UNIT 5 :
INDIAN ACCOUNTING STANDARD 38 : INTANGIBLE ASSETS

LEARNING OUTCOMES

After studying this unit, you will be able to

- State the scope of the standard
- Define and identify intangible assets by applying the criteria given in the standard
- Measure the intangible assets on initial recognition
- Analyse the principles of measurement under various modes of acquisition
- Apply the recognition and measurement principles on internally intangible assets
- Measure the intangible assets on subsequent recognition
- Interpret the concept of useful life of an intangible asset and its amortisation
- Examine the principles of de-recognition
- Produce the disclosures required in the standard

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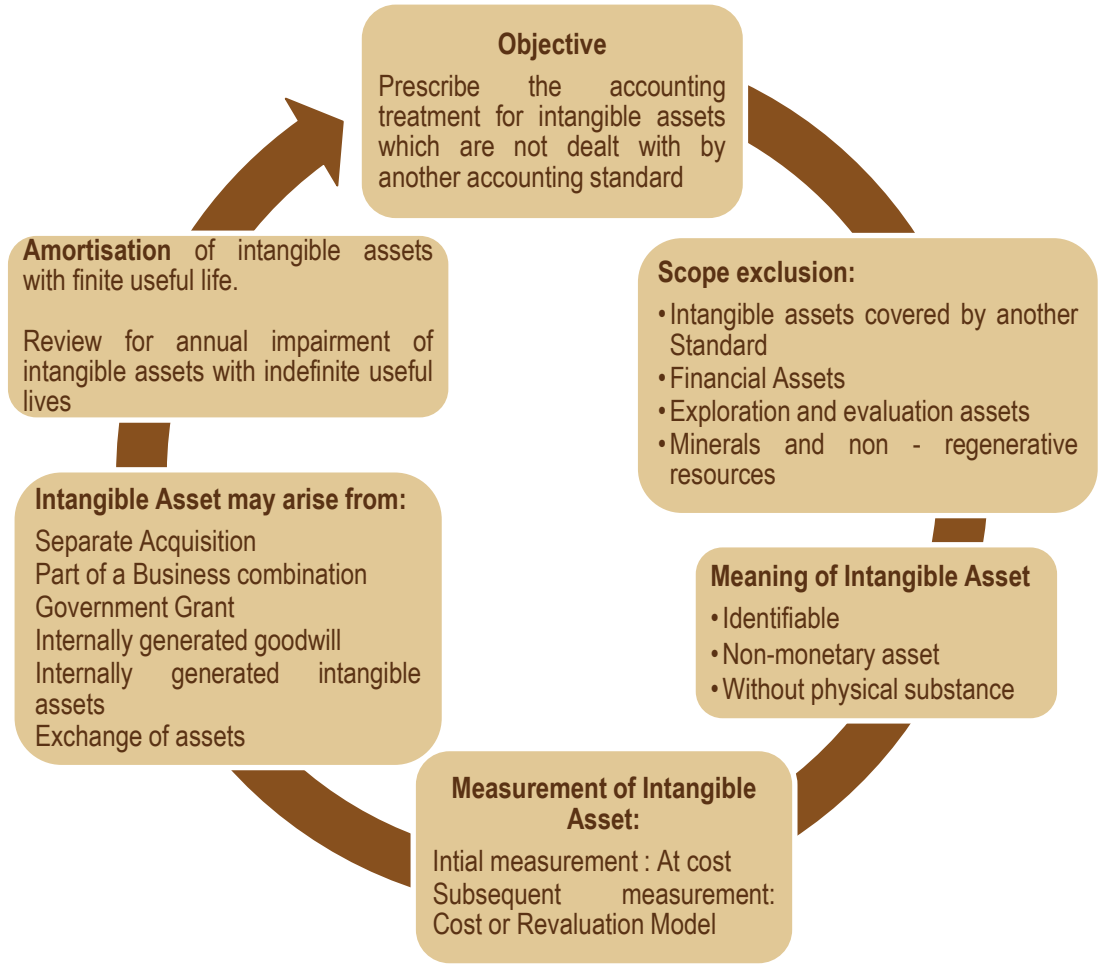
UNIT OVERVIEW



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5.1 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 recognize 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 but tested for impairment.

5.2 SCOPE

5.2.1 Applicability

This Standard shall be applied to all intangible assets, except:

(a) intangible assets that are within the scope of another Standard, for example:

- Intangible assets held for sale in the ordinary course of business (Ind AS 2)
- Deferred tax assets (Ind AS 12)
- Leases of intangibles assets (Ind AS 116)
- Assets arising from employee benefits (Ind AS 19)
- Financial assets (Ind AS 32)
- Goodwill arising in a business combination (Ind AS 103)
- ***Contracts as per Ind AS 117, Insurance Contracts, and any assets for insurance acquisition cash flows (Ind AS 117)***
- Non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) (Ind AS 105)
- Assets arising from contracts with customers (Ind AS 115)

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(b) financial assets, as defined in Ind AS 32, *Financial Instruments: Presentation*;

(c) the recognition and measurement of exploration and evaluation assets (see Ind AS 106, *Exploration for and Evaluation of Mineral Resources*); and

(d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

5.2.2 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 licence 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.

The standard is also applicable to expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (eg a prototype), the physical element of the asset is secondary to its intangible component, ie the knowledge embodied in it.

5.2.3 Intangible assets on leases

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 116 and are within the scope of this Standard.

5.2.4 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.

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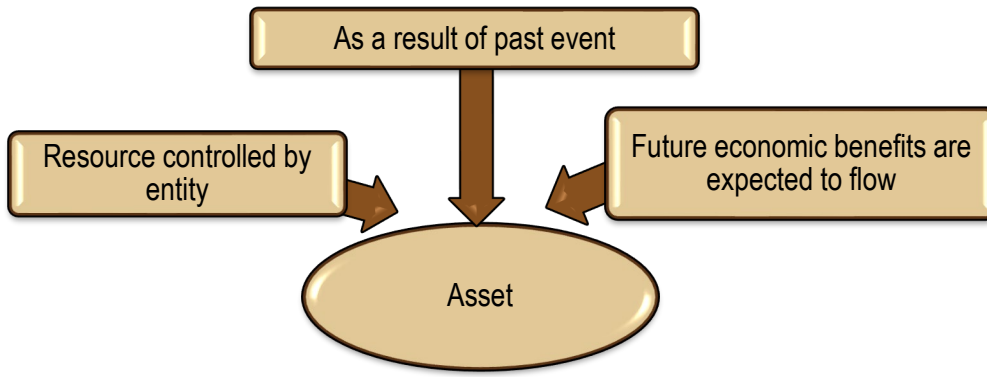
5.2.5 Amortisation method specified in this standard not to apply to intangible assets arising from service concession arrangements in respect of toll roads

The amortisation method specified in this Standard does not apply to an entity that opts to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognized in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period as per the optional exemption given in Ind AS 101, First-time Adoption of Indian Accounting Standards.

5.3 RELEVANT DEFINITIONS

The following are the key terms used in this standard:

- **Amortisation** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.
- An **asset*** is a resource:



(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity.

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* The definition of an asset in this Standard is not revised following the revision of the definition of an asset in the *Conceptual Framework for Financial Reporting under Indian Accounting Standards* issued in 2021 by the Institute of Chartered Accountants of India.

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- **Carrying amount** is the amount at which an asset is recognized in the balance sheet after deducting any accumulated amortisation and accumulated impairment losses thereon.
- **Cost** is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other Indian Accounting Standards, for e.g Ind AS 102, *Share-based Payment*.
- **Depreciable amount** is the cost of an asset, or other amount substituted for cost, less its residual value.
- **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.
- **Entity-specific value** is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.
- **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Ind AS 113, *Fair Value Measurement.*)
- An **impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.
- An **intangible asset** is an identifiable non-monetary asset without physical substance.
- **Monetary assets** are money held and assets to be received in fixed or determinable amounts of money.
- **Research** is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
- The **residual value** of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
- **Useful life** is:

  (a) the period over which an asset is expected to be available for use by an entity; or

  (b) the number of production or similar units expected to be obtained from the asset by an entity.

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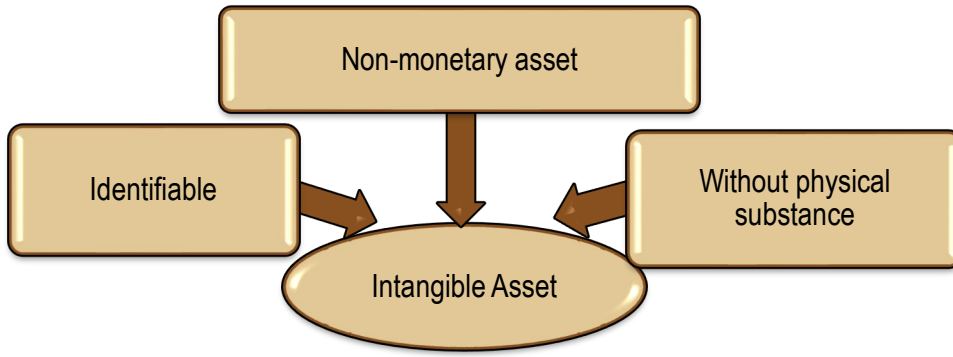
5.4 IDENTIFICATION OF INTANGIBLE ASSETS

5.4.1 Meaning of Intangible asset

An intangible asset is an identifiable non-monetary asset without physical substance. The key components of this definition are:

(i) Identifiability; and

(ii) Asset



Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as:

- Scientific or technical knowledge
- Design and implementation of new processes or systems
- Licenses
- Intellectual property
- Market knowledge and trademarks (including brand names and publishing titles).

Common examples of items encompassed by these broad headings are:

- Computer software
- Patents
- Copyrights

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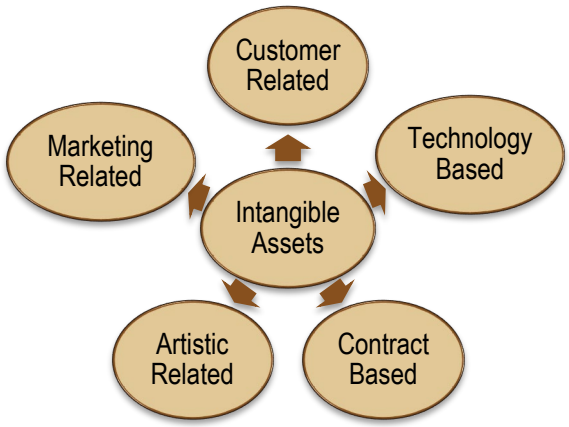
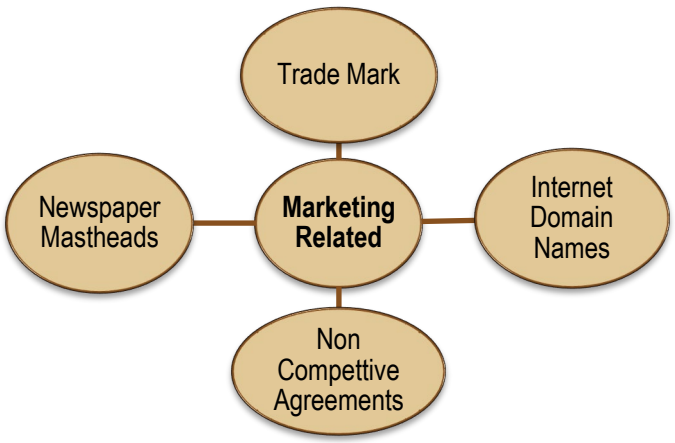
- Motion picture films
- Customer lists
- Mortgage servicing rights
- Fishing licences
- Import quotas
- Franchises
- Customer or supplier relationships
- Customer loyalty
- Market share and marketing rights.



