of five years but is renewable every 10 years at little cost. The acquiring entity intends to renew the trademark continuously and evidence supports its ability to do so. An analysis of (1) product life cycle studies, (2) market, competitive and environmental trends, and (3) brand extension opportunities provides evidence that the trademarked product will generate net cash inflows for the acquiring entity for an indefinite period.

The trademark would be treated as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. Though the remaining legal life is five years, the possibility that it can be renewed every ten years and the entity's intention to renew the same leads to the conclusion that the trademark has an indefinite useful life. Therefore, the trademark would not be amortised until its useful life is determined to be finite. It would be tested for impairment in accordance with Ind AS 36 annually and whenever there is an indication that it may be impaired.

**Example :** A trademark acquired 10 years ago that distinguishes a leading consumer product. The trademark was regarded as having an indefinite useful life when it was acquired because the trademarked product was expected to generate net cash inflows indefinitely. However,

unexpected competition has recently entered the market and will reduce future sales of the product. Management estimates that net cash inflows generated by the product will be 20 per cent less for the foreseeable future. However, management expects that the product will continue to generate net cash inflows indefinitely at those reduced amounts.

As a result of the projected decrease in future net cash inflows, the entity determines that the estimated recoverable amount of the trademark is less than its carrying amount, and an impairment loss is recognised. Because it is still regarded as having an indefinite useful life, the trademark would continue not to be amortised but would be tested for impairment in accordance with Ind AS 36 annually and whenever there is an indication that it may be impaired.

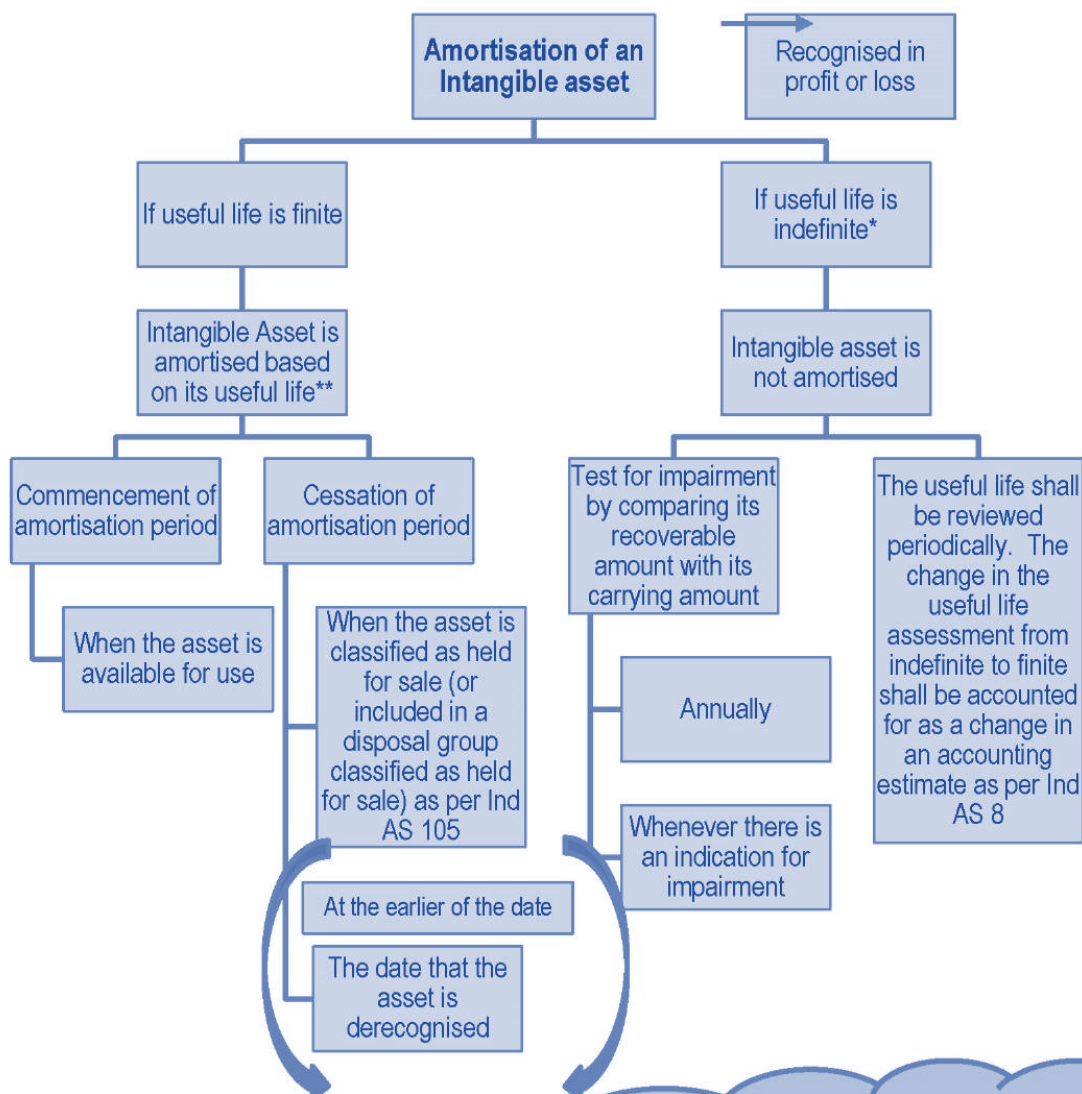
**Example :** Trademark for a line of products that was acquired several years ago in a business combination

