IAS 38 INTANGIBLE ASSETS

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 38 is applicable for annual reporting periods commencing on or after 1 January 2005.

OBJECTIVE

IAS 38 prescribes the recognition, measurement and disclosures applicable to intangible assets which are not dealt with specifically in another standard.

SCOPE

IAS 38 applies to all intangible assets, except:

- intangible assets within the scope of another standard (e.g. intangible assets held by an entity for sale in the ordinary course of business; goodwill acquired in a business combination)
- financial assets as defined in IAS 32 *Financial instruments: Presentation*
- recognition and measurement of exploration and evaluation assets
- expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources

RECOGNITION

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; and

b. the recognition criteria.

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

To meet the definition of an intangible asset, there must be all of the following elements:

- identifiability
- control over a resource by the entity
- existence of future economic benefits

An entity **controls** an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

The **future economic benefits** flowing from an intangible asset may include:

- revenue from the sale of products or services
- cost savings
- other benefits resulting from the use of the asset by the entity

An intangible asset shall be recognised if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

An entity shall assess the probability of expected future economic benefits 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.

An intangible asset shall be measured initially at cost.

Internally generated intangible assets

To assess whether an internally generated intangible asset meet the criteria for recognition, an entity classifies the generation of the asset into:

a. a research phase; and

b. a development phase.

IAS 38 specifically prohibits the following internally generated intangible assets from being recognised:

- goodwill
- brands
- mastheads
- publishing titles
- customer lists
- item similar in substance cannot be distinguished from the cost of developing the business as a whole

- intangible assets arising from research (or from the research phase of an internal project)

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if all the conditions described below can be demonstrated:

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;
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.

MEASUREMENT

Initial measurement of intangible assets

The initial measurement of an intangible asset depends on how the asset is acquired.
Table 1 summarises the measurement at initial recognition.

Table 1 Initial recognition of intangible assets

Type of acquisition	Measurement at recognition
Separately acquired intangible asset	at cost with cost comprising the purchase price (including import duties, non-refundable purchase taxes and trade discounts and rebates) and any cost directly attributable to preparing the asset for its intended use (e.g. costs of employee benefits, professional fees, testing of asset's functionality).
Intangible asset acquired in a business combination	at fair value at acquisition date.
Intangible asset acquired free of charge, or for nominal consideration, by way of a government grant	at fair value.
Internally generated intangible asset satisfying the recognition criteria	at cost with cost determined as the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria; i.e. past expenses are not to be recognised as an asset.
Intangible asset acquired in exchange for non-monetary asset(s)	fair value. However, the carrying value of the asset given up is used if the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.

Expenditure on an intangible item that was initially expensed is not able to be recognised as part of the cost of the asset at a later date.

Subsequent measurement of intangible assets

After initial recognition, either the cost model or revaluation model can be applied. If an intangible asset is accounted for using the revaluation model, all other assets in its class shall be accounted for using the same model, unless there is no active market for those assets. IAS 38 notes that it is uncommon for an active market to exist for intangible assets. However, some jurisdictions may have an active market for freely transferable licences, which may provide a fair value for some intangible assets.

Cost model

An intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Revaluation model

An intangible asset is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

Fair value is determined by reference to an active market and revaluations are made regularly to ensure the carrying amount of the intangible asset is not materially different from its fair value.

Amortisation of Intangible Assets

Finite life

An intangible asset with a finite useful life is systematically amortised over its useful life from the time that it is available for use until it is either derecognised or classified as held for sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*.

The useful life of an intangible asset that arises from contractual or other legal rights does not exceed the period of the contractual or legal rights, but may be shorter depending on the period over which the entity expects to use the asset.

The amortisation period and method must be reviewed at least at the end of each annual reporting period.

Indefinite life

An asset is regarded as having an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

An intangible asset with an indefinite useful life shall not be amortised. Instead, such intangible assets are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired in accordance with IAS 36 *Impairment of assets.*

The useful life shall be reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

De-recognition of intangible assets

An intangible asset is derecognised on disposal or when no future benefits are expected from its use or disposal. The gain or loss on derecognition is the difference between any net disposal proceeds and carrying amount of the asset. It is recognised in profit or loss when derecognition occurs. Gains shall not be classified as revenue.

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IAS 38 disclosure requirements.

DEFINITIONS

Development	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.
Identifiability	(is met) when an intangible asset: • is separable, that is, 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, asset or liability, 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
Intangible asset	An identifiable non-monetary asset without physical substance.
Research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

RELATED INTERPRETATION

- IFRIC 12 *Service Concession Arrangements*
- SIC 29 *Service Concession Arrangements: Disclosures*
- SIC 32 *Intangible Assets – Web Site Costs*

IFRIC 12 and SIC 32 are relatively more significant than SIC 29.

IFRIC 12 provides guidance on the accounting by operators for public-to-private service concession arrangements.

