




Intangible Assets (IAS-38)

Presented at:
(WIRC-BKC Branch)

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Scope & Key concepts

Scope:

Covers accounting for all Intangible Assets, excluding:

- ✓ Goodwill acquired in a business combination.
- ✓ Financial Assets
- ✓ Mineral rights and other similar expenditure
- ✓ Assets arising from an insurer's contractual rights under insurance contracts.
- ✓ Intangible assets held for sale in the ordinary course of business
- ✓ Deferred tax assets
- ✓ Leases that fall within the scope of IAS 17
- ✓ Assets arising from employee benefits
- ✓ Non-current Intangible assets classified as held-for-sale in accordance with IFRS 5

Scope & Key concepts

Key definitions:

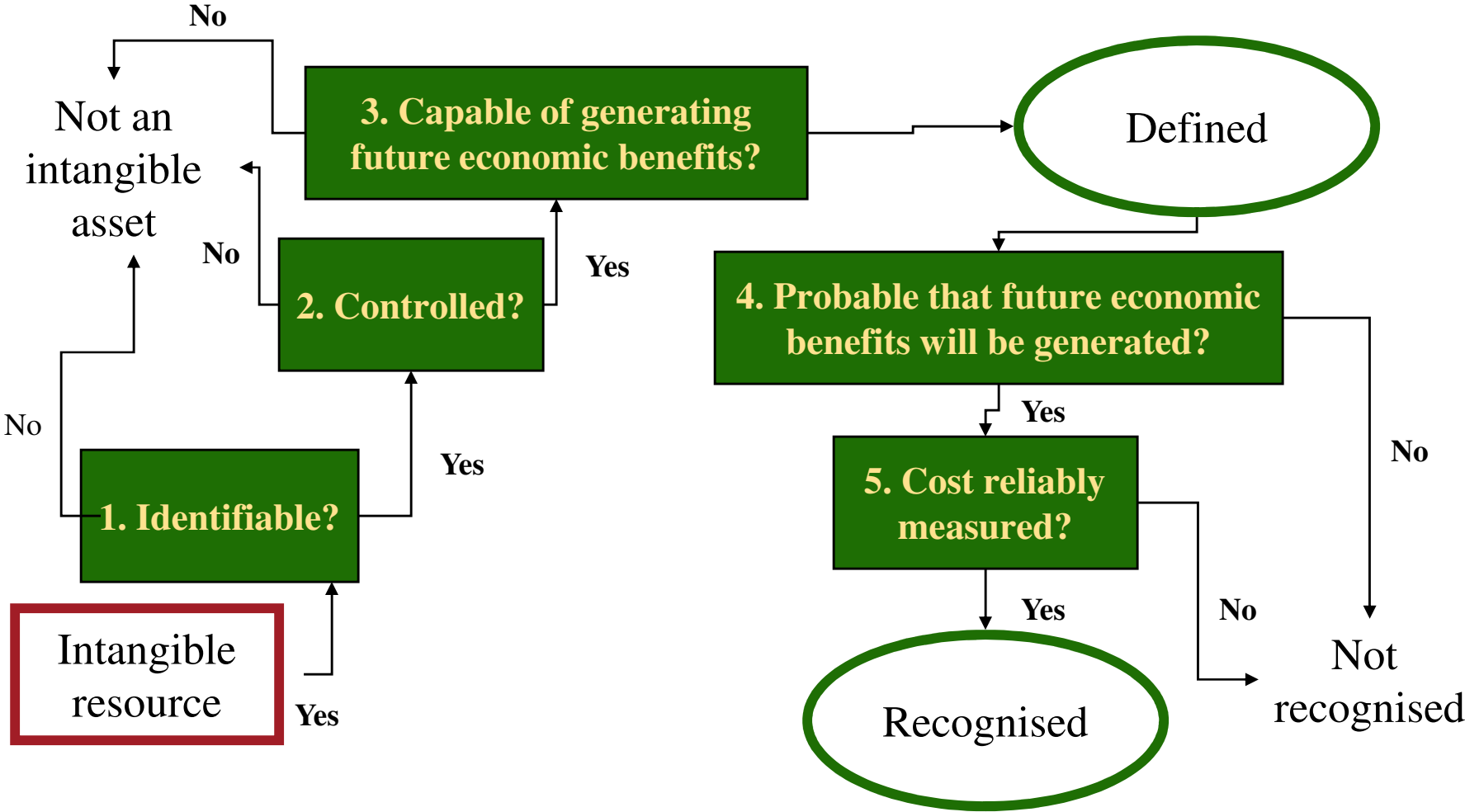
- An **intangible asset** is an identifiable non-monetary asset without physical substance. Key characteristics of intangible assets are:
 - ✓ Resources controlled by the entity from which the entity expects to derive future economic benefits
 - ✓ Lack of physical substance
 - ✓ Identifiable to be distinguished from Goodwill.
- **Useful life** is the period of time over which an asset is expected to be used by the entity
- **Research** is original and 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, systems or services prior to the commencement of commercial production or use

