



**THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF INDIA**
(SET UP BY AN ACT OF PARLIAMENT)

Importance of Workplace Communication

2023 JANUARY

E-NEWSLETTER

THRISSUR BRANCH
OF SOUTHERN INDIA REGIONAL COUNCIL
OF INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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EDITOR'S DESK



Dear Professional Colleagues,

"The first step towards getting somewhere is to decide you're not going to stay where you are." —J.P. Morgan

A new year a new beginning, a fresh 365 pages book sits right in front of us awaiting to be filled with renewed thoughts, resolutions. The choice is ours whether we want to write the same chapters or new ones.

I sincerely hope this new year helps to bring out the best version of you.

Last month Thrissur Branch conducted the CA Students Mega Conference at the branch premises. More than 800 students registered for the conference. The seminar hall was thronged with enthusiastic students eagerly awaiting to be enlightened with knowledge. I must mention the fact that I was supremely proud of the confidence, quality and panache that our student speakers displayed during the conference. Their research on the subjects were terrific and they captivated the audience with their paper presentations. Gone are the days when the general notion was that Chartered Accountants are not as good as MBA Graduates when it comes to communication skills.

"No matter what job you have in life, your success will be determined 5% by your academic credentials, 15% by your professional experiences and 80% by your communication skills."- Anonymous

Likewise, good communication at the workplace is important in order to ensure that employees have the information they need to perform well, to build a positive work environment and eliminate inefficiencies. It also aids in maintaining healthy workplace relationships.

In this month's newsletter we have an article by CA Ashna P S on Capitalisation of Internally generated intangible assets. Hope you enjoy reading the newsletter.

Jai Hind Jai ICAI
Thank you

CA. DIVYA DHARMARAJAN,
NEWSLETTER IN CHARGE

CHAIRMAN'S MESSAGE



Dear Professional colleagues,

First of all, let me join the members of the managing committee of Thrissur branch in wishing you and your family a very happy new year. Let the year 2023 be fulfilling and full of exciting opportunities. The saying goes opportunity knocks only once. But if it does not knock go and build a door. By knowing yourselves and making a conscious effort to push forward, you can create your own opportunities or find ones that fit what you are looking for.

The various statutory deadlines have ended except for the regular compliance ones for the general CA firms in practice. Three months remain till the financial year end. I know that all the firms will be spending time for the three P's, Plan, Prepare and Perform for the next audit season. The year 2022 has gone without any extensions. It is high time that we educate our clients that if we need to comply with the statutory deadlines we need to plan well in advance. Last minute rush will always create problems and thus affects the audit quality also.

The branch conducted 10 CPE programmes last month. All the programmes were well attended and actively participated. On behalf of the branch, I do thank CA Spudarjunan S, Dr. Priyanka Rajmohan, CA. R S Balaji, CA. Sripriya K, CA. V Pattabhi Ram, CA Shajan T T, CA Sreelekshmi S, Dr CA. Abhishek Murali, CA Peter Richard Jose and CA Mahadevan N V for agreeing to do the programmes. Last month on 16th and 17th the Thrissur branch under the aegis of Board of Studies ICAI conducted the Mega CA students Conference. Around 800 registrations were received. I thank the members of Thrissur branch for offering great support to the programme by sending their students. All the sessions of the student's conference were well attended. The conference covered all the core subjects related to our field and also gave an insight into the future. I thank the SICASA team of Thrissur in arranging such a wonderful event. Around 25 members from Thrissur participated in the 54th regional conference of SIRC of ICAI in Hyderabad.

The branch conducted one career counselling programme during the month of December. The Managing Committee met once during the month. The branch has been conducting coaching classes for the foundation, Intermediate and final. Special emphasis had been given to the final classes this year and the same was well received, and students from outside the district are coming for the same also. Also, we conducted integrated course on AICITSS –Information Technology, AICITSS –MCS, ICITSS –Information Technology & ICITSS –Orientation Programme.

While a new COVID crisis, global economic crisis and many other ill factors are looming over the year 2023, hope and looking up for the brighter sun every morning is what will keep this world going on.

Jai ICAI Jai Hind

CA. AJITH KAIMAL R
CHAIRPERSON

CAPITALISATION OF INTERNALLY GENERATED INTANGIBLE ASSETS

Accounting for intangible assets, particularly those that are generated internally by an entity.



