

# **ACCOUNTING STANDARDS**

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# Accounting Standards Rules (2006)

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- Notified on 07.12.2006
  - Two types of Companies
    - SMC
    - Non- SMC
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# Accounting Standards Rules (2006)

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- Some relaxation to SMC
  - All the AS & ASI notified *verbatim*
  - ASI-11, 12, 27 & 29 not notified
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# Main Highlights

- ~~Exchange difference~~  
with have to be adjusted  
in P&L in case of asset  
linked exchange  
difference
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# Main Highlights

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- AS-18 applicable to all companies
  - AS-20 applicable to all companies
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# Main Highlights

- ~~The notified accounting~~  
standards for the most  
part, are a *verbatim*  
reproduction of the  
Accounting Standards as  
issued by the ICAI
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# Main Highlights

- The definition of SMCs is much simpler than the definition of SMEs given by ICAI (which involved classifying enterprises as level-I Enterprises, Level-II Enterprises and Level-III Enterprises).
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# Main Highlights

- Presentations of consolidated financial statements remain optional as before. But if parent company opt for present consolidated financial statements, compliance with relevant accounting standards is mandatory.
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# Main Highlights

- Enterprises -Rule 2 (e) has given the new definition of “enterprise” which means a company as defined in Section 3 of the Companies Act, 1956. Wherever the word “enterprise” has been used in notified accounting standards this will mean company registered under Companies Act, 1956.
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# SMC

The definition of SMCs is  
like level-II & level-III  
companies as classified  
by ICAI

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# Exemptions to SMCs

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SMCs need not to comply with AS-3, “Cash flow statement” & AS-17, “Segment Reporting”

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# Relaxations to SMCs

- ~~Some relaxation in AS-15~~
  - Need not disclose diluted EPS as AS-20 “Earning per Share”
  - Disclosure requirement of AS-29
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# Relaxations to SMCs

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- Disclosure requirement of AS-19
    - ◆ Value-in –use based on a reasonable estimate of future cash flows (AS-28).
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# Change in status

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- *From SMC to Non- SMC*
  - *From Non-SMC to SMC*
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# Disclosure by SMC

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- Disclosure about compliance of all ASs to the extent applicable
  - Disclosure regarding availing the relaxations
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# Disclosure by SMC

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- A partial exemptions or relaxations and disclosures shall not be permitted
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# Effective from

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All accounting periods  
commencing on or after  
07.12.2006

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# Thank

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**AS-26**

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# **INTANGIBLE ASSETS**

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# What is an asset

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An asset :-

- Controlled by an enterprise as a result of past events and,
  - From which future economic benefits are expected to flow to the enterprise
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# Types of Assets

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- Tangible Assets
  - Intangible Assets
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# Objective of AS

- Prescribing accounting ~~treatment for intangible assets~~
  - Prescribing criteria for recognition of assets in books of accounts
  - How to measure the amount at which the intangible assets should be recognised
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# Objective of AS

- Amortisation method for ~~intangible assets~~
  - Disclosure about intangible assets
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# Applicability

AS is not applicable to:-

- ~~Financial assets like cash~~
  - Intangible assets covered by AS-14 'Accounting for Amalgamation', AS-21 'Consolidated Financial Statements', deferred tax covered by AS-22 'Accounting for tax on income' & AS-19 'Leases'
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- The expenditure incurred on the exploration for, or ~~development &~~ extraction of oil, gas & mineral deposits & rights. However, this standard applies to STRAT UP costs in extractive industries.
  - Intangible assets arising in insurance enterprises from contracts with policyholders
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- Share issue expenses, discount allowed on the issue of shares
  - Expenditure in respect of termination benefits (VRS)
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# Intangible assets – this AS is applicable to

- ~~Goodwill~~
  - Adverting expenses
  - Training
  - Startup costs
  - Research & development activities
  - Rights under licensing agreements
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# Intangible assets – this AS is applicable to

- ~~Patents~~ & ~~copyright~~, trademark
  - Computer software
  - Other intangible assets which meet the definition of intangible assets as per AS-26
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# What is Intangible asset

~~An identifiable~~ non-monetary asset without physical substance held for use in the production or supplying of goods or services for rentals to others or for administrative purpose

