

## Ind AS 38 INTANGIBLE ASSETS

---

---

---

---

---

---

---

---

### DEFINITIONS OF KEY TERMS

- **Intangible asset.** An identifiable, nonmonetary asset without physical substance.
- **Asset.** A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- **Research.** Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
- **Development.** 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.

---

---

---

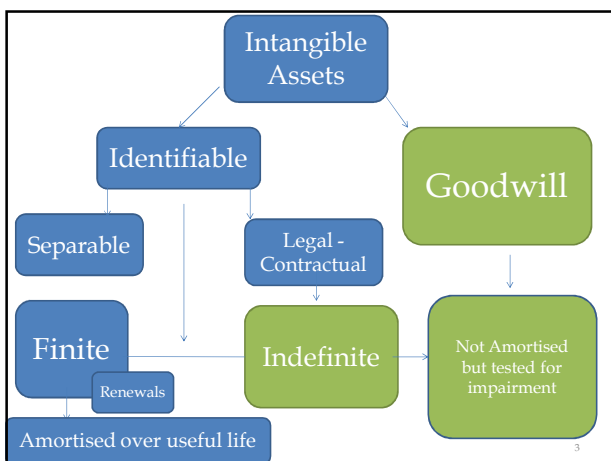
---

---

---

---

---




---

---

---

---

---

---

---

---

**Applicable to All Intangible Assets including**

- Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights..

**Not applicable to :**

- Ind AS 2 - Inventory intangible assets held by an entity for sale in the ordinary course of business
- Ind AS 11 Construction Contract
- Ind AS 12 Income tax
- Ind AS 19 Employee Costs
- Ind AS 32 Financial Instruments
- Ind AS 39 Financial Instruments
- Ind AS 103 Business Combination
- Ind AS 104 Insurance Contracts
- Ind AS 105 Non Current Intangible Assets Held for Sale & Discontinued Operations.
- Ind AS 106 Exploration for and Evaluation of Mineral Resources);

---

---

---

---

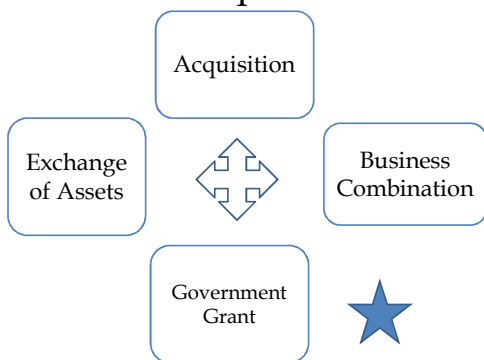
---

---

---

---

**IA - Acquisition**



5

---

---

---

---

---

---

---

---

**Elements of Cost**

Purchase Price, Import Duty, non-refundable taxes - net off Discount & rebates

Directly Attributable Cost

1. Employee Cost
2. Cost of site preparation
3. Initial Delivery & Handling
4. Installation & Assembly Cost
5. Cost of testing
6. Professional fees

Incidental Operations

6

---

---

---

---

---

---

---

---

**Following Costs are never capitalised**

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

7

---

---

---

---

---

---

---

---

---

---

**Case Study 1**

- **Facts**  
 Brilliant Inc. acquires copyrights to the original recordings of a famous singer. The agreement with the singer allows the company to record and rerecord the singer for a period of five years. During the initial six-month period of the agreement, the singer is very sick and consequently cannot record. The studio time that was blocked by the company had to be paid even during the period the singer could not sing. These costs were incurred by the company:  
 (a) Legal cost of acquiring the copyrights \$10 million  
 (b) Operational loss (studio time lost, etc.) during start-up period \$ 2 million  
 (c) Massive advertising campaign to launch the artist \$ 1 million
- **Required**  
 Which of the above items is a cost that is eligible for capitalization as an intangible asset?

8

---

---

---

---

---

---

---

---

---

---

**Solution**

- (a) The legal cost of acquiring the copyright **TO BE** be capitalized.
- (b) "Operational costs" during the start-up period are **NOT** allowed to be capitalized.
- (c) Massive advertising campaign to launch the artist is **NOT** allowed to be capitalized.

9

---

---

---

---

---

---

---

---

---

---

## II. IA in Business Combination(BC)

1. IA Acquired in BC is measured at Fair Value at Acquisition Date
2. An acquirer recognises at the acquisition date, separately from goodwill,
  - ❖ an intangible asset of the acquiree,
  - ❖ irrespective of whether the asset had been recognised by the acquiree before the business combination.

