IAS 38
INTANGIBLE ASSETS

Objective

- to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard.

Scope (1/2)

- This Standard shall be applied in accounting for intangible assets, except:

  (a) intangible assets that are within the scope of another Standard;

  (b) financial assets, as defined in IAS 32 *Financial Instruments: Presentation;*

  (c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources); and*

  (d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resource

Scope (2/2)

- If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard.
- For example, this Standard does not apply to:

  (a) intangible assets held by an entity for sale in the ordinary course of business (see IAS 2 *Inventories and IAS 11 Construction Contracts).*

  (b) deferred tax assets (see IAS 12 *Income Taxes).*

  (c) leases that are within the scope of IAS 17 *Leases.*

  (d) assets arising from employee benefits (see IAS 19 *Employee Benefits).*

Intangible assets (1/7)

- An *intangible asset is an identifiable non-monetary asset without* physical substance.

Intangible assets (2/7)

- Common examples of intangible items are:
  - computer software, patents,
  - copyrights,
  - motion picture films,
  - customer lists,
  - mortgage servicing rights,
  - fishing licences,
  - import quotas,
  - franchises,
  - customer or supplier relationships,
  - customer loyalty,
  - market share and
  - marketing rights.

Intangible assets (3/7)

- To recognize an asset as an intangible asset it has to meet some certain criteria
  - identifiability,
  - control over a resource and
  - existence of future economic benefits.

Intangible assets (4/7)

- **Identifiability:**
  - The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill.
- **An asset is identifiable if it either:**

  (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

  (b) 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.

Intangible assets (5/7)

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Intangible assets (6/7)

- **Control:**
- An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.
- The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control

Intangible assets (7/7)

- **Future economic benefits**
- The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.

Recognition and measurement(1/18)

- The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

  (a) the definition of an intangible asset; and

  (b) the recognition criteria

Recognition and measurement(2/18)

- An intangible asset shall be recognized if, and only if:
  (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
  (b) the cost of the asset can be measured reliably.

Recognition and measurement(3/18)

- An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Recognition and measurement(4/18)

- An intangible asset shall be measured initially at cost.

Recognition and measurement(4/18)

- **Separate acquisition**
  - The cost of a separately acquired intangible asset comprises;
    - (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
    - (b) any directly attributable cost of preparing the asset for its intended use.

Recognition and measurement(5/18)

- Examples of directly attributable costs are:
  - (a) costs of employee benefits (as defined in IAS 19) arising directly from bringing the asset to its working condition;
  - (b) professional fees arising directly from bringing the asset to its working condition; and
  - (c) costs of testing whether the asset is functioning properly.

Recognition and measurement(6/18)

- Examples of expenditures that are not part of the cost of an intangible asset are:
  - (a) costs of introducing a new product or service (including costs of advertising and promotional activities);
  - (b) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
  - (c) administration and other general overhead costs.

Recognition and measurement(7/18)

- Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

Recognition and measurement(9/18)

- **Acquisition as part of a business combination**
  if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

Recognition and measurement(10/18)

- **Acquisition by way of a government grant**
- an intangible asset may be acquired free of charge, or for nominal consideration, by way of a government grant
- an entity may choose to recognize both the intangible asset and the grant initially at fair value.
- If an entity chooses not to recognize the asset initially at fair value, the entity recognizes the asset initially at a nominal amount (the other treatment permitted by IAS 20) plus any expenditure that is directly attributable to preparing the asset for its intended use.

Recognition and measurement(11/18)

- **Exchanges of assets**
- The cost of such an intangible asset is measured at fair value unless
- (a) the exchange transaction lacks commercial substance or
- (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately
- derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Recognition and measurement(12/18)

- **Internally generated goodwill**
  - Internally generated goodwill shall not be recognized as an asset.

Recognition and measurement(13/18)

- **Internally generated intangible assets**

  To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:
  - (a) a research phase; and
  - (b) a development phase.

Recognition and measurement(14/18)

- **Research phase:**
  - No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred.

Recognition and measurement(15/18)

- **Development phase:**
  - **An intangible asset arising from development (or** from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:
  - (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
  - (b) its intention to complete the intangible asset and use or sell it.
  - (c) its ability to use or sell the intangible asset.

Recognition and measurement(16/18)

- (d) how the intangible asset will generate probable future economic benefits. Among 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 to be used internally, the usefulness of the intangible asset.
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Recognition and measurement(17/18)

- Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets.

Recognition and measurement(18/18)

- Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.

Measurement after recognition(1/13)

- An entity shall choose either the cost model or the revaluation model as its accounting policy.
- If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Measurement after recognition(2/13)

- **Cost model:**

  After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

Measurement after recognition(3/13)

- **Revaluation model:**

  After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses.

Measurement after recognition(3/13)

- The revaluation model does not allow:

  (a) the revaluation of intangible assets that have not previously been recognised as assets; or

  (b) the initial recognition of intangible assets at amounts other than cost.

Measurement after recognition(4/13)

- The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revalued.

Measurement after recognition(5/13)

- If the fair value of a revalued intangible asset can no longer be measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.

Measurement after recognition(6/13)

- If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

Measurement after recognition(6/13)

- If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduced the amount accumulated in equity under the heading of revaluation surplus.

Measurement after recognition(7/13)

- **Useful life:**

  An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Measurement after recognition(8/13)

- **Useful life:**
- The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a reacquired right recognized as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods

Measurement after recognition(9/13)

- **Intangible assets with finite useful lives:**

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.

Amortization shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognized.

Measurement after recognition(10/13)

- **Residual value:**

  The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
  - (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
  - (b) there is an active market (as defined in IFRS 13) for the asset and:
    - (i) residual value can be determined by reference to thatmarket; and
    - (ii) it is probable that such a market will exist at the end of the asset's useful life

Measurement after recognition(11/13)

- **Intangible assets with indefinite useful lives**
  - An intangible asset with an indefinite useful life shall not be amortized.
  - In accordance with IAS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount
    - (a) annually, and
    - (b) whenever there is an indication that the intangible asset may be impaired.

Measurement after recognition(12/13)

- **Retirements and disposals:**
  - An intangible asset shall be derecognized:
    - (a) on disposal; or
    - (b) when no future economic benefits are expected from its use or disposal.

Measurement after recognition(13/13)

- The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds,m if any, and the carrying amount of the asset. It shall be recognized in profit or loss when the asset is derecognized (unless IAS 17 requires otherwise on a sale and leaseback.) Gains shall not be classified as revenue.