



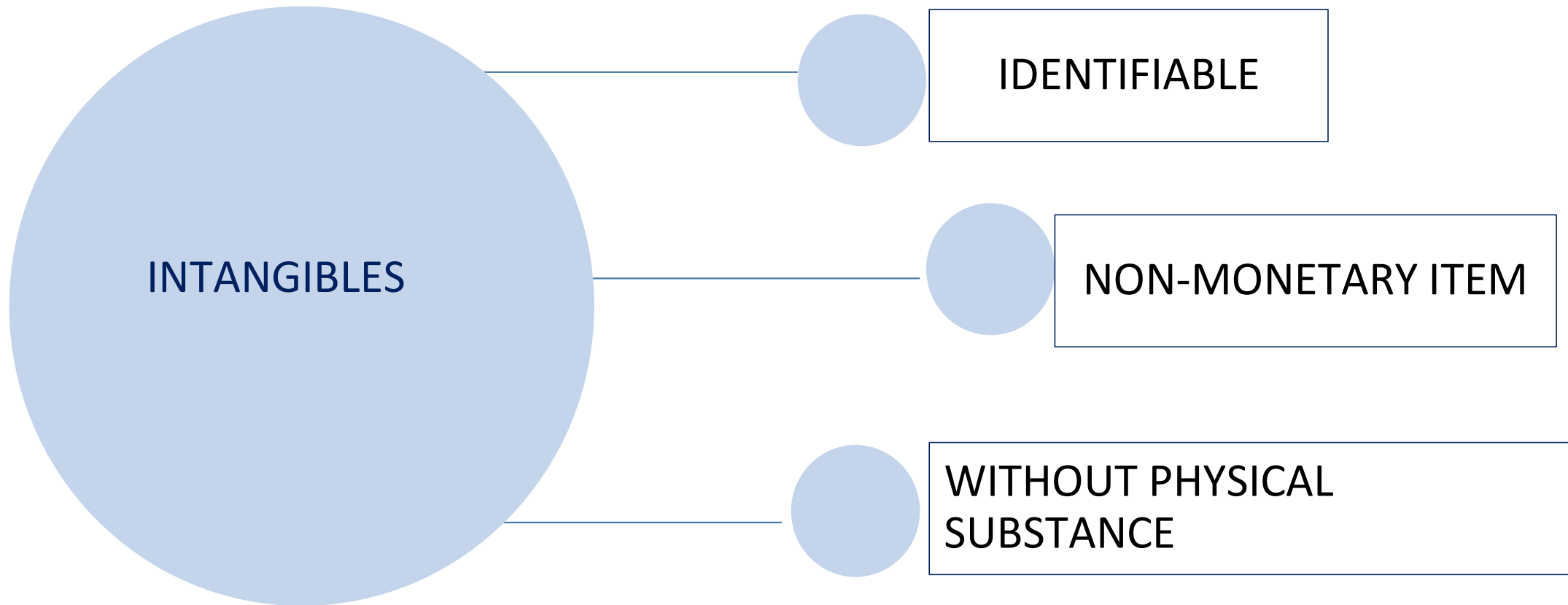
# PASSFR.EU

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## IAS® Standard 38 Intangible Assets

