Intangible assets essay sample

IAS 38 was revised in March 2004 and applies to intangible assets acquired in business combinations occurring on or after 31 March 2004, or otherwise to other intangible assets for annual periods beginning on or after 31 March 2004. History of IAS 38

February 1977 Exposure Draft E9 Accounting for Research and Development Activities July 1978 IAS 9 (1978) Accounting for Research and Development Activities 1 January 1980 Effective date of IAS 9 (1978)

August 1991 Exposure Draft E37 Research and Development Costs

December 1993 IAS 9 (1993) Research and Development Costs

1 January 1995 Effective date of IAS 9 (1993)

June 1995 Exposure Draft E50 Intangible Assets

August 1997 E50 was modified and re-exposed as Exposure Draft E59 Intangible Assets September 1998 IAS 38 Intangible Assets

1 July 1999 Effective date of IAS 38 (1998)

31 March 2004 Revisions to IAS 38

1 April 2004 Effective date of March 2004 revisions to IAS 38 22 May 2008 IAS 38 amended for Annual Improvements to IFRSs 2007 about advertising and promotional activities and about the units of production method of amortisation 1 January 2009 Effective date of the May 2008 revisions to IAS 38 16 April 2009 IAS 38 amended for Annual Improvements to IFRSs 2009 about measurement of intangible assets in business combinations 1 July 2009 Effective date of the April 2009 revisions to IAS 38 Related Interpretations

IFRIC 12 Service Concession Arrangements

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine IAS 16 supersedes SIC 6 Costs of Modifying Existing Software SIC 32 Intangible Assets – Website Costs

Amendments under consideration by the IASB

Rate-regulated activities

IAS 16/IAS 38 — Revenue based depreciation and amortisation Research project — Intangible assets

Summary of IAS 38

Objective

The objective of IAS 38 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another IFRS. The Standard requires an entity to recognise an intangible asset if, and only if, certain criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures regarding intangible assets. [IAS 38. 1] Scope

IAS 38 applies to all intangible assets other than: [IAS 38. 2-3]

financial assets

exploration and evaluation assets (extractive industries) expenditure on the development and extraction of minerals, oil, natural gas, and similar resources intangible assets arising from insurance contracts issued by insurance companies intangible assets covered by another IFRS, such as intangibles held for sale, deferred tax assets, lease assets, assets arising from employee benefits, and goodwill. Goodwill is covered by IFRS 3.

Key definitions

Intangible asset: an identifiable non-monetary asset without physical substance. An asset is a resource that is controlled by the entity as a result of past events (for example, purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected. [IAS 38. 8] Thus, the three critical attributes of an intangible asset are:

identifiability

control (power to obtain benefits from the asset)

future economic benefits (such as revenues or reduced future costs)

Identifiability: an intangible asset is identifiable when it: [IAS 38. 12] is separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract) or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Examples of possible intangible assets include:

computer software

patents

copyrights

motion picture films

customer lists

mortgage servicing rights

licenses

import quotas

franchises

customer and supplier relationships

marketing rights

Intangibles can be acquired:

by separate purchase

as part of a business combination

by a government grant

by exchange of assets

by self-creation (internal generation)

Recognition

Recognition criteria. IAS 38 requires an entity to recognise an intangible asset, whether purchased or self-created (at cost) if, and only if: [IAS 38. 21] it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably. This requirement applies whether an intangible asset is acquired externally or generated internally. IAS 38 includes additional recognition criteria for internally generated intangible assets (see below).

The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset. [IAS 38. 22] The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination. [IAS 38. 33] If recognition criteria not met. If an intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, IAS 38 requires the expenditure on this item to be recognised as an expense when it is incurred. [IAS 38. 68]

Business combinations. There is a presumption that the fair value (and therefore the cost) of an intangible asset acquired in a business combination can be measured reliably. [IAS 38. 35] An expenditure (included in the cost of acquisition) on an intangible item that does not meet both the definition of and recognition criteria for an intangible asset should form part of the amount attributed to the goodwill recognised at the acquisition date.

Reinstatement. The Standard also prohibits an entity from subsequently reinstating as an intangible asset, at a later date, an expenditure that was originally charged to expense. [IAS 38. 71] Initial recognition: research and development costs Charge all research cost to expense. [IAS 38. 54] Development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established. This means that the entity must intend and be able to complete the intangible asset and either use it or sell it and be able to demonstrate how the asset will generate future economic benefits. [IAS 38. 57]

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

Initial recognition: in-process research and development acquired in a business combination

A research and development project acquired in a business combination is recognised as an asset at cost, even if a component is research. Subsequent expenditure on that project is accounted for as any other research and development cost (expensed except to the extent that the expenditure satisfies the criteria in IAS 38 for recognising such expenditure as an intangible asset). [IAS 38. 34] Initial recognition: internally generated brands, mastheads, titles, lists Brands, mastheads, publishing titles, customer lists and items similar in substance that are internally generated should not be recognised as assets. [IAS 38. 63] Initial recognition: computer software

Purchased: capitalise

Operating system for hardware: include in hardware cost Internally developed (whether for use or sale): charge to expense until technological feasibility, probable future benefits, intent and ability to use or sell the software, resources to complete the software, and ability to measure cost. Amortisation: over useful life, based on pattern of benefits (straight-line is the default).

Initial recognition: certain other defined types of costs

The following items must be charged to expense when incurred:

internally generated goodwill [IAS 38. 48]

start-up, pre-opening, and pre-operating costs [IAS 38. 69] training cost [IAS 38. 69] advertising and promotional cost, including mail order catalogues [IAS 38. 69] relocation costs [IAS 38. 69]

For this purpose, ‘ when incurred’ means when the entity receives the related goods or services. If the entity has made a prepayment for the above items, that prepayment is recognised as an asset until the entity receives the related goods or services. [IAS 38. 70] Initial measurement

Intangible assets are initially measured at cost. [IAS 38. 24] Measurement subsequent to acquisition: cost model and revaluation models allowed

An entity must choose either the cost model or the revaluation model for each class of intangible asset. [IAS 38. 72]

Cost model. After initial recognition the benchmark treatment is that intangible assets should be carried at cost less any amortisation and impairment losses. [IAS 38. 74]

Revaluation model. Intangible assets may be carried at a revalued amount (based on fair value) less any subsequent amortisation and impairment losses only if fair value can be determined by reference to an active market. [IAS 38. 75] Such active markets are expected to be uncommon for intangible assets. [IAS 38. 78] Examples where they might exist: