



IAS 38 - Intangible Assets

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Intangible Assets – IAS 38

What are intangible assets?

Intangible assets are assets that:

- Lack physical substance
- Non-monetary

Examples of intangible assets include:

- Copyrights
- Patents
- Trademarks
- Customer lists



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Recognition and measurement of intangible assets

To meet the definition of an intangible asset, ALL of the following criteria must be met:

- The asset is identifiable
- The entity must control the future economic benefits of the assets
- The asset will generate future economic benefits

Recognition criteria – both conditions must be met:

- Probable that the expected future economic benefit of the asset flows to the entity
- Its cost can be measured reliably

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Separate acquisition

- **Normally expected that the asset will generate future economic benefits if the asset is separately purchased**
- **Costs that can be included are:**
 - **Direct costs of the purchase**
 - **Any directly attributable costs of preparing the assets for its intended use (such as cost of testing)**

Intangible Assets – IAS 38 (cont'd)

Acquired as part of a business combination

- **IFRS 3 Business Combinations** indicates that the cost of an intangible asset acquired as part of a business combination is its fair value at the acquisition date.
- **Goodwill:** similar to intangible assets but it is not considered to be an identifiable asset and, therefore, is only allowed to be recognized when it is acquired in a business combination.

Internally generated intangible assets

- Requires the most significant focus: **WHY?**

Generation of an internally generated intangible asset can be classified in two phases:

- 1) Research
- 2) Development

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Research

- **Earlier stages in the process where the entity is still doing a lot of exploring and preliminary work**
- **Costs from this phase are expensed -> an entity cannot demonstrate that the expenditures will result in future economic benefits**
- **Typical research activities include:**
 - **Obtaining new knowledge of a market;**
 - **Looking for, evaluating and selecting research findings;**
 - **Determining alternatives for new processes or techniques**



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Development

- **An entity has moved from a state of looking at potential options to focusing work on a specific objective that it plans to use to create economic benefits (application of its research findings)**
- **Expenditures can be capitalized if an entity can demonstrate:**
 - **Technical feasibility**
 - **Intention to complete and use or sell the asset**
 - **Ability to use or sell the asset**
 - **Existence of a market for the output of the intangible asset or if it is used internally, the usefulness of the intangible asset**
 - **Availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset**
 - **Ability to measure reliably the expenditure attributable to the intangible asset during its development**

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Development (continued)

Typical development activities include:

- Design, construction, and testing of pre-production or pre-use prototype and models;
- Design of tools, jigs, moulds, and dies involving new technology;
- Design, construction and operation of a pilot plant



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Subsequent measurement

- **Finite useful life vs indefinite useful life**
- **Cost model vs revaluation model**
- **Position paper on management's assessment of useful life and determination of finite vs indefinite useful life**

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Impairment

- *IAS 36 Impairment of assets*
- **Finite life intangible vs indefinite life intangible**

De-recognition

- **When it is disposed of or when economic benefits can no longer be derived from its use**
- **Gain or loss representing the difference between net proceeds on disposal and carrying value of the asset recorded in P&L**

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Disclosures

- Significant accounting policies
- For each class of intangible asset, disclose:
 - Useful life or amortization rate
 - Amortization method
 - Gross carrying value and accumulated amortization and impairment losses
 - *Line items in the income statement in which amortization is included*
 - Reconciliation of the carrying amount at the beginning and end of the period
 - *Basis for determining that an intangible has an indefinite life*
 - *Amount of research and development expenditures recognized as an expense in the current period*