Let's run through some examples of each broad category listed above:



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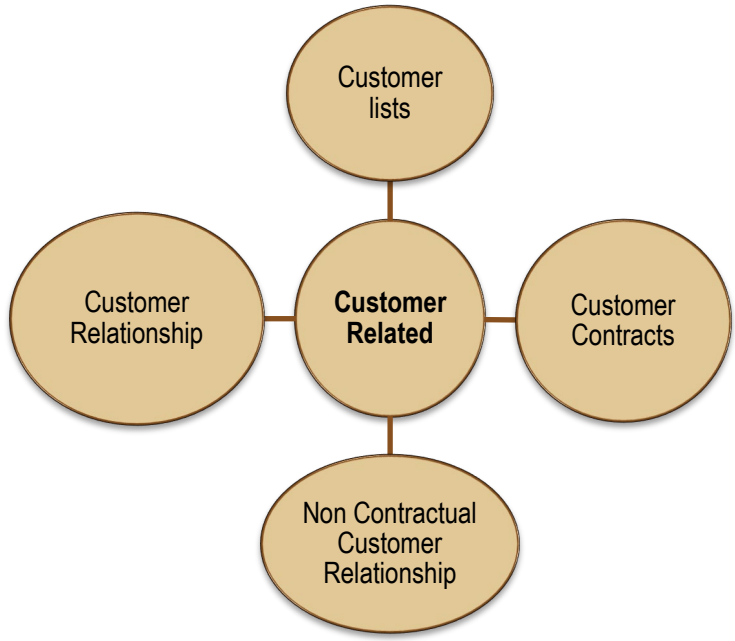

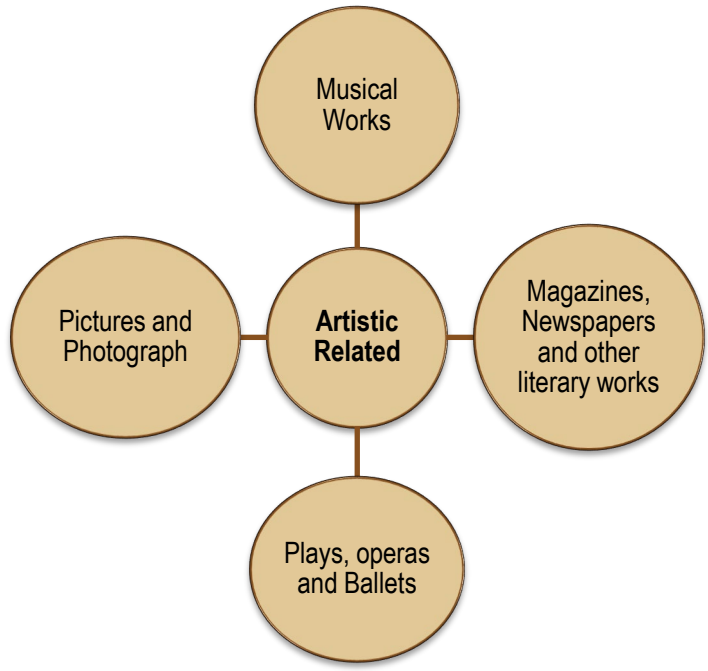

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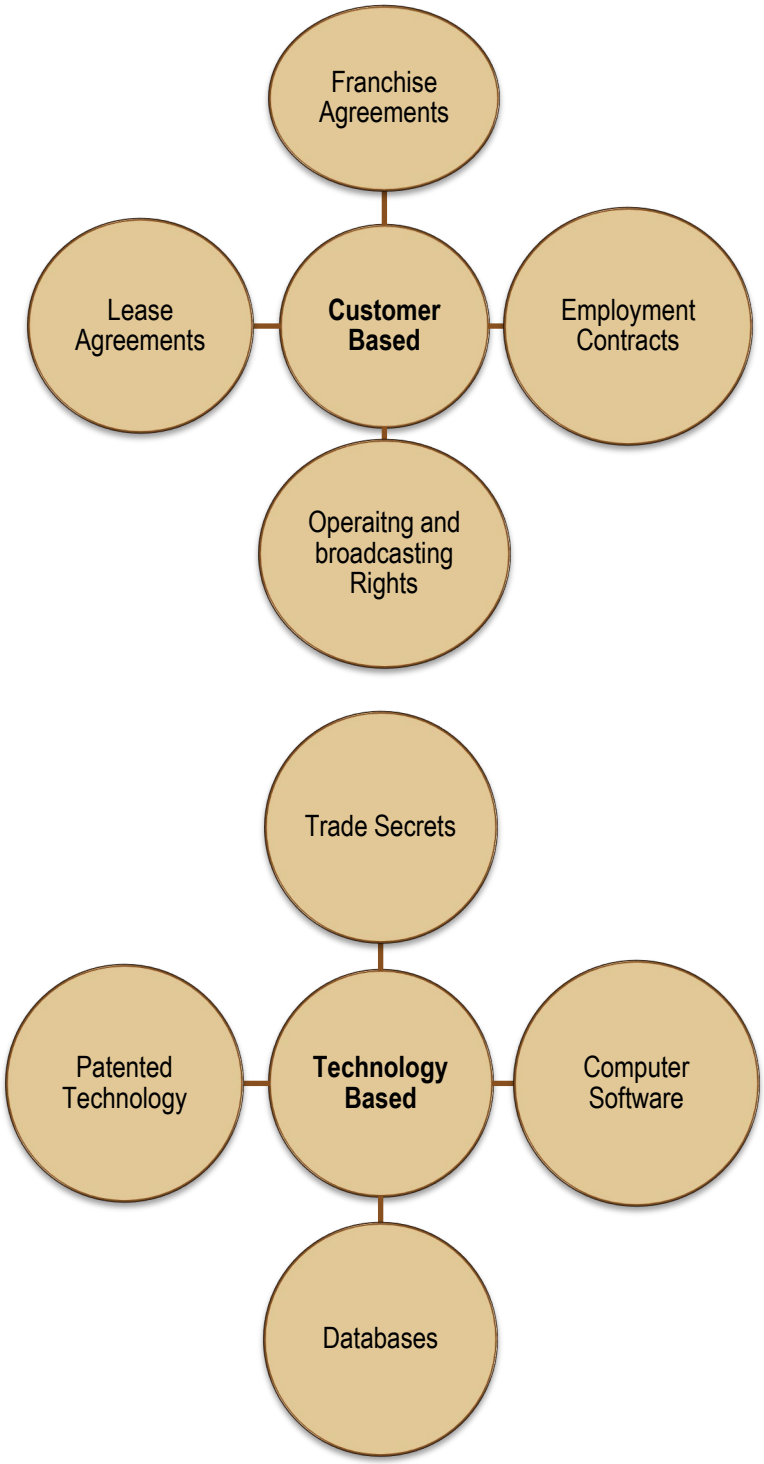

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Not necessarily all of the above items meet the conditions of recognizing as an Intangible Assets within purview of this standard:

- 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 recognized as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognized at the acquisition date.

Let us understand each concept one by one.

5.4.2 Identifiability

The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognized in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

An asset is identifiable if it either:

(a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Illustration 1: Identifiability

Sun Ltd. has an expertise in the consulting business. In years gone by, the Company gained a 30% market share for its services business and intends to recognize it as an intangible asset.

Evaluate whether the action taken by the company is justified.

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Solution

Market share does not meet the definition of intangible assets as is not identifiable i.e. it is neither separable and nor has arisen from contractual or legal rights.

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5.4.3 Asset

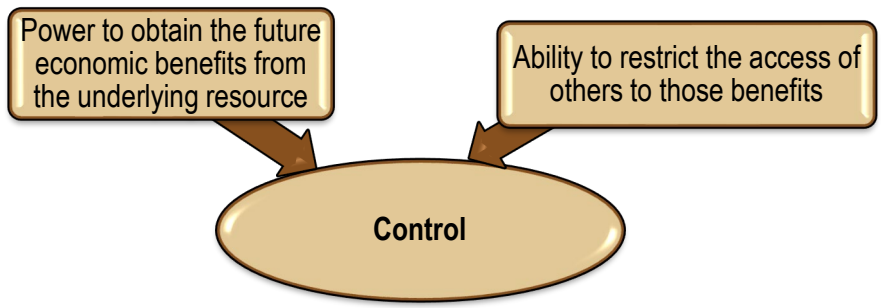
An asset is a resource:

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity.

5.4.3.1 Control

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.



In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary a condition for control because an entity may be able to control the future economic benefits in some other way.

Market and technical knowledge may give rise to future economic benefits. An entity controls those benefits if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality.

Example 1

An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to

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make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset.

For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

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. In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of a business combination) provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

Illustration 2 : Control

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. Discuss whether the company can recognize such cost of staff training as intangible asset.

Solution

It is clear that the company will obtain the economic benefits from the work performed by the staff as it increases their efficiency. But it does not have control over them because staff could choose to resign the company at any time.

Hence the company lacks the ability to restrict the access of others to those benefits. Therefore, the staff training cost does not meet the definition of an intangible asset.

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5.4.3.2 Future economic benefits

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

(a) Revenue from the sale of products or services;

(b) Cost savings; or

(c) Other benefits resulting from the use of the asset by the entity.

For example: The use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

Illustration 3: Identifiability of Intangible assets

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 ₹ 8,00,000 for advertisements before 31st March, 20X1. ₹ 7,00,000 of this sum relates to advertisements shown before 31st March, 20X1 and ₹ 1,00,000 to advertisements shown in April, 20X1. Since 31st March, 20X1, the Company has paid for further advertisements costing ₹ 4,00,000.

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.

Analyse the treatment of the above costs in the financial statements for the year ended 31st March, 20X1.

Solution

Under Ind AS 38 – *Intangible Assets* – intangible assets can only be recognized if they are **identifiable** and have a **cost** which can be reliably measured.

These criteria are very difficult to satisfy for internally developed intangibles.

For these reasons, Ind AS 38 specifically prohibits recognizing advertising expenditure as an intangible asset. The issue of how successful the store is likely to be does not affect this prohibition. Therefore, such costs should be recognized as expenses.

However, the costs would be recognized on accrual basis. Therefore, of the advertisements paid for before 31st March, 20X1, ₹ 7,00,000 would be recognized as an expense and ₹ 1,00,000 as a pre-payment in the year ended 31st March, 20X1. The cost of advertisements amounting ₹ 4,00,000 paid for since 31st March, 20X1 would be charged as expenses in the year ended 31st March, 20X2. Hence, in toto, prepayment of ₹ 5,00,000 (₹ 1,00,000 + ₹ 4,00,000) in the year 20X0 – 20X1 to be recognized as expenses in the year 20X1-20X2.

