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Research Article

Xix. Applicability Of Accounting Standard (As) 26, Intangible Assets, To Intangible Items

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Abstract

In the contemporary era, India has emerged at the top of the pedestal in the present knowledge-driven global marketplace, where intangible assets hold much more value than physical assets. This paper examines the accounting and disclosure treatment of Intangible assets under the rules implemented by the set standard for Intangible assets in India. In India, this issue is purveyed by the AS-26, "Intangible Assets", issued by the Institute of Charted Accountant (ICAI), the apex accounting institute of India. The objective of this paper is to determine the extent of intangible asset disclosure of intangible assets in financial statements by enterprises in India. The scope of the study includes applicability of Accounting Standards 26 on various intangible assets along with measurement principles of intangible assets. Thus, this study may be of value to researchers to explore the areas of intangible assets disclosure so that they can provide useful and relevant information to the users of annual reports.
Keywords: Intangible Assets, AS-26, Disclosure.

Meaning of Intangible assets

Intangible assets are those which are:

- ❖ Identifiable
- ❖ Non-monetary asset
- ❖ Having no physical substance
- ❖ Held for use in the production or supply of goods or services,
- ❖ For rental to others or for administrative purposes E.g. Computer Software, Patent, Copyright, Trademarks and Goodwill etc.

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. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

Applicability

- ❖ Intangible assets that are covered by another AS
- ❖ Financial Assets
- ❖ Mineral Rights
- ❖ Intangible Assets arising in insurance enterprises from contract.

Recognition of Intangible Assets

An intangible asset should be recognized (i.e. accounted as asset) if & only if:

- ❖It is probable to expect future economic benefits from the assets.
- ❖Cost can be measured reliably.

Measurement principles

- ❖It should be recognized initially at cost.
- ❖The cost of separately acquired intangible asset will be included price paid, duties, taxes paid and any other expenses incurred directly to bring it into usable condition.
- ❖If acquired in exchange, fair value of asset given up.

Intangible assets can be acquired if they are identifiable i.e. can be separately identified generally by contractual rights from Goodwill and are controlled by the entity. Knowledge of production process giving competitive advantage can be considered an intangible if the Company has patents i.e. legal rights and controls over the same.

Internally Generated Intangible Asset

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

- ❖ A research phase; and
- ❖ A development phase.

Expenditure of Research phase

Such expenditure is to be charge off in the statement of profit and loss as an expense.

Expenditure on Development phase

An intangible asset arising from development phase can be recognized if and only if following can be demonstrated:

1. The technical feasibility.
2. Intention to complete it.
3. Ability to sale or use it.
4. Capability to generate economic benefit like existence of market for it or for products generated from it.
5. Availability of technical, financial & other resources to complete the development.
6. Ability to reliably measure the expenditure during development.

   It is important to note that all of the above conditions should be met to permit recognition of intangible asset in development phase.

Cost of Internally generated intangible asset includes:

- ❖Expenditure on materials and services
- ❖Salaries, wages & other employment related costs
- ❖Any expenditure that is directly attributable to the generation of intangible asset
- ❖Overheads necessary for the generation of the asset and that can be allocated on reasonable basis.

Amortisation Period

1. The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life.
2. There is a rebuttable presumption that the useful life of an intangible asset will **not exceed ten years.**

3. Given the history of rapid changes in technology, computer software and may other, it is likely that the life of intangible assets will be short.

Amortisation Method

1. The amortisation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise, or else the straight-line method should be used.
2. The amortisation charge for each period should be recognised as an expense unless another Accounting Standard permits or requires it to be included in the carrying amount of another asset.

Residual Value

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

- ❖ There is a commitment by a third party or
- ❖ There is an active market for the asset.

Illustrations

Illustration 1

Dr. Reddy Laboratories in the past 3 years spent Rs. 20 crores on a new project to develop a drug to treat AIDS which was charged to the P & L account since did not meet AAS-26 criteria for capitalisation. In the current year, approval of Regulatory authority for selling the drug was received. The company wants to now capitalize the amount spent in the past three years disclose it as a prior period item.

