IAS 38 Intangible Assets

(This fact sheet is based on the standard as at 1 January 2010.)

**Important note:**
This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety, in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the most recent changes made to the standard.

**IASB application date (non-jurisdiction specific)**
IAS 38 is applicable for annual reporting periods commencing on or after 1 January 2009.

**OBJECTIVE**
IAS 38 prescribes the recognition, measurement and disclosures applicable to intangible assets which are not dealt with specifically in another standard.

**SCOPE**
IAS 38 applies to all intangible assets except:
- intangible assets within the scope of another standard (e.g. intangible assets held by an entity for sale in the ordinary course of business; goodwill acquired in a business combination)
- financial assets as defined in IAS 32 Financial instruments: presentation
- recognition and measurement of exploration and evaluation assets, and
- expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

**PRESCRIBED ACCOUNTING TREATMENT**

**Recognition**
The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

1. the definition of an intangible asset; and
2. the recognition criteria.

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

To meet the definition of an intangible asset, there must be all of the following elements:
- identifiability (i.e. separable from the entity, or arises from contractual or legal rights)
- control over a resource by the entity
- existence of future economic benefits.

An entity **controls** an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.
The 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 entity.

An intangible asset shall be recognised if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and
- the cost of the asset can be measured reliably.

An entity shall assess the 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.

An intangible asset shall be measured initially at cost.

Internally generated intangible assets

To assess whether an internally generated intangible asset meet the criteria for recognition, an entity classifies the generation of the asset into:

1. a research phase and
2. a development phase.

IAS 38 specifically prohibits the following internally generated intangible assets from being recognised:

- goodwill;
- brands;
- mastheads;
- publishing titles;
- customer lists;
- item similar in substance and
- intangible assets arising from research (or from the research phase of an internal project).

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if all the conditions described below can be demonstrated:

a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
b) its intention to complete the intangible asset and use or sell it;
c) its ability to use or sell the intangible asset;
d) how the intangible asset will generate probable future economic benefits;
e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Measurement

Initial measurement of intangible assets

The initial measurement of an intangible asset depends on how the asset is acquired. Table 1 summarises the measurement at initial recognition.
Table 1: Initial recognition of intangible assets

<table>
<thead>
<tr>
<th>Type of acquisition</th>
<th>Measurement at recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separately acquired intangible asset</td>
<td>At cost with cost comprising the purchase price (including import duties, non-refundable purchase taxes and trade discounts and rebates) and any cost directly attributable to preparing the asset for its intended use (e.g. costs of employee benefits, professional fees, testing of asset’s functionality).</td>
</tr>
<tr>
<td>Intangible asset acquired in a business combination</td>
<td>At fair value at acquisition date.</td>
</tr>
<tr>
<td>Intangible asset acquired free of charge, or for nominal consideration, by way of a government grant</td>
<td>At fair value.</td>
</tr>
<tr>
<td>Internally generated intangible asset satisfying the recognition criteria</td>
<td>At cost with cost determined as the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria; i.e. past expenses are not to be recognised as an asset.</td>
</tr>
<tr>
<td>Intangible asset acquired in exchange for non-monetary asset(s)</td>
<td>Fair value. However, the carrying value of the asset given up is used if the exchange lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.</td>
</tr>
</tbody>
</table>

Expenditure on an intangible item that was initially expensed is not able to be recognised as part of the cost of the asset at a later date.

### Subsequent measurement of intangible assets

After initial recognition, either the cost model or revaluation model can be applied, however, the revaluation model can only be selected if fair values can be determined in an active market. IAS 38 notes that it is uncommon for an active market to exist for intangible assets. However, some jurisdictions may have an active market for freely transferable licences, which may provide a fair value for some intangible assets.

#### Cost model

An intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

#### Revaluation model

An intangible asset is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

Fair value is determined by reference to an active market and revaluations are obtained to ensure the carrying amount of the intangible asset is not materially different from its carrying amount.

### Amortisation of intangible assets

#### Finite life

An intangible asset with a finite useful life is systematically amortised over its useful life from the time that it is available for use until it is either derecognised or classified as held for sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*.

The useful life of an intangible asset that arises from contractual or other legal rights does not exceed the period of the contractual or legal rights, but may be shorter depending on the period over which the entity expects to use the asset.

The amortisation period and method must be reviewed at least at the end of each reporting period.

#### Indefinite life

An asset is regarded as having an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

An intangible asset with an indefinite useful life shall not be amortised. Instead, such intangible assets are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired in accordance with IAS 36 *Impairment of assets*.