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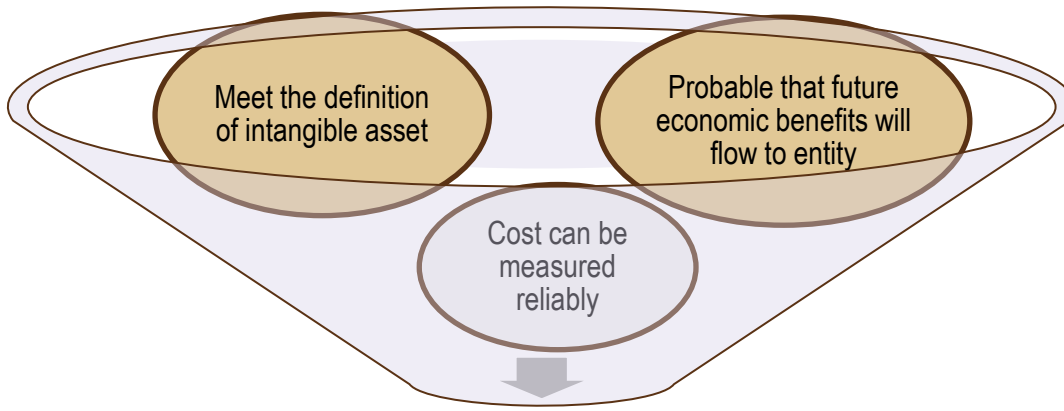
5.5 RECOGNITION OF INTANGIBLE ASSET

5.5.1 Recognition of Intangible assets – general principles

Provided that an item meets the definition of an intangible asset, it should be recognized in the financial statements if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.



Intangible Asset -Recognition Criteria

- **This requirement applies to:**

  (a) costs incurred initially to acquire or internally generate an intangible asset; and

  (b) those incurred subsequently to add to, replace part of, or service it.

- An entity should assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

- The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard.

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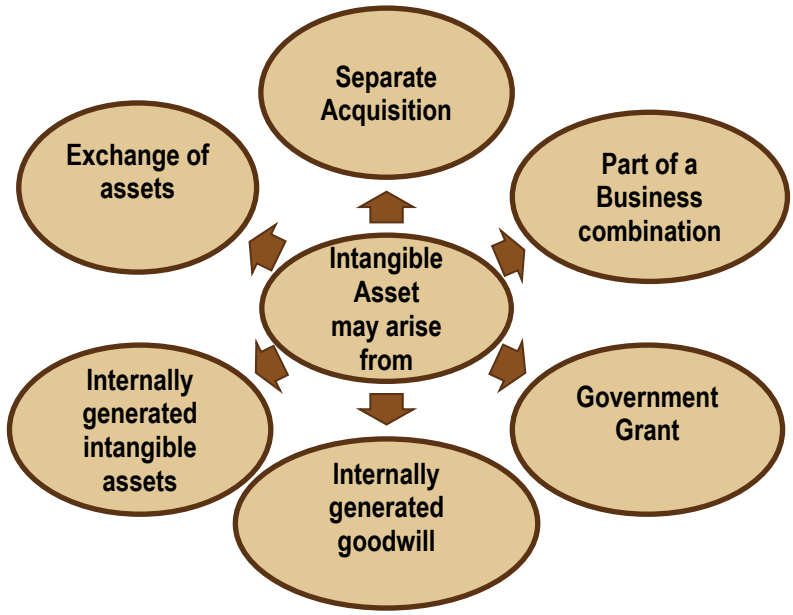
- In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole. Therefore, only rarely will subsequent expenditure — expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset — be recognized in the carrying amount of an asset.
- Subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally acquired or internally generated) is always recognized in profit or loss as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the business as a whole.

5.6 MEASUREMENT OF INTANGIBLE ASSET

An intangible asset should be measured initially at cost.

Intangible assets may be acquired or can be self-generated. The below diagram reflects the method and mode by which Intangible assets may arise:



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5.6.1 Separate acquisition

5.6.1.1 Recognition criteria for intangible assets acquired separately

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.

Therefore, the probability recognition criterion specified above is always considered to be satisfied for separately acquired intangible assets.

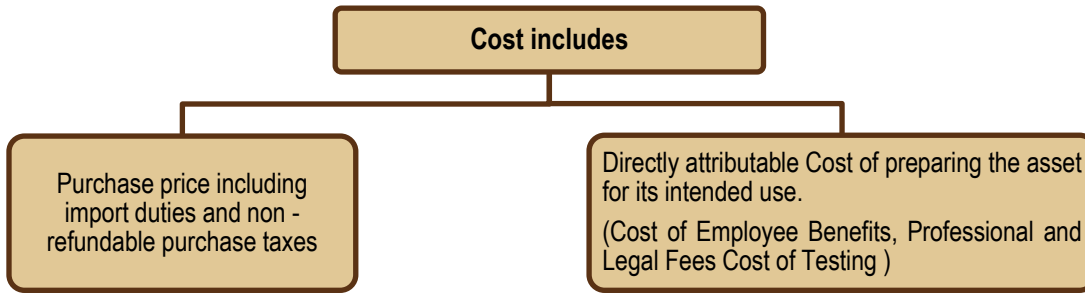
In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

5.6.1.2 Measurement of cost for intangible assets acquired separately

The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any directly attributable cost of preparing the asset for its intended use.



Examples of directly attributable costs are:

- Employee benefits cost (as defined in Ind AS 19) arising directly from bringing the asset to its working condition
- Professional Fees arising directly from bringing the asset to its working condition
- Costs of testing - whether the asset is working properly.

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Examples of expenditures that are not part of the cost of an intangible asset are:



Deferred Consideration

If payment for an intangible asset is deferred beyond normal credit terms, then cost of such Intangible asset is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalised in accordance with Ind AS 23, Borrowing Costs.

Cessation of capitalisation

Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

For example, the following costs are not included in the carrying amount of an intangible asset:

(a) costs incurred in using or redeploying an intangible asset;

(b) costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and

(c) initial operating losses, such as those incurred while demand for the asset's output builds up.

Example 2 - Separate Acquisition

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

	Costs incurred include	Cost to be capitalised as per Ind AS 38
Cost of new solar technology	10,00,000	10,00,000

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Trade discount provided	(1,00,000)	(1,00,000)
Training course for staff in new technology	50,000	-
Initial testing of new technology	35,000	35,000
Losses incurred while other parts of plant shut down during testing and training	25,000	-
Total	**10,10,000**	**9,35,000**

Illustration 4: Separate Acquisition

Venus India Private Ltd. acquired a software for its internal use costing ₹ 10,00,000. The amount payable for the software was ₹ 6,00,000 immediately and ₹ 4,00,000 in one year time. The other expenditure incurred were:

Purchase tax : ₹ 1,00,000

Entry Tax : 10% (recoverable later from tax department)

Legal fees: ₹ 87,000

Consultancy fees for implementation : ₹ 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.

Solution

Particulars	Amount in ₹
Cash paid	6,00,000
Deferred consideration (₹ 4,00,000 / 1.1)	3,63,636
Purchase Tax	1,00,000
Entry tax (not to be considered as it is a refundable tax)	-
Legal fees	87,000
Consultancy fees for implementation	1,20,000
Total cost to be capitalised	**12,70,636**

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5.6.2 Acquisition as part of a business combination

5.6.2.1 Recognition criteria for intangible assets acquired as part of a business combination

- In accordance with Ind AS 103, *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the 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. Therefore, the probability recognition criterion is always considered to be satisfied for intangible assets acquired in business combinations.
- An acquirer recognizes at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognized by the acquiree before the business combination.
- This means that the acquirer recognizes as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset. An acquiree's in-process research and development project meets the definition of an intangible asset when it:

  (a) meets the definition of an asset; and

  (b) is identifiable, ie is separable or arises from contractual or other legal rights.

Measuring fair value

- 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.
- When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities that uncertainty enters into the measurement of the asset's fair value.
- An intangible asset acquired in a business combination might be separable, but only together with a related contract, identifiable asset or liability. In such cases, the acquirer recognizes the intangible asset separately from goodwill, but together with the related item.

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- The acquirer may recognize a group of complementary intangible assets as a single asset provided the individual assets have similar useful lives. For example, the terms 'brand' and 'brand name' are often used as synonym for trademarks and other marks.

Illustration 5: Business Combination

On 31st March, 20X1, Earth India Ltd. paid ₹ 50,00,000 for a 100% interest in Sun India Ltd. At that date Sun Ltd.'s net assets had a fair value of ₹ 30,00,000. In addition, Sun Ltd. also held the following rights:

- *Trademark named "GRAND" – valued at ₹ 1,80,000 using a discounted cash flow technique.*
- *Sole distribution rights to an electronic product; future cash flows from which are estimated to be ₹ 1,50,000 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.

Solution

Particulars	Amount	Amount
Purchase consideration (A)		50,00,000
Net asset acquired	30,00,000	
Trademark	1,80,000	
Distribution rights (1,50,000 x 4.36)	6,54,000	
Total (B)		(38,34,000)
Goodwill on acquisition		11,66,000

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5.6.3 Acquisition by way of a government grant

An intangible asset may be acquired free of charge, or for nominal consideration, by way of a government grant. This may happen when a government transfers or allocates to an entity, intangible assets such as airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access other restricted resources.

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

If an entity chooses not to recognize the asset initially at fair value, the entity recognizes the asset initially at a nominal amount (the other treatment permitted by Ind AS 20) plus any expenditure that is directly attributable to preparing the asset for its intended use.

5.6.4 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. The cost of such an intangible asset is measured at fair value (even if an entity cannot immediately derecognize the asset given up) unless either:

(a) the exchange transaction lacks commercial substance; or

(b) the fair value of neither the asset received nor the asset given up is reliably measurable.

- If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
- An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

  (a) the configuration (ie risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

  (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

  (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

- No intangible asset can be recognized 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.

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- The fair value of an intangible asset is reliably measurable if:

  (a) the variability in the range of reasonable fair value measurements is not significant for that asset; or

  (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value.

Illustration 6: Exchange of Asset

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

Pass journal entries in the following situations in the books of Sun Ltd. and Earth Ltd.:

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

2) Fair value of software is not measurable. However, similar telecommunication license is transacted by another company at ₹ 4,90,000.

3) Neither fair value of software nor telecommunication license could be reliably measured.

Solution

		₹ in '000
Situation	**Sun Ltd.**	**Earth Ltd.**
1	Software Dr. 500 To Telecommunication license 500 To Profit on Exchange Nil	Telecommunication license Dr. 520 To Software 10 To Profit on Exchange 510
2	Software Dr. 490 Loss on Exchange Dr. 10 To Telecommunication license 500 **Note:** The company may first recognize Impairment loss and then record an entry. The effect is the same as impairment loss will also be charged to Income Statement.	Telecommunication license Dr. 490 To Software 10 To Profit on Exchange 480
3	Software Dr. 500 To Telecommunication license 500	Telecommunication license Dr. 10 To Software 10

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5.6.5 Internally generated goodwill

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

Internally generated goodwill is not recognized 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.

In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill.

Differences between the fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

5.6.6 Internally generated intangible assets

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

  (a) identifying whether and when there is an identifiable asset that will generate expected future economic benefits; and

  (b) 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:

  (a) a research phase; and

  (b) 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.

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Items that should not be recognized as internally generated intangible assets

This standard prohibits the recognition of internally generated goodwill as an asset. Some other internally generated items that are prohibited to be recognized as intangible assets are brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets.

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 recognized. Expenditure on research (or on the research phase of an internal project) should be recognized 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 recognized as an expense when it is incurred.
- Examples of research activities are:
  - (a) activities aimed at obtaining new knowledge;
  - (b) the search for, evaluation and final selection of, applications of research findings or other knowledge;
  - (c) the search for alternatives for materials, devices, products, processes, systems or services; and
  - (d) 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.

