

**EXPOSURE DRAFT**  
**Accounting Standard for Local Bodies (ASLB) 31**

**Intangible Assets**

*(Last date of comments: September 30, 2013)*



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**



# Exposure Draft

## Accounting Standard for Local Bodies (ASLB) 31

### Intangible Assets

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**Intangible Assets**

**INVITATION TO COMMENTS**

*The Committee on Accounting Standards for Local Bodies of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of Accounting Standard for Local Bodies (ASLB) 31, 'Intangible Assets'. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.*

*Comments should be submitted in writing to the Secretary, Committee on Accounting Standards for Local Bodies, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than September 30, 2013. Comments can also be sent by e-mail at [caslb@icai.in](mailto:caslb@icai.in).*

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**Intangible Assets**

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies<sup>1</sup>)*

The Accounting Standard for Local Bodies (ASLB) 31, 'Intangible Assets', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned<sup>2</sup>.

The following is the text of the Accounting Standard for Local Bodies

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<sup>1</sup> Attention is specifically drawn to paragraph 4.2 of the 'Preface to the Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

<sup>2</sup> Reference may be made to the paragraph 7.1 of the 'Preface to the Accounting Standards for Local Bodies' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

## Objective

1. The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This 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 intangible assets.

## Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for intangible assets.
3. This Standard should be applied in accounting for intangible assets, except:
  - a) Intangible assets that are within the scope of another Standard;
  - b) Financial assets<sup>3</sup>
  - c) The recognition and measurement of exploration and evaluation of mineral resources ;
  - d) Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;
  - e) [Refer to Appendix-1]
  - f) [Refer to Appendix-1]
  - g) Powers and rights conferred by legislation, a constitution, or by equivalent means;
  - h) Deferred tax assets;
  - i) [Refer to Appendix-1]
  - j) [Refer to Appendix-1]
  - k) In respect of intangible heritage assets. However, the disclosure requirements of paragraphs 115–127 apply to those heritage assets that are recognised.

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<sup>3</sup> A financial asset is any asset that is:

- (a) cash; (b) an equity instrument of another entity;
- (c) a contractual right:
  - (i) to receive cash or another financial asset from another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
  - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

4. **This Standard applies to all entities described as local bodies in the Preface to the Accounting Standards for Local Bodies** <sup>4</sup>
5. **[Refer to Appendix-1]**
6. If another ASLB prescribes the accounting for a specific type of intangible asset, an entity applies that ASLB 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 operations (see ASLB 11, "Construction Contracts," and ASLB 12, "Inventories");
  - b) Leases that are within the scope of ASLB on, "Leases"<sup>5</sup>;
  - c) Assets arising from employee benefits (see ASLB on, "Employee Benefits"<sup>6</sup>); and
  - d) Financial assets as defined at footnote number 3. The recognition and measurement of some financial assets are covered by ASLB on, "Consolidated and Separate Financial Statements," ASLB on, "Investments in Associates," and ASLB on, "Interests in Joint Ventures."<sup>7</sup>
7. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under ASLB 17, "Property, Plant, and Equipment," or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, if the software is not an integral part of the related hardware, computer software is treated as an intangible asset.
8. This Standard applies to, among other things, expenditure on advertising, training, start-up, research, and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (e.g., a prototype), the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.
9. In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents, and

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<sup>4</sup> Refer paragraph 1.3 of the *'Preface to the Accounting Standards for Local Bodies'*.

<sup>5</sup> The Accounting Standard for Local Bodies is under preparation.

<sup>6</sup> The Accounting Standard for Local Bodies is under preparation.

<sup>7</sup> The Accounting Standards for Local Bodies are under preparation.

copyrights are excluded from the scope of ASLB on, 'Leases' and are within the scope of this Standard.

10. Exclusions from the scope of a Standard may occur if activities or transactions are so specialized that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for extractive activities such as expenditure on the exploration for, or development and extraction of, mineral deposits. Therefore, this Standard does not apply to expenditure on such activities by the Local Bodies.

### **Intangible Heritage Assets**

11. This Standard does not require an entity to recognise intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognise intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.
12. Some intangible assets are described as intangible heritage assets because of their cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events or collectible coins. Certain characteristics, including the following, are often displayed by intangible heritage assets (although these characteristics are not exclusive to such assets):
  - a) Their value in cultural, environmental, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
  - b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
  - c) Their value may increase over time; and
  - d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.
13. Local Bodies may have large holdings of intangible heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.
14. Some intangible heritage assets have future economic benefits or service potential other than their heritage value, for example, royalties paid to the entity for use of an historical recording. In these cases, an intangible heritage asset may be recognised and measured on the same basis as other items of cash-generating intangible assets. For other intangible heritage assets, their future economic benefit or service potential is limited to their heritage characteristics. The



existence of both future economic benefits and service potential can affect the choice of measurement base.