CA. ASHNAP S

Many businesses in the commercial world spend vast amounts of money, on an annual basis, on the research and development of products and services. These entities do this with the intention of developing a product or service that will, in future periods, provide significant amounts of income for years to come. Most companies operating within the IT industry have intangible assets on their balance sheet. Although intangible assets do not have a physical substance, they can be a significant element for companies to be able to operate successfully.

IAS 38 Intangible Assets states that to meet the definition of intangible asset, an item:

- *Lacks physical substance*
- *Is identifiable*
- *Non- monetary*
- *Is controlled by entity*
- *Expected to provide future economic benefits to the entity.*

In addition to complying with the criteria to qualify as an intangible asset and the recognition criteria mentioned above, to assess whether internally generated intangible assets meet the recognition criteria, an entity is required to classify the generation of the assets into 2 phases: Research phase and development phase.

Distinction between Research and Development

IAS 38 defines Research and Development as follows: **‘Research’** is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Research costs are expensed as they are incurred.

‘Development’ is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services, before the start of commercial production or

Development does not include the maintenance or enhancement of ongoing operations.

In view of the above, a company needs to be able to make a distinction between the 2 phases of its projects. The costs attributable to activities that fall under the research phase (as defined above), need to be accounted for as an expense. On the other hand, anything that qualifies as development could be capitalised.

Should the company not be in a position to distinguish between the 2 phases of its internal project to create the intangible asset, all the expenditure incurred on the project needs to be treated as if it was incurred in the research phase and hence expensed when incurred.

Recognition criteria for internally generated intangible assets arising from the development phase

1. How the intangible asset will generate probable future economic benefits. Amongst other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is used internally, the usefulness of the intangible asset;
2. Its intention to complete the intangible asset so that it will be available for use or sale. It may be challenging to obtain this evidence since it relies on management's intent;
3. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. Financial and other resources needed to complete the development are not required to be secured at the start of the project. An entity may be able to demonstrate its ability to secure these resources through business plans and external financing plans in which potential customers, investors or lenders have expressed interest;

4. Its ability to use or sell the intangible asset;
5. The technical feasibility of completing the intangible asset so that it will be available for use or sale. The recognition criterion of technical feasibility is very subjective and relies also on management's intent;
6. Its ability to reliably measure the expenditure attributable to the intangible asset during its development. The Company would require an appropriately equipped costing system (including for example a time keeping system if the entity's human resources are being used in the asset's development) to reliably determine the cost of production.

Cost of internally generated intangible assets

On initial recognition, an intangible asset should be measured at cost if 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 internally generated intangible asset includes the directly attributable expenditure of preparing the asset for its intended use. Expenditure on training activities, identified inefficiencies and initial operating losses is expensed as it is incurred. The capitalisation cut off is determined by when the testing stage of the software has been completed and the software is ready to go live. Costs incurred after the final acceptance testing and launch have been successfully completed, should be expensed.

Treatment of capitalised development costs

Once development costs have been capitalised, the asset should be amortised in accordance with the accruals concept over its finite life. Amortisation must only begin when commercial production has commenced (hence matching the income and expenditure to the period in which it relates). Each development project must be reviewed at the end of each accounting period to ensure that the recognition criteria are still met. If the criteria are no longer met, then the previously capitalised costs must be written off to the income statement immediately.

Conclusion

It is very challenging for accounting for intangible assets, particularly those that are generated internally by an entity using its own in-house resources. Certain aspects of the recognition process can be subjective as they inherently depend on management's intent. Other aspects of measurement can be judgmental and may need to rely on robust data capturing systems and sound controls. Therefore management should adequately address all these aspects in a timely manner before deciding on to capitalise or expense off.

