A Comparative Study on National and International Accounting Standards (With Reference to Intangible Assets)

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Abstract

The aim of this study is to prepare the comparative analysis of accounting standards on Intangible assets namely AS-26 (India) and IAS-38 (International**).** The analysis has been done broadly on the following basis – accounting treatment of different types of goodwill, internally generated goodwill, internally generated intangible assets, how to subsequently recognize the intangible assets (amortization method, amortization period) and how to treat impairment loss. Initially a comparative table has been prepared to have a quick view of differences between the standards. Further, the similarities between the standards have been highlighted. This difference analysis has helped in ascertaining the degree of harmonization of standards under discussion with respect to IAS-38 the international standard.

Keywords: accounting standards, AS-26IAS-38

1. Introduction:

Accounting of Intangible assets is a complex and important subject in today's information and knowledge based economy. For companies, these assets are becoming basic drivers for achieving competitive success. Accounting of Intangible assets is also important for their effective management as there is a famous saying 'What gets measured gets managed'. With a view to report these assets in the financial statements, various regulatory bodies have issued accounting standards on intangible assets. Accordingly, this chapter is based on an in-depth study of major accounting standards dealing with intangible assets.

Introduction of Accounting Standards on Intangible Assets

An Accounting Standard can be defined as "A principle that guides and standardizes accounting practices". The Generally Accepted Accounting Principles (GAAP) are a group of accounting standards that are widely accepted as appropriate to the field of accounting. Accounting standards are necessary so that financial statements are meaningful across a wide variety of businesses; otherwise, the accounting rules of different companies would make comparative analysis almost impossible.Over past decades for the purpose of accounting of intangible assets in the financial statements, several accounting standards have been issued by professional accounting bodies in different countries.

The globalisation of the world's capital markets sparked a movement for global standards on intangible assets. The best example of this was the introduction of International Accounting Standard-38 on intangible assets. Following that other countries have also issued separate accounting standard on intangible assets like AS-26 in India. These standards address issues like how and when intangible assets that are acquired or internally generated should be accounted in the financial statements. They also lay down provisions on how these intangible assets should be accounted after they have been initially recognised in the financial statements.

Indian GAAP: Accounting Standard-26 on intangible assets was issued in 2002 by the Council of Institute of Chartered Accountants of India, under Indian Generally accepted accounting practices. Its application was made mandatory for all types of enterprises, with accounting periods commencing on or after 1-4-2004. This standard covered the similar provisions of initial recognition, measurement, subsequent expenditure, amortisation, impairment losses, retirements and disposals, and disclosure like IFRS and US GAAP. Further Accounting Standard-28 on Impairment of Assets discusses the provisions for impairment of intangible assets.

International Financial Reporting Standard (IFRS): Under IFRS, International Accounting Standard-38 **(**IAS-38) on intangible assets was issued by the International Accounting Standards Committee (IASC) in September, 1998. The objective of the standard was to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another standard. The standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about these assets. Accounting treatment for amortisation, impairment, retirements and disposals have also been explained. Further IASC has also issued International Accounting Standard 36-Impairment of Assets, which discusses the impairment provisions for goodwill, and intangible assets with indefinite life.

2. Literature Review:

- **Manpreet Sharma and Neha, 2014,** The aim of this study was to prepare the comparative analysis of standards of five different countries on Intangible assets namely FRS-10(United Kingdom), AASB-138(Australia), FAS-142 (United States of America), AS-26 (India) and IAS-38 (International**).** The difference analysis has been done based on first version of the standards under study. Some amendments have taken place since their issue.

- **VishakhaMehra, 2010,** This study concludes that International financial reporting Standard (IAS-38) has been used as a yardstick for the comparison of accounting standards as most of the countries are harmonising their national accounting practices with IFRS. All European countries have adopted IFRS since 1 January 2005. IAS 38 (IASB), FAS 142 (US GAAP), FRS 10 (UK GAAP), AS 26 (Indian GAAP) and ASBE 6 (Chinese GAAP), all cover many of the same topics, and reach the same conclusions on many issues.

- **TilakChandana, 2008,** described various voluntary and mandatory reporting practices adopted for measuring Intellectual Capital and highlighted on some recent trends in reporting of Intellectual Capital worldwide. He concluded that though the usefulness of voluntary reporting practices is unquestionable , the prevalent practices being followed have no common grammar, language , no third party verification , high transaction cost evolved ,no legal sanction, absence of universally accepted and recognized measurement principles. Thus reporting of IC in India is not adequate.

- **Pradeep Kumar Singh, 2009,** has explained the need and importance of intangible assets in Knowledge era, various ways of intangible assets reporting by Indian companies and the method for the valuation of intangible assets. The present study is based on both primary and secondary data related to 30 leading BSE Indian companies for five years from 2003 to 2007. Companies are further sub- grouped according to their nature and business as Information and technology Industry, Pharmaceutical Industry, FMGC industry, Automobile industry and Infrastructure Industry and under each sub group six leading units are included. For, IC reporting & disclosure practice, a comprehensive industry wise analysis is made related to amortization method, duration and categories of intangible assets. He concluded from his article that highly innovative companies i.e IT and Pharma sector are voluntary reporting information related to IC in their annual report but traditional companies are still behind the reporting and disclosure practices related to IC.

