IAS 38

Intangible Assets

(Recognition, Measurement and Disclosure)

Presented by

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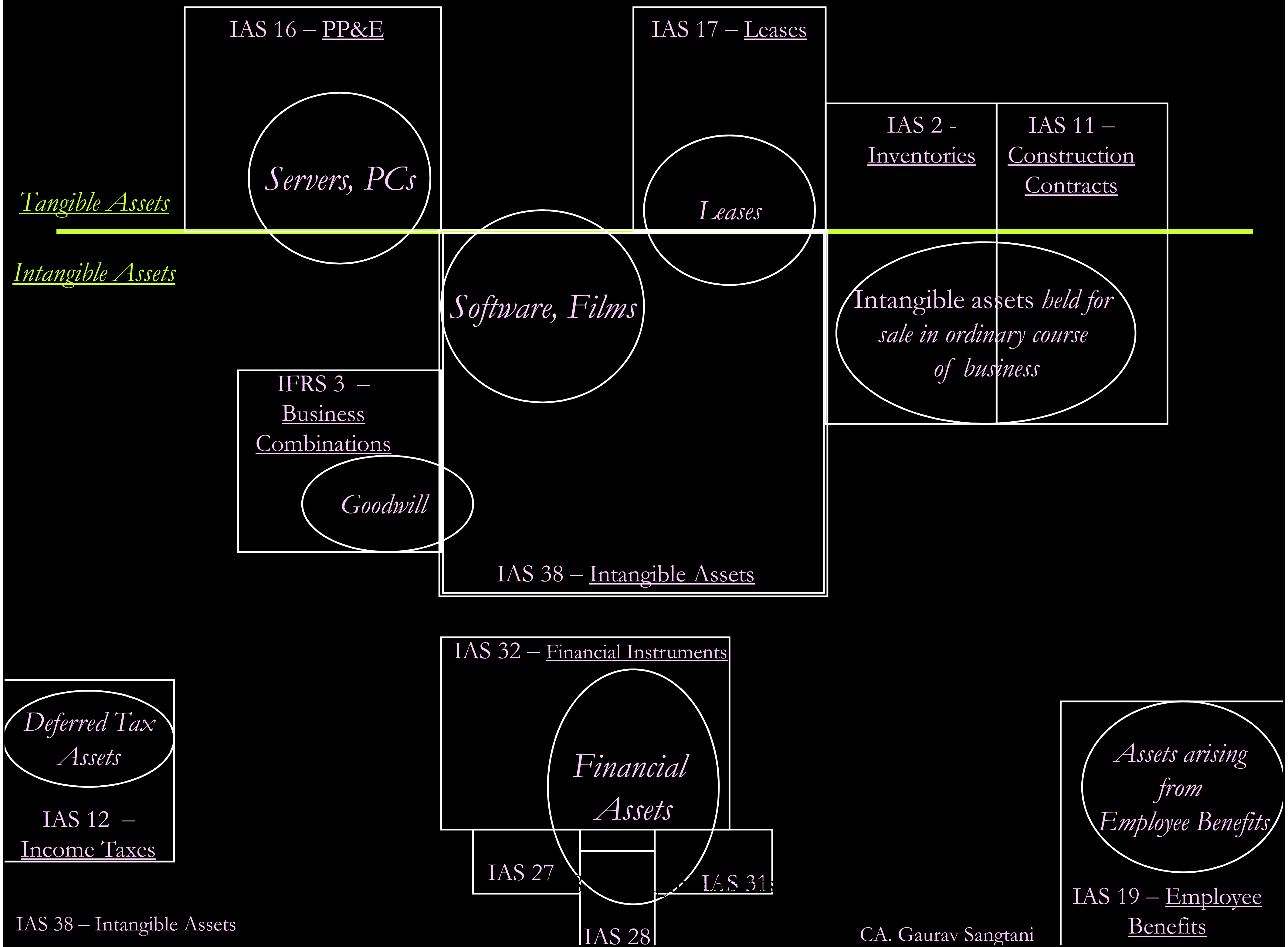
Agenda

