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Practical Insights on Ind AS and SAs

Transition Accounting with Adjustment Entries for Intangible Assets



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1. Introduction

When an entity transitions from Accounting Standards (AS) to Indian Accounting Standards (Ind AS), it is required to reassess the assets and liabilities recognised in its financial statements in accordance with the applicable Ind AS requirements.

In the case of intangible assets, an entity transitioning from AS 26, *Intangible Assets*, to Ind AS 38, *Intangible Assets*, must examine whether the assets recognised under previous GAAP continue to satisfy the recognition and measurement requirements under Ind AS.

Although AS 26 and Ind AS 38 are substantially aligned in several areas, differences in the assessment of useful lives, the recognition of internally generated intangible assets and subsequent measurement may affect the carrying amounts reported in the opening Ind AS Balance Sheet.

The transition is governed by Ind AS 101, *First-time Adoption of Indian Accounting Standards*. Under this Standard, an entity is required to prepare an opening Ind AS Balance Sheet by applying the applicable Ind AS accounting policies, subject to the specific exemptions and exceptions prescribed by Ind AS 101.

This article explains the key accounting concepts relevant to the transition and demonstrates their practical application through numerical illustrations and journal entries.

2. Understanding the transition requirements

Before examining the individual accounting adjustments, it is important to understand three basic principles prescribed by Ind AS 101.

a. **Recognition:**

   An entity must recognise all assets that are required to be recognised under Ind AS.

b. **Derecognition:**

   An entity must remove assets that were recognised under previous GAAP but are not permitted to be recognised under Ind AS.

c. **Measurement:**

   An entity must measure recognised assets in accordance with the applicable Ind AS requirements.

Under Ind AS 101, adjustments arising from the transition are generally recognised directly in retained earnings or another appropriate component of equity at the date of transition.

For example, if an entity has capitalised an expenditure of ₹20 lakh under AS 26 but the expenditure does not qualify for recognition under Ind AS 38, the asset must be derecognised. The corresponding adjustment will generally be made against opening retained earnings.

The important point is that the transition adjustment is not automatically recognised in the current year's Statement of Profit and Loss.

3. Key accounting concepts affecting the transition

The following concepts are particularly relevant when moving from AS 26 to Ind AS 38.

3.1 Recognition of intangible assets

Under both AS 26 and Ind AS 38, an intangible asset must satisfy the applicable definition and recognition criteria.

Ind AS 38 requires an intangible asset to be identifiable, non-monetary and without physical substance. The entity must also demonstrate that future economic benefits are expected to flow from the asset and that its cost can be measured reliably.

Therefore, an asset recognised under AS 26 cannot automatically continue to be recognised under Ind AS 38.

3.2 Research and development expenditure

Research expenditure is recognised as an expense under Ind AS 38.

Development expenditure is capitalised only when the entity demonstrates all six conditions prescribed under Ind AS 38, including technical feasibility, intention and ability to complete the asset, probable future economic benefits, availability of resources and reliable measurement of expenditure.

An important restriction is contained in paragraph 71 of Ind AS 38 which says that the expenditure previously recognised as an expense cannot subsequently be reinstated as part of the cost of an intangible asset.

3.3 Useful life and amortisation

AS 26 contains a rebuttable presumption that the useful life of an intangible asset will not exceed ten years, unless persuasive evidence supports a longer period.

Ind AS 38 does not prescribe a general ten-year limit. Instead, it requires an entity to assess whether an intangible asset has a finite or indefinite useful life.

a. **Finite useful life:**

   The asset is amortised over its estimated useful life.

b. **Indefinite useful life:**

   The asset is not amortised but is tested for impairment annually and whenever there is an indication of impairment.

This distinction may affect the amortisation expense and subsequent carrying amount of intangible assets.

3.4 Deemed cost exemption

Ind AS 101 provides a limited deemed cost exemption for certain intangible assets under paragraph D7.

An entity may use fair value as deemed cost only where the intangible asset satisfies the recognition criteria under Ind AS 38, including reliable measurement of original cost, and the revaluation criteria under Ind AS 38, including the existence of an active market.

This is not a general exemption available for all intangible assets.

4. Practical numerical illustrations

The following illustrations explain how the transition requirements are applied in different situations. All amounts are in ₹ lakh

Illustration 1: Intangible asset recognised under AS 26 but not qualifying under Ind AS 38

Concept

An asset recognised under previous GAAP must be removed from the opening Ind AS Balance Sheet if it does not satisfy the definition and recognition requirements of Ind AS 38. This is an application of the derecognition requirement under Ind AS 101.

Illustration

Alpha Limited has recognised an internally generated customer relationship asset of ₹25 lakh under AS 26.

a. At the time of transition, the company reassesses the asset and finds that:

b. The customer relationships have not arisen from contractual or other legal rights.

c. The company cannot demonstrate control over the expected future economic benefits.

d. The customer relationships cannot be separately identified as a resource controlled by the company.

Accordingly, the asset does not qualify for recognition under Ind AS 38.

Calculation

Particulars	Amount
Carrying amount under AS 26	25
Amount qualifying under Ind AS 38	Nil
Amount to be derecognized	25

Transition Journal Entry

Particulars	Debit	Credit
Opening Retained Earnings	25	
To Intangible Assets – Customer Relationship		25

Illustration 2: Development expenditure capitalised under AS 26

Concept

Development expenditure can be recognised as an intangible asset only when the recognition criteria are satisfied.