15. The disclosure requirements in paragraphs 117–124 require entities to make disclosures about recognised intangible assets. Therefore, entities that recognise intangible heritage assets are required to disclose in respect of those assets such matters as, for example:
- a) The measurement basis used;
  - b) The amortisation method used, if any;
  - c) The gross carrying amount;
  - d) The accumulated amortisation at the end of the period, if any; and
  - e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

## Definitions

16. The following terms are used in this Standard with the meanings specified:

***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 use.***

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

***Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.***

***Monetary assets are money held and assets to be received in fixed or determinable amounts of money.***

***Non-monetary assets are assets other than monetary assets.***

***Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.***

***Depreciable amount is the cost of an asset less its residual value.***

***Useful life is either:***

- (a) the period of time over which an asset is expected to be used by the entity; or***
- (b) the number of production or similar units expected to be obtained from the asset by the entity.***

***Residual value is the amount which an entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.***

***Fair value of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.***

***An active market is a market where all the following conditions exist:***

- (a) the items traded within the market are homogeneous;***
- (b) willing buyers and sellers can normally be found at any time; and***
- (c) prices are available to the public.***

***An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.***

***Carrying amount is the amount at which an asset is recognised in the balance sheet, net of any accumulated amortisation and accumulated impairment losses thereon.***

## **Intangible Assets**

17. Entities may expend resources, or incur liabilities, on the acquisition, development, maintenance, or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licences, intellectual property, and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, and right to use o water resource etc.
18. Not all the items described in paragraph 17 meet the definition of an intangible asset, i.e., identifiability, control over a resource, and existence of future economic benefits or service potential. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.
19. **An asset is identifiable if it either:**
  - a) **Is separable, i.e., 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 binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.**

20. For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

*Control of an Asset*

21. An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an entity to control the future economic benefits or service potential 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. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits or service potential in some other way.
22. Scientific or technical knowledge may give rise to future economic benefits or service potential. An entity controls those benefits or that service potential if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted), or by a legal duty on employees to maintain confidentiality
23. An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits or service potential arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits or service potential expected from it, and it also meets the other parts of the definition.
24. An entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to use its services. However, in the absence of legal rights to protect, or other ways to control the relationships with users of a service or the loyalty of those users, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with users of a service and loyalty for such items (e.g., portfolio of users of a service, market shares or success rates of a service, relationships with, and loyalty of, users of a service) to meet the definition of an intangible assets.

### *Future Economic Benefits or Service Potential*

25. The future economic benefits or service potential 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. For example, the use of intellectual property in a production or service process may reduce future production or service costs or improve service delivery rather than increase future revenues (e.g., an on-line system that allows citizens to operate transactions more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).

### **Recognition and Measurement**

26. 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 (see paragraphs 17–25); and
  - b) The recognition criteria (see paragraphs 28–30).

This requirement applies to the cost measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, or the nominal value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.

27. The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's operations as a whole. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset be recognised in the carrying amount of an asset. Consistent with paragraph 61, subsequent expenditure on brands, mastheads, publishing titles, lists users of a service, and items similar in substance (whether externally acquired or internally generated) is always recognised in the income and expenditure statement. This is because such expenditure cannot be distinguished from expenditure to develop the entity's operations as a whole.
28. **An intangible asset should be recognised if, and only if:**
- a) **It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and**
  - b) **The cost of the asset can be measured reliably.**

29. **An entity should assess the probability of expected future economic benefits or service potential 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.**
30. An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.
31. **An intangible asset should be measured initially at cost in accordance with paragraphs 32–43. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, should be measured at its nominal value as at that date.**

### **Separate Acquisition**

32. Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 28(a) is always considered to be satisfied for separately acquired intangible assets.
33. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.
34. 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.
35. Examples of directly attributable costs are:
  - a) Costs of employee benefits (as defined in ASLB on 'Employee Benefits') 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.

36. 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 operations in a new location or with a new class of users of a service (including costs of staff training); and
  - c) Administration and other general overhead costs.
37. 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. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:
- a) Costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and
  - b) Initial operating deficits, such as those incurred while demand for the asset's output builds up.
38. Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognised immediately in the income and expenditure statement, and included in their respective classifications of revenue and expense.
39. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in ASLB on, "*Borrowing Costs.*"

### **Subsequent Expenditure on an Acquired In-process Research and Development Project**

40. **Research or development expenditure that:**
- a) Relates to an in-process research or development project acquired separately and recognised as an intangible asset;**
  - b) Is incurred after the acquisition of that project; and should be accounted for in accordance with paragraphs 52–60.**

41. Applying the requirements in paragraphs 52–60 means that subsequent expenditure on an in-process research or development project acquired separately and recognised as an intangible asset is:
- a) Recognised as an expense when incurred if it is research expenditure;
  - b) Recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 55; and
  - c) Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 55.

### **Intangible Assets Acquired through Non-Exchange Transactions**

42. In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when a local body transfers to another local body in a non-exchange transaction, intangible assets such as, any licence or rights to access or a private citizen, for example a Nobel Prize winner, may bequeath his or her personal papers, including the copyright to his or her publications to the archives of a local body in a non-exchange transaction.
43. Under these circumstances the cost of the item is the nominal value.

### **Exchanges of Assets**

44. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.
45. [Refer to Appendix 1]

## **Internally Generated Goodwill**

- 46. Internally generated goodwill should not be recognised as an asset.**
47. In some cases, expenditure is incurred to generate future economic benefits or service potential, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (i.e., it is not separable nor does it arise from binding arrangements (including rights from contracts or other legal rights) controlled by the entity that can be measured reliably at cost.
48. Differences between the market value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

## **Internally Generated Intangible Assets**

49. It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:
- a) Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and
  - b) Determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs 50–65 to all internally generated intangible assets.

50. 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.

Although the terms “research” and “development” are defined, the terms “research phase” and “development phase” have a broader meaning for the purpose of this Standard.