- Scope of IAS 38
- Definition of an Intangible Asset
- Recognition of an Intangible Asset
- Amortization of an Intangible Asset
- Disposal of an Intangible Asset
- Disclosures regarding Intangible Assets

Scope

Applied in Accounting for Intangible Assets, *EXCEPT*:

- Intangibles covered by another Standard
- Financial Assets *(defined in* IAS 32 Financial Instruments: Presentation*)*
- Intangibles involved in Exploration, extraction etc of Mineral Resources *(IFRS 6)*


IAS 16 – PP&E
Servers, PCs
IAS 17 – Leases
Leases
IAS 2 - Inventories
IAS 11 – Construction Contracts
Tangible Assets
Intangible Assets
Software, Films
Intangible assets held for sale in ordinary course of business
IFRS 3 – Business Combinations
Goodwill
IAS 38 – Intangible Assets
IAS 32 – Financial Instruments
Financial Assets
Deferred Tax Assets
IAS 12 – Income Taxes
IAS 27
IAS 28
IAS 31
Assets arising from Employee Benefits
IAS 19 – Employee Benefits

Intangible Asset

Definition….

An Intangible Asset is *an identifiable non-monetary asset without physical substance*

Asset – Without Physical Substance – Non-Monetary - Identifiable

Definition….

An Intangible Asset is *an identifiable non-monetary asset without physical substance*

An **asset** is a resource:

✓ Controlled by an entity as a result of past events; and

✓ From which future economic benefits are expected to flow to the entity

Definition….

An Intangible Asset is *an identifiable non-monetary asset without physical substance*

Control:

☑ Power to obtain the future economic benefits.

☑ Power to restrict the access of others to those benefits.

☑ Normally has legal rights that are enforceable in a court of law.

☑ Ability to control in some other way

Future Economic Benefits:

☑ Revenue from the sale of Products or Services.

☑ Cost Savings.

☑ Other Benefits resulting from the use of the asset.

Definition….

An Intangible Asset is *an identifiable non-monetary asset without physical substance*

Definition….

An Intangible Asset is *an identifiable non-monetary asset without physical substance*

Non-Monetary: *Not a Monetary Asset*

Monetary Asset

Monetary Assets are:

- ☑ Money held, and
- ☑ Assets to be received in FIXED or DETERMINABLE amounts of Money

Definition….

An Intangible Asset is *an identifiable non-monetary asset without physical substance*