Scope & Key concepts

Distinction between financial asset and intangible assets:

- Example 1: Purchase of the rights to a proportion of a football club's revenue as opposed to the rights to sell the underlying tickets.
Right to proportion of the revenue that a football club generates from ticket sales will generally have acquired financial assets, being a contractual right to receive cash generated from sale of tickets.
On the other hand, an entity has purchased the rights to sell tickets for a football club and was responsible for selling the tickets itself to generate revenue, this would represent an intangible asset.
- Example: 2: Royalty income on intellectual property.
Royalty income would not be a financial asset as royalty income represents economic benefits generated by the intellectual property which is already recognised as an intangible asset.

Criteria for recognition



Identifiable

An asset is identifiable if it either:

- a) is 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, asset or liability; or
- b) arises from contractual or other legal rights, regardless of whether the rights are transferable or separable from the entity or from other rights and obligations.

Lack of physical substance:

- Compact disc that contains **computer software**,
- Legal documentation that evidences a **patent or licence**,
- A DVD containing a **film**

Judgement is required to determine which element is the more significant, accordingly should be treated whether tangible or intangible.

Control

- Control exists where an entity has the power to obtain the future economic benefits from an underlying resource and to restrict the access of other to those benefits. It is usually evidenced by legally enforceable contractual or other rights such a legal title or license.
- In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control since an enterprise may be able to control the future economic benefits in some other way.
- Example:
 1. Sign on bonuses paid to new employees
 2. Internally generated customer list and a customer list acquired in a business combination (control criteria may be satisfied, however IAS 38 prohibits recognition of internally generated Intangible assets.

Future economic benefits

- **Future economic benefits** flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the enterprise
 - For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues
- Requires the exercise of sound judgement based on verifiable information

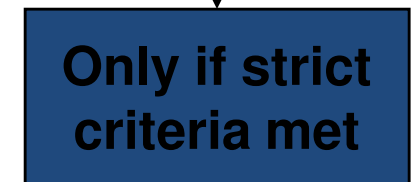
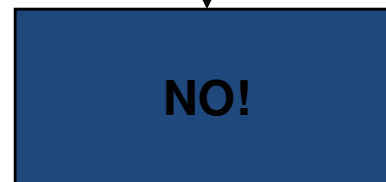
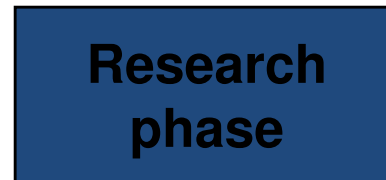
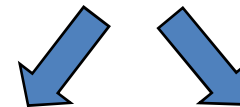
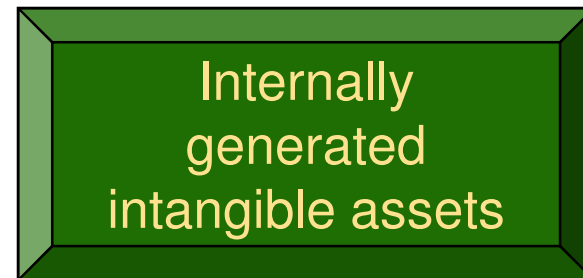
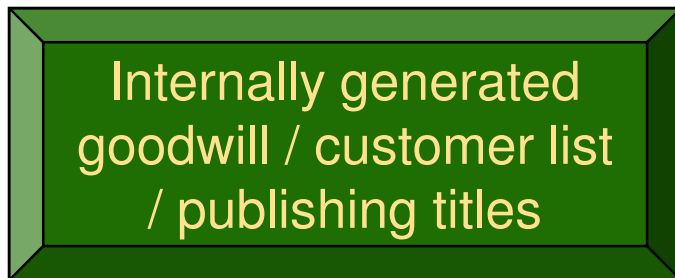
Measurement of cost:

Three ways to acquire :

- Acquire separately: (cost is the acquisition price which includes purchase price + non-refundable taxes and cost incurred to bring the asset to location)
- Acquire in business combination (e.g. by reference to an active market or using discounted cash flows techniques when the asset is acquired as part of a business combination)
- Develop internally:

Measurement of cost:

Develop internally:



Practical

A supermarket has launched a customer loyalty scheme in an effort to boost its market share. Customers who sign up for this scheme are issued loyalty cards that they can use to earn redeemable points based on the value of their purchases. Points can be redeemed against future purchases or to obtain prizes . The supermarket wishes to capitalise the cost of establishing the scheme as an intangible asset.

The customer loyalty scheme is internally generated and can not be recognised as an intangible asset. The expenditure on the scheme cannot be distinguished from the cost of developing the business as a whole.

Research Vs. Development phase:

Examples of Research activities:

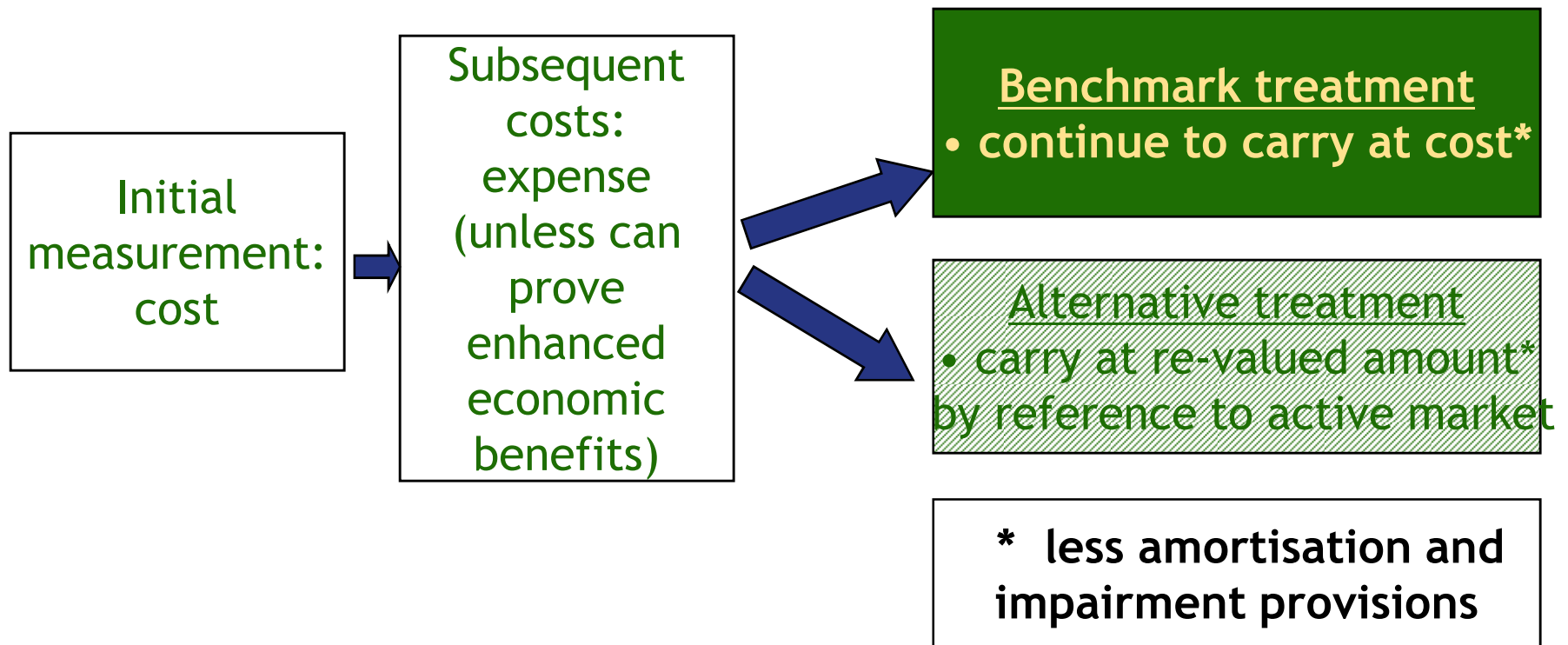
- Activities aimed at obtaining new knowledge
- The search for, and evaluation and final selection of, applications of research findings or other knowledge
- The search for alternatives for materials, devices, products, processes, systems or services
- The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services