51. If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.



### *Research Phase*

- 52. No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.**
53. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential. Therefore, this expenditure is recognised as an expense when it is incurred.
54. Examples of research activities are:
- a) Activities aimed at obtaining new knowledge;
  - b) The search for, evaluation and final selection of, applications of research findings or other knowledge;
  - c) The search for alternatives for materials, devices, products, processes, systems, or services; and
  - d) The formulation, design, evaluation, and final selection of possible alternatives for new or improved materials, devices, products, processes, systems, or services.

### *Development Phase*

- 55. An intangible asset arising from development (or from the development phase of an internal project) should be recognised 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;**
  - d) How the intangible asset will generate probable future economic benefits or service potential. 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; and**
  - f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.**

56. In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits or service potential. This is because the development phase of a project is further advanced than the research phase.
57. Examples of development activities are:
- a) The design, construction, and testing of pre-production or pre-use prototypes and models;
  - b) The design of tools, jigs, moulds, and dies involving new technology;
  - c) The design, construction, and operation of a pilot plant or operation that is not of a scale economically feasible for commercial production or use in providing services;
  - d) The design, construction, and testing of a chosen alternative for new or improved materials, devices, products, processes, systems, or services; and
  - e) Website costs and software development costs.
58. To demonstrate how an intangible asset will generate probable future economic benefits or service potential, an entity assesses the future economic benefits or service potential to be received from the asset using the principles in either ASLB on, "Impairment of Non-Cash-Generating Assets" or ASLB on, "Impairment of Cash-Generating Assets,"<sup>8</sup> as appropriate. If the asset will generate economic benefits or service potential only in combination with other assets, the entity applies the concept of cash-generating units in ASLB on, 'Impairment of Cash-Generating Assets'.
59. Availability of resources to complete, use, and obtain the benefits from an intangible asset can be demonstrated by, for example, an operating plan showing the technical, financial, and other resources needed and the entity's ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender's or funder's indication of its willingness to fund the plan.
60. An entity's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing logos, copyrights or licences, or developing computer software.
61. **Internally generated brands, mastheads, publishing titles, and items similar in substance should not be recognised as intangible assets.**
62. Expenditure on internally generated brands, mastheads, publishing titles, and items similar in substance cannot be distinguished from the cost of developing the entity's operations as a whole. Therefore, such items are not recognised as intangible assets.

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<sup>8</sup> These ASLBs are under preparation.

### *Cost of an Internally Generated Intangible Asset*

63. The cost of an internally generated intangible asset for the purpose of paragraph 31 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 28, 29, and 55. Paragraph 70 prohibits reinstatement of expenditure previously recognised as an expense.
64. The cost of an internally produce, and prepare asset ready for intended use. Examples of directly attributable costs are: generated intangible asset comprises all directly attributable costs necessary to create,
- Costs of materials and services used or consumed in generating the intangible asset;
  - Costs of employee benefits (as defined in ASLB on, 'Employee Benefits') arising from the generation of the intangible asset;
  - Fees to register a legal right; and
  - Amortisation of patents and licenses that are used to generate the intangible asset.

ASLB on, '*Borrowing Costs*' specifies criteria for the recognition of interest as an element of the cost of an asset that is a qualifying asset.

65. The following are not components of the cost of an internally generated intangible asset:
- Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
  - Identified inefficiencies and initial operating deficits incurred before the asset achieves planned performance; and
  - Expenditure on training staff to operate the asset.

### **Recognition of an Expense**

66. **Expenditure on an intangible item should be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 26–65).**
67. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognises the expenditure as an expense when it receives the services. For example, expenditure on research is recognised as an expense when it is incurred (see paragraph 52). Other examples of expenditure that is recognised as an expense when it is incurred include:

- a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with ASLB 17 . Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);
- b) Expenditure on training activities;
- c) Expenditure on advertising and
- d) activities (including mail order catalogues and information pamphlets); and
- e) Expenditure on relocating or reorganizing part or all of an entity.

68. An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver information about a service to users of that service.

69. Paragraph 66 does not preclude an entity from recognizing a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 66 does not preclude an entity from recognizing a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

### **Past Expenses not to be Recognised as an Asset**

**70. Expenditure on an intangible item that was initially recognised as an expense under this Standard should not be recognised as part of the cost of an intangible asset at a later date.**

### **Subsequent Measurement**

71.-72. [Refer to Appendix 1]

**73.** After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

74.-86. [Refer to Appendix 1]

### **Useful Life**

87.– 88. [Refer to Appendix 1]

89. There is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years from the date when the asset is available for use. Many factors are considered in determining the useful life of an intangible asset, including:
- a) The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
  - b) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
  - c) Technical, technological, commercial, or other types of obsolescence;
  - d) The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
  - e) Expected actions by competitors or potential competitors;
  - f) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;
  - g) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
  - h) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.
90. [Refer to Appendix 1]
91. Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short.
92. The useful life of an intangible asset may be very long but it is always finite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.
- 93. The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or other legal rights) should not exceed the period of the binding arrangement (including rights from contracts or other legal rights), but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts or other legal rights) are conveyed for a limited term that can be renewed, the useful life of the intangible asset should include the**

**renewal period(s) only if there is evidence to support renewal by the entity without significant cost.**

94. There may be economic, political, social, and legal factors influencing the useful life of an intangible asset. Economic, political, or social factors determine the period over which future economic benefits or service potential will be received by the entity. Legal factors may restrict the period over which the entity controls access to such economic benefits or service potential. The useful life is the shorter of the periods determined by these factors.
95. Existence of the following factors, among others, indicates that an entity would be able to renew the binding arrangements (including rights from contracts or other legal rights) without significant cost:
- a) There is evidence, possibly based on experience, that the binding arrangements (including rights from contracts or other legal rights) will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;
  - b) There is evidence that any conditions necessary to obtain renewal will be satisfied; and
  - c) The cost to the entity of renewal is not significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal, the “renewal cost” represents, in substance, the cost to acquire a new intangible asset at the renewal date.