---

---

---

---

---

---

---

---

## II. IA in Business Combination

3. 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.

11

---

---

---

---

---

---

---

---

## II. Subsequent Expenditure

Research OR Development Expenditure Related to Research or Development Project

Acquired Separately

OR

In Business Combination

Shall be



12

---

---

---

---

---

---

---

---

**→ II. Subsequent Expenditure**

1. Recognised as an expense when incurred if it is research expenditure;
2. Recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset.
3. Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria.

13

---

---

---

---

---

---

---

---

**III. IA By Way of a Government Grant**

Free of charge

For nominal consideration

In Accordance with Ind AS 20 - Entity May Recognise IA & Government Grant at Fair Value

**IV. IA - Exchange**

At Fair value

OR

At Cost

Which ever can be measured more reliably 14

---

---

---

---

---

---

---

---

**Internally Generated Goodwill**

Is Not Recognised as intangible asset because :

- ❖ it is not an identifiable resource controlled by the entity
- ❖ And at the same time
- ❖ It can not be measured reliably at cost.

15

---

---

---

---

---

---

---

---

### Internally Generated Intangible Assets

To Qualify As IA - two Conditions must be fulfilled

**Recognition & Measurement Criteria**

An Entity applies the requirements and guidance in paragraphs 52-67 to all internally generated intangible assets.

16

---

---

---

---

---

---

---

---

**Research**

To be Expensed as when incurred

Examples Next Slide no 37-38-39

**Development**

IA to be recognised only on satisfaction of Certain conditions

Conditions in Slide No 41-42

If above can not be segregated then consider entire expenses as Research

17

---

---

---

---

---

---

---

---

Activities Aimed at Obtaining New Knowledge	Search for, evaluation, and selection of applications of research findings or knowledge
<b>R &amp; D Expenses Written Off</b>	
Search for alternatives for materials, devices, products, systems, or processes	Formulation, design, evaluation, and selection of possible alternatives for new or improved materials, devices, products, systems, or processes

As it is not possible to demonstrate that an asset exists that will generate future economic benefit

18

---

---

---

---

---

---

---

---

• Upon Fulfillment of all the following conditions IA during development stage will be recognised as an Asset

1. The technical feasibility of completing the asset so that it will be available for use or sale.
2. The intention to complete the asset and use or sell it
3. The ability to use or sell the asset
4. Future Economic Benefit
5. The availability of sufficient technical, financial, and other resources

The ability to reliably measure the expenditure

➤ (R- I A T A) in FEB

19

---

---

---

---

---

---

---

---

### What Constitutes Cost & What Not

#### Elements of Cost

Directly Attributable Expenses necessary to create, produce and prepare Intangible Assets :-  
 Material consumed,  
 Cost of Employee benefits,  
 Fees to register legal title  
 Amortisation of patents etc used to generate IA.  
 Interest to be capitalized Ind AS 23.

#### What does not form part of Cost

Selling, Admin & General expenses.  
 Initial Operating Losses  
 Expenditure on training staff to operate the asset  
 Start Up Activities  
 Open new facility or business  
 Advertisement or promotional activities  
 Relocating & Re organizing part or all of an entity

20

---

---

---

---

---

---

---

---

### Measurement after recognition

#### Cost

After Initial recognition Carried at :  
 Cost Less Accumulated Amortization and any Impairment Losses.

Also Used for Assets having no Active Market

#### Revaluation

Only if fair value can be measured reliably

After initial recognition, carried at a revalued amount, being its fair value at the date of the revaluation

less any subsequent accumulated amortisation & impairment losses

21

---

---

---

---

---

---

---

---

## Revaluation Model

- ❖ Not to be applied at Initial Recognition, i.e, initial measurement always at cost.
- ❖ If only part of the cost of an intangible asset is recognised as an asset, the revaluation model may be applied to the whole of that asset
- ❖ Can also be applied to an intangible asset that was received by way of a government grant and recognised at a nominal amount.