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# Feature of Intangible asset

- Identifiable
  - Non- monetary assets
  - Without physical substance
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# Recognition criteria for Intangible asset

- ~~Must have the characteristics~~ of an asset
  - Future economic benefits
  - Reliably measured
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# **Initial measurement of Intangible asset**

~~Intangible asset initially~~ should  
be shown at cost

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# What is cost of Intangible asset

- ~~Separate acquisition~~
  - Exchange of assets
  - By issue of shares or securities
  - Acquisition of intangible assets in amalgamation
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# Internally generated goodwill

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# Research & Development

- ~~Research Phase~~

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- Development Phase

# Research Phase

~~Research~~ is the activity that is aimed at inventing or creating a new product, method or system

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# Development Phase

~~Development~~ is the activity that converts the results of the research into a marketable product.

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# Accounting treatment of Research Cost

~~Research cost~~ be expensed and  
when incurred

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# Accounting treatment of Development expenses

~~To be expensed~~ as incurred unless they meet asset recognition criteria

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# Accounting treatment of Development expenses

- ~~Technical feasibility~~ of the product
  - Availability of product for use or sale
  - Identification of cost incurred
  - Probability of external market
  - The realistic expectation that there will be sufficient future revenue to cover cost
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# **Determination of cost internally generated intangible**

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- Expenditure on materials & services used or consumed
  - Salaries, wages & other employment related cost of personnel engaged in developing the intangible assets
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# Determination of cost internally generated intangible

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- Any expenditure directly attributable to the generation
  - Overheads that are necessary for the generation of the intangibles
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## Cost not to be included

- Selling administrative & other general overheads
  - Inefficiencies & initial operating losses
  - Expenditure on staff training
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# Expenditure incurred but not intangible asset

- Expenditure on start-up activities (start-up costs) unless this expenditure is included in the cost of an item of fixed assets under AS-10 Start up costs may consist of preliminary expenses incurred.
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# Expenditure incurred but not intangible asset

- Expenditure on training activities
  - Expenditure on adverting & promotional activities
  - Expenditure on relocating or re-organizing part or all
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# Subsequent Expenditure on intangibles

- Subsequent expenses increase the future economic benefits of intangibles
  - Subsequent expenses can be attributed to asset & measured reliably
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# Carrying amount of intangibles

**Intangibles** shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

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# Amortisation Method

If ~~the pattern of benefit & cost~~ can be determined reliably, then the enterprises should amortise the intangible as per the pattern. However, if no pattern of benefit consumed can be determined reliably, then Straight-line method should be followed.

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# Review of Amortisation Method

- ~~Expected useful life~~ — has significantly changed
  - The pattern of future economic benefit has significantly changed
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# Impairment losses



# Retirement & Disposal

~~Should be de-recognised~~  
/eliminated from balance  
sheet if -

- An intangible assets is disposed or,
  - No future economic benefits are expected
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# Disclosure

- Useful life or amortisation rate
  - Amortisation method
  - Gross carrying amount, accumulated & impairment loss
  - Reconciliation of carrying amount at the beginning and at the end of the period
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# Further Disclosure

- If amortisation period is more than 10 years, the reason why the useful life is estimated for more than 10 years
  - Carrying amount of intangibles whose life is restricted, pledged on security
  - Research & development expenses recognised as expenses during the period.
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# Transitional Provision



# Applicability of AS to computer software & web site cost

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- Internally Generally Software
  - Acquired Software
  - Website Cost
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# Significant difference among IFRS/IAS-38 & US GAAP

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- There is no difference in charging the research cost to profit & loss statement, however in treatment of development expenditure US GAAP differs from AS-26 & IFRS/IAS-38. As per US GAAP development expenses also are written off subject to few exceptions
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# Significant difference among IFRS/IAS-38 & US GAAP

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- Revaluation of intangibles is not permitted in AS-26 & US GAAP whereas revaluation is permitted under IFRS/IAS-38 as allowed alternative treatment
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# Significant difference among IFRS/IAS-38 & US GAAP

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- AS-26 & IFRS/IAS-38 provides that subsequent expenditure cannot be capitalized unless the test of cost benefit proves incremental advantage relative to cost incurred, this aspect is not dealt with in US GAAP
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# Thank

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