### **Amortisation Period and Amortisation Method**

96. **The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. Amortisation should begin when the asset 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. The amortisation method used should reflect the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method should be used. The amortisation charge for each period should be recognised the income and expenditure statement unless this or another Standard permits or requires it to be included in the carrying amount of another asset.**
97. A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the unit of production method. The method used is selected on the basis of the expected pattern of

consumption of the expected future economic benefits or service potential embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

98. Amortisation is usually recognised in the income and expenditure statement. However, sometimes the future economic benefits or service potential embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see ASLB 12).

### **Residual Value**

99. **The residual value of an intangible asset should be assumed to be zero unless:**
- a) There is a commitment by a third party to acquire the asset at the end of its useful life; or**
  - b) There is an active market for the asset, and:**
    - i. Residual value can be determined by reference to that market; and**
    - ii. It is probable that such a market will exist at the end of the asset's useful life.**
100. The depreciable amount of an asset is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.
101. An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each reporting date. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with ASLB on, "Accounting Policies, Changes in Accounting Estimates and Errors."<sup>9</sup>
102. The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

### **Review of Amortisation Period and Amortisation Method**

103. **The amortisation period and the amortisation method for an intangible asset should be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortisation period**

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<sup>9</sup> The ASLB on the subject is under formulation.

**should be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method should be changed to reflect the changed pattern. Such changes should be accounted for as changes in accounting estimates in accordance with ASLB on, 'Accounting Policies, Changes in Accounting Estimates and Errors'.**

104. During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortisation period needs to be changed.
105. Over time, the pattern of future economic benefits or service potential expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortisation is appropriate rather than a straight-line method. Another example is if use of the rights represented by a licence is deferred pending action on other components of the entity's strategic plan. In this case, economic benefits or service potential that flow from the asset may not be received until later periods.

106. -109. [Refer to Appendix1]

### **Recoverability of the Carrying Amount—Impairment Losses**

110. To determine whether an intangible asset measured under the cost model is impaired, an entity applies either ASLB on, "*Impairment of Non-Cash-Generating Assets*" or ASLB on, "*Impairment of Cash-Generating Assets*", as appropriate. Those Standards explain when and how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, as appropriate, and when it recognises or reverses an impairment loss.

### **Retirements and Disposals**

- 111. An intangible asset should be derecognised on disposal (including disposal through a non-exchange transaction)**
- 111A. Items of intangible assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements. Any expected loss is recognised immediately in the income and expenditure statement.
112. In historical cost financial statements, gains or losses arising on disposal are recognised in the income and expenditure statement.
113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). In



determining the date of disposal of such an asset, an entity applies the criteria in ASLB 9, "Revenue from Exchange Transactions" for recognizing revenue from the sale of goods. ASLB on, 'Leases' applies to disposal by a sale and leaseback.

114. -116. [Refer to Appendix 1]

## **Disclosure**

### **General**

- 117. An entity should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:**
- a) Useful lives and amortisation rate used;**
  - b) The amortisation methods used;**
  - c) The gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;**
  - d) The line item(s) of the income and expenditure statement in which any amortisation of intangible assets is included;**
  - e) A reconciliation of the carrying amount at the beginning and end of the period showing:**
    - i. Additions, indicating separately those from internal development and those acquired separately;**
    - ii. Retirements and disposals;**
    - iii. Impairment losses recognised in the income and expenditure statement during the period in accordance with the relevant ASLBs (if any);**
    - iv. Impairment losses reversed in the income and expenditure statement during the period in accordance with the relevant ASLBs (if any);**
    - v. Any amortisation recognised during the period;and**
    - vi. Other changes in the carrying amount during the period.**
- 118. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:**
- a) Brand names;**
  - b) Mastheads and publishing titles;**
  - c) Computer software;**
  - d) Licences;**
  - e) Copyrights, patents, and other industrial property rights, service, and operating rights;**
  - f) Recipes, formulae, models, designs, and prototypes; and**
  - g) Intangible assets under development.**

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

119. An entity discloses information on impaired intangible assets in accordance with the relevant ASLBs in addition to the information required by paragraph 117(e)(iv)–(v).
120. ASLB on, '*Accounting Policies, Changes in Accounting Estimates and Errors*' requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:
- a) The assessment of an intangible asset's useful life;
  - b) The amortisation method; or
  - c) Residual values.

121– 124. [Refer to Appendix 1]

### **Research and Development Expenditure**

- 125. An entity should disclose the aggregate amount of research and development expenditure recognised as an expense during the period.**
126. Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 64 and 65 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 125).

### **Other Information**

127. An entity is encouraged, but not required, to disclose the following information:
- a) A description of any fully amortized intangible asset that is still in use; and
  - b) A brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard.
128. [Refer to Appendix 1]
129. [Refer to Appendix 1].
130. [Refer to Appendix 1].

## APPENDIX A

*This appendix which does not form part of the Accounting Standard, provides illustrative application of the principles laid down in the Standard to internal use software and web-site costs. Its purpose is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.*

### **I. Illustrative Application of the Accounting Standard to Internal Use Computer Software**

Computer software for internal use can be internally generated or acquired.

