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**THE INSTITUTE OF
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Intangible Assets

LKAS 38: Overview

- ◆ **Objective**
- ◆ **Scope**
- ◆ **Definitions**
- ◆ **Recognition and measurement**
 - ◆ Separate acquisition
 - ◆ Through Government Grant
 - ◆ Through business acquisition
 - ◆ Internally generated
 - ◆ Through Exchange
- ◆ **Measurement after acquisition**
- ◆ **Disclosure**

LKAS 38: Objective

- ◆ **Prescribe the accounting treatment for intangible assets not dealt with specifically in another standard**
- ◆ **Requires an entity to recognise an intangible asset if, and only if, specified criteria are met**
- ◆ **Specifies how to measure the carrying amount of intangible assets**
- ◆ **Requires specified disclosures about intangible assets**

◆ Applied in accounting for intangible assets except

- ◆ Intangible assets that are within the scope of another standard
 - ◇ E.g. Goodwill acquired in a business combination (IFRS 3)
- ◆ Financial assets (as defined in LKAS 32 *Financial Instruments: Presentation*)
- ◆ Recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*)
- ◆ Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources

◆ Asset is a resource

- ◆ **Controlled** by an entity as a result of past events
- ◆ From which **future economic benefits** are expected to flow to the entity

◆ Intangible asset

- ◆ An **identifiable** non-monetary asset without physical substance

◆ Identifiable

◆ Asset is identifiable if it is either:

- ◇ Separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, 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

◆ Control over a resource exists where entity has power

- ◆ To obtain future economic benefits, and
- ◆ To restrict access of others to those benefits

◆ Future economic benefits may include revenue from sale of products/services or cost savings

Recognition and Measurement

◆ Recognise if, and only if:

- ◆ It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and
- ◆ Cost of the asset can be measured reliably

◆ Assess 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

◆ Measure initially at cost

Acquiring Intangible Assets

- ◆ **Intangible assets can be acquired through:**
 - ◆ Separate acquisition
 - ◆ Through Government Grant
 - ◆ Through business acquisition
 - ◆ Internally generated
 - ◆ Through Exchange
- ◆ **LKAS 38 provides additional recognition guidance for each method of acquisition**

Separate Acquisition

◆ Identifiable attributes

- ◆ Arises from contractual or other legal rights

◆ Control

- ◆ Obtained through contractual or legal rights

◆ Future economic benefits

- ◆ Implicit in paying a price to acquire

◆ Cost

- ◆ Generally based on cash paid or FV of consideration given
- ◆ Includes directly attributable costs of preparing the asset for its intended use

- ◆ **Recognised separately from goodwill if ‘identifiable’ and meets the recognition criteria**
- ◆ **Identifiable if:**
 - ◆ Arises from contractual or other legal rights, or
 - ◆ Is separable
- ◆ **Recognition criteria always considered to be met**
 - ◆ Probable flow of economic benefits – implicit in fair value
 - ◆ Capable of reliable measurement – if identifiable, sufficient information exists to measure asset’s fair value reliably

◆◆ **Goodwill arising in business combination (IFRS 3)**

- ◆ Recognise in consolidated statement of financial position
- ◆ Must not amortise
- ◆ Must test for impairment at least annually

◆◆ **Internally generated goodwill (LKAS 38)**

- ◆ Difference between market value of entity and the carrying amount of its identifiable net assets is not cost of intangible assets controlled by the entity
- ◆ Must not recognise as asset

Internally Generated Goodwill

- ◆ **Internally generated goodwill must not be recognised as asset**
 - ◆ Internally generated goodwill is not an 'identifiable' resource that can reliably be measured
- ◆ **Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance must not be recognised**
 - ◆ LKAS 38 states that expenditure on such assets cannot be distinguished from the cost of developing the business as a whole

Internally Generated Intangibles

- ◆ **Other forms of internally generated intangible must be assessed to ensure they qualify for recognition**
 - ◆ Identifying the point of time when probable future economic benefits occur, and
 - ◆ Reliable determination of cost of the asset
- ◆ **LKAS 38 requires the generation of the asset to be classified into two phases**
 - ◆ Research, and
 - ◆ Development

◆ Research phase

- ◆ No intangible asset is recognised
- ◆ Expense costs as incurred
- ◆ Examples
 - ◇ Activities aimed at obtaining new knowledge
 - ◇ Search for, evaluation, and final selection of applications of research findings
 - ◇ Search for and formulation of alternatives for new and improved systems

◆ Development phase

◆ Examples

- ◇ Design and testing of preproduction models
- ◇ Design of tools, moulds, and dies
- ◇ Design of a pilot plant which is not otherwise commercially feasible
- ◇ Design and testing of a preferred alternative for new and improved systems

