IND AS – 38
INTANGIBLE ASSETS

(1) DEFINITION

Intangible asset is an identifiable non-monetary asset without physical substance.

Identifiability

The intangible asset must be separate i.e., it should be capable of being separated from the entity, and sold/transferred. For example, Import license can be separated from the entity and sold.

Controlled by an entity

Control means:

- Power to obtain future economic benefits; and
- Power to restrict the access of others to those benefits

Thus power normally stems from a legal right e.g. copyright, but the legal right is not a necessary condition, because an entity may be able to control the future economic benefit in some other way.

An entity may seek to protect the technical talent or knowledge of certain skilled staff by including a "non-compete" or 'restraint of trade' clause into their contracts of employment.

Future economic benefits

These may be seen by any one of the following ways:

- Revenue from the sale of products and services
- Cost savings
- Other benefits resulting from the use of an asset.

(2) RECOGNITION CRITERIA

Intangible asset should be recognised only if it satisfies the following:

1. Definition of Intangible asset; and
2. Asset recognition conditions i.e.
   (a) It is probable that the future economic benefits will flow into the entity; and
   (b) The cost of the asset should be measured reliably.

Probable means "more likely than not" i.e. there are more than 50% chances of inflows. The entity should assess the probability of economic benefits inflow using the reasonable and supportable assumptions i.e. it should be performed based on the evidence available at the time of initial recognition.

(3) MODES OF ACQUISITION

Intangible Asset

CASH / CREDIT(separately acquired)	Government grants IND AS 20	Leases IND AS 116	Business Combination IND AS 103	Exchange	Internally generated

(1) CASH / CREDIT :

Deferred Credit term

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

If Intangible asset is purchased by

PAYMENT OF CASH/FOR CREDIT (SEPARATE ACQUISITION)

Cost of asset includes the following:—

Particulars	Amount (Rs.)
Purchase price (Basic price)	XXX
(+) Non-refundable taxes & duties	XXX
(+) Registration charges	XXX
(+) Brokerage costs	XXX
(+) Professional fees for legal services	XXX
(+) Any directly attributable cost to	XXX
make the asset ready for its intended use	
(-) Government grant received specific to the asset as per Ind AS 20	(XXX)
(-) Trade discounts and rebates (if included above)	(XXX)
Cost of Intangible asset	**XXXX**

The cost cannot be included are:

- Costs of introducing new products or services, such as advertising
- Costs of conducting new business
- Administration costs and other general overheads cost
- Costs incurred while an asset that is ready for use is awaiting deployment
- Costs of redeployment of an asset
- Initial operating losses incurred from operation

(2) EXCHANGE :

Intangible asset is acquired by EXCHANGE OF ANOTHER ASSET

When an intangible asset is acquired in exchange or part exchange for another asset, the asset received is usually recorded at

Determination of cost of assets to be recorded is based on the following TWO conditions

1. Does the transaction has commercial substance and
2. Can fair value of the asset given or taken is measured reliably?

Yes | No

Recognise at

It should be measured at COST
i.e. Carrying amount of asset given up is the

- Fair value of the asset given up; (1st preference) Cost of asset received.

or

- Fair value of the asset received;

Whichever is **clearly evident**

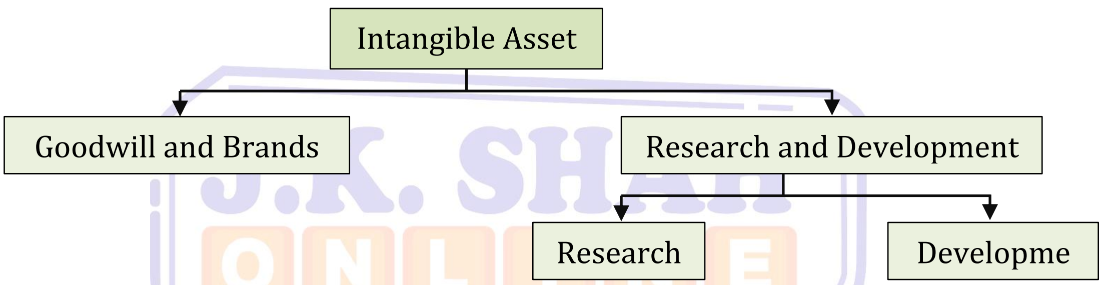
What is commercial substance?