22

---

---

---

---

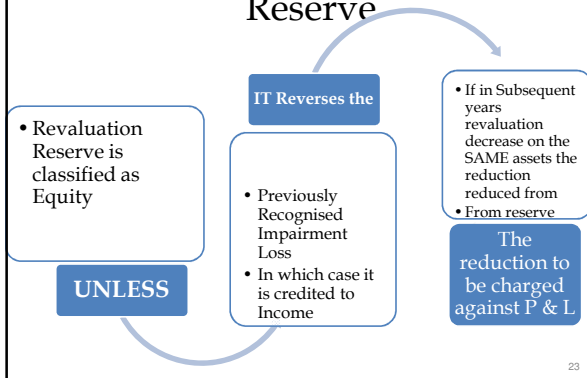
---

---

---

---

## Treatment of Revaluation Reserve



23

---

---

---

---

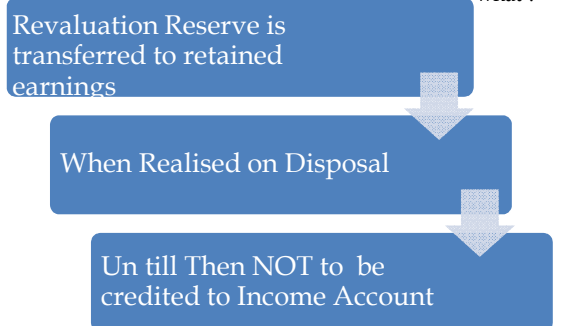
---

---

---

---

### TREATMENT OF REVALUATION RESERVE



24

---

---

---

---

---

---

---

---



**RETIREMENTS AND DISPOSALS**

- Intangible assets shall be derecognized on disposal or when no future economic benefits are expected to be derived from their use or disposal.
- Any gain or loss on de-recognition amounts to the difference between the net disposal proceeds, if any, less the carrying amount of the asset. **The gain or loss is to be recognized in the income statement.**

25

---

---

---

---

---

---

---

---

**DISCLOSURES**

- The Standard requires these disclosures for each class of intangible asset, distinguishing between internally generated and other assets:
  - Whether useful lives are indefinite or finite and, if finite, the useful lives or amortization rates used
  - The amortization methods used
  - The gross carrying amount and accumulated amortization and impairment losses at the beginning and end of the period
  - The line items in the income statement in which amortization is included

26

---

---

---

---

---

---

---

---

- Additions, separately showing those internally generated, those acquired separately, and those acquired through business combinations.
- Assets classified as held for sale under Ind As 105.
- Increases or decreases during the period resulting from revaluations.
- Impairment losses.
- Reversals of impairment losses

27

---

---

---

---

---

---

---

---

- Amortization recognized during the period
- Net exchange differences on retranslation
- Other changes during the period
- For assets with indefinite useful lives, the carrying amount of the asset and the reasons supporting such an assessment
- Description, carrying amount, and remaining amortization period of any intangible assets that are material to the entity's financial statements

28

---

---

---

---

---

---

---

---

- The existence and carrying amounts of intangible assets whose title is restricted or pledged as security for liabilities
- Contractual commitments for the acquisition of intangible assets
- Intangible assets acquired by way of government grant and initially recognized at fair value, including their fair values, their carrying amounts, and whether subsequently carried under the cost or revaluation model
- The amount of research and development expenditure expensed during the period

29

---

---

---

---

---

---

---

---

- If intangible assets are stated at revalued amounts, then these points are to be disclosed:
  - For each class of asset
  - The effective date of revaluation
  - The carrying amount
  - The carrying amount that would have been recognized had the cost model been used
  - The revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating changes during the period and any restrictions on distributions to shareholders

30

---

---

---

---

---

---

---

---

- The methods and significant assumptions used in estimating fair values

In addition to the preceding disclosures, entities are encouraged to disclose the description of any fully amortized intangible assets that are still in use and of any significant intangible assets controlled by the entity but are not recognized as assets as they failed to meet the recognition criteria.

31

---

---

---

---

---

---

---

---

### Major Differences between IAS and Ind As

Particular	IAS 38	Ind As 38
Terminology used in Standards	Statement of Financial Position, & Statement of Comprehensive Income	Balance Sheet & Statement of Profit and Loss
Fair Value of Intangible assets acquired	The Standard provides an option to Recognise the Intangible asset, and Grant initially at Fair value or Nominal value plus the expenditure that is directly attributable to preparing the asset for its intended use.	The Ind As provides allows only fair value for recognising the Intangible asset and grant according to Ind As 20.
Transitional Provisions	Provided for in the IAS 16	Transitional provisions in the Ind AS 101: First Time Adoption of Indian Accounting Standards

---

---

---

---

---

---

---

---




---

---

---

---

---

---

---

---