



**IFRS<sup>®</sup>**  
Accounting

Educational Module 18  
Intangible Assets other than Goodwill

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# IFRS for SMEs<sup>®</sup>

Accounting Standard  
Third Edition



International Accounting Standards Board

**IFRS<sup>®</sup> Foundation**  
**Supporting Material for the**  
***IFRS for SMEs<sup>®</sup> Accounting Standard***

including the full text of  
Section 18 *Intangible Assets other than Goodwill*  
of the *IFRS for SMEs Accounting Standard* issued by  
the International Accounting Standards Board in February 2025

*with extensive explanations, self-assessment questions and case studies*

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The requirements of Section 18 *Intangible Assets other than Goodwill* of the *IFRS for SMEs* Accounting Standard are set out in this module and shown with grey shading. Appendix B of the *IFRS for SMEs* Accounting Standard contains the glossary (Glossary) and is part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 18.

This module has been prepared by the International Accounting Standards Board (IASB) technical staff. The educational notes and examples inserted by the staff are not shaded. These educational notes and examples do not form part of the *IFRS for SMEs* Accounting Standard and have not been approved by the IASB.

## INTRODUCTION

### What is the *IFRS for SMEs*<sup>®</sup> Accounting Standard?

The *IFRS for SMEs* Accounting Standard (Standard) is intended for use by entities that publish general purpose financial statements and that do not have public accountability (referred to as small and medium-sized entities—see Section 1 *Small and Medium-sized Entities* of the Standard).

The objective of general purpose financial statements is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

More information about the Standard and its supporting materials is available on the IFRS Foundation website: [www.ifrs.org](http://www.ifrs.org).

### What does this module cover?

This educational module supports the requirements for recognising, measuring, presenting and disclosing intangible assets other than goodwill in accordance with Section 18 *Intangible Assets other than Goodwill* of the Standard. The module:

- provides explanations and examples to improve understanding of the requirements in Section 18;
- identifies the significant judgements required in recognising and measuring intangible assets;
- includes questions designed to test your understanding of the requirements in Section 18; and
- includes case studies that provide a practical opportunity to apply the requirements in Section 18.

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After completing the module, you should be able:

- to distinguish intangible assets from other assets of an entity;
- to determine when an intangible asset qualifies for recognition in financial statements;
- to measure intangible assets on initial recognition and subsequently;
- to identify when to derecognise an intangible asset and to report that derecognition;
- to present and disclose intangible assets in financial statements; and
- to demonstrate an understanding of significant estimates and other judgements that are required in recognising and measuring intangible assets.

### **Which version of the Standard does the module refer to?**

Any reference in this module to ‘the *IFRS for SMEs Accounting Standard*’ is to the third edition of the Standard, issued February 2025.

### **What is in the requirements?**

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors when making decisions relating to providing resources to the entity.

The objective of Section 18 is to prescribe the requirements for recognising, measuring, presenting and disclosing intangible assets other than goodwill. Section 18 also requires an entity to recognise an intangible asset if, and only if, specified criteria are met.

### **What has changed in the third edition of the Standard?**

The IASB changed Section 18 in the third edition of the Standard by:

- clarifying the definition of ‘asset’ used in Section 18; and
- adding a rebuttable presumption that amortisation methods based on revenue are not appropriate, with details of the limited circumstances in which the presumption may be rebutted.

Transition requirements are explained on page 47 of this educational module.

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## REQUIREMENTS AND EXAMPLES

### Scope of this section

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- 18.1 This section applies to accounting for all **intangible assets** other than **goodwill** (see Section 19 *Business Combinations and Goodwill*) and intangible assets held by an entity for sale in the ordinary course of business (see Section 13 *Inventories* and Section 23 *Revenue from Contracts with Customers*).

### Examples—Intangible assets outside the scope of Section 18

**Ex 1 SME A trades in transferable taxi licences.**

SME A's licences are not in the scope of Section 18, even though each licence satisfies the definition of an intangible asset (see paragraph 18.1). The licences are inventories of SME A because they are assets held for sale in the ordinary course of business (see paragraph 13.1 of the Standard).

**Ex 2 On 31 January 20X1 SME A acquires the business and operations of SME B for CU100,000. The fair value of the identifiable assets acquired less liabilities assumed of SME B at the acquisition date is CU80,000.**

At the acquisition date, SME A recognises goodwill of CU20,000 (CU100,000 consideration transferred minus CU80,000 fair value of the identifiable assets acquired less liabilities assumed). Although goodwill is an intangible asset, it is not in the scope of Section 18. Goodwill is recognised and measured in accordance with Section 19 *Business Combinations and Goodwill*.