We can say that an exchange transaction has commercial substance if:

(a) **Risk, timing and amount of the cash flows** of the asset received are **significantly different** from the cash flows of the asset transferred; or

(b) There is a **significant effect on** the present value of the **after tax 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 due to the exchange transaction.

(3) INTERNALLY GENERATED



(1) GOODWILL AND BRAND

Internally generated goodwill & brands should NOT (prohibited) be recognised as an asset because it is NOT an identifiable (separable) resource controlled by the entity and the cost of these cannot be measured reliably.

Same rule is applicable even to **internally generated** brands, publishing titles, customer lists and other similar items – These items should NOT be recognised as intangible assets as cost of assets cannot be measured reliably.

(2) RESEARCH AND DEVELOPMENT :

(A) RESEARCH

An asset is recognised only when there are probable future economic benefits inflow and when costs can be measured reliably. But during the research phase, an entity cannot demonstrate that intangible asset exists and that generates probable future economic benefits (There is NO guarantee that research will be successful). Hence ALL research expenditure should be CHARGED TO P&L as expense as and when it is incurred.

(B) DEVELOPMENT:

Development is → Application of → Research knowledge / Other knowledge → For production of new / substantially improved

- Product /Service
- Devices / Processes

PRIOR TO commencement of commercial production or use

In this phase an entity may get new/substantially improved products/services - Such products, services, etc. may generate future economic benefits to the entity, the costs incurred for development phase can be capitalised as an intangible asset ONLY when the entity can demonstrate that:

(1) There is technical feasibility to complete the intangible asset;

(2) The entity has an intention to complete;

(3) It is able to use or sell the intangible asset;

(4) Adequate technical, financial, other resources are available to complete it;

(5) The intangible asset will generate probable future economic benefits either by:

   (i) Using in its production of goods or providing services or for administration purposes;

   (ii) Renting to others;

   (iii) Selling the intangible asset; etc.

(6) The entity can reliably measure the expenditure incurred for the development activity.

   If an entity cannot distinguish the research phase from the development phase of an internal project, the total expenditure incurred should be treated as research phase expenditure and it should be charged to P&L in the same year.

The cost includes:

Particulars	Amount (Rs.)
Cost of material/services consumed in generation of IA	XXX
Salaries, wages and other employment benefits paid to personnel, who is engaged in development process	XXX
All overheads (which are directly related to generation of intangible asset) allocated on reasonable and consistent basis	XXX
All costs which are directly related to generation of intangible asset like registration fees, amortisation of patents, etc.	XXX
Borrowing costs that can be capitalised as per Ind AS 23	XXX
Cost of Intangible asset to be capitalised	**XXXX**

The following costs SHOULD NOT be capitalised (i.e. these should be charged to P&L)

1. Selling overheads;
2. Administration overheads; (But if these are directly related to generate the asset - can be capitalised)
3. Abnormal loss of material, labour or any other inefficiencies;
4. Initial operating losses;
5. Training costs to operate the asset; (this expense is not to generate the asset).

(4) BUSINESS COMBINATION :

- As per 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. Such intangible asset should satisfy the recognition criteria i.e. it is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably.
- As per this Standard and Ind AS 103, an intangible asset will be recognised in the books of acquirer even if it is NOT recognised in the books of acquiree before the business combination.

(4) SUBSEQUENT EXPENDITURE :

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. Most of the subsequent expenditures are likely to maintain the expected future economic benefits of the asset and not able to satisfy the recognition criteria. 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 in rare circumstances, subsequent expenditure incurred after the initial recognition be recognised/added to the carrying amount of the intangible asset.

(5) VALUATION MODELS

An entity as a matter of choosing as an accounting policy, it should select any one of the TWO MODELS available after recognising the intangible asset and follow the same consistently. It is a matter of choice of the management.