#### **Internally Generated Computer Software**

1. Internally generated computer software for internal use is developed or modified internally by the entity solely to meet the needs of the entity and at no stage it is planned to sell it.
2. The stages of development of internally generated software may be categorised into the following two phases:
  - Preliminary project stage, i.e., the research phase
  - Development stage

#### **Preliminary project stage**

3. At the preliminary project stage the internally generated software should not be recognised as an asset. Expenditure incurred in the preliminary project stage should be recognised as an expense when it is incurred. The reason for such a treatment is that at this stage of the software project an entity can not demonstrate that an asset exists from which future economic benefits or service potential are probable.
4. When a computer software project is in the preliminary project stage, entities are likely to:
  - a) Make strategic decisions to allocate resources between alternative projects at a given point in time. For example, should programmers develop a new payroll system or direct their efforts toward correcting existing problems in an operating payroll system.
  - b) Determine the performance requirements (that is, what it is that they need the software to do) and systems requirements for the computer software project it has proposed to undertake.
  - c) Explore alternative means of achieving specified performance requirements. For

example, should an entity make or buy the software. Should the software run on a mainframe or a client server system.

- d) Determine that the technology needed to achieve performance requirements exists.
- e) Select a consultant to assist in the development and/or installation of the software.

### **Development Stage**

5. An internally generated software arising at the development stage should be recognised as an asset if, and only if, an entity can demonstrate all of the following:

- a) the technical feasibility of completing the internally generated software so that it will be available for internal use;
- b) the intention of the entity to complete the internally generated software and use it to perform the functions intended. For example, the intention to complete the internally generated software can be demonstrated if the entity commits to the funding of the software project;
- c) the ability of the entity to use the software;
- d) how the software will generate probable future economic benefits or service potential. Among other things, the entity should demonstrate the usefulness of the software;
- e) the availability of adequate technical, financial and other resources to complete the development and to use the software; and
- f) the ability of the entity to reliably measure the expenditure attributable to the software during its development .

6. Examples of development activities in respect of internally generated software include:

- a) Design including detailed program design - which is the process of detail design of computer software that takes product function, feature, and technical requirements to their most detailed, logical form and is ready for coding.
- b) Coding which includes generating detailed instructions in a computer language to carry out the requirements described in the detail program design. The coding of computer software may begin prior to, concurrent with, or subsequent to the completion of the detail program design.

At the end of these stages of the development activity, the entity has a working model, which is an operative version of the computer software capable of performing all the major planned functions, and is ready for initial testing ("beta" versions).

- (c) Testing which is the process of performing the steps necessary to determine

whether the coded computer software product meets function, feature, and technical performance requirements set forth in the product design.

At the end of the testing process, the entity has a master version of the internal use software, which is a completed version together with the related user documentation and the training materials.

### **Cost of internally generated software**

7. The cost of an internally generated software is the sum of the expenditure incurred from the time when the software first met the recognition criteria for an intangible asset as stated in paragraphs 28 and 29 of this Standard and paragraph 5 above. An expenditure which did not meet the recognition criteria as aforesaid and expensed in an earlier financial statements should not be reinstated if the recognition criteria are met later.
8. The cost of an internally generated software comprises all expenditure that can be directly attributed or allocated on a reasonable and consistent basis to create the software for its intended use. The cost include:
  - a) expenditure on materials and services used or consumed in developing the software;
  - b) the salaries, wages and other employment related costs of personnel directly engaged in developing the software;
  - c) any expenditure that is directly attributable to generating software; and
  - d) overheads that are necessary to generate the software and that can be allocated on a reasonable and consistent basis to the software (For example, an allocation of the depreciation of fixed assets, insurance premium and rent). Allocation of overheads are made on basis similar to those used in allocating the overhead to inventories.
9. The following are not components of the cost of an internally generated software:
  - a) selling, administration and other general overhead expenditure unless this expenditure can be directly attributable to the development of the software;
  - b) identified inefficiencies and initial operating deficits incurred before software achieves the planned performance; and
  - c) expenditure on training the staff to use the internally generated software.

### **Software Acquired for Internal Use**

10. The cost of a software acquired for internal use should be recognised as an asset if it meets the recognition criteria prescribed in paragraphs 28 and 29 of this Standard.

11. The cost of a software purchased for internal use comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) and any directly attributable expenditure on making the software ready for its use. Any trade discounts and rebates are deducted in arriving at the cost. In the determination of cost, matters stated in paragraphs 32 to 39 of the Standard need to be considered, as appropriate.

### **Subsequent expenditure**

12. Entities may incur considerable cost in modifying existing software systems. Subsequent expenditure on software after its purchase or its completion should be recognised as an expense when it is incurred unless:
  - a) it is probable that the expenditure will enable the software to generate future economic benefits or service potential in excess of its originally assessed standards of performance; and
  - b) the expenditure can be measured and attributed to the software reliably.

If these conditions are met, the subsequent expenditure should be added to the carrying amount of the software. Costs incurred in order to restore or maintain the future economic benefits or service potential that an entity can expect from the originally assessed standard of performance of existing software systems is recognised as an expense when, and only when, the restoration or maintenance work is carried out.

### **Amortisation period**

13. The depreciable amount of a software should be allocated on a systematic basis over the best estimate of its useful life. The amortisation should commence when the software is available for use.
14. As per this Standard, there is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. However, given the history of rapid changes in technology, computer software is susceptible to technological obsolescence. Therefore, it is likely that useful life of the software will be much shorter, say 3 to 5 years.

