

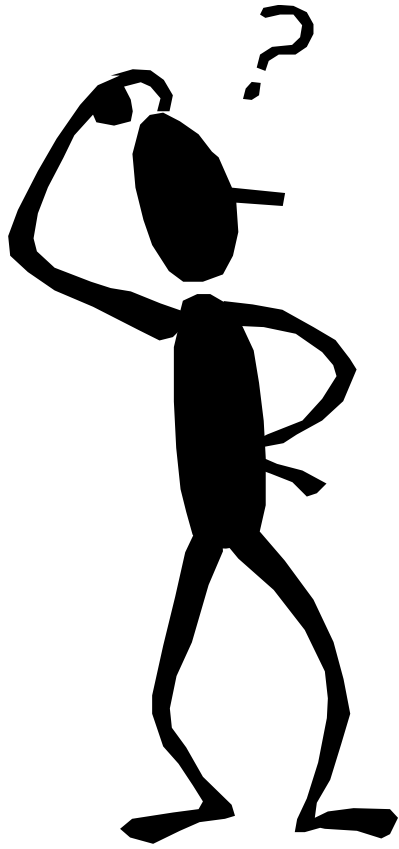
Intangible Assets

Recognition and Measurements

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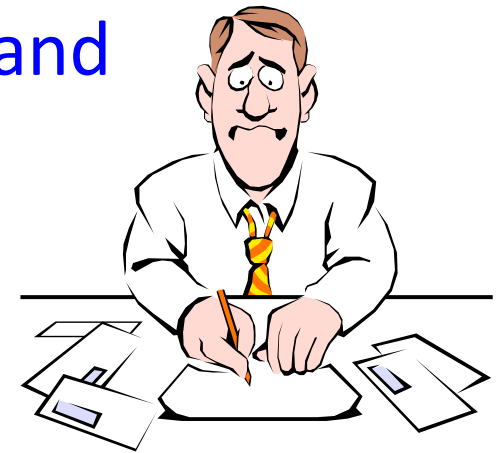


Why Intangible Assets?

Intangible Assets



- Identified as one of the possible contributors to the **difference between the value of enterprises** as contained in their financial (accounting) records **and** their **market capitalization**.
- There is therefore need for thorough and comprehensive understanding of
 - nature of intangible assets,
 - accounting treatment, and
 - reporting requirements.

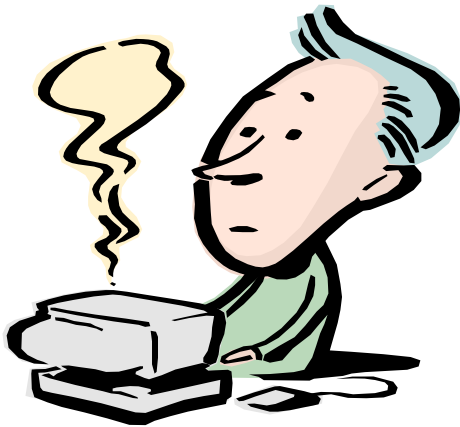


Definition



□ “an identifiable non-monetary asset without physical substance.” (IAS 38)

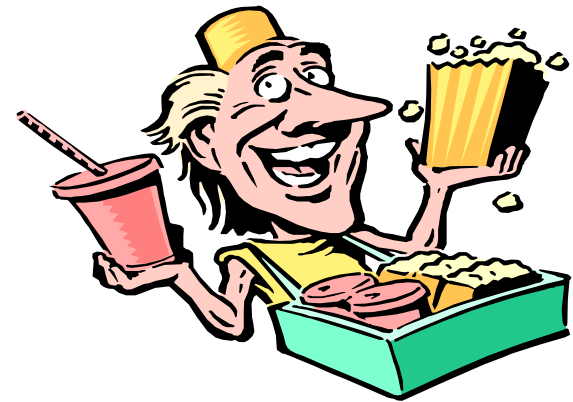
□ Non-economic resources that an entity uses in its operations but have no physical existence



Patents



Copyrights

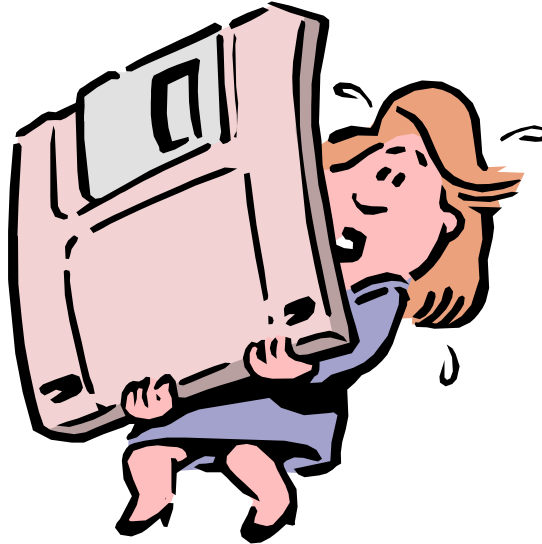


Franchises

Intangible Assets...