Accounting Models

COST MODEL		REVALUTION MODEL	
↓		↓	
If this model is chosen - Intangible asset should be measured every year at		This model should be chosen to the intangible asset, where FAIR VALUE can be measured reliably.	
Cost	xxx	PPE should be measured at	
Less: Accumulated depreciation	xx	Fair Value of PPE	xxx
Less: Accumulated Impaired loss	xx	Less: SUBSEQUENT	
Net carrying amount	**xxx**	accumulated depreciation	xx
		Less: SUBSEQUENT	
		accumulated impairment loss	xx
		Net carrying amount	**xxx**

✍ If an entity chooses the revaluation model as accounting policy for intangible assets then all the other assets in its class shall also be ac- counted for using the same model unless there is no active market for those assets.

✍ Fair value must be determined by reference to an active market. This is different to the treatment of revaluation under Ind AS-16 where depreciated replacement cost can be used when there is no evidence of market value.

✍ Revaluation must be sufficiently regular that carrying amount is not materially different from fair value.

✍ The revaluation model does not allow:

- The revaluation of intangible assets that have not previously been recognized as assets;
- The initial recognition of intangible assets at amount other than their cost.

- If as a result of revaluation the carrying amount of intangible asset is increased, the increase shall be recognized in Other Comprehensive Income (OCI) and accumulated in equity under the heading of "Re-valuation Surplus"
- If as a result of revaluation the carrying amount of intangible asset is decreased, the decrease shall be recognized in profit and loss.
- Revaluation surplus included in equity may be transferred directly to the retained earning when the surplus is realized on the retirement or disposal of an asset.

(6) AMORTIZATION

- Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life;
- Depreciable amount = Cost/substituted amount (revalued amount) less residual value;
- 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.

Amortisation Period

- The entity should assess whether the useful life of the intangible is finite (limited life) or indefinite;

Review of Method and useful life

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If there has been a change in the expected pattern of consumption or useful life of the asset, such changes shall be accounted for as changes in accounting estimates and will be accounted for prospectively.

Residual value

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

(a) There is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) There is an active market for the asset:

  (i) Residual value can be determined with 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 estimations are made using prices prevailing at the date of acquisition of the asset.

The residual value should be reviewed at least at the end of every year and if there is any change in residual value, it should be considered as change in estimate and to be accounted for prospectively.

If residual value increased to an amount equal to or greater than carrying amount - the asset should not be amortised till the residual value decreases to below the carrying amount.

(7) RETIREMENT AND DISPOSAL

- An intangible asset should be derecognised from the balance sheet (derecognised) on disposal OR when no future economic benefits are expected from its use or disposal.
- The difference between the consideration and the carrying amount of the asset should be treated as gain or loss and it should be recognised as income or expense in P&L statement, (unless Ind AS 116 requires otherwise on a sale and leaseback).
- The consideration received or receivable = Transaction price as per Ind AS 115;
- If there are any subsequent changes to the estimated consideration, it will be accounted as changes in transaction price as per Ind AS 115;
- Gains shall not be classified as "Revenue from operations" i.e. it should be part of 'other income'.
- An intangible asset that is retired from active use and held for disposal is carried at its carrying amount at the date when the asset is retired from active use as per Ind AS 105.

(8) IMPAIRMENT

To determine whether an intangible asset is impaired, an entity applies Ind AS-36. Intangible asset is said to be impaired if its recoverable amount is less than the carrying amount. Recoverable amount as per the Standard on impairment of asset means higher of the value in use and fair value less cost of disposal, value in use is the present value of future cash inflow to be derived from the asset.

Intangible assets with indefinite useful lives

An intangible asset with an indefinite useful life shall not be amortized. 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

- Annually, and
- Whenever there is an indication that the intangible asset may be im- paired.

QUESTIONS

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

Q.2. ABC Pvt. Ltd., recruited a player. As per the terms of the contract, the player is rohibited from playing for any other entity for coming 5 years and have to in the employment with the company and cannot leave the entity without mutual agreement. The price the entity paid to acquire this right is derived from the skills and fame of the said player. The entity uses and develops the player through participation in matches. State whether the cost incurred to obtain the right regarding the player can be recognised as an intangible asset as per Ind AS 38? **(Nov - 20)**