3. Objectives of the Study:

The aim of this study is to prepare the comparative analysis of accounting standards on Intangible assets namely AS-26 (India) and IAS-38 (International**).**

4. Research Methodology:

The analysis has been done broadly on the following basis – accounting treatment of different types of goodwill, internally generated goodwill, internally generated intangible assets, how to subsequently recognize the intangible assets (amortization method, amortization period) and how to treat impairment loss. Initially a comparative table has been prepared to have a quick view of differences between the standards. Further, the similarities between the standards have been highlighted. This difference analysis has helped in ascertaining the degree of harmonization of standards under discussion with respect to IAS-38 the international standard.

5. Data Analysis:

Comparison of Accounting Standards AS 26 and IAS 38 on Intangible Assets

Accounting Standards issued under Indian GAAP and IFRS have been compared in order to understand the differences and similarities between the accounting treatments employed for intangible assets by AS 26 and IAS 38.

5.1 AS 26 and IAS 38 on intangible assets can be differentiated on the following ground:

Table below discusses the differences between AS 26 and IAS 38 for accounting treatment of Intangible Assets:

Table

Sl. No.	Point of Difference	AS 26	IAS 38
1.	**Definition**	AS 26 defines an intangible assets as an identifiable non-monetary asset without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.	IAS 38 defines an intangible asset is an identifiable non-monetary asset without physical substance.
2.	**Subsequent Measurement – Acquired And Internally Generated Intangibles**	Initial recognition is similar to IFRS. Revaluation is not allowed. All intangible assets are carried at amortised costs less impairment	Intangible assets subject to amortisation are carried at historical costs less accumulated amortisation/ impairment, or at fair value less subsequent amortisation/ impairment. Intangible assets not subject to amortisation are carried at historical costs unless impaired. A subsequent revaluation of intangible asset to their fair value is based on prices in an active market. Revaluations are performed regularly and for the entire class of intangible assets at the same time if an entity adopts this treatment (extremely rare in practice).
3.	**Amortisation of Goodwill**	Goodwill arising on amalgamation in the nature of purchase is amortised over five years. Goodwill arising on acquisition is not amortised but is tested for impairment	Acquired goodwill is not amortised, but instead is subject to impairment testing at least annually

4.	**Amortisation of intangible assets other than goodwill**	The useful life of an intangible asset cannot exceed 10 years from the date the asset is available for use.	The useful life of intangible assets other than goodwill is either finite or indefinite. Intangibles with indefinite useful lives are not amortised, but instead are subject to impairment testing at least annually. An intangible asset has an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity
5.	**Impairment Acquired And Internally Generated Intangibles**	Similar to IAS 38, except that AS 26 requires test of impairment to be applied even if there are no indications of that asset is impaired for following assets: • Intangible assets not yet available for use; • Intangible assets amortised over more than 10 years	IAS 38 does not require any impairment testing unless there are indications of impairment. Impairment reviews are required whenever changes in events or circumstances indicate that an intangible assets carrying amount may not be recoverable. Annual reviews are required for intangible assets with indefinite useful lives and for assets not yet ready for use. Reversals of impairment losses are allowed under specific circumstances
6.	**Retirement And Disposals :** **"Held for Sale"**	There is no such stipulation under AS26	Under IAS 38 if an intangible asset is "held for sale" then amortisation should stop
7.	**Research And Development: In process or Business combination**	AS 26 is silent on this	If an entity acquires in-process research and development separately or in a business combination, then it is recognised as an intangible asset if it meets the definition of an intangible assets and its fair value can be measured reliably

8.	**Website Development Costs**	Costs incurred during the planning stage are expensed. Costs for activities during the websites application and infrastructure development stages are capitalised, and costs incurred during the operation stage are expensed as incurred	Costs associated with Web sites developed for advertising or promotional purposes are expensed as incurred. For other Web sites, expenditure incurred during the application and infrastructure development stage, the graphical design stage and the content development stage are capitalised if the criteria for capitalising development costs are met. The costs of developing content for advertising or promotional purposes are expensed as incurred
9.	**Acquisition by way of government grant**	AS 26, provides the option of only fair value for recognising the assets and grant in accordance with the draft of AS12.	IAS 38 provides the option to an entity to recognise both asset and grant initially at fair value or at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use.

5.2 Similarities between AS 26 and IAS 38 on intangible assets can be presented on the following ground:

The point below represents the similarities between AS 26 and IAS 38 for accounting treatment of Intangible Assets:

i. Definition

To meet the definition of intangible assets, an item must lack physical substance and must be:

- identifiable
- non-monetary and
- Controlled by the entity and expected to provide future economic benefits to the entity (i.e., it must meet the definition of an asset).

An intangible asset is identifiable if it:

- is separable, i.e., capable of being separated or divided and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability, regardless of whether there is an intent to do so; or

- Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

ii. Initial Recognition :

An intangible asset is recognised when

▪ it is probable that future economic benefits that are attributable to the asset will flow to the entity; and
▪ The cost of the asset can be measured reliably.