Trademarks



Computer software costs



Goodwill

- Either acquired, arise in business combination or developed internally.

X-tics that Distinguish Intangible Assets from Tangible Assets



- 1. There is generally a higher degree of uncertainty regarding the future benefits that may be derived.**
- 2. Their value is subject to wider fluctuations because it may depend, to a considerable extent, on competitive conditions.**
- 3. They may have value only to a particular company.**
- 4. Goodwill and intangible assets with indefinite lives are not expensed , but are reviewed for impairment at least annually.**

Issue in definition of IAS 38



- An intangible asset may sometimes be contained in a physical substance such as CD for software or film.
- The definition may therefore result in confusion as to what asset or part of an asset is intangible.
- In such situations, professional judgment is required and the relationship between assets and the outcome of processes should be considered.

Examples of Intangible Assets



- ☐ Technology-based intangible assets
- ☐ Marketing-related intangible assets
- ☐ Artistic-related intangible assets
- ☐ Customer-related intangible assets
- ☐ Contract-based intangible assets
- ☐ Others

Technology -Based Intangible Assets



- ❑ Patented technology,
- ❑ Computer software,
- ❑ Databases, and
- ❑ Trade secrets

Marketing-related Intangible Assets



- ❑ Trademarks,
- ❑ Trade dress,
- ❑ Newspaper mastheads,
- ❑ Internet domains,
- ❑ Marketing rights and
- ❑ Non-competition agreements

Artistic-related Intangible Assets



□ literary works,

□ musical rights,

□ pictures, video and

□ audiovisual material (e.g. motion pictures, television programs)

Customer-related Intangible Assets



- ❑ Customer lists,
- ❑ Order backlog and
- ❑ Customer relationships

Contract- based Intangible Assets



- ❑ Franchise agreements,

- ❑ Broadcast rights,

- ❑ Licensing,

- ❑ Service contracts, royalty (use rights) and standstill agreements

Other Intangible Asset



❑ Import quotas and

❑ Supplier relationships
(including customer lists)

Objective of IAS 38



Prescribe the accounting treatment for intangible assets that are not dealt with specifically in another IFRS.

IAS 38 does not apply to



- ❑ Intangible assets held by an entity in the ordinary course of business (IAS 2, *Inventories*)
- ❑ Lease assets (IFRS 16, *Leases*),
- ❑ Assets arising from employee benefits (IAS 19, *Employee Benefits* (2011)),
- ❑ Goodwill acquired in a business combination (IFRS 3, *Business Combinations*).

IAS 38 does not apply to (cont'd)



- ❑ Intangible assets held for sale (IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*),
- ❑ Deferred tax assets (IAS 12, *Income Taxes*),
- ❑ Deferred acquisition costs and intangible assets arising from insurance contracts issued by insurance companies (IFRS 4, *Insurance Contracts*)

IAS 38 does not apply to (cont'd)



- ❑ Financial assets (IFRS 9, *Financial Instruments*)
- ❑ Exploration and evaluation assets (IFRS 6, *Exploration for and Evaluation of Mineral Resources*)
- ❑ Expenditure on the development and extraction of minerals, oil, natural gas, and similar resources

Recognition of Intangible Assets



- IASB *Framework* defines an asset as
“**a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.**”
- Three critical attributes of an intangible asset are:
 - **identifiability**,
 - **control** and
 - **future economic benefits** (such as revenues or reduced future costs or other benefits resulting from the use of the asset by the entity.)

Recognition Criteria



□ IAS 38 requires an entity to recognise an intangible asset, whether purchased or self-created (at cost) if, and only if:

it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and

the cost of the asset can be measured reliably.

Illustration 1



Yoghurty Limited decided to venture into the production of Non-dairy yoghurt. The project team developed a list of cost headings for the acquisition of

- ☐ Recipes from an international chef;
- ☐ License to use a specialised chiller
- ☐ Registration of a trade name, and
- ☐ Training courses for management.