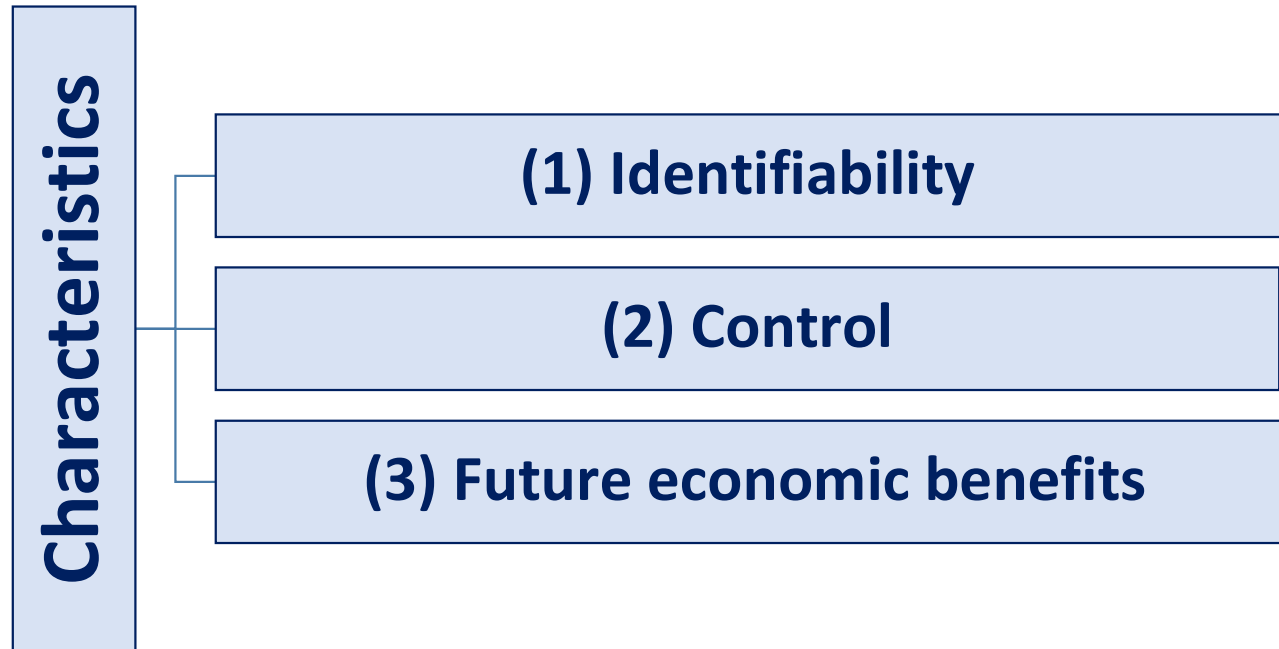


# DEFINITION OF INTANGIBLE ASSETS



# CHARACTERISTICS OF INTANGIBLE ASSETS

There are three critical features of intangibles:



# EXAMPLES OF INTANGIBLES

(a) Intangible assets related to **marketing**:

Trademarks, trade names, newspaper headlines, internet domain names

(b) Intangible assets related to **customers**:

Customer lists

(c) Intangible assets related to **art**:

Plays, operas, musical works, pictures and photos, videos, TV shows

(d) **Technology** - based intangible assets:

Patented technology, Software, Databases

(e) Intangible assets based on **contracts**:

Licensing, royalties, franchise agreements, use rights, import quotas

# EXAMPLES OF NON-INTANGIBLES



## Important to remember!

Under IAS 38, expenditure incurred on the following activities, **is not capitalised** as intangible assets:

- start-up activities (e.g. legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business, or launch new products);
- training activities;
- advertising and promotional activities;
- relocating or reorganising part or all of entity.

# FUNDAMENTAL ISSUES

**Intangibles  
can be  
obtained:**

by separate purchase

as part of a business combination

by self-creation (internal generation)

by exchange of assets

by a government grant

# SEPARATE PURCHASE OF INTANGIBLES

Saskia Ltd acquired a database used in managing its loyalty strategy, capturing information on customer demographics, preferences, relationship history and buying patterns. The database can either be sold or licensed. However, the entity has no intentions to do so, at least in the foreseeable future, because it will negatively impact its operating activity.

Will Saskia recognize an intangible asset?



# SEPARATE PURCHASE OF INTANGIBLES

## Analysis:

- (1) **Identifiability** – Yes - the database is independent from other assets
- (2) **Non-monetary characteristic** – Yes – database
- (3) **Future economic benefits** – Yes – details about customers to organize the business
- (4) **Control of benefits** – Yes – access to information based on acquisition contract
- (5) **Does the intangible asset meet the contractual-legal criterion?** – Yes.

**Conclusion:** The database will be recognized in Saskia's financial statements as an intangible asset.



# ACQUISITION COST – SEPARATE PURCHASE

## Elements of acquisition cost:

**purchase price**, including import duties and non-refundable purchase taxes, after deducting **trade discounts** and rebates

any **directly attributable cost** of preparing the asset for its intended use

## Excluded from cost

costs of conducting business in a new location or with a new class of customer

costs of introducing a new product or service

administration and other general overhead costs.