### **Amortisation method**

15. The amortisation method used should reflect the pattern in which the software's economic benefits or service potential are consumed by the entity. If that pattern can not be determined reliably, the straight-line method should be used. The amortisation charge for each period should be recognised in the income and expenditure statement

unless another Accounting Standard permits or requires it to be included in the carrying amount of another asset. For example, the amortisation of a software used in a production process is included in the carrying amount of inventories.

## **II. Illustrative Application of the Accounting Standard to Web-Site Costs**

1. An entity may incur internal expenditures when developing, enhancing and maintaining its own web site. The web site may be used for various purposes such as promoting and advertising products and services, providing electronic services, and selling products and services.
2. The stages of a web site's development can be described as follows:
  - a) Planning - includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences;
  - b) Application and Infrastructure Development - includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing; and
  - c) Graphical Design and Content Development - includes designing the appearance of web pages and creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site prior to the web site becoming available for use. This information may either be stored in separate databases that are integrated into (or accessed from) the web site or coded directly into the web pages.
3. Once development of a web site has been completed and the web site is available for use, the web site commences an operating stage. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.
4. The expenditures for purchasing, developing, maintaining and enhancing hardware (e.g., web servers, staging servers, production servers and Internet connections) related to a web site are not accounted for under this Standard but are accounted for under ASLB on, 'Property, Plant & Equipment' . Additionally, when an entity incurs an expenditure for having an Internet service provider host the entity's web site on it's own servers connected to the Internet, the expenditure is recognised as an expense.
5. An intangible asset is defined in paragraph 16 of this Standard as an identifiable non-monetary asset, without physical substance. Paragraph 17 of this Standard provides computer software as a common example of an intangible asset. By analogy, a web site is another example of an intangible asset. Accordingly, a web site developed by an entity for its own use is an internally generated intangible asset that is subject to the requirements of this Standard.

6. An entity should apply the requirements of this Standard to an internal expenditure for developing, enhancing and maintaining its own web site. Paragraph 66 of this Standard provides expenditure on an intangible item to be recognised as an expense when incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria in paragraphs 26-65 of the Standard. Paragraph 67 of the Standard requires expenditure on start-up activities to be recognised as an expense when incurred. Developing a web site by an entity for its own use is not a start-up activity to the extent that an internally generated intangible asset is created. An entity applies the requirements and guidance in paragraphs 49-65 of this Standard to an expenditure incurred for developing its own web site in addition to the general requirements for recognition and initial measurement of an intangible asset. The cost of a web site, as described in paragraphs 63-65 of this Standard, comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and preparing the asset for its intended use.

The entity should evaluate the nature of each activity for which an expenditure is incurred (e.g., training employees and maintaining the web site) and the web site's stage of development or post-development:

- a) Paragraph 52 of this Standard requires an expenditure on research (or on the research phase of an internal project) to be recognised as an expense when incurred. The examples provided in paragraph 54 of this Standard are similar to the activities undertaken in the Planning stage of a web site's development. Consequently, expenditures incurred in the Planning stage of a web site's development are recognised as an expense when incurred.
- b) Paragraph 55 of this Standard requires an intangible asset arising from the development phase of an internal project to be recognised if an entity can demonstrate fulfillment of the six criteria specified. Application and Infrastructure Development and Graphical Design and Content Development stages are similar in nature to the development phase. Therefore, expenditures incurred in these stages should be recognised as an intangible asset if, and only if, in addition to complying with the general requirements for recognition and initial measurement of an intangible asset, an entity can demonstrate those items described in paragraph 44 of this Standard. In addition,

an entity may be able to demonstrate how its web site will generate probable future economic benefits or service potential under paragraph 55(d) by using the principles in Accounting Standard on Impairment of Assets<sup>10</sup>.

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<sup>10</sup> The ASLB on the relevant subject is under formulation.



(ii) an entity may incur an expenditure to enable use of content, which had been purchased or created for another purpose, on its web site (e.g., acquiring a license to reproduce information) or may purchase or create content specifically for use on its web site prior to the web site becoming available for use. In such circumstances, an entity should determine whether a separate asset, is identifiable with respect to such content (e.g., copyrights and licenses), and if a separate asset is not identifiable, then the expenditure should be included in the cost of developing the web site when the expenditure meets the conditions in paragraph 55 of this Standard. As per paragraph 28 of this Standard, an intangible asset is recognised if, and only if, it meets specified criteria, including the definition of an intangible asset. Paragraph 63 indicates that the cost of an internally generated intangible asset is the sum of expenditure incurred from the time when the intangible asset first meets the specified recognition criteria. When an entity acquires or creates content, it may be possible to identify an intangible asset (e.g., a license or a copyright) separate from a web site. Consequently, an entity determines whether an expenditure to enable use of content, which had been created for another purpose, on its web site becoming available for use results in a separate identifiable asset or the expenditure is included in the cost of developing the web site.

c) the operating stage commences once the web site is available for use, and therefore an expenditure to maintain or enhance the web site after development has been completed should be recognised as an expense when it is incurred unless it meets the criteria in paragraph -28 of the Standard..