Under Ind AS 38, the entity must demonstrate all six specified conditions. Further, it provides that only expenditure incurred from the date on which the recognition criteria are first satisfied forms part of the cost of the internally generated intangible asset.

Illustration

Beta Limited is developing specialised accounting software. During the development of the software, it incurs the following expenditure:

Particulars	Amount
Research expenditure	15
Development expenditure before satisfying recognition criteria	20
Development expenditure after satisfying recognition criteria	45
Total Expenditure	**80**

Under AS 26, the company has capitalised the entire development expenditure of ₹65 lakh.

However, during the transition assessment, it is established that all six conditions prescribed under Ind AS 38 were satisfied only after the company had incurred ₹20 lakh of development expenditure.

Step 1: Determine the expenditure eligible for capitalisation

Particulars	Amount
Total development expenditure capitalised under AS 26	65
Less. Development expenditure incurred before satisfying recognition criteria	(20)
Development expenditure eligible under Ind AS 38	45

The research expenditure of ₹15 lakh was already charged to the Statement of Profit and Loss and cannot be reinstated.

Step 2: Determine the transition adjustment

Particulars	Amount
Carrying amount under AS 26	65
Eligible carrying amount under Ind AS 38	(45)
Reduction in Intangible assets	20

Transition Journal Entry

Particulars	Debit	Credit
Opening retained earnings	20	
To Intangible Assets under development		20

Illustration 4: Reassessment of useful life and its effect on amortisation

Concept

Ind AS 38 does not prescribe a general ten-year limit for the useful life of an intangible asset. An entity must assess the useful life based on the expected period over which the asset will generate economic benefits.

However, a reassessment of useful life does not automatically mean that accumulated amortisation recognised under AS 26 should be reversed.

Where the reassessment represents a change in accounting estimate, the revised estimate is generally applied prospectively under Ind AS 8.

Illustration

Gamma Limited acquired software for ₹100 lakh on 1st April 2022. The software was available for use immediately.

The company estimated a useful life of ten years and amortised the asset on a straight-line basis. The date of transition to Ind AS is 1st April 2026.

At the transition date, the company reassesses the software's useful life and determines that it has a remaining useful life of 12 years, considering its technological capabilities and expected usage.

Assume the previous amortisation was appropriate based on the estimates made at the relevant times and the revised assessment represents a change in estimate.

Step 1: Calculate carrying amount at transition

Annual amortisation under AS 26: (₹100/10) = ₹10

Accumulated amortisation for four years: ₹10 * 4 = ₹40

Carrying amount on the date of transition: ₹100 - ₹40 = ₹60

Step 2: Calculate future amortisation under Ind AS 38

The remaining useful life is 12 years. So, the annual amortisation is (₹60/12)= ₹5

Particulars	Amount
Original Cost	100
Accumulated amortisation up to transition date	(40)
Carrying amount at transition	60
Revised remaining useful life	12
Annual amortisation after transition	5

Transition journal entry

No opening adjustment is required merely because the remaining useful life has been revised.

The revised amortisation charge of ₹5 lakh will be recognised in each subsequent year, assuming the estimate remains unchanged.

Illustration 6: Application of deemed cost exemption to an intangible asset

Concept

Ind AS 101 permits an entity to use fair value as deemed cost for certain intangible assets under paragraph D7.

However, the asset must satisfy the recognition criteria of Ind AS 38, including reliable measurement of original cost, and the revaluation criteria, including the existence of an active market.

This exemption is therefore available only in limited circumstances.

Illustration

Theta Limited holds a transferable operating licence. The following details are available at the date of transition:

Particulars	Amount
Original Cost	100
Accumulated amortisation	40
Carrying amount under AS 26	60
Fair value at transition date	85

The licence is transferable and an active market exists. The company has also established that the recognition and revaluation requirements of Ind AS 38 are satisfied. The company elects to use fair value as deemed cost.

Calculation

Particulars	Amount
Carrying Amount under AS 26	60
Fair value at transition date	85
Increase in carrying amount	25

Transition journal entry

Particulars	Debit	Credit
Intangible Assets – Operating License A/c	25	
To Retained Earnings		25

5. Conclusion

The transition from AS 26 to Ind AS 38 requires an entity to reassess its intangible assets rather than simply carry forward the previous GAAP balances.

The most important areas requiring attention are recognition of internally generated intangible assets, capitalisation of development expenditure, assessment of useful lives, impairment and the limited deemed cost exemption under Ind AS 101.

The numerical illustrations demonstrate that the impact of transition depends on the nature of the asset and the reason for the difference in accounting treatment.

An asset may need to be derecognised, its carrying amount may need to be adjusted, or its subsequent amortisation may change without any adjustment to the opening Balance Sheet.

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A Glimpse of the People Behind Taxmann



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- ✓ Chartered Accountant (All India 24th Rank)
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- ✓ Chartered Accountant and Cost & Works Accountant
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- ✓ Law practitioner, a fellow member of the Institute of Chartered Accountants of India and also holds a Master's degree in Philosophy
- ✓ PhD from Utkal University, Doctoral Research on Social Accountability Standards for NPOs
- ✓ Author of several best-selling books for professionals, including the recent one titled 'Trust and NGO's Ready Reckoner' by Taxmann
- ✓ Drafted publications for The Institute of Chartered Accountants of India, New Delhi, such as FAQs on GST for NPOs & FAQs on FCRA for NPOs.
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