◆ Costs must be capitalised where criteria met

◆ Development phase

- ◆ Capitalisation required if all the following are met:
 - ◇ Technical feasibility of completing the IA
 - ◇ Intention to complete the IA and use or sell it
 - ◇ Ability to use or sell the IA
 - ◇ How economic benefits will be generated
 - ◇ Availability of adequate resources to complete the IA and to use or sell it, and
 - ◇ Ability to measure reliably the expenditure attributable to the IA during its development

Internally Generated Intangibles

◆ Cost of an internally generated intangible

- ◆ Sum of expenditure incurred from the date when the recognition criteria is first met
- ◆ Cannot reinstate expenditure previously expensed
- ◆ Comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management

Internally Generated Intangibles

- ◆ **Examples and issues relating to identification of future economic benefits and measuring cost**
 - ◆ May increase future cash flows on its own or in combination with other assets
 - ◆ Financing witnessed by business plan/lenders willingness to finance it
 - ◆ Time recording system to capture costs of staff
 - ◆ Evaluation at each reporting date

Measurement after Recognition

- ◆ **Policy choice – cost or revaluation**

- ◆ **Cost model**

- ◆ Carry at cost less accumulated amortisation and impairment losses

- ◆ **Revaluation model cannot be chosen unless there is an ‘active market’ for the asset in question**

- ◆ Needed to determine the asset’s fair value
- ◆ Revaluations should be performed regularly



◆ Revaluation model

- ◆ Carry at fair value at date of revaluation less any subsequent accumulated amortisation and impairment losses
- ◆ Fair value
 - ◇ Determined by reference to an **active market** in that type of intangible
 - ◇ Use of valuation techniques is considered not sufficiently reliable

◆ Useful life

- ◆ Finite
- ◆ Indefinite means 'no foreseeable limit to period over which the asset is expected to generate net cash flows for the entity'
 - ◇ Not same meaning as 'infinite'

◆ Amortisation

- ◆ Allocated on a systematic basis over its useful life
- ◆ Begins when asset is available for use
- ◆ Method used reflects the pattern in which future economic benefits are expected to be consumed
 - ◇ If pattern cannot be determined reliably, straight-line method is used
- ◆ Recognised in profit or loss
- ◆ Residual value assumed to be zero unless:
 - ◇ There is a commitment by a 3rd party to purchase it at end of useful life,
or
 - ◇ There is an active market for the asset

Indefinite Useful Lives

- ◆ **Do not amortise**

- ◆ **Test for impairment (LKAS 36)**

- ◆ Annually, and

- ◆ Whenever there is an indication that the intangible asset may be impaired

- ◆ **Useful life**

- ◆ Review each period to determine if circumstances continue to support indefinite useful life assessment

- ◇ If not, begin to amortise (account for as a change in estimate)

◆ For each class of intangible asset

- ◆ Useful life indefinite or finite, useful life, amortisation rate
- ◆ Amortisation method used
- ◆ Gross carrying amount and any accumulated amortisation at beginning and end of period
- ◆ Line items of statement of comprehensive income containing amortisation
- ◆ Reconciliation of carrying amount, beginning and end of period
- ◆ Identify intangible assets with indefinite useful life and reasons supporting classification
- ◆ Individually material intangible – description and carry amount
- ◆ Pledged as security or title restricted
- ◆ Fair value asset disclosures
- ◆ Aggregate amount of R&D expenditure recognised as an expense

Additional Encouraged Disclosures

- ◆ **Description of any fully amortised intangible asset still in use**
- ◆ **Description of significant intangible assets controlled by the entity but not recognised as assets**
 - ◆ Did not meet the recognition criteria
 - ◆ Acquired or generated before LKAS 38 was effective

SIC 32 – WEB SITE DEVELOPMENT COST

- ◆ **SIC 32 deals with accounting for the costs of setting up a website.**

- ◆ **SIC 32 states that a website is recognized as an intangible asset if:**
 - 1.It is probable that future economic benefits will flow to the entity**
 - 2.The cost of the asset can be measure reliably**
 - 3.The recognition criteria associated with development costs are met**

CONCLUSION OF THE SIC 32

Panning stage	Expenditure recognized as an expense when incurred.
Application and infrastructure development stage	Where content is development for purposes other than to advertise products or services, expenditure is recognized as an intangible when the expenditure can be attributed to preparing the website for its intended use.
Graphical design stage	
Content development stage	To the extent that content is developed to advertise products or services (eg photographing products), associated costs are expensed when services are received.
Operating stage	Expenditure recognized as an expense unless it meets the LKAS 38 definition and recognition criteria for an intangible asset.