7. An intangible asset is measured subsequent to initial recognition by applying the requirements in paragraph 73 of this Standard. Additionally, since paragraph 92 of the Standard states that an intangible asset always has a finite useful life, a web site that is recognised as an asset is amortised over the best estimate of its useful life. As indicated in paragraph 91 of the Standard, web sites are susceptible to technological obsolescence, and given the history of rapid changes in technology, their useful life will be short.

8. The following table illustrates examples of expenditures that occur within each of the stages described in paragraphs 2 and 3 above and application of paragraphs 5 and 6 above. It is not intended to be a comprehensive checklist of expenditures that might be incurred.

Nature of Expenditure	Accounting treatment
<b>Planning</b> • undertaking feasibility studies	Expense when incurred

<ul style="list-style-type: none"> <li>• defining hardware and software specifications</li> <li>• evaluating alternative products and suppliers</li> <li>• selecting preferences</li> </ul>	
<p><b>Application and Infrastructure Development</b></p> <ul style="list-style-type: none"> <li>• purchasing or developing hardware</li> </ul>	<p>Apply the requirements of ASLB on, 'Property, Plant &amp; Equipment'</p>
<ul style="list-style-type: none"> <li>• obtaining a domain name</li> <li>• developing operating software (e.g., operating system and server software)</li> <li>• developing code for the application</li> <li>• installing developed applications on the web server</li> <li>• stress testing</li> </ul>	<p>Expense when incurred, unless it meets the recognition criteria under paragraphs 28 and 55</p>

<p><b>Graphical Design and Content Development</b></p> <ul style="list-style-type: none"> <li>• designing the appearance (e.g., layout and colour) of web pages</li> <li>• creating, purchasing, preparing (e.g., creating links and identifying tags), and uploading information, either textual or graphical in nature, on the web site prior to the web site becoming available for use. Examples of content include information about an entity, products or services offered for sale, and topics that subscribers access</li> </ul>	<p>If a separate asset is not identifiable, then expense when incurred, unless it meets the recognition criteria under paragraphs 28 and 55</p>
<p><b>Operating</b></p> <ul style="list-style-type: none"> <li>• updating graphics and revising content</li> <li>• adding new functions, features</li> </ul>	<p>Expense when incurred, unless in rare circumstances it meets the criteria in paragraph -28, in which</p>

<p>and content</p> <ul style="list-style-type: none"> <li>• registering the web site with search engines</li> <li>• backing up data</li> <li>• reviewing security access</li> <li>• analysing usage of the web site</li> </ul>	<p>case the expenditure is included in the cost of the web site</p>
<p><b>Other</b></p> <ul style="list-style-type: none"> <li>• selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use</li> <li>• clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (e.g., false start testing)</li> <li>• training employees to operate the web site</li> </ul>	<p>Expense when incurred</p>

### **Implementation Guidance – Illustrative accounting treatment and disclosures**

*This guidance accompanies, but is not a part of, ASLB 31.*

This guidance illustrates accounting treatment of various transactions entered into by a local body.

**Illustration:** A Local Body 'X' decided to develop its own website. The Expenditure incurred in conducting feasibility study for evaluating various alternatives amounted to Rs. 1.5 Lakhs. After conducting feasibility study, the local body 'X' decided to develop the website. For this purpose, the contract of designing and developing the website was given to an outside agency at Rs. 10 Lakhs. Cost incurred in purchasing hardware was Rs. 3 Lakhs. Costs incurred in updating the contents hosted on the website after the website became operational amounted to Rs. 1 Lakh. Costs incurred in training the employees to operate the website amounted Rs. 50,000. It also acquired a license to reproduce information on its website from another entity at Rs. 2 Lakhs for 2 years. How these transactions should be accounted for in the books of the Local Body 'X'.

- (1) Costs incurred on feasibility studies Rs. 1.5 Lakhs should be charged to Statement of Income & Expenditure as an expense as it relates to planning stage of developing the website.
- (2) Contract cost of designing and developing the website for Rs. 10 lakhs should be recognised as an internally generated intangible asset 'Website Costs' if the criteria laid down in paragraph 55 of the Standard regarding recognition of intangible asset arising from Development Phase is satisfied.
- (3) Hardware purchased should be capitalised as 'Property, Plant and Equipment' if criteria given in of ASLB-17 '*Property, Plant and Equipment*' are met.
- (4) Costs incurred in updating the contents should be charged to Statement of Income & Expenditure as expense as these are incurred for operating and maintenance of the website.
- (5) Training costs of Rs. 50000 should be charged to Statement of Income & Expenditure as expense because in accordance with paragraph 65 of the Standard it is not a component of cost of an internally generated intangible asset.
- (6) License acquired to reproduce information for Rs. 2 lakhs should be capitalised as a separate intangible asset as 'Licenses'.

**Illustrative disclosures regarding Intangible assets as per Paragraph 117 of the Standard**

- (a) **Illustrative Accounting Policy regarding amortization method:** The Intangible assets are amortised over their estimated useful lives not exceeding 10 years on a straight line basis, commencing from the date the asset is available to the entity for its use.

