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CORE CONCEPT OF
CORPORATE ACCOUNTING

Measurement of intangible assets acquired as a part of business, combinations

In this case the intangible asset is measured at fair value at the date of acquisition.

Measurement of internal project

In case of internal project, expenditure of creating an intangible asset is treated differently. The research phase and development phase should be distinguished from one another. Research expenditure are treated as an expense. Development expenditure qualifying for recognition measured at cost and is capitalized.

Measurement of intangible assets acquired in exchange for equity instruments

If an intangible asset is acquired in exchange for equity instrument, the cost of the asset is the fair value of those equity instruments.

Measurement in case of exchange of assets

An intangible asset may be acquired in exchange for a similar asset with a similar fair value. No gain or loss is recorded on the transaction. Instead, the cost of the new asset is the carrying amount of the asset given up.

Example

X ltd has a franchise, which has carrying value of rs. 10 million. It exchanges it for a similar franchise with a market value of Rs. 11 million. State whether there is surplus or gain. **Solution**

Rs. 1 million may be treated as revaluation surplus, rather than a gain in the income statement. The journal entry is :

Intangible asset (new) dr 11 million



Revaluation surplus	1 million
Tangible asset (old)	10 million

Example 2

Star Ltd has a trade mark with carrying value of ₹ 8 million. It exchanges it for a similar trademark with a market value of ₹ 6 million. How will you treat this loss ?

Solution

The loss of ₹ 2 million should be treated as impairment loss in the income statement (statement of profit or loss). The journal entry is :

Intangible asset	Dr.	₹ 6 million	
Profit and loss (Impairment Loss)	Dr.	₹ 2 million	
To Intangible asset (old)			₹ 8 million

Subsequent Measurement (Measurement after Recognition)

Under this Standard, there are two methods of valuation of intangible assets after they have been first recognised. They are : Cost method and revaluation method.

Cost model : Under the cost method, an intangible asset should be carried at its cost, less any accumulated amortisation and impairment loss. Generally companies select cost model for all classes of intangible assets.

Revaluation model

Under the revaluation method, an intangible asset is carried at a revalued amount. This is the fair value of the intangible asset at the date of revaluation, less subsequent accumulated amortization and accumulated impairment.

Revaluation increase (upward revaluation)

When an intangible asset is revalued =upwards to a fair value, the revaluation increase is credited directly to equity under the head revaluation surplus, unless the asset was previously revalued downwards. If the asset was previously revalued downwards, the revaluation increase should be first used to set off the previous revaluation decrease.

Revaluation decrease

When the carrying amount of an intangible asset is revalued downwards, the amount of the downward revaluation should be charged as an expense in the income statement, unless the asset was previously revalued upwards. If the asset was previously revalued upwards the revaluation surplus in respect of that asset.



- a) Training costs
- b) Relocating or reorganizing costs.

Initial measurement

After intangible assets have been first recognized. They are to be measured. They should be initially measured at cost. But Subsequently, they can be carried at cost or at a revalued amount.



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