CA. ASHNA P S

Glimpses

DECEMBER 22



06.12.2022

CPE SEMINAR ON ANALYSIS OF GST - ANNUAL RETURNS & RECONCILIATION STATEMENTS
SPEAKER : CA.SPUDARJUNAN S ERNAKULAM



07.12.2022

CPE SEMINAR ON STRESS MANAGEMENT
SPEAKER : DR. PRIYANKA RAJMOHAN

Glimpses

DECEMBER 22



16.12.2022

CPE SEMINAR ON AUDIT QUALITY MATURITY MODEL & THE EMERGING AUDIT AND GOVERNANCE LANDSCAPE
SPEAKER : CA. R S BALAJI & CA. SRIPRIYA K(CENTRAL COUNCIL MEMBER,ICAI)

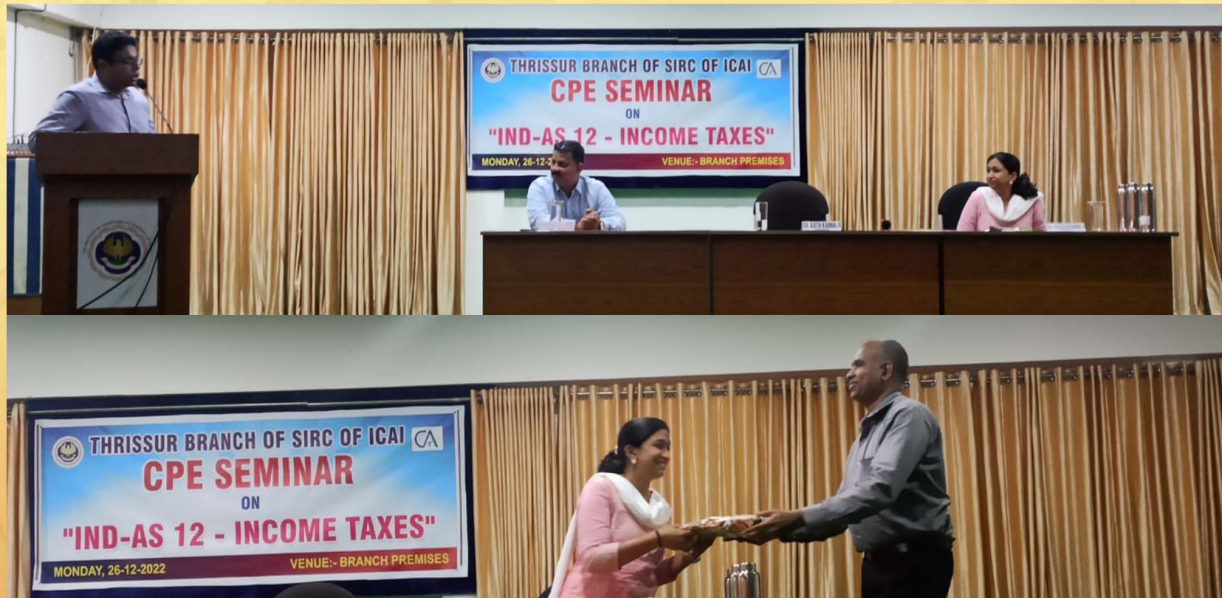


17.12.2022

CPE SEMINAR ON FUTURE OF SMALL AND MEDIUM CA FIRMS
SPEAKER : CA. V PATTABHI RAM

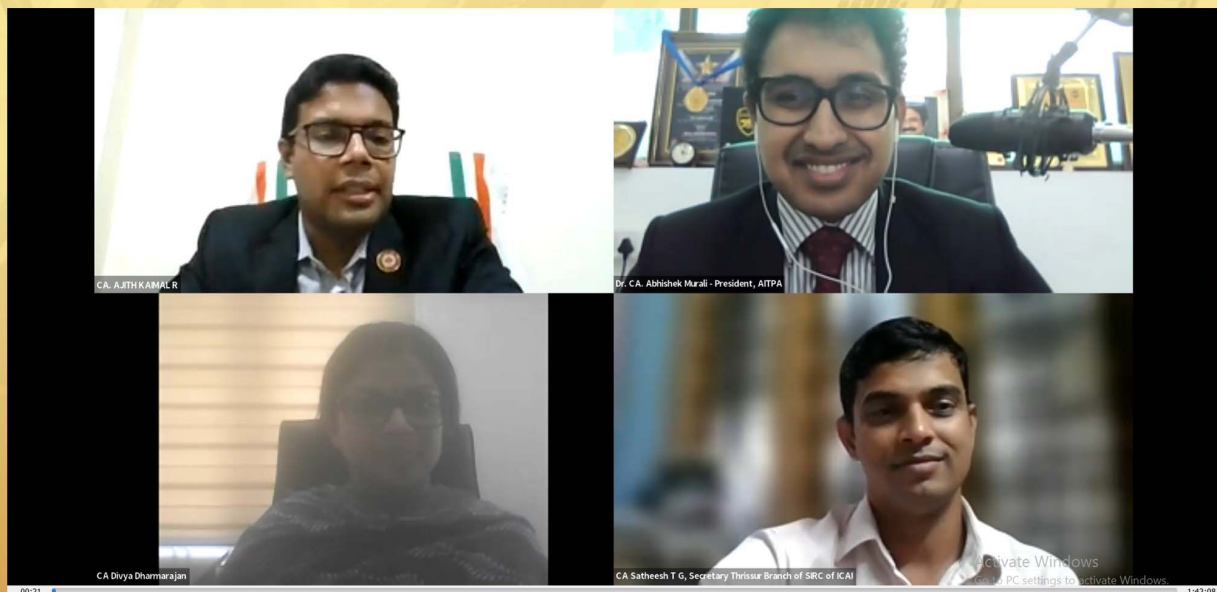
Glimpses

DECEMBER 22