At the time of the business combination the acquiree had been producing the line of products for 35 years with many new models developed under the trademark. At the acquisition date the acquirer expected to continue producing the line, and an analysis of various economic factors indicated there was no limit to the period the trademark would contribute to net cash inflows. Consequently, the trademark was not amortised by the acquirer. However, management has recently decided that production of the product line will be discontinued over the next four years. Because the useful life of the acquired trademark is no longer regarded as indefinite, the carrying amount of the trademark would be tested for impairment in accordance with Ind AS 36 and amortised over its remaining four-year useful life.

## 10. INTANGIBLE ASSET WITH INFINITE USEFULL LIVES :

1. An intangible asset with an indefinite useful life should not be amortised.
2. In accordance with Ind AS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount
  - a. annually; and
  - b. whenever there is an indication that the intangible asset may be impaired.
3. The useful life of an intangible asset that is not being amortised should be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate in accordance with Ind AS 8.

In accordance with Ind AS 36, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable amount, determined in accordance with Ind AS 36, with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount as an impairment loss.



- *\*The term 'indefinite' does not mean 'infinite'.*
- *\*\*Useful life is equivalent to the length of, or number of production or similar units*

Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, if the asset has not been fully depreciated or has not been classified as held for sale (or included in a disposal group that is classified as held for sale) as per Ind AS 105.

## 11. IMPAIRMENT :

1. To determine whether an intangible asset is impaired, an entity applies Ind AS 36. That Standard explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.
2. For an intangible asset with indefinite useful lives, an impairment review is required at least annually.

## 12. RETIREMENTS AND DISPOSALS :

1. An intangible asset should be derecognised:
  - a. on disposal; or
  - b. when no future economic benefits are expected from its use or disposal The disposal of an intangible asset may occur in a variety of ways (e.g. by sale, by entering into a finance lease, or by donation)
2. The gain or loss arising from the derecognition of an intangible asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It is to be recognised in profit or loss when the asset is derecognized (unless Ind AS 17 requires otherwise on a sale and leaseback). Gains should not be classified as revenue.

## 13. SELF PRACTICE QUESTIONS :



### Question 12 – X Limited

X Limited engaged in the business of manufacturing fertilisers entered into a technical collaboration agreement with a foreign company Y Limited. As a result, Y Limited would provide the technical know-how enabling X Limited to manufacture fertiliser in a more efficient way. X Limited paid Rs.10,00,00,000 for the use of know-how for a period of 5 years. X Limited estimates the production of fertiliser as follows:

Year	(In metric tons)
1	50,000
2	70,000
3	1,00,000
4	1,20,000
5	1,10,000

At the end of the 1st year, it achieved its targeted production. At the end of 2nd year, 65,000 metric tons of fertiliser was being manufactured, and X Limited considered to revise the estimates for the next 3 years. The revised figures are 85,000, 1,05,000 and 1,15,000 metric tons for year 3, 4 & 5 respectively.

How will X Limited amortise the technical know-how fees as per Ind AS 38?



### Question 13 – Y Ltd.

Y Ltd. purchased a patent right on April 1, 2011, for Rs.3,00,000; which has a legal life of 15 years. However, due to the competitive nature of the product, the management estimates a useful life of only 5 years. Straight-line amortisation is determined by the management to be the best method. As at April 1, 2012, management is uncertain that the process can actually be made economically feasible, and decides to write down the patent to an estimated market value of Rs.1,50,000 and decides to amortise over 2 years. As at April 1, 2013, having perfected the related production process, the asset is now appraised at a value of Rs.3,00,000. Furthermore, the estimated useful life is now believed to be 4 more years. Determine the value of intangible asset at the end of each financial year.