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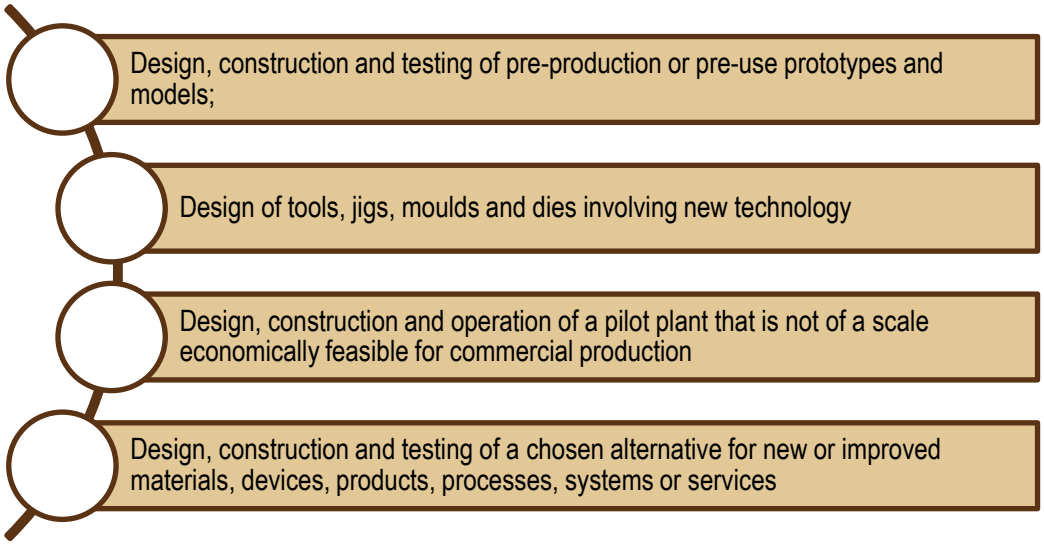
- **Examples of development activities are:**



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

- Technical feasibility of completion of Intangible asset to make it available for use or sale
- Intention to complete the intangible asset and use or sell it
- Ability to use or sell the intangible asset.
- 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.
- Adequate resources (like technical, financial or others) to complete the development.
- Ability to measure reliably the expenditure attributable to the intangible asset during its development.

- In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. This is because the development phase of a project is further advanced than the research phase.

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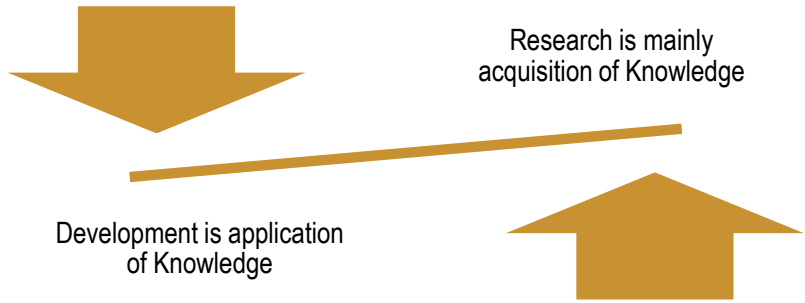
- To demonstrate how an intangible asset will generate probable future economic benefits, an entity assesses the future economic benefits to be received from the asset using the principles in Ind AS 36, *Impairment of Assets*. If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of cash-generating units in Ind AS 36.
- Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a business plan showing the technical, financial and other resources needed and the entity's ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender's indication of its willingness to fund the plan.
- An entity's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing copyrights or licences or developing computer software.



Cost of an internally generated asset

The cost of an internally generated intangible asset for the purpose of initial measurement at recognition is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria including the additional criteria specified above.

Cost -Inclusions

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.

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Examples of directly attributable costs are:

- Costs of materials and services used or consumed in generating the intangible asset
- Costs of employee benefits (as defined in Ind AS 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

The specific guidance is given for borrowing costs to be capitalized as part of the cost of a self-generated intangible asset.

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

Cost - Exclusions

The following are not components of the cost of an internally generated intangible asset:

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

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

(c) expenditure on training staff to operate the asset.

Illustration 7

Venus Ltd. is preparing its accounts for the year ended 31st March, 20X2 and is unsure how to treat the following items.

1. *Company has completed a big marketing and advertising campaign costing ₹ 2,40,000. The finance director had authorised this campaign on the basis that it would create ₹ 5,00,000 of additional profits over the next three years.*
2. *A new product was developed during the year. The expenditure aggregated ₹ 1,50,000 of which ₹ 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 ₹ 70,000.*

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3. *Staff participated in a training programme which cost the company ₹ 3,00,000. 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 ₹ 5,00,000.*

What amounts should appear as assets in Venus Ltd.'s balance sheet as at 31st March, 20X2?

Solution

The treatment in Venus Ltd.'s balance sheet as at 31st March, 20X2 will be as follows:

1. **Marketing and advertising campaign:** no asset will be recognized because it is not possible to identify future economic benefits that are attributable only to this campaign. All of the expenditure should be expensed in the statement of profit and loss account.

2. **New product:** development expenditure appearing in the statement of financial position will be valued at ₹ 50,000. The expenditure prior to the date on which the product becomes technically feasible is recognized in the statement of profit and loss account as an expense.

3. **Training programme**: no intangible asset will be recognized, because staff are not under the control of Venus Ltd. and when staff leave the benefits of the training, whatever they may be, also leave.

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Illustration 8 : Development Phase

Expenditure on a new production process in 20X1-20X2:

	₹
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, 20X2. The amount estimated to be recoverable from the process is ₹ 1,000.

Expenditure incurred for development of the process in financial year 20X2-20X3 is ₹ 6,000. Asset was brought into use on 31st March, 20X3 and is expected to be useful for 6 years.

What is the carrying amount of the intangible asset at 31st March, 20X2 and 31st March, 20X3. Also determine the charge to profit or loss for 20X1-20X2?

At 31st March, 20X4, the amount estimated to be recoverable from the process is ₹ 5,000.

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Determine the carrying amount of the intangible asset at 31st March, 20X4 and the charge to profit or loss for 20X3-20X4 on account of impairment loss.

Solution

1)	**Expenditure to be transferred to profit or loss in 20X1-20X2**	₹
	Total Expenditure	3,600
	Less: Expenditure during development phase	(900)
	Expenditure to be transferred to profit or loss	2,700
2)	**Carrying amount of intangible asset on 31st March, 20X2**	
	Expenditure during development phase will be capitalised	₹ 900
	(Recoverable amount is higher being ₹ 1,000, hence no impairment)	
3)	**Carrying amount of intangible asset on 31st March, 20X3**	
	Carrying amount of intangible asset on 31st March, 20X2	₹ 900
	Add: Further expenditure during development phase	6,000
	Total capital expenditure on development phase	6,900
4)	**Expenditure to be charged to profit or loss in 20X3-20X4**	
	Opening balance of Intangible Asset	6,900
	Less: Amortisation for the year (6,900 / 6)	(1,150)
	Carrying amount of intangible asset	5,750
	Less: Recoverable amount	(5,000)
	Amount charged to profit or loss (Impairment Loss)	750
5)	**Carrying Amount of Intangible Asset on 31st March, 20X4**	
	Value of intangible asset will be recoverable amount i.e. ₹ 5,000	

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5.7. RECOGNITION OF AN EXPENSE

- Expenditure on an intangible item should be recognized as an expense when it is incurred unless:

  (a) it forms part of the cost of an intangible asset that meets the recognition criteria; or

  (b) the item is acquired in a business combination and cannot be recognized as an intangible asset. In such case, it forms part of the amount recognized as goodwill at the acquisition date.

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

  (a) expenditure on research (except when it is acquired as part of a business combination);

  (b) expenditure on start-up activities (ie 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. Start-up costs may consist of:

    (i) establishment costs such as legal and secretarial costs incurred in establishing a legal entity;

    (ii) expenditure to open a new facility or business (ie pre-opening costs);

    (iii) expenditures for starting new operations or launching new products or processes (ie pre-operating costs);

  (c) expenditure on training activities;

  (d) expenditure on advertising and promotional activities (including mail order catalogues); and

  (e) expenditure on relocating or reorganizing part or all of an entity.

- More generally, if expenditure does not give rise to an intangible asset:

  (a) for the supply of goods, an expense is recognized when the entity has a right to access those goods. An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment.

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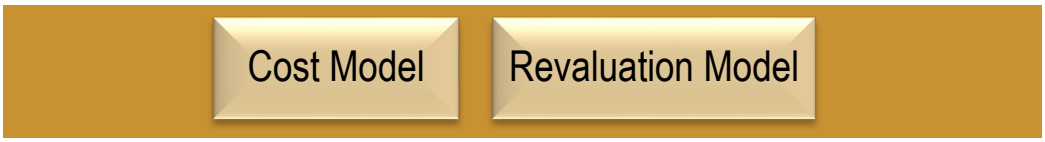
(b) for a supply of services, the entity recognizes the expenditure as an expense when it receives the services. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver an advertisement to customers.

- This does not preclude an entity from recognizing a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods or in advance of the entity receiving those services.
- Expenditure on an intangible item that was initially recognized as an expense should not be recognized as part of the cost of an intangible asset at a later date.

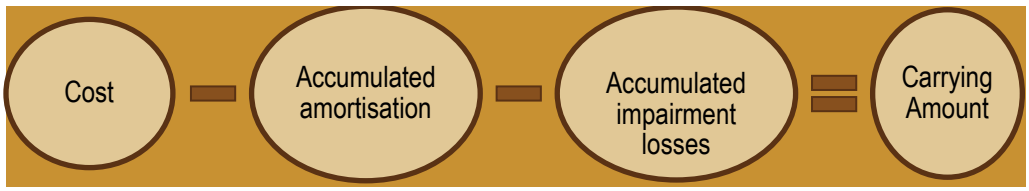
5.8 MEASUREMENT AFTER RECOGNITION

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



5.8.1 Cost model

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.



5.8.2 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.

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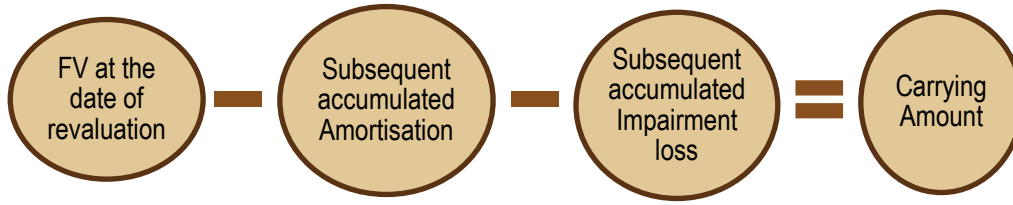

- For the purpose of revaluations under this Standard, fair value is measured by reference to an active market.
- The revaluation model does not allow:
  (a) the revaluation of intangible assets that have not previously been recognized as assets; or
  (b) the initial recognition of intangible assets at amounts other than cost.
- The revaluation model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process, the revaluation model may be applied to the whole of that asset.
- Also, the revaluation model may be applied to an intangible asset that was received by way of a Government grant and recognized at a nominal amount.

Frequency of revaluations

- 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.
- The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revalued. If the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary.
- 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

- 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.
- 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.

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- A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations.
- If the fair value of a revalued intangible asset can no longer be measured by reference to an active market, the carrying amount of the asset is its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.
- The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with Ind AS 36. If the fair value of the asset can be measured by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

Accumulated amortisation at the date of revaluation

- When an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

  (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated amortisation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

  (b) the accumulated amortisation is eliminated against the gross carrying amount of the asset.