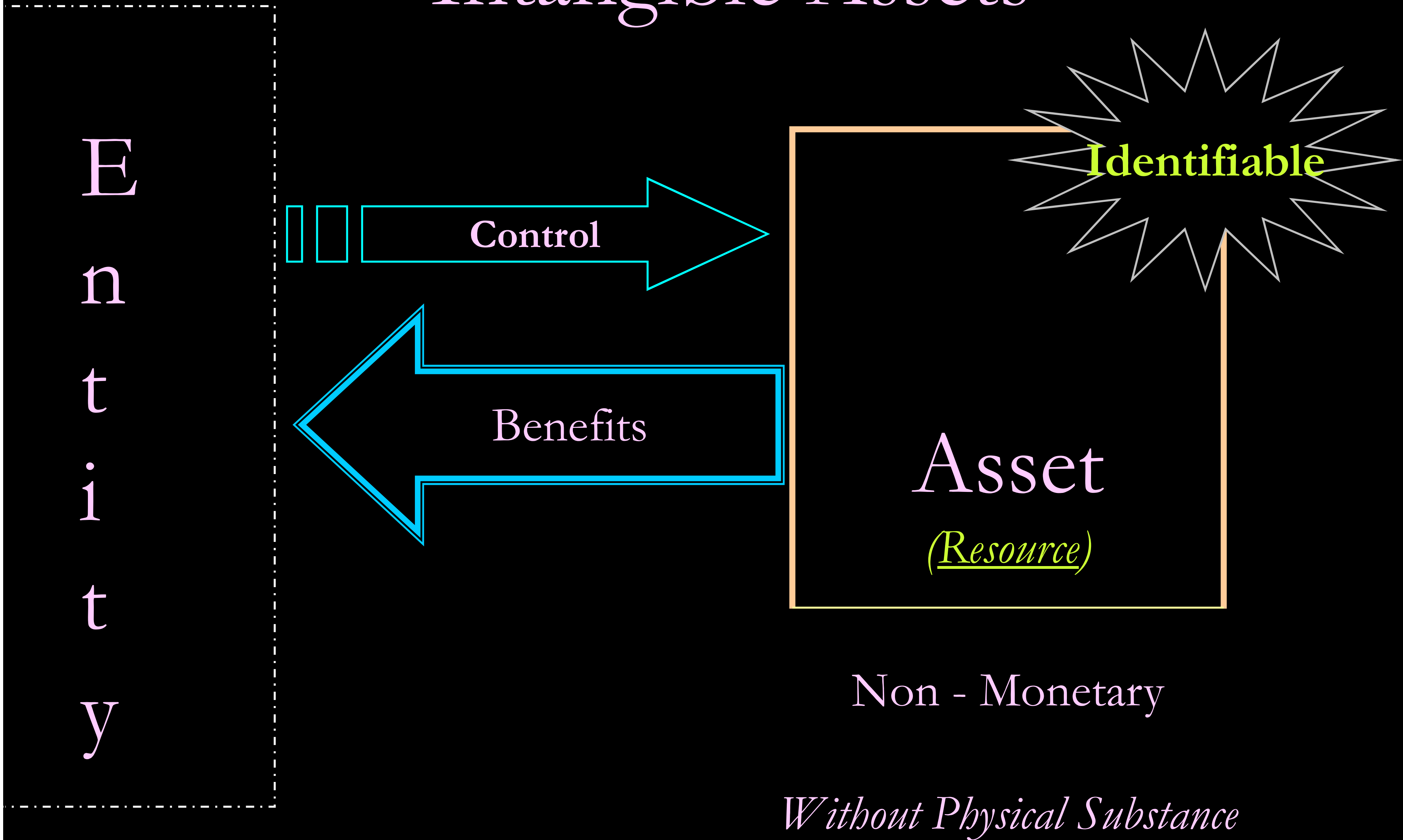
An asset is **Identifiable** if it:

✓ is **Separable**;

OR

✓ arises from **Contractual** or other **Legal Rights**.

Intangible Assets



Recognition

(Initial Recognition)

- ✓ **WHEN** to recognize an Intangible Asset?
- ✓ **HOW** to recognize an Intangible Asset?

✓ **WHEN** to recognize an Intangible Asset?

Recognize *If and Only If* :

- It is **Probable** that the expected future economic **benefits** that are attributable to the asset *will flow* to the entity

- the **Cost** of the asset can be *measured reliably*.

✓ **HOW** to recognize an Intangible Asset?

Measure Initially at **COST**

Ways of Acquisition

- Government Grant
- Part of Business Acquisition
- Separate Acquisition
- Exchange of Assets
- Internally Generated Intangibles

Separate Acquisition

Cost

Purchase Price	xxx
+ Import Duties	xxx
+ Non-Refundable Purchase Taxes	xxx
- Trade Discount/Rebate	(xxx)
+ *Directly Attributable Cost*	xxx
	xxxx

Part of Business Acquisition

Cost = Fair Value *at the acquisition date*

Fair Value:

- *Quoted Market Price* in an Active Market
- *the amount entity would have paid* in arm's length transaction
- any *Appropriate Fair Value technique*

Exchange of Assets

Cost =

Fair Value *of Asset given up*

OR

Fair Value *of Asset received*

Whichever is more clearly evident

IAS 20

(Accounting for Government Grants and Disclosure of Government Assistance)

- **Gross Approach** : Recognize *Intangible Asset* and *Grant* at Fair Value.