Required:

Advise management on the possibility of capitalising the above costs.

Advice



All costs with the exception of training costs for management could be capitalised since;

- ❑ They were identifiable arising from contractual rights;
- ❑ Yoghurty Limited would control the future economic benefits
- ❑ The costs can be measured reliably
- ❑ It is probable that future economic benefits would flow to the enterprise, and the trade mark a defensive intangible that protected the receipt of future economic benefits.
- ❑ The training courses would improve management expertise but Cheesy Limited would not be able to restrict others from benefiting from the expertise if employees were to leave.

Accounting Treatment - Recognised Intangible Assets



- ☐ Initial recognition
- ☐ Measurement subsequent to initial recognition
- ☐ Classification of intangible assets
- ☐ Subsequent expenditure
- ☐ Disclosure

Intangible assets-Initial recognition



- Initially measured at cost.
- Cost of a separately acquired intangible asset comprises:
 - Purchase price,
 - Import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
 - Any directly attributable cost of preparing the asset for its intended use.

If recognition criteria not met.



❑ expenditure on this item to be recognised as an expense when it is incurred.

❑ Reinstating as an intangible asset, at a later date, an expenditure that was originally charged to expense not allowed.

Measurement subsequent to initial recognition



- ❑ An entity may choose, subsequent to acquisition of the intangible assets, either the **cost model** or the **revaluation model** for each class of intangible asset as its accounting policy.
- ❑ If revaluation model used, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Cost Model



Intangible assets carried at cost less accumulated amortisation and impairment losses.

Revaluation Model



Intangible assets carried at a revalued amount (based on fair value) less any subsequent amortisation and impairment losses only if fair value can be determined by reference to an active market.

Active Market



A market in which all the following conditions exist:

items traded in the market are homogenous;

willing buyers and sellers can normally be found at any time; and

prices are available to the public.

Revaluation model (cont'd)



Revaluation increases are recognised in other comprehensive income and

Revaluation increase also accumulated in the "revaluation surplus" within equity except to the extent that it reverses a revaluation decrease previously recognised in profit and loss.

If the revalued intangible has a finite life the revalued amount is amortised over the remaining useful life.

Classification of intangible assets based on useful life



Intangible assets

With Finite Life

Examples:

Patents, Copyrights,
Franchises, Licenses

With Infinite Life

Examples:

Goodwill, Trademarks,
Brands

Intangible assets with finite life



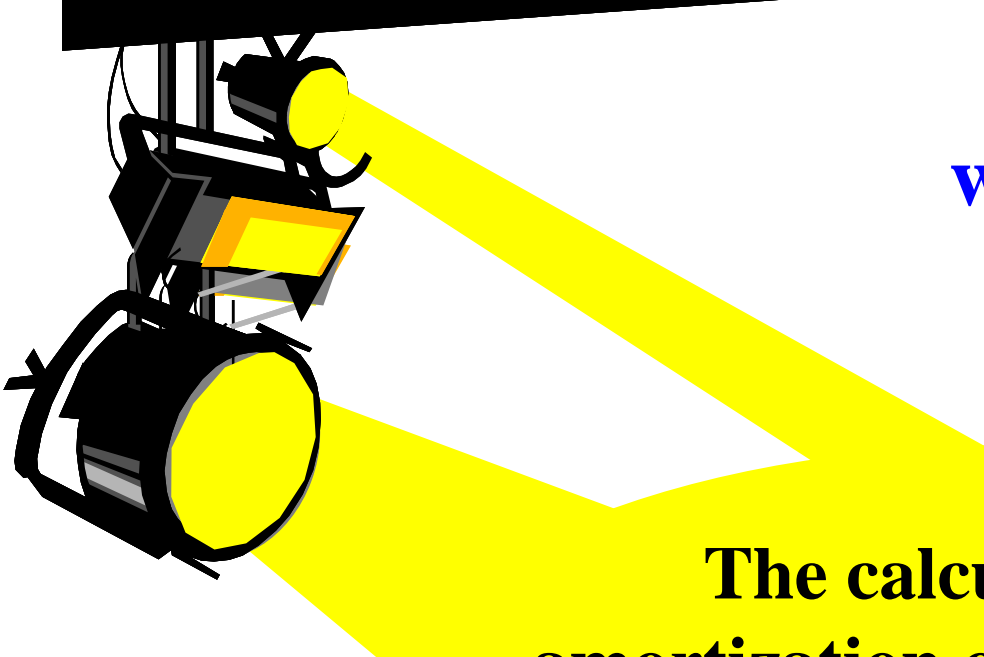
Cost less residual value of such an intangible asset to be amortised on a systematic basis over that life:

The amortisation period should be reviewed at least annually.