#### Question 14 – X Pharmaceutical Ltd.

X Pharmaceutical Ltd. seeks your opinion in respect of following accounting transactions:

1. Acquired a 4 year license to manufacture a specialised drug at a cost of Rs.1,00,00,000 at the start of the year. Production commenced immediately.
2. Also purchased another company at the start of year. As part of that acquisition the company acquired a brand with a FV of Rs.3,00,00,000 based on sales revenue. The life of the brand is estimated at 15 years.
3. Spent Rs.1,00,00,000 on an advertising campaign during the first six months. Subsequent sales have shown a significant improvement and it is expected this will continue for 3 years.
4. It has commenced developing a new drug 'Drug-A'. The project cost would be Rs.10,00,00,000. Clinical trial proved successful and such drug is expected to generate revenue over the next 5 years.  
Cost incurred (accumulated) till March 31, 2011 is Rs.5,00,00,000.  
Balance cost incurred during the financial year 2011-2012 is Rs.5,00,00,000.
5. It has also commenced developing another drug 'Drug B'. It has incurred Rs.50,00,000 towards research expenses till March 31, 2012. The technological feasibility has not yet been established. How the above transactions will be accounted for in the books of account of X Pharmaceutical Ltd?



#### Question 15 – X Ltd.

X Ltd. is engaged in the business of publishing Journals. They acquired 50% stake in Y Ltd., a company in the same industry. X Ltd. paid purchase consideration of Rs.10,00,00,000 and fair value of net asset acquired is Rs.8,50,00,000. The above purchase consideration includes:

- A. Rs.30,00,000 for obtaining the skilled staff of Y Ltd.
- B. Rs.50,00,000 by way of payment towards 'Non-compete Fee' so as to restrict Y Ltd. to compete in the same line of business for next 5 years.

How should the above transactions be accounted for by X Ltd?



#### Question 16 – Z Ltd.

Z Ltd. purchased a franchise from a restaurant chain at a cost of Rs.1,00,00,000 and the franchise has 10 years life. In addition, the franchise agreement mentions that the franchisee would also pay the franchisor royalty as a percentage of sales made. Can the franchise rights be treated as an intangible asset under Ind AS 38?



### Question 17 – An entity

An entity regularly places advertisements in newspapers advertising its products and includes a reply slip that informs individuals replying to the advertisement that the entity may pass on the individual's details to other sellers of similar products, unless the individual ticks a box in the advertisement.

Over a period of time the entity has assembled a list of customers' names and addresses. The list is provided to other entities for a fee. The entity would like to recognise an asset in respect of the expected future economic benefits to be derived from the list. Can the customer list be treated as an intangible asset under Ind AS 38?



### Question 18 – A software company X Ltd.

A software company X Ltd. is developing new software for the telecom industry. It employs 100 employees trained in that particular discipline who are engaged in the development of the software. X Ltd. feels that it has an excellent HR policy and does not expect any of its employees to leave in the near future. It wants to recognise these set of engineers as a human resources asset in the form of an intangible asset. What would be your advice to X Ltd?



### Question 19 – S Ltd.

S Ltd. has acquired a telecom license from Government to operate mobile telephony in two states of India. Can the cost of acquisition be capitalised as an intangible asset under Ind AS 38?



### Question 20 – X Ltd.

X Ltd. purchased a standardised finance software at a list price of Rs.30,00,000 and paid Rs.50,000 towards purchase tax which is non refundable. In addition to this, the entity was granted a trade discount of 5% on the initial list price. X Ltd. incurred cost of Rs.7,00,000 towards customisation of the software for its intended use. X Ltd. purchased a 5 year maintenance contract with the vendor company of Rs.2,00,000. At what cost the intangible asset will be recognised?



### Question 21 – P Ltd.

P Limited in a business combination, purchased the net assets of Q Limited for Rs.4,00,000 on March 31, 2011. The assets and liabilities position of Q Limited just before the acquisition is as follows:

<b>Assets</b>	<b>Cost (in Rs)</b>
Property, Plant & Equipment	1,00,000
Intangible asset 1	20,000
Intangible asset 2	50,000



Cash & Bank 1,30,000

**Liabilities**

Trade payable 50,000

The fair market value of the PPE, intangible asset 1 and intangible asset 2 is available and they are Rs.1,50,000, Rs.30,000 and Rs.70,000 respectively.

