IAS 38 *Intangible Assets*

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SCOPE

Apply to: Intangible assets = *identifiable* non-monetary *asset* without physical substance (e.g. copyrights, fishing licenses, patents, import quotas, marketing rights etc).

- **Identifiable** = separable (i.e., can be divided from entity & sold, transferred, licensed, rented/exchanged, either individually/ together with related contract/ identifiable asset/liability, regardless of entity's intention) **OR** arises from contractual/other legal rights, regardless of whether those rights are transferable/separable from entity/other rights & obligations.
- **Asset** = resource *controlled* by entity as result of past events AND from which future economic benefits expected to flow to entity.
- **Control =** power to obtain future economic benefits (e.g. revenue from products/ services/cost savings etc) & restrict access of others to those benefits. Normally stems from legal rights enforceable in court of law.

If tangible (e.g. PPE) & *intangible* elements → use

Does NOT apply to: *intangible assets* in scope of another standard (e.g. tax assets, held for sale, goodwill etc.); financial assets (IAS 32); recognition & measurement of exploration & evaluation assets (IFRS 6); development & extraction of non-regenerative resources expenditure (e.g. minerals, oil, natural gas etc).

RECOGNITION AND INITIAL MEASUREMENT

If definition of intangible asset met→ recognize & measure @ *cost* if: probable that future economic benefits from asset will flow to entity AND *cost* reliably measurable (assess probability using reasonable & supportable assumptions = best estimate of economic conditions over useful life).

If recognition criteria NOT met→ asset is expensed or it forms part of goodwill in a business combination. **If initially expensed →** CANNOT recognize as intangible @ later date.

ACQUISITION AS PART OF BUSINESS COMBINATION

- Recognition criteria always considered met.
- **Cost** = FV @acquisition date.

Acquiree's in-process R&D project:

- If meets definition of *intangible* → recognize, even if acquiree did not.
- Subsequent expenditures accounted like internally generated.

SEPARATE ACQUISITION

- Probability of future benefits always met.
- **Cost** is usually reliably measurable = purchase price including duties & non-refundable taxes, excluding rebates & trade discounts & any directly attributable costs of preparing for intended use.
- May be equal to cash price if deferred payment.

INTERNALLY GENERATED

Difficult to determine if qualifies for recognition. Therefore, to assess if recognition criteria met→ classify into 2 phases as follows:

<u>**RESEARCH PHASE**</u> (e.g. obtain new knowledge & search for applications of research findings, search for & final selection of possible alternatives for material/ product/process/service, etc.).

- ALL expenditures in this phase are expensed → cannot demonstrate probability of future economic benefit during the research phase.
- If cannot distinguish research phase from development phase of a project → all expenditure on that project expensed as research.

<u>**DEVELOPMENT PHASE**</u> (e.g. design/construction/testing of pre-production prototypes; design of tools & moulds involving new technology; design/construction/testing of chosen alternative for new material/product/process/service)

Expenditure recognized as *intangible* if can demonstrate <u>ALL</u> of the following:

- Technical feasibility of completion to available for use/sale.
- Intent to complete & use/sell.
- Ability to use/sell.
- How *intangible* will generate probable future economic benefits (e.g. demonstrate existence of market for output/ intangible asset or internal usefulness - use IAS 36 principles, including CGUs to assess).
- Availability of adequate technical, financial & other resources to complete & use/sell.
- Ability to reliably measure attributable expenditures.

Cost = all directly attributable costs necessary to create, produce & prepare asset to be capable of operating in intended manner AND incurred from date first met recognition criteria (e.g. materials & services used/consumed, employee benefits, fees to register legal right, amortization of patents & licenses used, borrowing costs, etc.).

- Does NOT include selling, admin & general overhead, inefficiencies & initial operating losses, advertising, training, etc.

OTHER

- **Acquired by government grant:** free or for nominal consideration → can choose to recognize asset/grant @ FV **OR** use nominal amount PLUS direct attributable expenditure to prepare for intended use (IAS 20).
- **Non-monetary exchanges** → cost = FV UNLESS FVs of assets received & given NOT reliably measurable OR transaction lacks commercial substance.
- **Internally generated goodwill** → NOT recognized as *intangible* as does not meet definition/ recognition criteria.
- **Internally generated brands, mastheads, publishing titles, customer lists, etc.** → NOT recognized as *intangible* as cannot distinguish from cost to develop business.

USEFUL LIFE

Finite → amortize over useful life (similar to IAS 16 depreciation).

- Assess period of time/units of production or similar units.
- Residual value assumed zero UNLESS: purchase commitment by 3rd party **OR** reference to active market probable to exist at end of useful life.

Indefinite →NOT amortized.

- Regard as indefinite when no foreseeable limit to period over which *asset* is expected to generate net cash inflows based on analysis of all relevant factors (e.g. unlikely where susceptible to technological obsolescence).

- Useful life <= period of contractual/legal right UNLESS evidence supports renewal without significant cost.
- Acquired right from business combination → useful life = remaining contractual period WITHOUT renewal.

SUBSEQUENT MEASUREMENT

CHOOSE EITHER:

Cost model: Carry at *cost* less accumulated amortization & impairment.

Revaluation model: carry at FV @ date of revaluation LESS subsequent accumulated amortisation/impairment (similar to IAS 16 revaluation model).

- FV measured by reference to active market (uncommon to exist).
- Use for entire class & revalue @ same time UNLESS no active market for those assets.
- If no active market → carry same as cost model. If no longer active market → use last revaluation & consider if impaired.
- Does NOT allow: revaluation of *intangible assets* not previously recognized as *assets* OR initial recognition @ amounts ≠ cost.
- If part of cost only met recognition criteria once part way through process → may apply revaluation model to whole of *asset*.

- Review useful life, residual value & amortization methods annually.
- See IAS 36 for impairment testing.
- See IAS 38 for retirements and disposals (similar to IAS 16 derecognition for PP&E).
- IAS 38 has illustrative examples.
- SIC 32 applies IAS 38 to website costs.