Amortization of Intangible Assets



**Intangible assets
with a finite life are
amortized.**

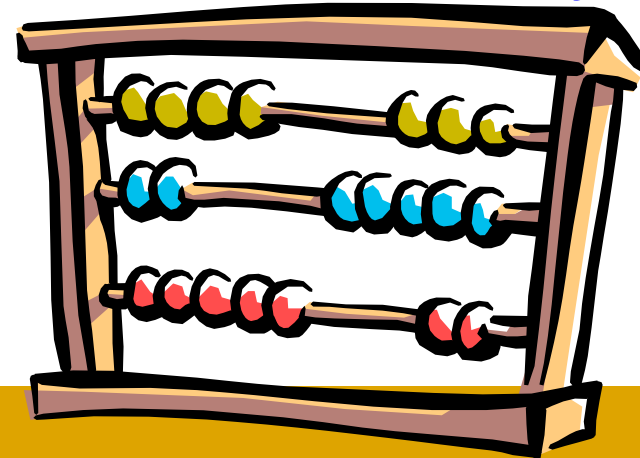
An illustration of stage lighting equipment, including a large floor monitor and several spotlights mounted on a stand. A bright yellow beam of light originates from one of the spotlights and extends diagonally across the slide, illuminating a yellow oval shape that contains text.

**The calculation of the
amortization of intangible assets
follows the same principles as
the depreciation of tangible
assets.**

Amortization of Intangible Assets



- 1. Select the amortization method based on the expected pattern of benefits. If the pattern is not determinable reliably, use the straight-line method.**
- 2. The amount of an intangible asset to be amortized is the cost less the residual value, if any.**



Intangible asset with finite life



❑ Residual value shall be assumed to be zero unless:

- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
- (b) there is an active market for the asset and:
 - (i) Residual value can be determined by reference to that market; and
 - (ii) it is probable that such a market will exist at the end of the asset's useful life.

Intangible asset with finite life



Illustration 11

Illustration 1



Date	Particulars	Debit	Credit
2015		Sh.	Sh.
31.7 to 31.12	Intangible asset Cash Being recognition of development cost as an intangible asset	15,000,000	15,000,000

Illustration 1...



(a)

Date	Particulars	Debit	Credit
2016		Sh.	Sh.
31.12	Amortisation expense Accumulated amortisation To record amortization of development cost	3,000,000	3,000,000

Amortisation cost for 2016 = $15,000,000/5$

Illustration 1...



(a)

Date	Particulars	Debit	Credit
2017		Sh.	Sh.
31.12	Amortisation expense Accumulated amortisation To record amortization of development cost	8,000,000	8,000,000

Illustration 1...



Recognise the impairment as a result of the loss of market share

Carrying amount of intangible asset:

Capitalized amount	Sh.15,000,000
Accumulated amortization (3,000,000 + 8,000,000)	<u>(11,000,000)</u>
	4,000,000
Recoverable amount	<u>(2,000,000)</u>
Impairment loss	<u>2,000,000</u>

Illustration 1...



Date	Particulars	Debit	Credit
2017		Sh.	Sh.
31.12	Impairment loss Intangible asset To recognize impairment loss as a result of the loss of market share	2,000,000	2,000,000

Intangible asset with finite life



Illustration 111

Illustration 11: Patent Koi



Date	Particulars	Debit	Credit
2016		Sh.	Sh.
	Patent Koi Cash	2,400,000	2,400,000
	Being the capitalization of development costs on Patent		

Illustration 11: Patent Koi...

Date	Particulars	Debit	Credit
2016		Sh.	Sh.
Dec 31	Amortisation expense Accumulated amortisation Being amortization expense for the year on Patent Koi	100,000	100,000

Illustration 11: Patent Koi...



Date	Particulars	Debit	Credit
2017		Sh.	Sh.
Jan	Accumulated amortisation Patent Koi	100,000	100,000
	Being the offsetting of accumulated amortization against the gross carrying amount of the asset for purposes of revaluing the assets		

Illustration 11: Patent Koi...

Date	Particulars	Debit	Credit
2017		Sh.	Sh.
Jan	Patent Koi Revaluation reserve Being the revaluation of Patent Koi to net replacement value	12,700,000	12,700,000

Illustration 11: Patent Koi...