Treatment of surplus or deficit arising on revaluation

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

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- The cumulative revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realised. The whole surplus may be realised on the retirement or disposal of the asset. Some realisation of the revaluation surplus may occur, however, through the use of the intangible asset.
- The amount of the surplus realised is the difference between amortisation based on the revalued carrying amount of the asset and amortisation that would have been recognized based on the asset's historical cost. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

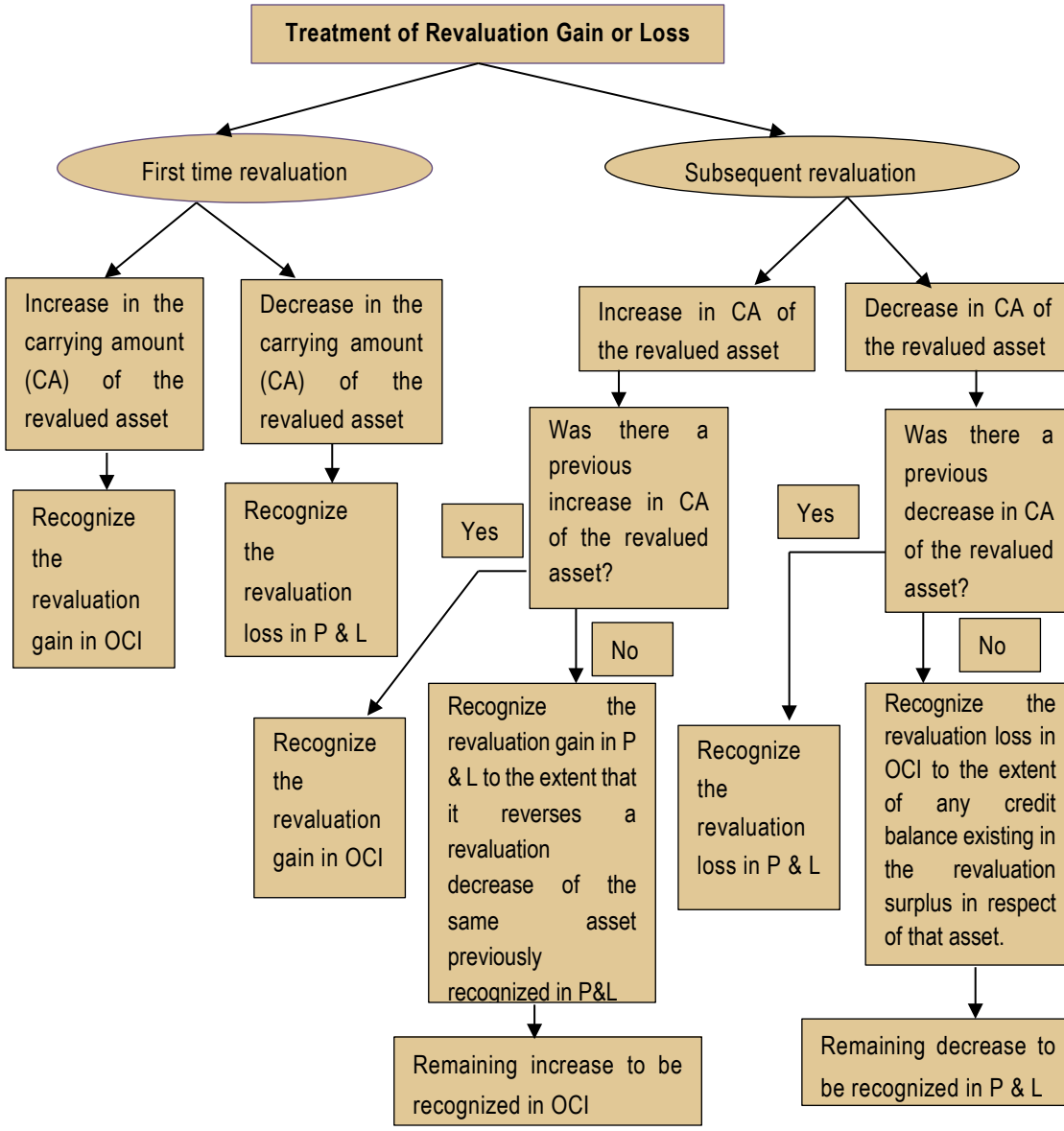

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Illustration 9 : Revaluation Model

1. *Saturn Ltd. acquired an intangible asset on 31st March, 20X1 for ₹ 1,00,000. The asset was revalued at ₹ 1,20,000 on 31st March, 20X2 and ₹ 85,000 on 31st March, 20X3.*

2. *Jupiter Ltd. acquired an intangible asset on 31st March, 20X1 for ₹ 1,00,000. The asset was revalued at ₹ 85,000 on 31st March, 20X2 and at ₹ 1,05,000 on 31st March, 20X3.*

For both the companies, the year ends on 31st March, and they both use the revaluation model.

Recommend how each of these transactions should be dealt with in the financial statements. Discuss the treatment for revaluation of intangible asset. Ignore computation of amortization on them for ease of understanding.

Solution

Saturn Ltd.

₹ 20,000 revaluation increase on 31st March, 20X2 should be credited to the revaluation reserve and recognized in other comprehensive income. ₹ 20,000 of the revaluation decrease on 31st March, 20X3 should be debited to revaluation reserve and remaining ₹ 15,000 should be recognized as an expense.

Jupiter Ltd.

₹ 15,000 revaluation decrease on 31st March, 20X2 should be recognized as an expense in the Statement of Profit and loss. ₹ 15,000 out of the ₹ 20,000 increase on 31st March, 20X3 should be recognized as income. The remaining ₹ 5,000 should be credited to revaluation reserve and recognized in other comprehensive income.

Note: The above amount will be different if amortization of intangible asset is taken into consideration.

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5.9 USEFUL 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.

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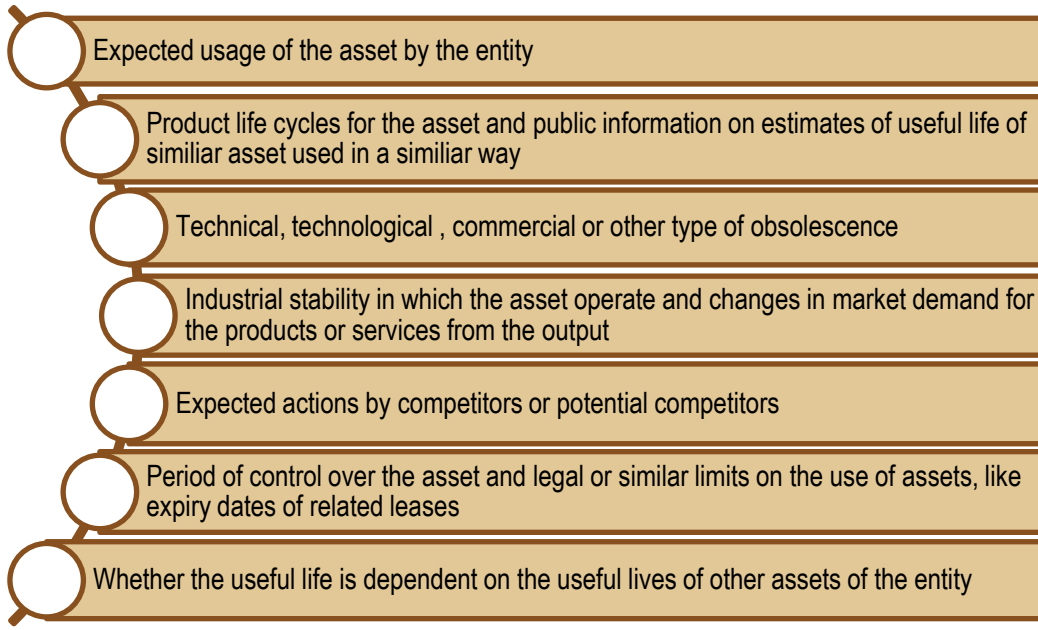
Finite or indefinite useful life

- Entities are required to assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life.
- An intangible asset should be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Factors for consideration in determining useful life

- Many factors are considered in determining the useful life of an intangible asset, including:



- The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the entity's ability and intention to reach such a level.
- A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.
- This standard notes that, given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore,

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it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

- The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.

Intangible asset arising from contractual or other legal rights

- The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights but may be shorter depending on the period over which the entity expects to use the asset.
- If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.
- Existence of the following factors, among others, indicates that an entity would be able to renew the contractual or other legal rights without significant cost:

  (a) there is evidence, possibly based on experience, that the contractual or other legal rights will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;

  (b) there is evidence that any conditions necessary to obtain renewal will be satisfied; and

  (c) the cost to the entity of renewal is not significant when compared with the future economic benefits expected to flow to the entity from renewal.

- If the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, the 'renewal' cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.
- The useful life of a reacquired right recognized as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.

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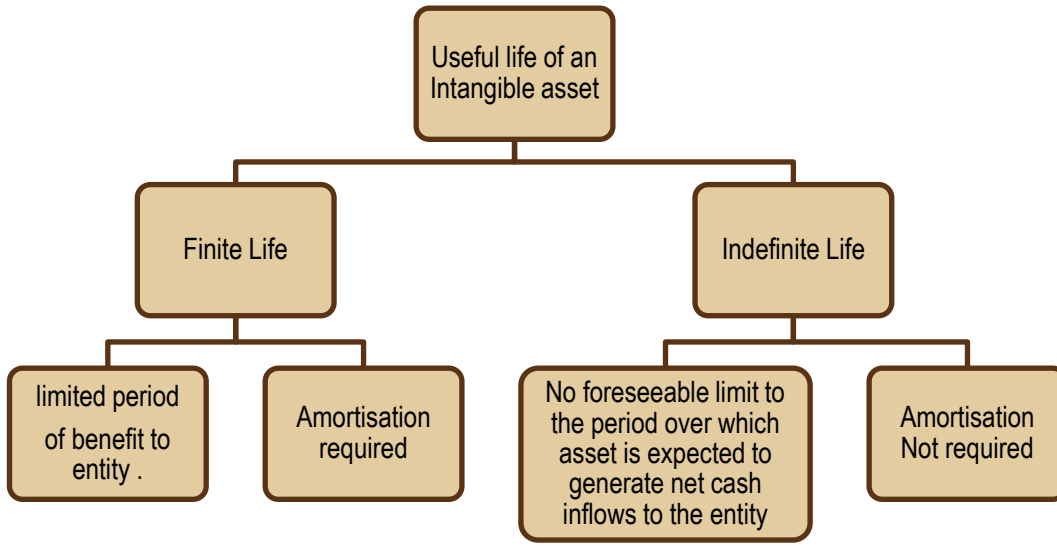

5.10 INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

5.10.1 Depreciable amount to be amortised over the asset's useful life

- 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.
- Amortisation is usually recognized in profit or loss. However, sometimes the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see Ind AS 2, *Inventories*).

