Certification Course in IFRS
Pune
IAS 38 - Intangibles

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INTERNATIONAL ACCOUNTING STANDARD 38
INTANGIBLE ASSETS

OBJECTIVES & SCOPE

1. Objectives :

(a) To prescribe & suggest *A/c Treatment* for Intangibles.

(b) *Recognition* of Intangible Assets, *Subject to Criteria.*

(c) Measurement of Value & *Carrying Amount* of Intangibles.

(d) *Disclosures* for Intangible Assets.

2. Scope Exclusions. *(Though these may be Intangibles in General or Otherwise by any IAS or IFRS)*

- Financial Assets
- Mineral & Mining Rights
- Insurance Contracts & Rights thereof by Insurance Companies
- Deferred Tax Assets, Assets out of Employee Benefits, Lease Assets.
- Intangible held for Sale.
- GOODWILL : IFRS 3.

DEFINITIONS

- **An Identifiable, Non Monetary Asset having No Physical Substance. There 3 major attributes inherent to any Asset – IDENTIFIABILITY, CONTROL (Power), ECONOMIC BENEFIT.**

- **Intangible Asset is Identifiable if it satisfies either of following criteria.**
  (1) Is *Separable or Capable of being Separable* and dealt in for Sale, Transfer, Licensing, Renting, Exchanging etc. etc. as a Separate Item or in a Package.
  (2) *Created out of Contractual or General Rights*, whether Such Rights are Transferable (Separable) from Entity (Ownership) or from Other Rights (Group of Rights or a Bundle)

IAS 38 – AS 26 : Key Differences

- AS 26 assumes that the useful life of an intangible asset does not exceed 10 years
- IAS 38 does not make any such assumption. Under IAS 38 intangible assets may have indefinite useful lives

IAS 38 – AS 26 : Key Differences

- AS 26 states that the asset be held in production / supply of goods, for rental to others, or for administrative purposes.
- IAS 38 does not make any such assumption.

IAS 38 – AS 26 : Key Differences

- AS 26 does not permit for revaluation on initial recognition.
- IAS 38 permits the use of the revaluation model after initial recognition of an intangible asset.

IAS 38 – AS 26 : Key Differences

- AS 26 permits only the “cost” basis of recognition of an intangible asset.
- IAS 38 permits an option to choose either the cost basis or fair value basis for initial recognition of intangible assets acquired by way of government grant.

IAS 38 – AS 26 : Key Differences

- AS 26 is not clear how to treat subsequent expenditure on an in-process R&D project acquired in a business combination.
- IAS 38 clearly provides guidance for the same.

EXAMPLES : Intangible Assets

- Software, Group of Software, Program, Computer Language or any Other Digital (Electronic) Non Physical Item capable of Carrying out Operations, Executing Commands and/ or Producing Results.
- Patents : Product, Process, Task, Operation etc.
- Trade Marks.
- Copyrights.
- Geographical Rights or Territory Rights.
- Licenses.
- Movies, Television Program, Jingles, Tunes, Music etc. All Audio, Visual or Audio-Visual Program etc.
- Customer List, Market Rights, Specific or General Contracts etc.
- Quotas (Import Quota), Export /Other Benefits
- Franchise or Franchising License.
- Any Other NON PHYSICAL substance which satisfy basic criteria.

ACQUISITION & *RECOGNITION CRITERIA*.

- An Intangible can be Acquired in Following ways.

1. Purchase
2. Transfer out of Business Combination, Acquisition or Purchase of Business
3. Exchange of Asset (Barter)
4. Government Grant, Subsidy or Donation
5. Self Created (GOODWILL is Excluded in this IAS)

- Irrespective of any type of Acquisition, an Intangible would be Recognized only and only if, ***(Otherwise the Cost, if any, is expensed out)***

1. Future Economic Benefits are Probable. A fair Judgment about Benefits out of Use, Control or Holding of Intangible is possible. Such Probability should be based on Reasonable & Supportable Assumptions, this criteria is not required for Acquired Intangibles (Separately or in Business Combination)
2. The Cost of Asset can be MEASURE Reliably.

INTANGIBLES : Other Considerations.

- A Cost once Expensed Out Initially is *<u>Prohibited to be Capitalized</u>* as Intangible Asset in the Future, even if it satisfies the Basic Criteria. This happens if Fair Judgment of Economic Benefits is not Possible or the Cost of the Asset can not be Reliably Measured.

