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CORE CONCEPT OF
CORPORATE ACCOUNTING

Intangible asset with indefinite useful life

An intangible asset with an indefinite useful life shall 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.

Residual value

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless: there is a commitment by a third party to purchase the asset at the end of its useful life; or

- (a) there is an active market (as defined in Ind AS 113) for the asset and:
 - (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

Internally generated goodwill

Internally generated goodwill shall not be recognised as an asset. 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. Internally generated goodwill is not recognised as an asset



because it is not an identifiable resource (ie 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. 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.

Internally generated intangible asset: it may be difficult to know whether an internally generated asset qualifies for recognition. This is because of it is often difficult to:

- a. Identify whether, and when, there is identifiable asset that will generate future benefits and
- b. Determine the cost of the asset.

To assess whether an internally generated assets meet the criteria for recognition, an enterprise splits the generation of assets into

Research phase : In the research phase of a project, expenditure (research cost) is always recorded as an expense (not asset) when it is incurred. This is because no intangible asset is created in this phase. Examples of research activities are as follows:

- a) activities to obtain new knowledge
- b) search for application of research findings, or other knowledge
- c) search for product or process alternatives
- d) formulation and design of possible new or improved product or process alternatives.

Thus, research activities do not meet the criteria for recognition under IAS (Ind AS) 38. This is because, at the research stage of a project, it is not certain that future economic benefits will probably flow to the entity from the project. In other words, there is too much uncertainty about the likely success of the project. Hence, research cost should be written off as an expense (in the statement of profit or loss) when they are incurred (research cost should not be treated as an intangible asset).

Development phase : Expenditure incurred during the development phase is known as development cost. Development cost is recognised as an intangible asset only if the enterprise can satisfy all of the following conditions or criteria :

- a) Technical feasibility of completing the asset, so that it will be available for use or sale.
- b) Intention to complete the asset and use or sell it.
- c) Ability to use or sell the asset.
- d) Probable future economic benefits from the asset, whether through sale or internal cost saving.
- e) Resources available to complete the development and to use or sell the asset.
- f) Expenses attributable to the intangible asset during the development can be measured.

Among other things, the enterprise should 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.

Examples of the development costs include the following :

- a) design, construction and testing of the pre-production prototypes and models.
- b) design of tools, jigs, moulds and dies.
- c) design, construction and operation of a pilot plant.
- d) design, construction and testing of new or improved materials, devices, products, processes, systems, or services.



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