The cost of an intangible assets acquired in a separate transition is the fair value of any consideration given.

iii. Measurement – Acquired Intangibles :

The cost of a separately acquired intangible asset at the date of acquisitions is usually self-evident, being the **fair value** of the consideration paid.

iv. Measurement – Internally Generated Intangibles :

The cost comprises all expenditures that can be directly attributed or allocated to creating producing and preparing the asset from the date when the recognition criteria are met.

v. Amortisation:

▪ An intangible asset with a finite life is amortised on a systematic basis over its useful life.

▪ A change in useful life is accounted for prospectively as a change in accounting estimate. The amortisable amount of an intangible asset with a finite useful life is determined after deducting its residual value. The residual value of an intangible assets is the amount that could be obtained at the reporting date for an intangible assets currently in the condition that the subject intangible assets is expected to be in on its expected disposal date, less the estimated costs of disposal.

▪ The residual value of an intangible assets with a finite useful life is assumed to be zero unless a third party has committed to buy the asset at the end of its useful life, or there is an active market from which a residual value can be obtained and it is probable that such a market will exist at the end of the asset's useful life

▪ When control of an intangible assets is based on legal rights that have been granted for a finite period, the useful life cannot exceed that period unless:

- The legal rights are renewable;
- There is evidence to support that they will be renewed; and
- The cost of renewal of such rights is not significant

▪ The method of amortisation, which should be reviewed at each reporting date, reflects the pattern of consumption of the economic benefits. If the pattern in which the asset's economic benefits are consumed cannot be determined, then the straight-line method is used. There rarely will be persuasive evidence to support an amortisation method that results in a lower amount of accumulated amortisation than would have been recognised had the straight-line method been used

▪ The amortisation of intangible assets with finite lives begins when the intangible assets is available for use (i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management), which may be prior to the asset being brought into use.

▪ Amortisation ceases at the earlier of the date that the asset is classified as held for sale or is derecognised.

vi. Retirement And Disposals:

When an intangible assets is disposed of or when no further economic benefits are expected from its use, the gain or loss is the difference between any net proceeds received and the carrying amount of the asset. Any attributable revaluation surplus may be transferred to retained earnings or may remain in the revaluation reserve, but is not recognised in profit or loss.

vii. Research And Development:

▪ Research is original and planned investigation undertaken with the prospect of gaining new knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, products, processes etc. Development does not include the maintenance or enhancement of ongoing operations.

▪ Research costs generally are expensed as incurred.

▪ If an internally generated intangible assets arises from the development phase of a project, then directly attributable expenditure is capitalised from the date that the entity is able to demonstrate:

• The technical feasibility of completing the intangible assets so that it will be available for use or sale;

• Its intention to complete the intangible assets and use or sell it;

• Its ability to use or sell the intangible assets;

• how the intangible assets will generate probable future economic benefits; the entity must demonstrate the existence of a market for the output of the intangible assets or the intangible assets itself or, if it is to be used internally, the usefulness of the intangible assets; • the availability of adequate technical, financial and other resources to complete the development of, and to use or sell, the intangible assets; and

• its ability to measure reliably the expenditure attributable to the intangible assets during its development.

Development Costs initially recognised as an expense cannot be capitalised in a subsequent period.

▪ Expenditure on internally generated intangible assets such as brands, mastheads, publishing titles, customer lists and similar items cannot be capitalised.

viii. Software Developed For Sale:

There are no special requirements for software developed for sale. Costs of software developed for sale are accounted for following the general principles for internally generated intangible assets

ix. Internal Use Software :

There are no special requirements for the development of internal-use software. The costs of internal-use software are accounted for under the general principles for internally generated intangible assets or, in the case of purchased software, following the general requirements for intangible assets.

x. Goodwill:

Goodwill is recognised only in a business combination and is capitalised. It is measured as a residual.

xi. Items That Are Expensed As Incurred:

Expenditure associated with the following costs are expensed as incurred regardless of whether the general criteria for recognition appear to be met:

- Internally generated goodwill;
- Start-up costs unless, they qualify for recognition as part of the cost of property, plant and equipment;
- Training activities;
- Advertising and promotional activities; and
- Expenditure on relocating or reorganising part, or all, of an entity

xii. Direct Response Advertising:

There are no special requirements for direct-response advertising, and expenditure is expensed as incurred.

6. Conclusion:

The Institute of Chartered Accountants of India issued AS-26 in 2002. In 2010, ICAI came out with an exposure draft pointing out the major differences between AS-26 and the proposed AS-26(Considered points for harmonization with IAS-38) but no amended standard has been issued. Therefore, India has not started harmonization of AS-26 with IAS-38 (the international standard).

Thus, there are many similarities and divergences in Indian GAAP and IFRS. The comparison has been organised primarily according to different sections relating to definition, initial recognition, measurement of acquired intangible assets, measurement of internally generated intangible assets, subsequent measurements, amortisation, impairment, retirement and disposals of intangible assets, treatment of research and development expenditure, software developed for internal use and sale.

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