- **Net Approach** : Recognize *Intangible Asset* at Nominal amount plus exp incurred.

Internally Generated Intangible Assets

Life Cycle of Internally Generated Intangible:

Investigation *for gaining New Scientific or Technical Knowledge and Understanding*

Investigation

Capitalization depends on *Certain Conditions*

Research Phase

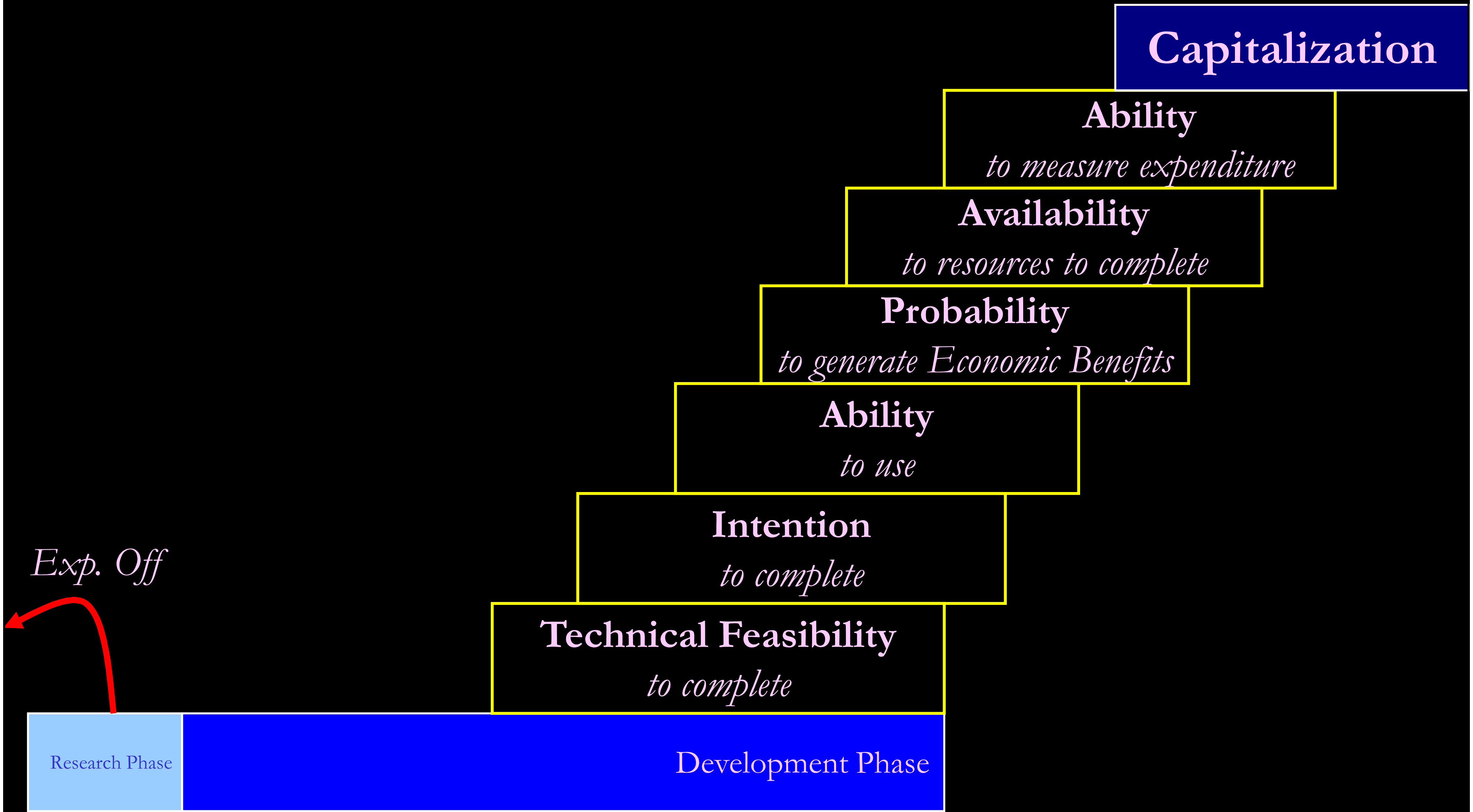
Development Phase

All Expenditure to be recognized as *Expense to PnL*

Application

Application *of Research Findings or Other Knowledge for production of new/improved material/device/product/process etc.*