A service concession arrangement is an arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets (such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals). The grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

The issues addressed in IFRIC 12 are:

- treatment of the operator's rights over the infrastructure
- recognition and measurement of arrangement consideration
- construction or upgrade services
- operation services
- borrowing costs
- subsequent accounting treatment of a financial asset and an intangible asset
- items provided to the operator by the grantor

Given that the infrastructure is controlled by the grantor, the operator does not recognise the infrastructure as its property, plant and equipment; nor does the operator recognise a finance lease receivable for leasing the infrastructure to the grantor, regardless of the extent to which the operator bears the risk and rewards incidental to ownership of the assets. The operator recognises a financial asset to the extent that it has an unconditional contractual right to receive cash irrespective of the usage of the infrastructure. The operator recognises an intangible asset to the extent that it receives a right to charge users.

SIC 32 deals with the accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access. It concludes that:

- A website developed by an entity using internal expenditure, whether for internal or external access, is an internally generated intangible asset that is subject to the requirements of IAS 38.
- Any internal expenditure on the development and operation of an entity's own web site should be accounted for in accordance with IAS 38. The nature of each activity for which expenditure is incurred (e.g. training employees and maintaining the web site) and the web site's stage of development or post-development is evaluated to determine the appropriate accounting treatment.
- Cost incurred should only be capitalised if the criteria in IAS 38.57 are all met.
- An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits, and consequently all expenditure on developing such a web site should be recognised as an expense when incurred.
- The best estimate of a website's useful life should be short.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 138 *Intangible Assets* and is applicable for annual reporting periods commencing on or after 1 January 2005. The equivalent Australian interpretations are:

- Interpretation 12 *Service Concession Arrangements*
- Interpretation 129 *Service Concession Arrangements: Disclosures*
- Interpretation 132 *Intangible Assets – Web Site Costs*

In respect of not-for-profit entities:

- Where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.
- If the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the net revaluation increase shall be recognised in profit or loss to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in profit or loss.
- If the carrying amount of a class of assets decreased as a result of a revaluation, the net revaluation decrease shall be recognised in profit or loss. However, the net revaluation decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in any revaluation surplus in respect of that same class of assets. The net revaluation decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.
- Revaluation increases and revaluation decreases relating to individual assets within a class of intangible assets shall be offset against one another within that class but shall not be offset in respect of assets in different classes.
- For each revalued class of intangible assets, the requirement to disclose the carrying amount that would have been recognised had the assets been carried under the cost model does not apply.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text. Additional disclosure requirements that are applicable to RDR entities only are included in a separate table in Appendix 1.

RELATED INTERPRETATION

- AASB Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 38.118	Has the following information been disclosed for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets: a. whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used; b. the amortisation methods used for intangible assets with finite useful lives; c. the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period; d. the line item(s) of the statement of other comprehensive income in which any amortisation of intangible assets is included; and e. a reconciliation of the carrying amount at the beginning and end of the period showing: – additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations; – assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals; – increases or decreases during the period resulting from revaluations and from impairment losses recognised or reversed directly in other comprehensive income in accordance with IAS 36 Impairment of Assets, if any; – impairment losses recognised or reversed in profit or loss during the period in accordance with IAS 36, if any; – any amortisation recognised during the period; – net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and – other changes in the carrying amount during the period?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 38.120	Has the entity disclosed information on impaired intangible assets in accordance with IAS 36, in addition to the information required by paragraph 118(e)(iii)-(v)?		
IAS 38.122	Has the following been disclosed in the financial statements: a. for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and reasons supporting the assessment of an indefinite useful life. In giving these reasons, has the entity described the factor(s) that played a significant role in determining that the asset has an indefinite useful life; b. a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements; c. for intangible assets acquired by way of a government grant and initially recognised at fair value: – the fair value initially recognised for these assets – their carrying amount – whether they are measured after recognition under the cost model or the revaluation model d. the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and e. the amount of contractual commitments for the acquisition of intangible assets?		
IAS 38.124	If intangible assets are accounted for at revalued amounts, has the entity disclosed the following information: a. by class of intangible assets: – the effective date of the revaluation; – the carrying amount of revalue intangible assets; and – the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in IAS 38.74 b. the amount of the revaluation reserve that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 38.126	Has the entity disclosed the aggregate amount of research and development expenditure recognised as an expense during the period?		
IAS 38.128	Has the entity disclosed the following information: a. a description of any fully amortised 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 of IAS 38? Note: This disclosure is encouraged but not mandatory.		

ADDITIONAL DISCLOSURE REQUIREMENTS APPLICABLE TO RDR ENTITIES ONLY

CODE		YES / NO / N/A	EXPLANATION (*If required*)
AASB 138 RDR118.1	An entity applying RDR is not required to disclose the reconciliations specified in AASB 138.118(e) for prior periods.		
AASB 138 RDR124.1	Notwithstanding paragraph 124(a)(iii), in respect of not-for-profit entities, for each revalued class of intangible assets, the requirement to disclose the carrying amount that would have been recognised had the assets been carried under the cost model does not apply.		

OTHER MATTERS

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