5.10.2 Residual Value

- The residual value of an intangible asset with a finite useful life 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 (as defined in Ind AS 113) for the asset and:

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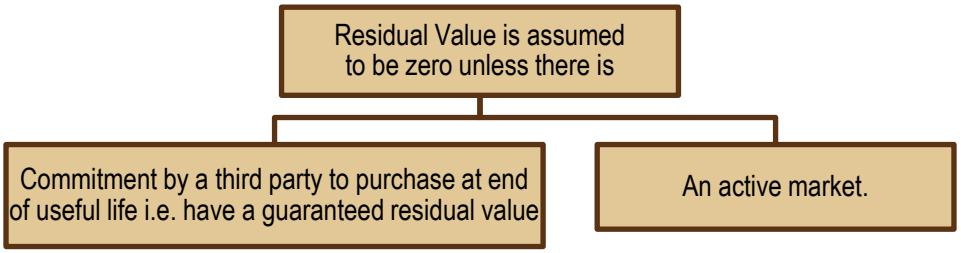
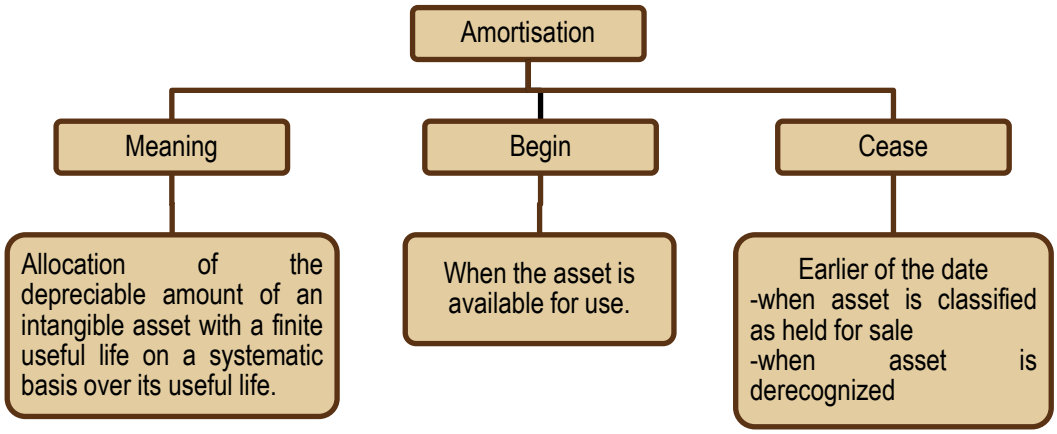
(i) residual value can be determined by reference to that market; and

(ii) it is probable that such a market will exist at the end of the asset's useful life.



- The residual value is reviewed at least at each financial year-end. An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used.
- A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.
- The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

5.10.3 Amortisation period



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Commencement of amortisation

Amortisation commences from the date when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Cessation of amortisation

Amortisation ceases at the earlier of:

(a) the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105; and

(b) the date that the asset is derecognized.

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

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 amortisation period should be changed accordingly. Such change is accounted for as a change in accounting estimates in accordance with Ind AS 8.

5.10.4 Amortisation 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.

In choosing an appropriate amortisation method, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (i.e. time), as a number of units produced or as a fixed total amount of revenue to be generated.

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Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortisation, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits.

The amortisation method for an intangible asset with a finite useful life should be reviewed at least at each financial year-end. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method should be changed to reflect the changed pattern. Such change is accounted for as a change in accounting estimates in accordance with Ind AS 8.

Amortisation method based on revenue

There is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate.

The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits embodied in the intangible asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

This presumption can be overcome only in the limited circumstances:

(a) in which the intangible asset is expressed as a measure of revenue, as described in paragraph 98C; or

(b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract might be based on a fixed amount of total revenue to be generated from the extraction (for example, a contract may allow the extraction of gold from the mine until total cumulative revenue from the sale of gold reaches ₹ 2 billion) and not be based on time or on the amount of gold extracted.

In another example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged (for example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches ₹ 100 lakh). In the case in which revenue has been established as the predominant limiting factor in the contract

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for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortising the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined.

Example 3 - 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 4 - 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 5 - 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.

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Example 6 - 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 7 - The broadcasting licence in Example 6

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 8 - 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.

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Since 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 9 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 provide 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 10- 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 recognized. Since 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.

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Example 11 - 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.

Since 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.

5.11 INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

- An intangible asset with an indefinite useful life should not be amortised.
- 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.
- 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 recognizing any excess of the carrying amount over the recoverable amount as an impairment loss.

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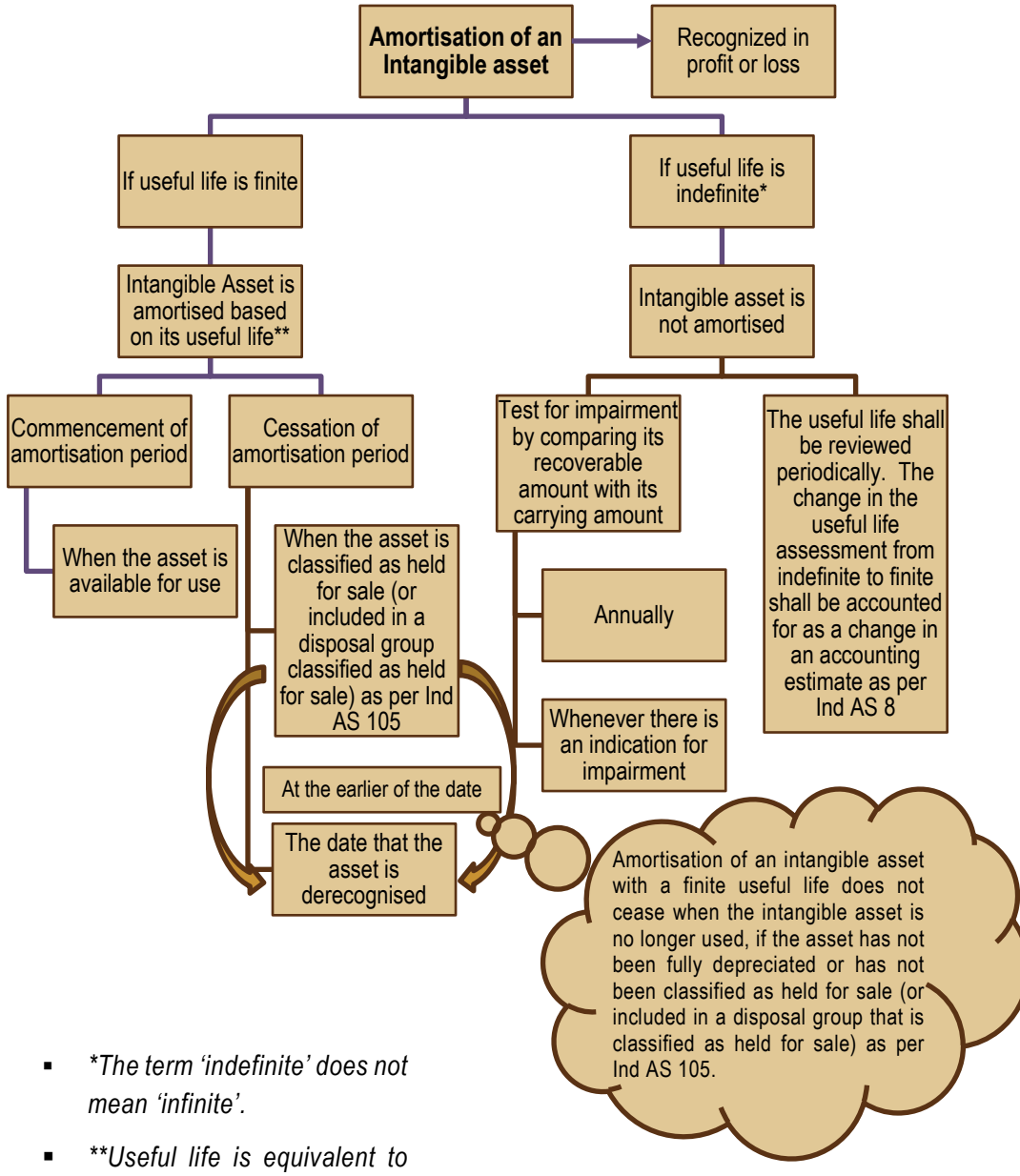

- **The term 'indefinite' does not mean 'infinite'.*
- ***Useful life is equivalent to the length of, or number of production or similar units*

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5.12 IMPAIRMENT

- 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 recognizes or reverses an impairment loss.
- For an intangible asset with indefinite useful lives, an impairment review is required at least annually.

5.13 RETIREMENTS AND DISPOSALS

- An intangible asset should be derecognized:

  (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).
- 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 recognized in profit or loss when the asset is derecognized (unless Ind AS 116 requires otherwise on a sale and leaseback). Gains should not be classified as revenue.
- If in accordance with the recognition principle an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognizes the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.
- The date of disposal of an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a performance obligation is satisfied as per Ind AS 115. Ind AS 116 applies to disposal by a sale and leaseback.

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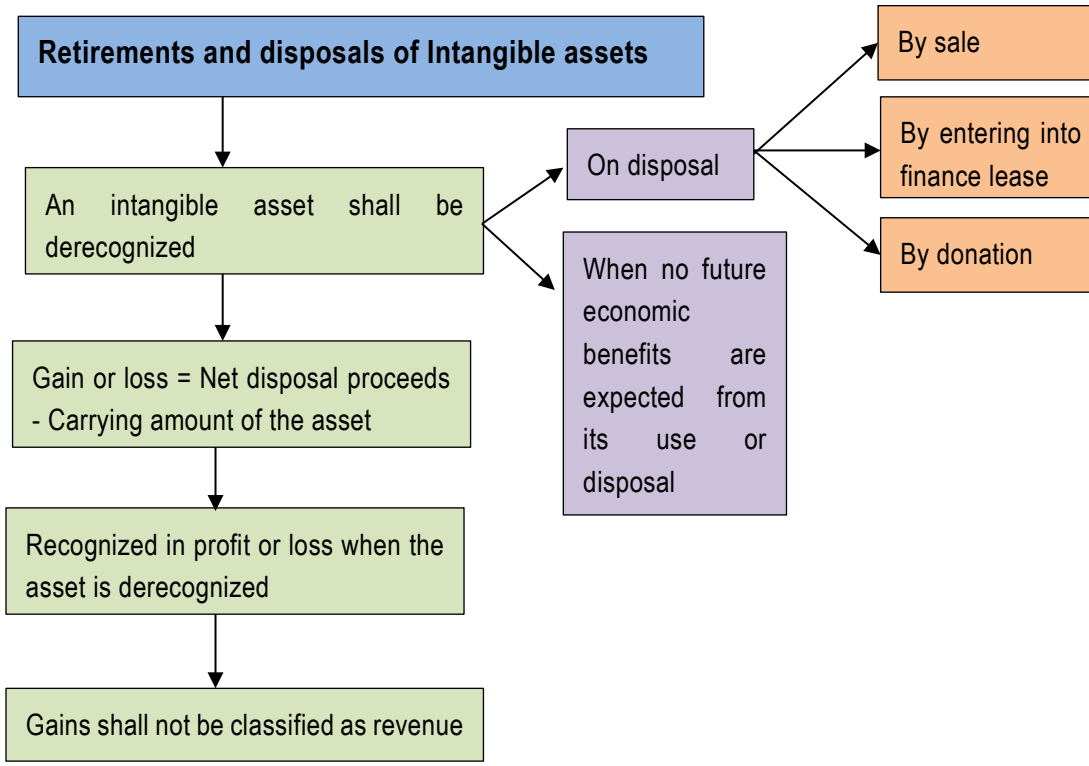
- In the case of a reacquired right in a business combination, if the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, should be used in determining the gain or loss on reissue.
- The amount of consideration to be included in the gain or loss arising from the derecognition of an intangible asset is determined in accordance with the requirements for determining the transaction price (as per Ind AS 115). Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction price in Ind AS 115.



5.14 DISCLOSURE

1) Disclosure – general

An entity should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

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(a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;

(b) the amortisation methods used for intangible assets with finite useful lives;

(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) the line item(s) of the statement of profit and loss in which any amortisation of intangible assets is included; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;

(iii) increases or decreases during the period resulting from revaluations and from impairment losses recognized or reversed in other comprehensive income;

(iv) impairment losses recognized in profit or loss during the period;

(v) impairment losses reversed in profit or loss during the period;

(vi) any amortisation recognized during the period;

(vii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

(viii) other changes in the carrying amount during the period.