The Company cannot reverse research expense already charged to profit and loss account. AS – 26 specifically prohibits the reversal of expenses already charged to profit and loss account in earlier years.

Any additional expenditure on the new rug in the development phase can be capitalized prospectively.

Illustration 2

Tata Motors has acquired a brand from an Automobile company against consideration of Rs. 200 crores. The valuation of the brand was performed by an independent valuer who forecasted cash flows for the next 20 years to determine the value of the brand. The brand has been established in the market place for nearly 50 years.

As the brand is an acquired one, the same can be capitalized as an intangible asset in the books. Over what period this intangible asset should be amortised?

AS26 includes a rebuttable presumption that life of intangible asset cannot exceed 10 years. In this case, the Company has paid for the brand value assuming benefits would accrue over 20 years. Hence, the Company could justify the amortization of brand over twenty years.

However, every year an assessment will need to be performed to determine if the carrying value of the intangible asset has been impaired, for example if sales from the brand decline compared to forecasts.

Accounting Standard 26 V/S IND AS 38 Intangible Assets

Accounting Standard 26: The objective of AS 26 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Accounting Standard. AS 26 require an enterprise to recognise an intangible asset if, and only if, certain criteria are met. AS 26 also specify how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets.

IND AS 38 Intangible Assets: The objective of IND AS 38 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. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

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

S.No.	Basis	Ind AS 38	AS 26
1.	Definition	The requirement of definition given by AS 26 has been removed from the definition	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
2.	Separately Acquired Intangible Assets	In this case, the criterion of probable inflow of expected future economic benefits is always considered satisfied, even if there is any uncertainty	There is no such provision in AS 26
3.	Revenue Based Amortisation Method	Ind AS 38 allows use of revenue based method of amortisation of intangible asset, in a limited way	AS 26 does not specifically deal that
4.	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
5.	Subsequent Expenditure on in Process Project	Ind AS 38 gives guidance for the treatment of such expenditure	AS 26 is silent regarding the treatment of subsequent expenditure
6.	Intangible Assets Acquired in Exchange	Ind AS 38 requires that if an intangible asset is acquired in exchange of a non-monetary asset, it should be recognised at the fair value of the asset	Principles of AS 10 to be followed which require Fair market value at the time of consideration
7.	Intangible Assets acquired Free of Charge or for a Nominal Consideration by way of Government Grant	In that case an entity should, record both the grant and the intangible asset at fair value	As per AS 26, intangible assets is recognised at nominal value or at acquisition cost
8.	Useful Life of an Intangible Asset	Ind AS 38 does not define any rebuttable presumption	AS 26 define rebuttable presumption that the useful life cannot exceed ten years from the date the asset is available for use

9.	Valuation Model as Accounting Policy	It standard allow an entity to choose either the cost or revaluation model as its accounting policy	Revaluation model is not permitted under AS 26
10.	Contractual or Legal Rights may be Shorter than LegaL Life	Ind AS 38 acknowledges that the useful life of an intangible asset maybe shorter than the legal life	AS 26 does not include such a provision
11.	Change in Method of Amortization:	This change consider as a accounting estimate	This change consider as a accounting policy

Disclosure

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

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;

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 under paragraphs 75, 85 and 86 and from impairment losses recognised or reversed in other comprehensive income in accordance with ind as 36 (if any);

(iv) Impairment losses recognised in profit or loss during the period in accordance with ind as 36 (if any);

(v) Impairment losses reversed in profit or loss during the period in accordance with ind as 36 (if any);

(vi) Any amortisation recognised 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. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:

a) Brand names;

b) Mastheads and publishing titles;

c) Computer software;

d) Licenses and franchises;
e) Copyrights, patents and other industrial property rights, service and operating rights;
f) Recipes, formulae, models, designs and prototypes; and
g) Intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.