26.12.2022

CPE SEMINAR ON IND AS 12-INCOME TAXES
SPEAKER : CA. SREELEKSHMI S

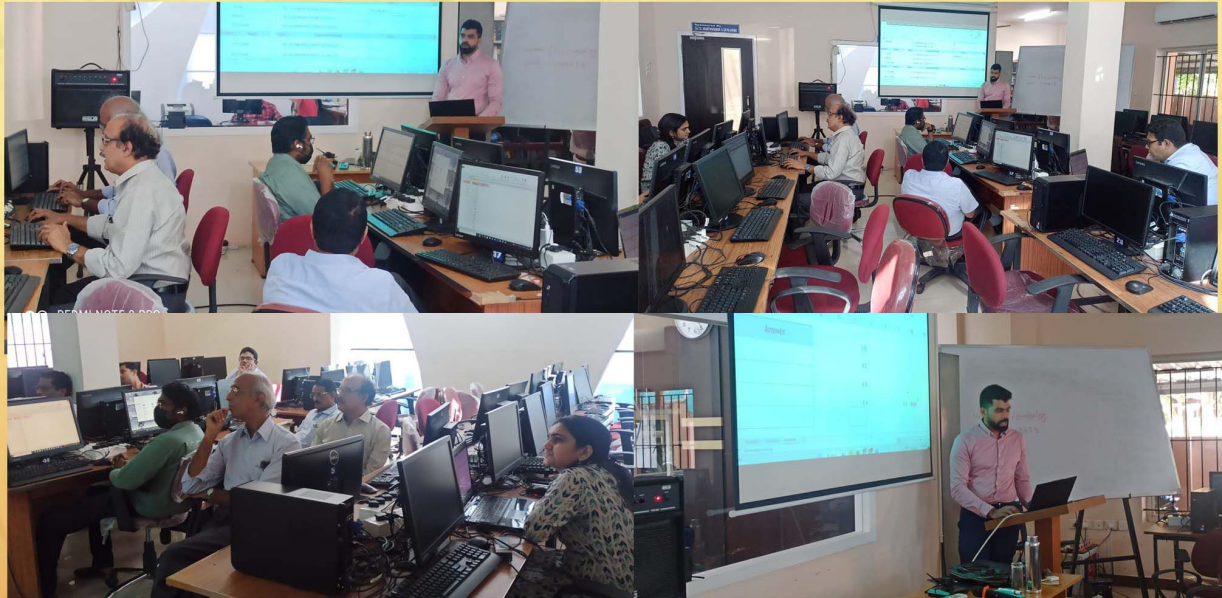


27.12.2022

VCM ON INCOME TAX NOTICES & APPEALS
SPEAKER :DR. CA. ABHISHEK MURALI

Glimpses

DECEMBER 22



29.12.2022

CPE WORKSHOP ON MS EXCEL
SPEAKER : CA. PETER RICHARD JOSE



30.12.2022

CPE SEMINAR ON CODE OF ETHICS AND PEER REVIEW
SPEAKER : CA MAHADEVAN N V

Glimpses

DECEMBER 22



16.12.2022

INAUGURATION OF DIGITAL CLASSROOM INTERACTIVE PANELS
BY : CA SRIPRIYA K, CENTRAL COUNCIL MEMBER
IN THE PRESENCE ON CA. SATHEESAN P, SICASA CHAIRMAN SIRC



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