# EXAMPLE ACQUISITION OF INTANGIBLES

For example, Oscar Company purchased an inventory management software, for CU6,800. Oscar's software engineer installed the software. In order to integrate this software with financial reporting software, some specific features were designed by the supplier and invoiced at CU1,100. The inventory manager was trained by the supplier on how to use the application and it charged CU500 for this. Additionally, Oscar Co. bought a new server for CU3,800.

What is the acquisition cost of the software?

# EXAMPLE ACQUISITION OF INTANGIBLES

	Value	Intangible	Comments
Price	CU6,800	YES	
Specific features	CU1,100	YES	Costs to bring the software in functioning as needed by Oscar Co.
Training	CU500	NO	Costs for staff training are not included in costs
Server	CU3,800	NO	It is a tangible asset
<b>TOTAL</b>	<b>CU7,900</b>		

Dr. Software 7,900

Cr. Non-current asset suppliers/Cash 7,900

# RESEARCH AND DEVELOPMENT



# RESEARCH AND DEVELOPMENT

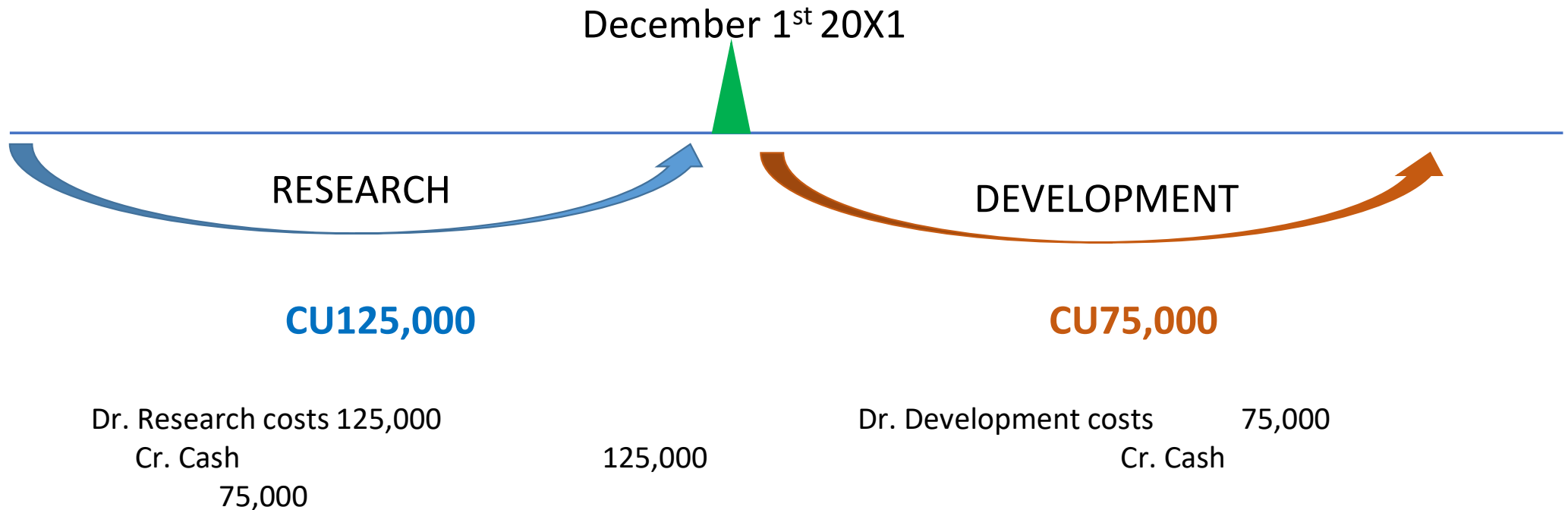
Dynamic Co. is developing a new production process. Expenditure in the amount of CU200,000 was incurred during the year 20x1, of which CU125,000 before December 1<sup>st</sup>.

Dynamic Co. can demonstrate that the production process met the criteria for recognition as an intangible asset as of December 1<sup>st</sup> 20X1.

How should these costs be recognized in Dynamic's financial statements?

