Applicability of Accounting Standard (AS) 26, Intangible Assets, to intangible items

1. Accounting Standard (AS) 26, 'Intangible Assets', came into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2003 and is mandatory in nature from that date for the following:

   (i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

   (ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

   In respect of all other enterprises, the Accounting Standard will come into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2004 and will be mandatory in nature from that date.

2. An issue has been raised as to what should be the treatment of the expenditure incurred on intangible items, which were treated as deferred revenue expenditure and ordinarily spread over a period of 3 to 5 years before AS 26 became mandatory and which do not meet the definition of an 'asset' as per AS 26. The examples of such items are expenditure incurred in respect of lump sum payment towards a Voluntary Retirement Scheme (VRS), preliminary expenses etc. In this context, it is clarified as below:

   (i) The expenditure incurred on intangible items (referred to in paragraph 2 above) after the date AS 26 became/becomes mandatory (1-4-2003 or 1-4-2004, as the case may be) would have to be expensed when incurred since these do not meet the definition of an 'asset' as per AS 26.

   (ii) In respect of the balances of the expenditure incurred on intangible items (referred to in paragraph 2 above) before the date AS 26 became/becomes mandatory, appearing in the balance sheet as on 1-4-2003 or 1-4-2004, as the case may be, paragraphs 99 and 100 of AS 26 are applicable.

In view of the above, it would not be proper to adjust the balances of such items against the revenue reserves as on 1-4-2003 or 1-4-2004, as the case may be, and such items should continue to be expensed over a number of years as originally contemplated, since as per the accounting principles relevant for deferred revenue expenditure in India, such expenditure is spread over a period which is normally less than the period contemplated in paragraph 63 of AS 26.

   (iii) In case an enterprise has already adjusted the above referred balances of the intangible items appearing in the balance sheet as on 1-4-2003 against the opening balance of revenue reserves as on 1-4-2003, it should rectify the same on the basis of the above requirements.