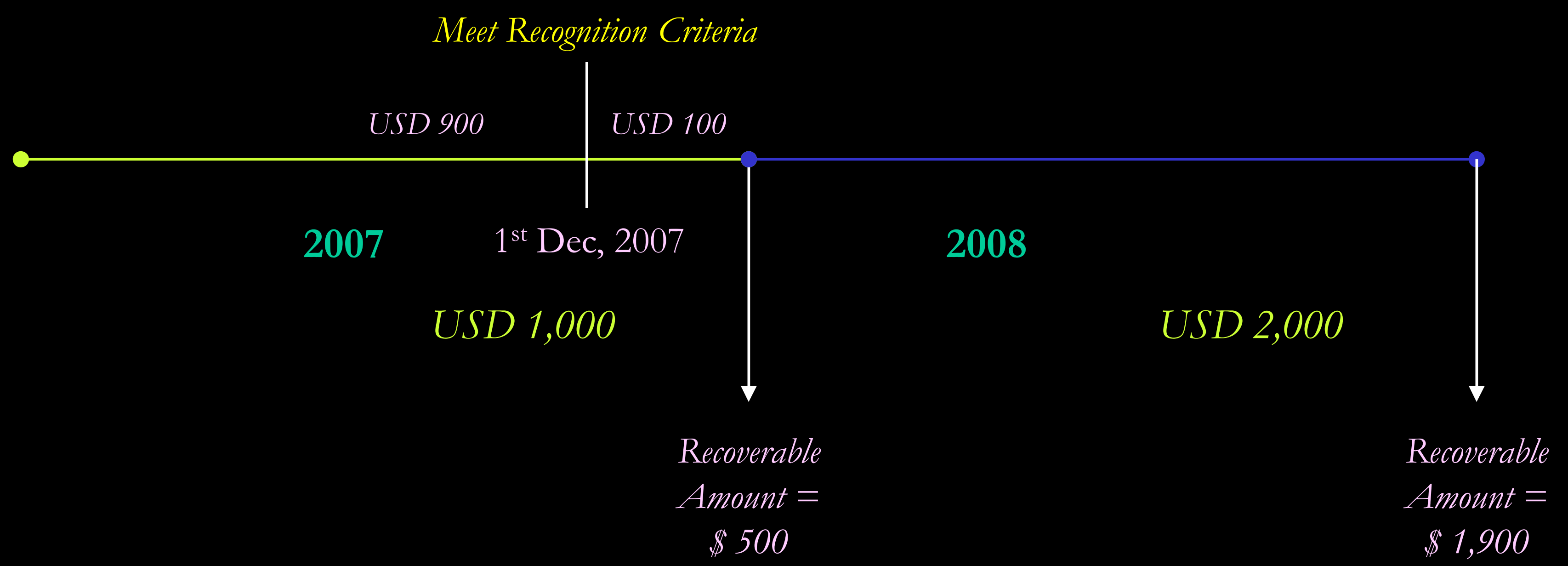
Internally Generated Intangible Assets



Do Not *Recognize as Internally Generated Intangible Asset*

- Brands
- Mastheads
- Publishing Titles
- Customer Lists
- *Other Similar Items*

Example:



"Once Expensed off, can't be capitalized on a later date"

Subsequent Recognition

(Measurement)

Choose either of:

Cost Model

Carrying Amount =

Cost

less: Accumulated Amortization

less: Accumulated Impairment

Revaluation Model

Carrying Amount =

Fair Value *at the date of revaluation*

less: Accumulated Amortization

less: Accumulated Impairment

Revaluation Model

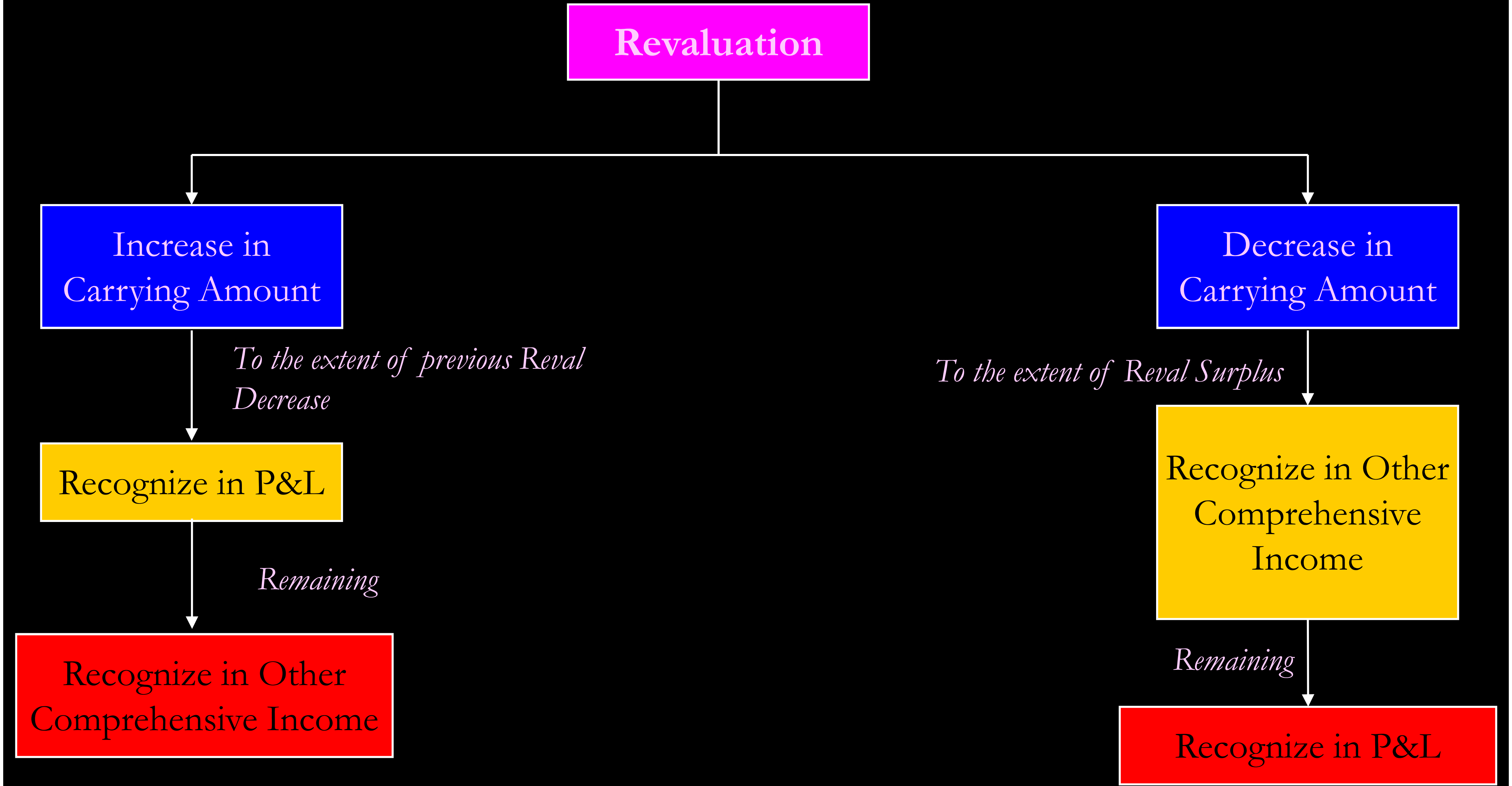
Carrying Amount = **Fair Value** @ *revaluation date* – Accum. Dep. – Accum. Impairment

> *"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."*

- Only for Subsequent Recognition and not Initial Recognition.
- Frequency ? - depends on volatility of Fair Values.
- Can not create Intangibles not created at Initial Recognition.