How would P Limited account for the net assets acquired from Q Limited?



**Question 22 – R Ltd.**

R Ltd. acquired S Ltd. on April 30, 2011. The purchase consideration is Rs.50,00,000. The fair value of the tangible assets is Rs.45,00,000. The company estimates the fair value of “in-process research projects” at Rs.10,00,000. No other Intangible asset is acquired by R Ltd. in the transaction. Further, cost incurred by R Ltd. in relation to that research project is as follows:

- A. Rs.5,00,000 – as research expenses
- B. Rs.2,00,000 – to establish technological feasibility
- C. Rs.7,00,000 – for further development cost after technological feasibility is established.

At what amount the intangible asset should be measured under Ind AS 38?



**Question 23 – X Ltd.**

X Ltd. acquired a patent right of manufacturing drug from Y Ltd. In exchange X Ltd. gives its intellectual property right to Y Ltd. Current market value of the patent and intellectual property rights are Rs.20,00,000 and Rs.18,00,000 respectively. At what value patent right should be initially recognised in the books of X Ltd. in following two situations?

- A. X Ltd. did not pay any cash to Y Ltd.
- B. X Ltd. pays Rs.2,00,000 to Y Ltd.



**Question 24 – X Garments Ltd.**

X Garments Ltd. spent Rs.1,00,00,000 towards promotions for a fashion show by way of various on-road shows, contests etc.

After that event, it realised that the brand name of the entity got popular and resultantly, subsequent sales have shown a significant improvement. It is further expected that this hike will have an effect over the next 2-3 years.

How the entity should account for the above cost incurred on promoting such show?



**Question 25 – An entity**

An entity is developing a new production process. During 2011-2012, expenditure incurred was Rs.1,000, of which Rs.900 was incurred before March 1, 2012 and Rs.100

was incurred between March 1, 2012 and March 31, 2012. The entity is able to demonstrate that at March 1, 2012, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be Rs.500.

During 2012-2013, expenditure incurred is Rs.2,000. At the end of 2013, the recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be Rs.1,900.



#### Question 26 – T Ltd.

T Ltd. is engaged in developing computer software. The expenditures incurred by T Ltd. in pursuance of its development of software is given below:

- A. Paid Rs.2,00,000 towards salaries of the program designers.
- B. Incurred Rs.5,00,000 towards other cost of completion of program design.
- C. Incurred Rs.2,00,000 towards cost of coding and establishing technical feasibility.
- D. Paid Rs.7,00,000 for other direct cost after establishment of technical feasibility.
- E. Incurred Rs.2,00,000 towards other testing costs.
- F. A focus group of other software developers was invited to a conference for the introduction of this new software. Cost of the conference aggregated to Rs.70,000.
- G. On March 15, 20X1, the development phase was completed and a cash flow budget was prepared.

Net profit for the year was estimated to be equal Rs.40,00,000. How T Ltd. should account for the above mentioned cost?



#### Question 27 – A Ltd.

A Ltd. has started developing a new production process in financial year 2011-2012. Total expenditure incurred till September 30, 2013, was Rs.1,00,00,000. The expenditure on the development of the production process meets the recognition criteria on July 1, 2011. The records of A Ltd. show that, out of total Rs.1,00,00,000, Rs.70,00,000 were incurred during July to September, 2011. A Ltd. publishes its financial results quarterly. How A Ltd. should account for the development expenditure?



#### Question 28 – X Ltd.

X Ltd. decides to revalue its intangible assets on April 1, 2011. On the date of revaluation, the intangible assets stand at a cost of Rs.1,00,00,000 and accumulated amortization is Rs.40,00,000. The intangible assets are revalued at Rs.1,50,00,000. How should X Ltd. account for the revalued intangible assets in its books of account?



### Question 29 – XYZ

One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty four months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 20X5. This removed uncertainties concerning the project, which was finally completed on 20 April 20X6. Costs of Rs. 18,00,000, incurred during the year till 31st March 20X6, have been recognized as an intangible asset. An offer of Rs. 7,80,000 for the new developed technology has been received by potential buyer but it has been rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company Rs. 12,00,000 in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long term prospects of the new process and she is of the opinion that competitors would have developed new technology at some time which would require to replace the new process within four years. She estimates that the present value of future cost savings will be Rs. 9,60,000 over this period. After that, she thinks that there is no certainty about its future. What would be the appropriate accounting treatment of aforesaid issue?

Thanks ....

