IAS 38 INTANGIBLE ASSETS

Effective Date Periods beginning on or after 31ST March 2004

IAS 38 INTANGIBLE ASSETS

OBJECTIVE

To specify the accounting treatment for intangible assets.

IAS 38 does not apply to

- Intangible assets covered by other standards (example-held for sale under IFRS 5, deferred tax, goodwill)
- Financial assets (IAS 32, IFRS 9)
- Development and extraction of minerals oil, gas.
- Exploration and evaluation assets. (IFRS 6)

DEFINITIONS

Identifiable non-monetary assets without physical substance.

Identifiable means either separable from the entity or based on a contract or law.

Intangibles must be controlled by an entity as a result of past event or future economic benefits are expected to flow from the assets.

RECOGNITION

In order to recognize intangible assets in financial statements there are two conditions-

- Probable that future economic benefits attributable to the assets will flow to the entity.
- The cost of the asset must be reliably measured.

INTERNALLY GENERATED INTANGIBLE ASSETS

Development- Application of research findings or other knowledge to 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.

Capitalize if all conditions are met-

- Probable future economic benefit of the asset under development.
- Intention to complete and use it/sell it.
- Adequate and available resources to complete development and use or sell the product.
- Able to use or sell the assets.
- Technical feasibility to complete the asset.
- Expenditures reliably measured.

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

Do not capitalize research expenditure, instead take them in profit and account as incurred

MEASUREMENT

Initial measurement:

Initial measurement is done at cost.

- You can capitalize all cost directly attributed or allocated on a reasonable and consistent basis.
- You can capitalize the expense from the date when the intangible asset meet the recognition criteria for the first time.
- You cannot capitalize these expenses retrospectively.

Subsequent measurement:

There are two methods for subsequent Measurement

1. Cost model

- Cost- accumulated amortization – accumulated impairment loss

2. Revaluation model

- Fair value – subsequent accumulated amortization - subsequent accumulated impairment loss (only if fair value can be determined by reference to an active market.)

USEFUL LIFE

Finite Useful life

- Assume residual value zero.
- Revise amortization at the end of each financial year end.

Indefinite useful life

- Do not amortize
- Review useful life at the end of each financial year.

ILLUSTRATIVE DISCLOSURES

AN ACQUIRED PATENT THAT EXPIRES IN 15 YEARS.

A patent product is expected to be source of net inflows for at least 15 years. Third party had made a commitment to purchase the patent in five years for 50% of the fair value at the date it was acquired and the entity shall sell the patent in five years.

The patent would be amortized over it's useful life with the residual value equal to present value of 50 % of the patents fair value at the date it was acquired.

The patent would also be reviewed for impairment by assessing at the end of each reporting period whether there is any indication that it may be impaired.

AN ACQUIRED COPYRIGHT THAT HAS A REMAINING LIFE OF 50 YEARS.

An analysis of consumer habits and market trends give an evidence that a copyrighted material will generate net cash inflows for only 30 more years. The copyright must be amortized over its useful life of 30 years. The copyright also would be reviewed for impairment at the end of each reporting period whether there is any indication that it may be impaired.

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