# RESEARCH AND DEVELOPMENT

Dynamic Co can demonstrate that the production process met the criteria for recognition as an intangible asset on December 1<sup>st</sup> 20X1.



# AMORTISATION

## SYSTEMATIC ALLOCATION

- methodological approach => reflects the pattern of benefits obtained.
- very likely that the **straight-line method will be the most appropriate one.**

## DEPRECIABLE AMOUNT

- eliminate the residual value of asset
- The residual value, in many cases, **will be nil.**

## USEFUL LIFE

- The amortisation should be computed over the period of time over which **benefits are expected** to be achieved.
- Based on **contract provisions** (contract-based assets) or **reliable estimation** by management.

# EXAMPLE AMORTISATION

Blue Sky Company purchased a broadcasting license for CU1,500,000, valid for 20 years. The company spends an additional CU50,000 on legal and registration fees. The residual value is nil. The pattern of benefits is linear.

How much is the annual amortisation for the broadcasting licence, and how do entities journalize the amortisation?



# EXAMPLE AMORTISATION

Amortisation = Depreciable amount / useful life

**Cost of license** = Price CU1,500,000 + Legal and registration fees CU50,000 = CU1,550,000.

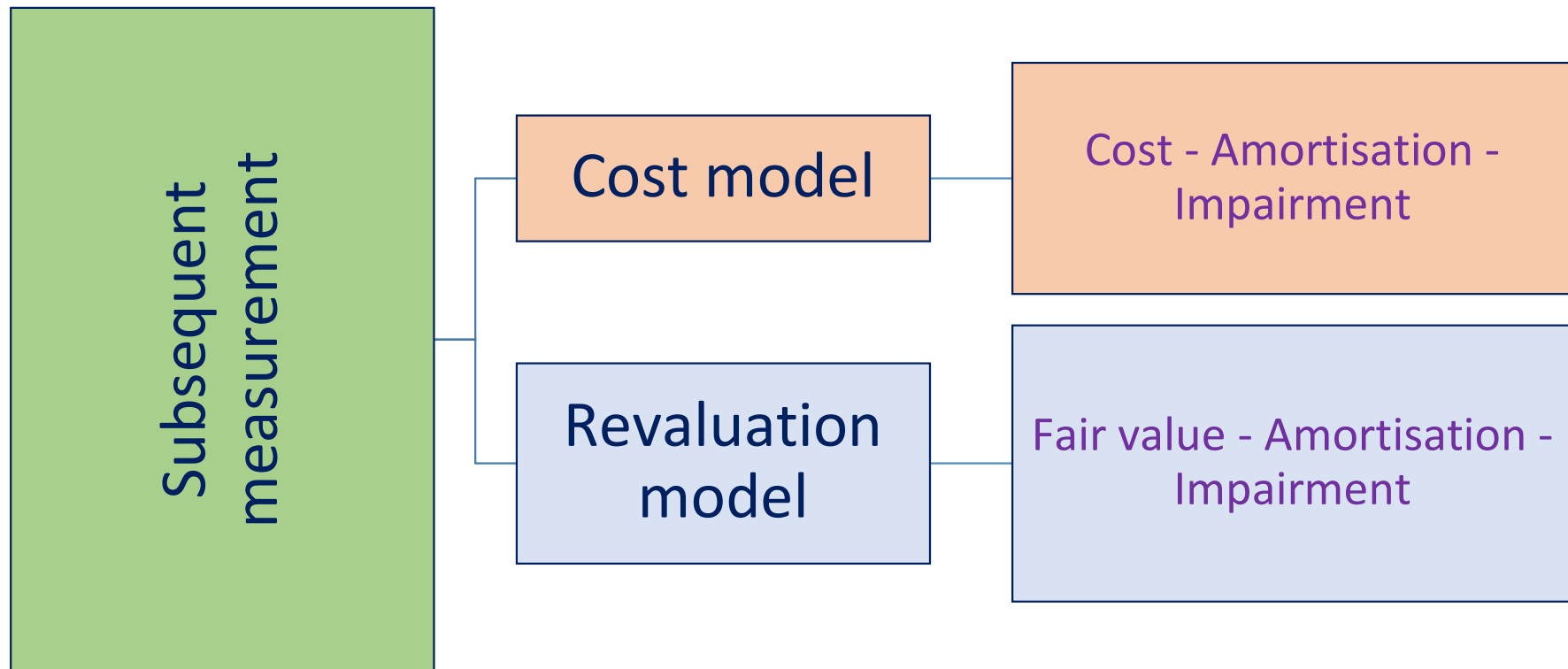
Depreciable amount = Cost – Residual value = CU1,550,000 – 0 = CU1,550,000