Date	Particulars	Debit	Credit
2017		Sh.	Sh.
Dec 31	Amortisation expense Accumulated amortisation Being amortization expense on the revalued amount	1,304,348	13,04,348

Illustration 11: Patent Koi...



Date	Particulars	Debit	Credit
2017		Sh.	Sh.
Dec 31	Amortisation expense Accumulated amortisation Being amortization expense on the revalued amount	1,304,345	13,04,345

Illustration 11: Patent Koi...



Date	Particulars	Debit	Credit
2017		Sh.	Sh.
Dec 31	Revaluation reserve Retained earnings Being the transfer of revaluation surplus through usage	1,104,348	1, 104,348

Intangible assets with indefinite useful lives



No amortization

Asset is subjected to annual impairment under IAS 36.

Its useful life should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

If not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

Subsequent expenditure



Expenditure that does not meet the recognition criteria should be expensed through the statement of income.

Due to nature of intangible assets, subsequent expenditure rarely meet the criteria for being recognised in the carrying amount of an asset.

Consequently, subsequent expenditure on brands, mastheads, publishing titles, customer lists and similar items must always be recognised in profit or loss as incurred.

Internally generated intangible assets



There are two phases: research phase and development phase.

Research phase includes all activities and costs incurred before the intangible asset is commercially feasible

The development phase includes all activities and costs incurred after the asset is established to be commercially feasible.

All costs in research phase are expensed in the period incurred while costs incurred in development phase can be capitalized.

Research and Development Costs

- **Research** is the planned search or critical investigation aimed at discovering new scientific and technical knowledge and understanding
- An example of research could be a pharmaceutical company undertaking activities to develop a new vaccine.

Development Costs



Expenditure is recognized as development if the entity can identify an intangible asset and demonstrate that the asset will generate probable future economic benefits.

Initial Recognition- Research and Development Costs



Expense all research cost.

Why do the regulators not regard research expenditure as an asset?

IASC *Framework* defines an asset as a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow.

Initial Recognition- Research and Development Costs



Development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established.* If an entity cannot distinguish the research phase of an internal project to create an intangible asset from the development phase, the entity treats the expenditure for that project as if it were incurred in the research phase only.

Research and Development Costs acquired in a Business Combination



Recognised as an asset at cost, even if a component is research.

Subsequent expenditure on that project is accounted for as any other research and development cost

Internally generated brands,
mastheads, titles, lists



Brands, mastheads, publishing titles, customer lists and items similar in substance that are internally generated should not be recognised as assets.

Computer Software



Capitalise –Purchased Computer Software

Operating system for hardware to be included in hardware cost

Internally developed (whether for use or sale): charge to expense until technological feasibility, probable future benefits, intent and ability to use or sell the software, resources to complete the software, and ability to measure cost.

Amortise over useful life, based on pattern of benefits (straight-line is the default).

Other Costs



Charge to expense when incurred:

internally generated goodwill
start-up, pre-opening, and pre-operating
costs
training cost
advertising and promotional cost, including
mail order catalogues
relocation costs

Summary



Intangible	Legal Life	Amortization
Patent	24	The shorter of useful or legal life
Copyrights	Life of creator + 70 years	The shorter of useful or legal life not to exceed 40 years
Franchises or Licenses	Contractual agreements	The shorter of contractual Life or useful life
Trade Names & Trademarks	Unlimited (renewed every 10 years)	Impairment test only (at least annually)
In-Process R&D	Unlimited	Impairment test only
Goodwill	Unlimited	Impairment test only

De-recognition of Intangible Assets



On disposal or when no future benefits are expected from its use or disposal.

The gain or loss on de-recognition is recognised in profit or loss when de-recognition occurs.

Gains shall not be classified as revenue

IPSAS 31



IPSAS 31 specifically prohibits the following internally generated intangible assets from being recognised:

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

IPSAS 31...



Other examples of items that are expensed as incurred include expenditures for

start-up costs that are not included in PP&E in accordance with IPSAS 17
training, advertising, and promotional activities

relocating or reorganizing part or all of an entity

IFRS for SMEs Treatment on Intangible Assets



- ❑ Internally generated assets are not recognized; both research and development costs are expensed
- ❑ For separately purchased intangible assets
 - ❑ Amortised over the asset's useful life, and
 - ❑ If useful life cannot be estimated, presume a 10 year useful life
 - ❑ Impairment test to be carried out where there are indications of impairment or not
 - ❑ Revaluation is prohibited

Q & A



Conclusion



SHUKRAN