2) Intangible assets having an indefinite useful life

For an intangible asset assessed as having an indefinite useful life, financial statement should disclose the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.

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3) Intangible assets that are individually material

Financial statement should disclose a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements.

4) Intangible assets acquired by way of government grant

For intangible assets acquired by way of a government grant and initially recognized at fair value, the financial statement should disclose:

(a) the fair value initially recognized for these assets;

(b) their carrying amount; and

(c) whether they are measured after recognition under the cost model or the revaluation model.

5) Title restrictions and capital commitments

The financial statement should also disclose:

the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities and the amount of contractual commitments for the acquisition of intangible assets.

6) Intangible assets carried at revalued amounts

If intangible assets are accounted for at revalued amounts, an entity should disclose the following:

(a) by class of intangible assets:

  (i) the effective date of the revaluation;

  (ii) the carrying amount of revalued intangible assets; and

  (iii) the carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model; and

(b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders.

If necessary, it is acceptable to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the

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combination of a class of intangible assets that includes amounts measured under both the cost and revaluation models.

7) Research and development expenditure

An entity should disclose the aggregate amount of research and development expenditure recognized as an expense during the period.

8) Other information

An entity is encouraged, but not required, to disclose the following information:

(a) a description of any fully amortised intangible asset that is still in use; and

(b) a brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before this standard was effective.

Illustration 10

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 ₹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.

Advise how X Limited will amortise the technical know-how fees as per Ind AS 38.

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Solution

Based on the above data, it may be suitable for X Ltd. to use unit of production method for amortisation of technical know-how.

The total estimated unit to be produced 4,50,00 MT. The technical know-how will be amortised on the basis of the ratio of yearly production to total production.

The first-year charge should be a proportion of 50,000 / 4,50,000 on ₹ 10,00,00,000

= ₹ 1,11,11,111.

At the end of 2nd year, as per revised estimate the total number of units to be produced in future are 3,70,000 MT (i.e. 65,000 + 85,000 + 1,05,000 + 1,15,000).

The amortisation for second year will be 65,000 / 3,70,000 on (10,00,00,000 – 1,11,11,111)

ie 1,56,15,615.

Amortisation for remaining years (unless the estimates are again revised):

Year 3 = 85,000 / 3,70,000 on (10,00,00,000 – 1,11,11,111) ie. ₹ 2,04,20,420

Year 4 = 1,05,000 / 3,70,000 on (10,00,00,000 – 1,11,11,111) ie. ₹ 2,52,25,225

Year 5 = 1,15,000 / 3,70,000 on (10,00,00,000 – 1,11,11,111) ie. ₹ 2,76,27,628

*****

Illustration 11

X Ltd. purchased a patent right on 1st April, 20X1, for ₹ 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 1st April, 20X2, 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 ₹ 1,50,000 and decides to amortise over 2 years. As at 1st April, 20X3, having perfected the related production process, the asset is now appraised at a value of ₹ 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.

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Solution

Value as on 31st March, 20X2

Original cost	₹ 3,00,000
Less: Amortisation (3,00,000 x 1/5)	(₹ 60,000)
Net Value	₹ 2,40,000

Value as on 31st March, 20X3

On 1st April, 20X2, the downward revaluation is recorded by writing down the asset to the estimated value of ₹ 1,50,000, which necessitates a ₹ 90,000 charge to profit & loss (carrying value, ₹ 2,40,000 less fair value ₹ 1,50,000).

Amortisation provided for the financial year 20X2-20X3 is ₹ 75,000 (₹ 1,50,000/2)

Net value is = ₹ 1,50,000 – ₹ 75,000 = ₹ 75,000.

Value as on 31st March, 20X4

As of 1st April, 20X3, the carrying value of the patent is ₹ 75,000.

Revalued amount of patent is ₹ 3,00,000.

Out of total revaluation gain of ₹ 2,25,000, ₹ 90,000 will be charged to profit & loss and balance amount of ₹ 1,35,000 (₹ 2,25,000 – ₹ 90,000) will be credited to revaluation reserve in OCI.

Amortisation provided for the financial year 20X3-20X4 is ₹ 75,000 (₹ 3,00,000 / 4)

Net value is = ₹ 3,00,000 – ₹ 75,000 = ₹ 2,25,000.

Similarly, Value as on March 31, 20X5 = ₹ 2,25,000 – ₹ 75,000 = ₹ 1,50,000

Value as on March 31, 20X6 = ₹1,50,000 – ₹ 75,000 = ₹ 75,000

Value as on March 31, 20X7 = ₹ 75,000 – ₹ 75,000 = Nil

*****

Illustration 12

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 ₹ 1,00,00,000 at the start of the year. Production commenced immediately.*

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2. Also purchased another company at the start of year. As part of that acquisition, X Pharmacy Ltd. acquired a brand with a fair value of ₹ 3,00,00,000 based on sales revenue. The life of the brand is estimated at 15 years.

3. Spent ₹ 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 ₹ 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 31st March, 20X1 is ₹ 5,00,00,000.

Balance cost incurred during the financial year 20X1-20X2 is ₹ 5,00,00,000.

5. It has also commenced developing another drug 'Drug B'. It has incurred ₹ 50,00,000 towards research expenses till 31st March, 20X2. The technological feasibility has not yet been established.

Advise how the above transactions will be accounted for in the books of account of X Pharmaceutical Ltd.

Solution

X Pharmaceutical Ltd. is advised as under:

1. It should recognize the drug license as an intangible asset because it is a separate external purchase, separately identifiable asset and considered successful in respect of feasibility and probable future cash inflows.

   The drug license should be recorded at ₹ 1,00,00,000.

2. It should recognize the brand as an intangible asset because it is purchased as part of acquisition and it is separately identifiable. The brand should be amortised over a period of 15 years.

   The brand will be recorded at ₹ 3,00,00,000.

3. The advertisement expenses of ₹ 1,00,00,000 should be expensed off.

4. The development cost incurred during the financial year 20X1-20X2 should be capitalised.

   Cost of intangible asset (Drug A) as on 31st March, 20X2

   Opening cost ₹ 5,00,00,000

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Development cost	₹ 5,00,00,000
Total cost	₹ 10,00,00,000

5. Research expenses of ₹ 50,00,000 incurred for developing 'Drug B' should be expensed off since technological feasibility has not yet established.

*****

5.15 EXTRACTS OF FINANCIAL STATEMENTS OF LISTED ENTITY

Following is the extract from the financial statements of the listed entity 'Reliance Industries Limited' for the financial year 2021-2022 with respect to Intangible assets and Intangible assets under development and accounting policy with respect to Intangible assets.

Balance Sheet

As at 31st March, 2022

(₹ in crore)

	Notes	As at 31st March 2022	As at 31st March 2021
Assets			
Non-Current Assets			
Property, Plant and Equipment	1	2,23,824	2,92,092
Capital Work-in-Progress	1	19,267	20,765
Intangible Assets	1	15,802	14,741
Intangible Assets Under Development	1	15,395	12,070
Financial Assets			
Investments	2	3,30,493	2,52,620
Loans	3	41,951	64,073
Other Financial Assets	4	2,247	1,625
Other Non-Current Assets	5	7,297	4,968
Total Non-Current Assets		6,56,276	6,62,954

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1. Property, Plant & Equipment, Capital Work-In-Progress, Intangible Assets and Intangible Assets under Development

(₹ in crore)

Description	Gross Block				Depreciation / Amortisation and Depletion				Net Block	
	As at 01-04-2021	Additions / Adjustments	Deductions / Adjustments^	As at 31-03-2022	As at 01-04-2021	For the Year #	Deductions / Adjustments^	As at 31-03-2022	As at 31-03-2022	As at 31-03-2021
Property, Plant and Equipment										
Own Assets:										
Land	38,968	38	45	**38,961**	-	-	-	**-**	**38,961**	38,968
Buildings	19,600	1,198	4	**20,794**	7,756	751	1	**8,506**	**12,288**	11,844
Plant & Machinery	3,26,321	8,546	72,630	**2,62,237**	1,13,275	5,164	3,413	**1,15,026**	**1,47,211**	2,13,046
Electrical Installations	10,186	439	3,102	**7,523**	4,336	695	624	**4,407**	**3,116**	5,850
Equipments $	5,246	907	103	**6,050**	3,358	580	40	**3,898**	**2,152**	1,888
Furniture & Fixtures	623	42	6	**659**	446	33	3	**476**	**183**	177
Vehicles	693	102	17	**778**	490	78	13	**555**	**223**	203
Ships	505	3	-	**508**	345	16	-	**361**	**147**	160
Aircrafts & Helicopters	46	-	-	**46**	40	1	-	**41**	**5**	6
Sub-Total	**4,02,188**	**11,275**	**75,907**	**3,37,556**	**1,30,046**	**7,318**	**4,094**	**1,33,270**	**2,04,286**	**2,72,142**
Right-of-Use Assets:										
Land	17,693	1	5	**17,689**	1,704	170	- *	**1,874**	**15,815**	15,989
Plant & Machinery	4,630	-	-	**4,630**	669	238	-	**907**	**3,723**	3,961
Ships	10	-	-	**10**	10	-	-	**10**	**-**	-
Sub-Total	**22,333**	**1**	**5**	**22,329**	**2,383**	**408**	**-**	**2,791**	**19,538**	**19,950**
Total (A)	**4,24,521**	**11,276**	**75,912**	**3,59,885**	**1,32,429**	**7,726**	**4,094**	**1,36,061**	**2,23,824**	**2,92,092**
Intangible Assets **										
Technical Knowhow Fees	5,119	34	477	**4,676**	3,324	139	27	**3,436**	**1,240**	1,795
Software	976	39	1	**1,014**	869	45	- *	**914**	**100**	107
Development Rights	43,014	3,868	-	**46,882**	30,208	2,278	-	**32,486**	**14,396**	12,806
Others	1,084	192	-	**1,276**	1,051	159	-	**1,210**	**66**	33
Total (B)	**50,193**	**4,133**	**478**	**53,848**	**35,452**	**2,621**	**27**	**38,046**	**15,802**	**14,741**
Total (A + B)	**4,74,714**	**15,409**	**76,390**	**4,13,733**	**1,67,881**	**10,347**	**4,121**	**1,74,107**	**2,39,626**	**3,06,833**
Previous Year	4,68,723	11,053	5,062	**4,74,714**	1,62,245	9,270	3,634	**1,67,881**	**3,06,833**	3,06,478
Capital Work-in-Progress									**19,267**	**20,765**
Intangible Assets under Development									**15,395**	**12,070**

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ACCOUNTING POLICY

Intangible assets:

Intangible Assets are stated at cost of acquisition net of recoverable taxes, trade discount and rebates less accumulated amortisation/depletion and impairment losses, if any. Such cost includes purchase price, borrowing costs, and any cost directly attributable to bringing the asset to its working condition for the intended use, net charges on foreign exchange contracts and adjustments arising from exchange rate variations attributable to the Intangible Assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost can be measured reliably.

Other Indirect Expenses incurred relating to project, net of income earned during the project development stage prior to its intended use, are considered as pre-operative expenses and disclosed under Intangible Assets Under Development.

Gains or losses arising from derecognition of an Intangible Asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Statement of Profit and Loss when the asset is derecognized. The Company's intangible assets comprises assets with finite useful life which are amortised on a straight-line basis over the period of their expected useful life.

A summary of amortisation/depletion policies applied to the Company's Intangible Assets to the extent of depreciable amount is as follows:

- *Technical Know-How - Over the useful life of the underlying assets ranging from 5 years to 35 years.*
- *Computer Software - Over a period of 5 years.*
- *Development Rights - Depleted using the unit of production method. The cost of producing wells along with its related facilities including decommissioning costs are depleted in proportion of oil and gas production achieved vis-à-vis Proved Developed Reserves. The cost for common facilities including its decommissioning costs are depleted using Proved Reserves*
- *Others - In case of Jetty, the aggregate amount amortised to date is not less than the aggregate rebate availed by the Company*

The Company assesses at each reporting date as to whether there is any indication that any Intangible Assets may be impaired. If any such indication exists, the recoverable amount of an intangible asset is estimated to determine the extent of impairment, if any.

An impairment loss is recognized in the Statement of Profit and Loss to the extent, asset's

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carrying amount exceeds its recoverable amount. The recoverable amount is higher of an asset's fair value less cost of disposal and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the assets

The impairment loss recognized in prior accounting period is reversed if there has been a change in the estimate of recoverable amount.

(Source: Annual Report 2021-2022 - 'Reliance Industries Limited')

5.16 SIGNIFICANT DIFFERENCES IN IND AS 38 *VIS-À-VIS* AS 26

S. No.	Particular	Ind AS 38	AS 26
1.	Exclusions	Ind AS 38 does not include any such exclusion specifically as these are covered by other accounting standards. Ind AS 38 contains a scope exclusion with regard to the amortisation method for intangible assets arising from service concession arrangements in respect of toll roads recognized in the financial statements before the beginning of the first Ind AS financial reporting period as per the previous GAAP	Paragraph 5 of AS 26, does not apply to accounting issues of specialised nature that arise in respect of accounting for discount or premium relating to borrowings and ancillary costs incurred in connection with the arrangement of borrowings, share issue expenses and discount allowed on the issue of shares.
2.	Definition of intangible assets	In Ind AS 38, the requirement for the asset to be held for use in the production or supply of goods or services, for rental to others, or for administrative purposes has been removed from the definition of an intangible asset. (Para 8 of Ind AS 38)	AS 26 defines an intangible asset as 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

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3.	Identifiability	Ind AS 38 requires an asset to be treated as meeting the identifiability criterion in the definition of an intangible asset when it is separable (ie it is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so), or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.	AS 26 does not define 'identifiability', but states that an intangible asset could be distinguished clearly from goodwill if the asset was separable, but that separability was not a necessary condition for identifiability.
4.	Separately acquired intangible assets	As per Ind AS 38, in the case of separately acquired intangibles, the criterion of probable inflow of expected future economic benefits is always considered satisfied, even if there is uncertainty about the timing or the amount of the inflow.	There is no such provision in AS 26.
5.	Revenue based amortisation method	In Ind AS 38 there is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. Ind AS 38 allows use of revenue-based method of amortisation of intangible asset, in a limited way.	AS 26 does not specifically deal with revenue-based amortisation method.
6.	Payment deferred	Under Ind AS 38, if payment for an intangible asset is deferred	There is no such provision in AS 26

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	beyond normal credit terms	beyond normal credit terms, the difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalised as per Ind AS 23.	
7.	Intangible assets acquired in business combination	Ind AS 38 deals in detail in respect of intangible assets acquired in a business combination.	AS 26 refers only to intangible assets acquired in an amalgamation in the nature of purchase and does not refer to business combinations as a whole.
8.	Subsequent expenditure on in process research and development project	Ind AS 38 gives guidance for the treatment of such expenditure. (Paragraphs 42 and 43 of Ind AS 38)	AS 26 is silent regarding the treatment of subsequent expenditure on an in-process research and development project acquired in a business combination
9.	Intangible assets acquired free of charge or for a nominal consideration by way of government grant	As per Ind AS 38, when intangible assets are acquired free of charge or for nominal consideration by way of government grant, an entity should, in accordance with Ind AS 20, record both the grant and the intangible asset at fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount. (Paragraph 44 of Ind AS 38)	As per AS 26, intangible assets acquired free of charge or for nominal consideration by way of government grant is recognized at nominal value or at acquisition cost, as appropriate plus any expenditure that is attributable to making the asset ready for intended use. (Paragraph 33 of AS 26).
10.	Useful life of an intangible asset	The rebuttable presumption is not there in Ind AS 38. Ind AS 38 recognizes that the useful life of an intangible asset can even be indefinite subject to fulfillment of certain conditions, in which case it	AS 26 is based on the assumption that the useful life of an intangible asset is always finite, and includes a rebuttable presumption that the useful life cannot exceed ten years from the date the asset is available for use

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		should not be amortised but should be tested for impairment.	
11.	Guidance on certain issues	In Ind AS 38, guidance is available on cessation of capitalisation of expenditure (Paragraph 30 of Ind AS 38), de-recognition of a part of an intangible asset (Paragraph 115 of Ind AS 38) and useful life of a reacquired right in a business combination (Paragraph 94 of Ind AS 38).	There is no such guidance in AS 26 on these aspects.
12.	Valuation model as accounting policy	Ind AS 38 permits an entity to choose either the cost model or the revaluation model as its accounting policy	In AS 26, revaluation model is not permitted.
13.	Intangible assets recognized as an expense	Ind AS 38 provides more guidance on recognition of intangible items recognized as expense. Ind AS 38 clarifies that in respect of prepaid expenses, recognition of an asset would be permitted only upto the point at which the entity has the right to access the goods or upto the receipt of services.	Further, unlike AS 26 mail order catalogues have been specifically identified as a form of advertising and promotional activities which are required to be expensed.
14.	Amortisation lower than under SLM	Ind AS 38 does not contain any such provision.	As per AS 26 (paragraph 73), there will rarely, if ever, be persuasive evidence to support an amortisation method for intangible assets that results in a lower amount of accumulated amortisation than under straight-line method.
15.	Subsequent increase of residual value for changes in	Under Ind AS 38, the residual value is reviewed at least at each financial year-end. If it increases to an amount equal to or greater than the asset's carrying amount,	However, AS 26 specifically requires that the residual value is not subsequently increased for changes in prices or value.

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	prices or value	amortisation charge is zero unless the residual value subsequently decreases to an amount below the asset's carrying amount.	
16.	Intangible assets retired from use and held for sale	Ind AS 38 does not include such intangible assets since they would be covered by Ind AS 105.	Intangible assets retired from use and held for sale are covered by AS 26.

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TEST YOUR KNOWLEDGE

Questions

1. X Ltd. is engaged in the business of publishing Journals. They acquired 100% stake in Y Ltd., a company in the same industry. X Ltd. paid purchase consideration of ₹ 10,00,00,000 and fair value of net assets acquired is ₹ 8,50,00,000. The purchase consideration includes payment for the following as well:

   (a) ₹ 30,00,000 for obtaining the skilled staff of Y Ltd.

   (b) ₹ 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.

   However, the above items (a) and (b) are not forming part of the net assets acquired of ₹ 8,50,00,000.

   Determine how the above transactions be accounted for by X Ltd.

2. X Ltd. purchased a franchise from a restaurant chain at a cost of ₹ 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.

   Advise whether the franchise rights be treated as an intangible asset under Ind AS 38.

3. 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 recognize an asset in respect of the expected future economic benefits to be derived from the list.

   Evaluate whether the customer list be treated as an intangible asset under Ind AS 38.

4. A software company X Ltd. is developing new software for the telecom industry. It employs 100 employs engineers 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 recognize these set of engineers as a human resources asset in the form of an intangible asset.

   Advise X Ltd. on the above issue.

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5. X Ltd. has acquired a telecom license from Government to operate mobile telephony in two states of India.

   Recommend the cost of acquisition to be capitalised as an intangible asset under Ind AS 38.

6. X Ltd. purchased a standardised finance software at a list price of ₹ 30,00,000 and paid ₹ 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 ₹ 7,00,000 towards customisation of the software for its intended use. X Ltd. also purchased a 5-year maintenance contract with the vendor company of ₹ 2,00,000.

   Identify at what cost the intangible asset will be recognized.

7. X Limited in a business combination, purchased the net assets of Y Limited for ₹ 4,00,000 on 31st March, 20X1. The assets and liabilities position of Y Limited just before the acquisition is as follows:

Assets	**Cost (in ₹)**
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 ₹ 1,50,000, ₹ 30,000 and ₹ 70,000 respectively.

   Recommend how would X Limited account for the net assets acquired from Y Limited.

Answers

1. Non-compete fee represents a contractual right that is separable from goodwill. Here, the fair value of the non-compete fee is reliably measured. Therefore, X Ltd. should recognize an intangible asset in respect of the ₹ 50,00,000 consideration paid towards 'non-compete fee'.

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However, amount paid for obtaining skilled staff amounting to ₹ 30,00,000 does not meet the definition of intangible asset since X Ltd. has not established any right over the resource and the same should be expensed. The entity has insufficient control over the expected future economic benefits arising from the team of skilled staff.

Therefore, ₹ 50,00,000 paid towards non-compete fee will be recognized separately as an intangible asset, whereas the amount paid for obtaining skilled staff does not meet the recognition criteria for being identified as a separate intangible asset and hence will not be recognized separately. However, since it is acquired as part of a business combination, it forms part of the goodwill recognized at the acquisition date.

The value of goodwill would be:

Goodwill = Purchase consideration (₹ 10,00,00,000) - Fair value of assets acquired (₹ 8,50,00,000) - Non-compete fee (₹ 50,00,000) = ₹ 1,00,00,000.

2. The franchise rights meets the identification criterion of an intangible asset since it arises from the contractual rights. It is acquired separately and it's cost can be measured reliably. In addition, X Ltd. will have future economic benefits and control over them from the franchise rights.

X Ltd. should recognize the franchise right as intangible asset and amortise it over 10 years. Royalty as a percentage of sales paid to the franchisor would be a charge to the profit and loss in the books of the X Ltd.

3. In this situation, the entity has no legal rights to the customer relationship, but exchange transactions have taken place that evidence separability of the asset and the control that the entity is able to exercise over the asset. Therefore, the list is an intangible asset. However, the entity may not recognize the asset because the cost of generating the customer list internally cannot be distinguished from the cost of developing the business as a whole. It does not meet the conditions specified to recognize an internally generated intangible asset.

4. Although, without doubt the skill sets of the employees make them extremely valuable to the company, however it does not have control over them. Merely having good HR policies would not make them eligible to be recognized as an intangible asset.

5. Cost of acquisition of the telecom license can be capitalised as an intangible asset under the head Licenses, as the cost is ascertainable, and it will lead to future economic benefits for X Ltd.

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6. In accordance with Ind AS 38, the cost of a separately acquired intangible asset is its purchases price and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

Therefore, the initial cost of the asset should be:

	Amount (₹)
List price	30,00,000
Less: Trade discount (5%)	(1,50,000)
	28,50,000
Non-refundable purchase tax	50,000
Customisation cost	7,00,000
Total cost	36,00,000

The maintenance contract of ₹ 2,00,000 is an expense and therefore should be taken as a prepaid expense and charged to profit and loss over a period of 5 years.

7. X Limited will account for the assets acquired from Y Limited in following manner:

Assets	**Amount (₹)**
Property, plant and equipment	1,50,000
Goodwill	70,000
Intangible asset 1	30,000
Intangible asset 2	70,000
Cash & Bank	1,30,000
Liabilities	
Trade payable	50,000

Note 1- Goodwill is the difference between fair value of net assets acquired and purchase consideration paid when is calculated as follow:

Goodwill = ₹ 4,00,000 – ₹ (1,50,000 + 70,000 + 30,000 + 1,30,000 – 50,000) = ₹ 70,000.

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