Amortisation = Depreciable amount / useful life = CU1,550,000 / 20 years = CU77,500 / year

Dr. Amortisation expense           CU77,500

    Cr. Amortisation of franchises   CU77,500

# SUBSEQUENT MEASUREMENT



# SUBSEQUENT MEASUREMENT

Smart City Ltd acquired a taxi license 5 years ago for CU120,000. At the reporting date, the 31<sup>st</sup> of December 20N1, the carrying amount of this license is CU24,000 and its fair value is CU75,000. At this date, Smart City Ltd intends to use the license for an additional 10 years. How much (if any) is the revaluation surplus?

Carrying amount = CU24,000

Fair value = CU75,000

→ Revaluation surplus = CU51,000

# SUBSEQUENT MEASUREMENT

a. cancelation of the accumulated amortisation

<b>Dr. Accumulated amortisation</b>	<b>CU96,000</b>	
<b>Cr. License</b>		<b>CU96,000</b>

b. recognition of the revaluation surplus.

<b>Dr. License</b>	<b>CU51,000</b>	
<b>Cr. Revaluation surplus</b>	<b>CU51,000</b>	

# INTANGIBLES WITH INDEFINITE USEFUL LIVES

## Intangible assets with a FINITE useful life

- Have a **limited period of benefit** to the entity
- Amortisation is carried out on a **systematic basis over the useful life** of the intangible asset
- Considered for impairment when there is an indication that the asset has been impaired

## Intangible assets with an INDEFINITE useful life

- No foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity
- **Not amortised**
- **Tested annually for impairment** and whenever there is an indication of impairment

# INTANGIBLES WITH INDEFINITE USEFUL LIVES

Blue Sky Company bought a broadcasting licence which is renewable every 10 years, on the condition that complies with the legislative requirements. The licence may be renewed indefinitely at little cost and Blue Sky Company has renewed it once before. The current licence expires in five years and Blue Sky Company intends to renew it.

# IMPAIRMENT OF INTANGIBLE ASSETS

There are plans to discontinue or restructure the operation for which the asset is currently used	An unexpected decline in the asset's market value
There is evidence that the entity's expected performance is worse than expected.	The company's net assets have a higher carrying value than the company's market capitalisation (which suggests that the assets are over-valued in the statement of financial position).
There is a reduction in the asset's expected remaining useful life	
<b>VALUE in USE</b>	<b>FAIR VALUE LESS COSTS OF DISPOSAL</b>
<p><b>RECOVERABLE AMOUNT</b>  <b>MAX (Value in use; Fair value less costs of disposal)</b></p>	

Internal sources

External sources

# IMPAIRMENT OF INTANGIBLE ASSETS

The carrying amount of an intangible asset is CU25,000. Its fair value less costs of disposal is CU15,000 and its value in use is CU19,000.

**Is the asset impaired?**



# IMPAIRMENT OF INTANGIBLE ASSETS

Carrying amount = CU 25,000

Recoverable value = MAX (Value in use; Fair value less costs of disposal)  
= MAX (19,000; 15,000)  
= CU19,000.

**Impairment = Carrying amount - Recoverable amount = CU25,000 - CU19,000 = CU6,000**

Dr. Impairment loss           CU6,000  
    CR Impairment of intangibles   CU6,000

# DISCLOSURE

- ✓ whether the useful lives of intangibles are indefinite or finite and, if finite, the useful lives or the amortisation rates used
- ✓ the amortisation methods used for intangible assets with finite useful lives
- ✓ the gross carrying amount and any accumulated amortisation at the beginning and end of the period;
- ✓ the line item(s) of the statement of comprehensive income in which any amortisation of intangible assets is included;
- ✓ a reconciliation of the carrying amount at the beginning and end of the period.



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