- **Research & Development Costs**.

1. All Research Costs are *<u>Expensed Out</u>* irrespective of the Results.
2. Development Cost is treated in Two Ways.
   1. All Development Cost *<u>before Commercial Feasibility of the Asset is Proved</u>* (for Sale or Use), is treated as *<u>Revenue</u>* (Say Induction Cost, Improvement Costs, Testing for Sale or Use, Costs for Development on A/c of Contract/Agreement etc.)
   2. *<u>All Further Cost is Capitalized</u>*, subject to Demonstration of Future Economic Benefits.
   3. R & D Cost is *<u>Capitalized</u>* if acquired in *<u>Business Combination</u>*. (Even if the Entire Component pertains to Research). Further R & D in such case is treated as Normal/Usual R & D as above.
   4. Internally Generated Brands, Mastheads, Publishing Rights, Customer Lists and all other Similar Items are NOT Capitalized.

INTANGIBLES : Other Considerations. Contd.

- Cost, Classification & Amortization.

1. Cost :

- *Initial* Recognition is Always at *Cost*
- *Revaluation* is permitted if based upon Fair Value which can be determined with Reference to Active Market (say Quotas).
- Only One Model, Cost or Revaluation, is permitted to Each Class of Asset, <u>*Change over of Model*</u> is not Permitted though *Different Model is Allowed for Each Class*.
- Revaluation Surplus Added to *Equity*, except to the Extent it Compensates Previously recognized Decrease/Deficit in Statement of Income(P&L).
- If Intangible has *Finite Life* then Revalued Amount is Amortized.
- Cost of Revalued Amount of the Asset is always Subject to *Impairment*. Impairment Loss (or Profit) is dealt in by IAS 36.(<u>*Whether Finite or Not*</u>).

INTANGIBLES : Other Considerations. Contd.

- Cost, Classification & Amortization.

2. Classification :

- Indefinite Life Intangibles : This Classification is based upon Fact or Assumption that, Estimation of *Period* over which the *Benefit* from Asset is available, *can NOT be made*. In Such Case the Life of the said Asset also becomes Indefinite. (of course Subject to Impairment).
- Finite Life Intangibles : Classification is based upon Reasonable Estimation of Period over which, the Economic Benefits of Asset are Assessable.

3. Amortization

- Intangibles with Indefinite Life *Should Not be Amortized.*
- Useful Life of Indefinite Life Assets must be Tested at *each Accounting/Reporting Period*. (in spite of Circumstances support such Classification.)

INTANGIBLES : Other Considerations. Contd.

- Cost, Classification & Amortization.

3. Amortization (Continued)

- Indefinite Life Assets *may Change* to Finite Life Asset, if Circumstances do *NOT* support Indefinite Life.
- The Change in Classification from Indefinite to Finite is a Change in *Accounting Estimate* *(and Not a Change in Accounting Policy)*.
- Cost/Revalued Amount of Finite Life Asset is Amortized over Life/Useful Life of the Asset. *(after Deducting Residual Value, if any).*
- Amortization is on Straight Line Basis, or there can be another Method or Pattern, provided it *reflects & supported by Pattern of Economic Benefits.*
- Amortization is Recognized in *Income Statement* (Unless it is Directed or Provided by another IAS to Add the Same to the Value of another Asset).
- Amortization Period should be Reviewed *Annually or Reporting Period*, whichever is *Shorter*.

Internally generated Intangibles

AS 26 prohibits the recognition of internally generated goodwill as an asset.

Certain internally generated items are also NOT to be considered as Intangibles as their cost cannot be separated from the cost of developing the business as a whole.

Internally generated Intangibles

- Brands
- Mastheads
- Publishing Titles
- Customer Lists and
- Items similar in substance to any of the above

Research & Development : The difference

- Research is defined as 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 output prior to the commencement of commercial production

Research & Development : The difference

- Research Costs are required to be recognised as an expense when incurred
- An intangible asset arising from Development should be recognised if, any only if, all of the following criteria are met :

Research & Development : The difference

- Technical feasibility of completing the intangible asset can be demonstrated
- There is intention to complete the intangible asset and use / sell it
- There is ability to use / sell the intangible asset
- That the asset can generate future economic benefits can be demonstrated
- There are adequate resources to complete the development are demonstrated

Thank You

PUMAS

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