Development phase:

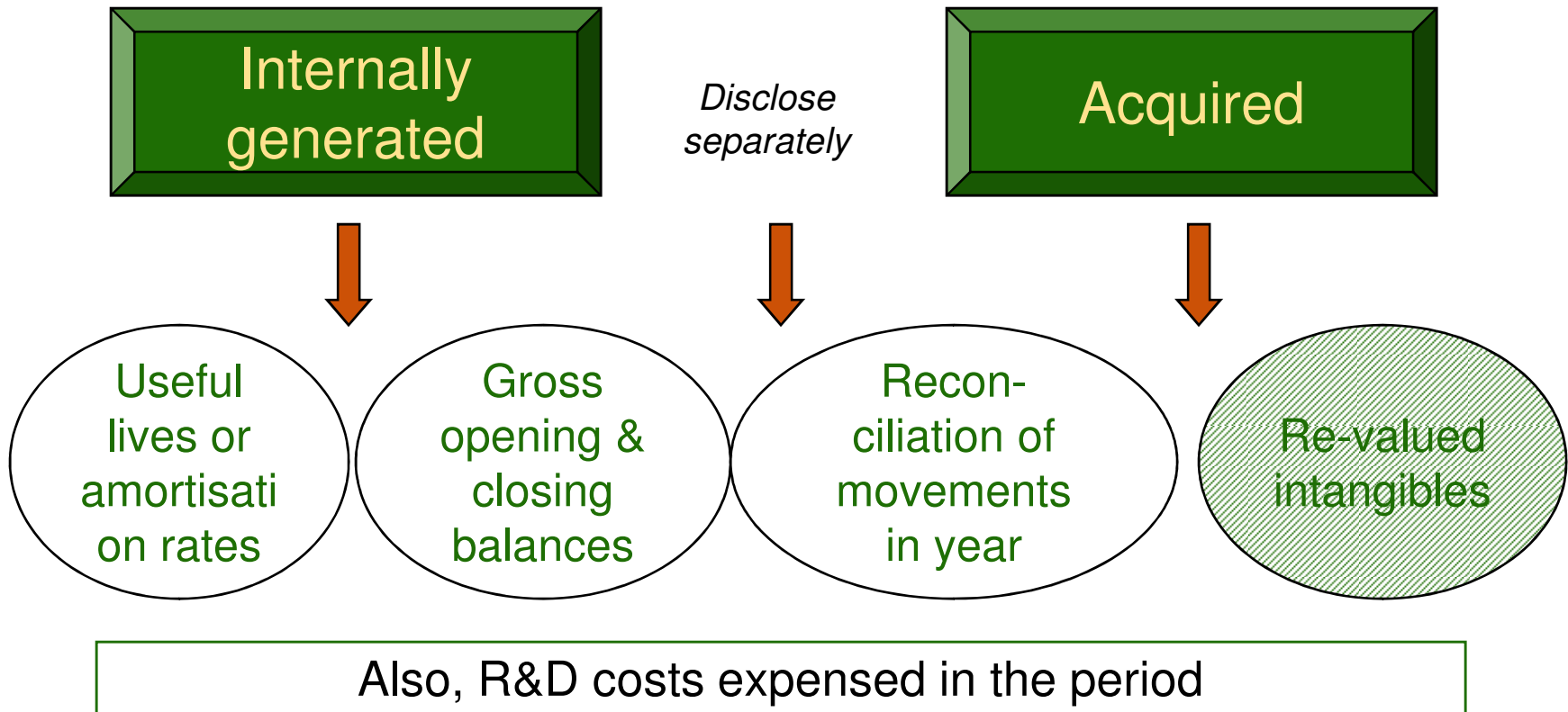
Conditions to be met before capitalisation:

- Technical feasibility of completing the asset
- Intention to complete it and use/sell the asset
- Ability to use/sell the asset
- An analysis of whether the asset will generate future economic benefits
- Availability of resources to complete the asset and to use/sell it AND
- Ability to reliably measure the attributable expenditure

Measurement:



Presentation & Disclosure



Thank You

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