



IAS 38 Intangible Assets

Objective

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.

Scope

This Standard shall be applied in accounting for intangible assets, **except**:

- (a) intangible assets that are within the scope of another Standard;
- (b) financial assets, as defined in IAS 32 *Financial Instruments: Presentation*;
- (c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*); and
- (d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard 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 business (see IAS 2 *Inventories* and IAS 11 *Construction Contracts*).
- (b) deferred tax assets (see IAS 12 *Income Taxes*).
- (c) leases that are within the scope of IAS 17 *Leases*.
- (d) assets arising from employee benefits (see IAS 19 *Employee Benefits*).
- (e) financial assets as defined in IAS 32 *Financial Instruments: Presentation*. The recognition and measurement of some financial assets are covered by IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.
- (f) goodwill acquired in a business combination (see IFRS 3 *Business Combinations*).
- (g) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4 *Insurance Contracts*. IFRS 4 sets out specific disclosure requirements for those deferred acquisition costs but not for those intangible assets. Therefore, the disclosure requirements in this Standard apply to those intangible assets.
- (h) non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Effective date

An entity shall apply for annual periods beginning on or after 1 January 2006. If an entity applies IFRS 6 *Exploration for and evaluation of mineral resources* for an earlier period, those amendments shall be applied for that earlier period.

Defined terms

An intangible asset is an identifiable, non-monetary item without physical substance, which is within the control of the entity and is capable of generating future economic benefits for the entity.

An active market is a market in which the items traded are homogenous, willing buyers and sellers can be found at any time and prices are available to the public.

An asset is *identifiable* if it is either:

- (a) 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 contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Residual value is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is either:

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

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

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 or services before the start of commercial production.

Amortisation refers to the systematic allocation of the depreciable amount of an intangible asset over its useful life.

Recognition and initial measurement

An intangible asset shall be recognised if, and only if:

- (a) it is probable that future economic benefits that are attributable to the asset will flow to the entity; and
- (b) 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.

Separate acquisition

The cost of a separately acquired intangible asset can usually be measured reliably. This is when the purchase consideration is in the form of cash or other monetary assets.

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.

Directly attributable costs are:

- (a) costs of employee benefits (as defined in IAS 19 *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.

Subsequent expenditure on an acquired in-process research and development project

Research or development expenditure that:

- (a) relates to an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset; and
- (b) is incurred after the acquisition of that project shall be accounted for in terms of this Standard.

Exchange of assets

Intangible assets may be acquired in exchange for a non-monetary asset or asset. The cost is measured at fair value. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Intangible asset acquired in a business combination

If an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset.

An intangible asset acquired in a business combination might be separable, but only together with a related contract, identifiable asset or liability. In such cases, the acquirer recognises the intangible asset separately from goodwill, but together with the related item.

Government grant

Initially recognition at either fair value or normal value plus direct expenses to prepare for use.

Internally generated goodwill

Internally generated goodwill shall not be recognised as an asset.

Internally generated intangible assets

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

Research phase

No intangible asset arising from research (or from the research phase of an internal project) shall be recognised.

Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

Development phase

An intangible asset arising from development is recognised if, and only if, each of the following can be demonstrated:

- (a) the technical feasibility of completing the asset;
- (b) its intention to complete and use or sell the asset;
- (c) its ability to use or sell the asset;
- (d) how the asset will generate future economic benefit;
- (e) the availability of sufficient resources to complete the development and use or sell the asset;
- (f) the ability to measure reliably the expenditure incurred on the asset during its development.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.

Measurement after recognition

An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Cost model

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

Revaluation model

After initial recognition, an intangible asset shall be 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. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market.

Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

When an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

- (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.
- (b) the accumulated amortisation is eliminated against the gross carrying amount of the asset and the amount of the adjustment of accumulated amortisation forms part of the increase or decrease in the carrying amount.

If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortisation and impairment losses.

If the fair value of a revalued intangible asset can no longer be measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with IAS 36 *Impairment of Assets*.

Revaluation changes shall be accounted for as follows:

If an asset's carrying amount is increased as a result of a revaluation:

- the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus; or
- the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation:

- the decrease shall be recognised in profit or loss; or
- the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with IAS 12 *Income Taxes*.

Useful life

An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of 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.

The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

The useful life of a reacquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.

Factors to be considered when determining the useful life of an intangible asset:

- (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 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.

Intangible assets with indefinite useful lives

An intangible asset with an indefinite useful life shall not be amortised.

In accordance with IAS 36 *Impairment of Assets*, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount:

- (a) annually, and
- (b) whenever there is an indication that the intangible asset may be impaired.

Review of useful life assessment:

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IAS 8 *Account Policies, Changes in Estimates and Errors*.

Intangible assets with finite useful lives

Amortisation period and amortisation method:

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall 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.

Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permit or requires it to be included in the carrying amount of another asset.

Residual value:

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

- (a) there is a commitment by a third party to purchase 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.

Review of amortisation period and amortisation method:

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IAS 8 *Account Policies, Changes in Estimates and Errors*.

Retirement and disposals

An intangible asset shall be de-recognised:

- (a) on disposal; or
- (b) when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the de-recognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is de-recognised (unless IAS 17 *Leases* requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

Presentation and disclosure

An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

In the Notes to the financial statement:

- (a) The financial statements shall disclose, for each intangible asset:
 - (i) the whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
 - (ii) the amortisation methods used for intangible assets with finite useful lives;
 - (iii) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
 - (iv) the line item(s) of the statement of comprehensive income in which any amortisation of intangible assets is included;
 - (v) 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 and other disposals;
 - increases or decreases during the period resulting from revaluations and from impairment losses recognised or reversed in other comprehensive income;
 - impairment losses recognised in profit or loss during the period;
 - impairment losses reversed in profit or loss during the period;
 - 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 entity; and
 - other changes in the carrying amount during the period.

- (b) The financial statements shall also disclose:
 - (i) for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.
 - (ii) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements.
 - (iii) 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; and
 - whether they are measured after recognition under the cost model or the revaluation model.
 - (iv) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.
 - (v) the amount of contractual commitments for the acquisition of intangible assets.

- (c) If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:
 - (i) by class of intangible assets:
 - the effective date of the revaluation;
 - the carrying amount of revalued 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; and
 - (ii) the amount of the revaluation surplus 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.

In the Notes to the financial statement:

An entity is encouraged, but not required, to disclose 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 in this Standard or because they were acquired or generated before the version of IAS 38 Intangible Assets issued in 1998 was effective.

An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.