The useful life shall be reviewed annually to determine whether circumstances continue to support an indefinite useful life assessment.
De-recognition of intangible assets

An intangible asset is derecognised on disposal or when no future benefits are expected from its use or disposal. The gain or loss on derecognition is the difference between any net disposal proceeds and carrying amount of the asset. It is recognised in profit or loss when derecognition occurs. Gains shall not be classified as revenue.

DISCLOSURES

Refer Appendix 1 for a checklist to assist with IAS 38 disclosure requirements.

IMPORTANT DEFINITIONS

<table>
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<tr>
<th>Active market</th>
<th>is a market in which all of the following conditions exist</th>
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<tbody>
<tr>
<td></td>
<td>• the items traded in the market are homogeneous</td>
</tr>
<tr>
<td></td>
<td>• willing buyers and sellers can normally be found at any time</td>
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<td></td>
<td>• prices are available to the public</td>
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</table>

| Development    | 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 before the start of commercial production or use. |

<table>
<thead>
<tr>
<th>Identifiability</th>
<th>is met when an intangible asset</th>
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<td></td>
<td>• is separable, that is, 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</td>
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<tr>
<td></td>
<td>• 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</td>
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<tr>
<th>Intangible asset</th>
<th>an identifiable non-monetary asset without physical substance.</th>
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| Research | original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. |

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 138 which is applicable for annual reporting periods beginning on or after 1 July 2009.

In respect of not-for-profit entities:

• where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition;

• revaluation of intangible assets can be accounted for on a class basis rather than an asset basis;

• for each revalued class of intangible assets, the requirement to disclose the carrying amount that would have been recognised had the assets been carried under the cost model does not apply.
## APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements – you should complete the Yes / No / N/A column about whether the requirement is included and provide an explanation for No answers to ensure the completeness of disclosures.

<table>
<thead>
<tr>
<th>IAS 38: Intangible Assets – Applicable for financial statement periods beginning on or after 1 July 2009.</th>
<th>Yes / No / N/A</th>
<th>Explanation (if required)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 38.118 Has the following information been disclosed for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:</td>
<td></td>
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<tr>
<td>a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;</td>
<td></td>
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<tr>
<td>b) the amortisation methods used for intangible assets with finite useful lives;</td>
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<td></td>
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<tr>
<td>c) the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;</td>
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<tr>
<td>d) the line item(s) of the statement of other comprehensive income in which any amortisation of intangible assets is included; and</td>
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<tr>
<td>e) a reconciliation of the carrying amount at the beginning and end of the period showing:</td>
<td></td>
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<tr>
<td>• additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;</td>
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<tr>
<td>• assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;</td>
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<tr>
<td>• increases or decreases during the period resulting from revaluations and from impairment losses recognised or reversed directly in other comprehensive income in accordance with IAS 36 Impairment of Assets, if any;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• impairment losses recognised or reversed in profit or loss during the period in accordance with IAS 36, if any;</td>
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<tr>
<td>• any amortisation recognised during the period;</td>
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<tr>
<td>• net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and</td>
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<tr>
<td>• other changes in the carrying amount during the period.</td>
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<td></td>
</tr>
<tr>
<td>IAS 38.122 Has the following been disclosed in the financial statements:</td>
<td></td>
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<tr>
<td>a) for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and reasons supporting the assessment of an indefinite useful life. In giving these reasons, has the entity described the factor(s) that played a significant role in determining that the asset has an indefinite useful life;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity’s financial statements;</td>
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</tbody>
</table>
c) for intangible assets acquired by way of a government grant and initially recognised at fair value:
   - the fair value initially recognised for these assets
   - their carrying amount
   - whether they are measured after recognition under the cost model or the revaluation model

d) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and

e) the amount of contractual commitments for the acquisition of intangible assets.

### Revalued intangible assets

**IAS 38.124** If intangible assets are accounted for at revalued amounts, has the entity disclosed the following information:

- a) by class of intangible assets:
  - the effective date of the revaluation;
  - the carrying amount of revalue intangible assets; and
  - the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in IAS 38.74

- b) the amount of the revaluation reserve that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders; and

- c) the method and significant assumptions applied in estimating the assets’ fair values.

### Research and development

**IAS 38.126** Has the entity disclosed the aggregate amount of research and development expenditure recognised as an expense during the period?

### Other information

**IAS 38.128** Has the entity disclosed the following information:

- a) a description of any fully amortised intangible asset that is still in use; and

- b) a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria of IAS 38.

Note that this disclosure is encouraged but not mandatory.
OTHER MATTERS

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