Subsequent Recognition (*Measurement*)

Effects of Revaluation



Useful Life

Intangible Asset

Finite Life

Can be the length of, or number of production, or similar units

Based on Entity's Expectation of usage of asset

Shorter of Legal Factors and Economic Factors

Indefinite Life

"…..On the basis of all relevant factors, no foreseeable limit to the period over which the asset is expected to generate cash flows…."

'Indefinite' does not mean 'Infinite'

Review each period if Asset continues to have indefinite Life

Amortization

Indefinite Life – ***No Amortization***

* Test for Impairment
(IAS 36)

Finite Life

Allocate **Depreciable Amount**
on a *systematic basis* over **Useful Life**

Allocate **Depreciable Amount** on a *systematic basis* over **Useful Life**

Depreciable Amount

Cost – Residual Value

Residual Value

Amount *entity would currently obtain from disposal*

- *after deducting disposal cost*
- *if asset were already of age and condition expected at end of useful life*

Amortization

Allocate **Depreciable Amount** on a *systematic basis* over **Useful Life**

Depreciable Amount

Residual Value

…. *Residual value for Intangible with* Finite Life *shall be* **ZERO** *unless:*

Commitment by Third Party to purchase at end of useful Life

OR

Active Market for Asset AND

- Residual Value can be determined, and

- Probable that market will exist at end of useful life.

Allocate *Depreciable Amount* on a **Systematic Basis** over *Useful Life*

Systematic Basis

Amortization Method: *Reflect the pattern in which the* **Asset's Future Economic Benefits** *are expected to be consumed.*

If pattern cannot be determined reliably – **Use SLM**

Persuasive Evidence Required **-** *If amortization method results in lower accum. amortization than SLM.*

Allocate *Depreciable Amount* on a **Systematic Basis** over *Useful Life*

Review

Amortization Period and *Amortization Method*

at least at

each financial year-end.

Any changes accounted for as Changes in Accounting Estimates *as per* IAS 8

Disposals

De-recognize *an Intangible asset*

- *On* Disposal

OR

- *When* No Future Economic Benefits *are expected from use or disposal*

Disposals

✓ *Recognize the* Consideration Received at **Fair Value**

✓ *Any Gain/Loss on de-recognition – Recognize in* P & L

✓ *Amortization* **not to stop** *when asset is no longer used unless:*

- *It is Fully Depreciated* OR
- *Classified as held for sale*

Disclosures

Disclose:

- For **Each Class** of Intangible Assets,

- **Distinguishing** between *Internally generated intangible assets and other intangible assets.*

Disclosures

- **Life** – *Finite* or *Indefinite*

    - If Finite – *Useful Life* or *Amortization Rates* AND *Amortization Method*

    - If Indefinite – *Reasons/factors* supporting assessment of Indefinite Life

- **Reconciliation** of Carrying Amount at beginning and end of the period showing:

    - Additions

    - *Classified* as held for Sale

    - *Increase/Decrease* due to Revaluation

    - Impairment Loss *Recognized/Reversed*

    - Amortization *Recognized*

    - CTA *(diff between Func and Rpt)*

    - Other Changes.

<u>**Disclosures**</u>

- **Assets acquired by Govt. Grants** –
  - Fair Value initially recognized, Carrying Amount
  - Measurement Model used.
- **Contractual Commitments** *for acquisition of Intangible Assets.*
- **Assets Revalued –**
  - *Date of Revaluation*
  - *Carrying Amount and Carrying Amount under Cost Model*
  - *Reconciliation between opening and closing of Revaluation Surplus.*
  - *Methods and assumption in Fair Value.*
- **Research and Development Exp.** *recognized in as Exp in P & L.*

Thank You

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