The management estimates the useful lives for the intangible assets as follows:

<b>Category</b>	<b>Useful life</b>
Website Costs	5 years
Patents and License	2 years

(b) Illustrative Disclosures:

Asset Block	Gross Carrying Amount				Amortisation & Impairment Losses					Net Carrying Amount	
	Opening balance (a)	Additions during the year (b)	Retirements / Disposals (c)	Closing balance (a)+(b)-(c)=(d)	Accumulated amortization (aggregated with accumulated I/Loss) Opening balance (e)	Amortisation recognised during the year (f)	Impairment Losses recognised during the year (g)	Impairment Losses reversed during the year (h)	Accumulated amortisation (agg with I/Loss) Closing balance (e)+(f)+(g)-(h)=(i)	At the end of the year (d)-(i)	At the beginning of the year
<b>Internally Generated Intangible Asset</b>											
Website Costs	-	10	-	10	-	2	-	-	2	8	-
<b>Other Intangible Asset</b>											
Licenses	-	2	-	2	-	1	-	-	1	1	-

## **Appendix 1**

*Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 31 and the corresponding International Public Sector Accounting Standard (IPSAS) 31, 'Intangible Assets'*

### **COMPARISON WITH IPSAS 31, 'INTANGIBLE ASSETS'**

1. Paragraph 5 of IPSAS 31 which provides that Government Business Enterprises should use IFRSs, has been deleted, as it is not relevant for draft ASLB 31, which is applicable to Local Bodies of India. However, paragraph number 5 is retained in draft ASLB 31, in order to maintain consistency with IPSAS 31.
2. Exclusions in respect of Intangible assets acquired in a business combination, goodwill acquired in a business combination, deferred acquisition costs, and intangible assets arising from an insurer's contractual rights under insurance contracts, and non-current intangible assets classified as held for sale have been removed from the draft ASLB 31, as these are not considered to be relevant for Local Bodies in India.
3. Some definitions additional to that in IPSAS 31 have been provided in the draft ASLB 31.
4. The condition of measuring the asset on its cost or fair value for recognising the same as intangible assets has been changed. The option of measurement at fair value has been removed in the draft ASLB 31 in order to avoid the complexity as the local bodies in India are at initial stage of implementing the accrual accounting. As a result of the above change consequential changes have also been made. Paragraph numbers have been retained in order to maintain consistency with the corresponding IPSAS.
5. Revaluation model for recognising the intangible assets have been removed from the draft ASLB 31. The ASLB 31 provides that after the initial recognition, an intangible asset should be carried at its cost less any accumulated amortization and any accumulated impairment loss. Consequential changes have also been made. Paragraph numbers have been retained in order to maintain consistency with the corresponding IPSAS.
6. IPSAS 31 provides that the useful life of an intangible asset can be finite or indefinite while the draft ASLB 31 provides that there is a rebuttable presumption that the life of an intangible asset will not exceed ten years from the date when the asset is available for use. Accordingly all paragraphs pertaining to the indefinite life have been removed. However, the paragraph numbers have been retained in order to maintain consistency with the corresponding IPSAS
7. IPSAS 31 provides that the useful life of an intangible asset can be finite or indefinite while the draft ASLB 31 provides that there is a rebuttable presumption that the life of an intangible asset will not exceed ten years from the date when

the asset is available for use. Accordingly, all paragraphs pertaining to the indefinite life have been removed. However, the paragraph numbers have been retained in order to maintain consistency with the corresponding IPSAS.

8. Due to the above changes, certain disclosure requirements have also been changed.
9. Paragraphs relating to effective date have been removed as the ASLB 31 would become mandatory for Local Bodies in a state from the date specified by the State Government concerned. Paragraph numbers have been retained in order to maintain consistency with IPSAS 11.
10. As compared to IPSAS 31, draft ASLB 31 provides an appendix on “Illustrative Application of the Accounting Standard to Computer Software for internal use and Website Costs” which states that useful life of the software is likely to be shorter, say 3 to 5 years.



## **Appendix 2**

*Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 31 and the corresponding existing Accounting Standard 26, 'Intangible Assets'*

### **COMPARISON WITH CORRESPONDING EXISTING ACCOUNTING STANDARD 26, 'INTANGIBLE ASSETS'**

1. Draft ASLB 31 includes a scope exclusion for the powers and rights conferred by legislation, a constitution, or by equivalent means.
2. Draft ASLB 31 does not require or prohibit the recognition of intangible heritage assets. An entity that recognises intangible heritage assets is required to comply with the disclosure requirements of this Standard with respect to those intangible heritage assets that have been recognised and may, but is not required to, comply with other requirements of this Standard in respect of those intangible heritage assets. AS 26 does not provide the similar guidance.
3. AS 26 contains requirements and guidance on goodwill and intangible assets acquired in a business combination. Draft ASLB 31 does not include this guidance, as this is not considered to be relevant for Local Bodies.
4. AS 26 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 50–51 of ASLB 31 modify this guidance to refer to intangible assets acquired through non-exchange transactions.
5. The examples included in ASLB 31 have been modified to better address Local Bodies circumstances.
6. Draft ASLB 31 uses different terminology, in certain instances, from AS 26. The most significant examples are the use of the terms “revenue,” “income and expenditure statement,” “future economic benefits or service potential,” “accumulated surpluses or deficits,” “operating/operation,” “rights from binding arrangements (including rights from contracts or other legal rights),” and “net assets/equity” in ASLB 31. The equivalent terms in AS 26 are “income,” “profit & loss statement,” “-,” “future economic benefits,” “retained earnings,” “business,” “contractual or other legal rights,” and “equity.”
7. Some additional guidance with respect to the cost of the Intangible assets has been provided in the draft ASLB 31 as compared to AS 26.
8. AS 26 gives reference to Accounting Standard on impairment of Assets However, draft ASLB 31 makes reference to ASLB’s on Impairment of Cash Generating and Non-cash Generating Assets.

9. Draft ASLB 31 permits the review of residual value at each reporting date as compared to AS 26.