- 18.2 An intangible asset is an identifiable non-monetary **asset** without physical substance. Such an asset is identifiable when:
- (a) it is separable, ie 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
  - (b) it 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.

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## Educational notes

Section 18 uses the term ‘asset’ in a way that differs in some respects from the definition in paragraph 2.44 of the Standard and the Glossary. For the purpose of Section 18, an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity (see further discussion on paragraph 18.4).<sup>1</sup>

Section 18 goes on to define an intangible asset as an identifiable non-monetary asset without physical substance. Such an asset is identifiable when it is separable or it arises from contractual or other legal rights.

The Glossary defines monetary items as units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. All other assets are non-monetary items.

Entities frequently expend resources, or incur liabilities, on acquiring, developing, maintaining or enhancing intangible resources, such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trade marks (including brand names and publishing titles). Common examples of items covered by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

Many intangible resources arise from human creativity or intellect, but not all satisfy the definition of an intangible asset for the purposes of the Standard. Section 18 also prohibits an entity from recognising its internally generated intangible assets as an asset, even when the entity’s internally generated items otherwise meet the definition of an intangible asset. The only exception is when the internally generated item forms part of the cost of another asset that meets the recognition criteria in the Standard (see paragraphs 18.4(c) and 18.14).

### *Lack of physical substance*

Intangible assets do not have physical substance. Assets with physical substance are sometimes referred to as tangible assets. An entity accounts for tangible assets by applying other sections of the Standard. For example, depending on the purpose for which an entity holds land and buildings, they are accounted for by applying Section 13 *Inventories*, Section 16 *Investment Property* or Section 17 *Property, Plant and Equipment* of the Standard.

Some intangible assets might be contained in or on a physical substance, such as legal documentation (in the case of a licence or patent) or routers (in the case of cybersecurity firmware). In determining whether an asset that includes both intangible and tangible elements should be treated as an intangible asset or another type of asset, an entity uses judgement to assess which element is more significant.

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<sup>1</sup> The Glossary defines an asset as a present economic resource controlled by an entity as a result of past events.

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## Identifiability

An intangible asset is identifiable when:

- it is separable, that is, it 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
- it 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.

The identifiability condition distinguishes goodwill from other intangible assets. Goodwill is defined as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised (see the Glossary). Goodwill arising in a business combination is recognised and measured in accordance with Section 19 of the Standard. Internally generated goodwill is not recognised as an intangible asset (see paragraph 18.15(f)).

As previously noted, for the purpose of Section 18, an asset is a resource controlled by an entity as a result of past events. Control of an intangible asset often arises from legal rights that are enforceable in a court of law—for example, through licences, patents or trade marks. In the absence of legal rights, it is more difficult for an entity to demonstrate control. However, legal enforceability of a right is not a necessary condition for control. An entity might be able to control an asset in some other way—for example, through keeping the resource a secret from others.

In the absence of legal rights, exchange transactions, such as the sale of an intangible asset, might provide evidence of control.

## Examples—Items that satisfy the definition of an intangible asset

**Ex 3 SME A owns a brand name that it purchased from a competitor. The brand name is legally protected through registration with the local government as a trade mark.**

The brand name (a trade mark) is an intangible asset of SME A. The brand name is:

- identifiable because it is separable, as evidenced by the competitor selling the trade mark to SME A. The brand name has legal protection through registration with the local government.
- non-monetary because it is neither currency held nor an asset to be received in a fixed or determinable number of units of currency.
- without physical substance because it is a legal right.

SME A has determined that the brand name meets the definition of an intangible asset. Therefore, SME A would apply the recognition criteria in paragraph 18.4 to determine whether to recognise the brand name as an intangible asset in its statement of financial position.

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**Ex 4 SME A holds an exclusive licence to operate a particular fast-food outlet in Jurisdiction ABC under a franchise agreement.**

The licence to operate in Jurisdiction ABC is an intangible asset of SME A. The licence is:

- identifiable because it is separable, as evidenced by the licence given to SME A under a franchise agreement. The licence also arises from a contractual right.
- non-monetary because it is neither currency held nor an asset to be received in a fixed or determinable number of units of currency.
- without physical substance because it is a contractual right.

SME A has determined that the licence meets the definition of an intangible asset. Therefore, SME A would apply the recognition criteria in paragraph 18.4 to determine whether to recognise the licence as an intangible asset in its statement of financial position.

**Ex 5 SME A owns and operates an interactive website on which anyone can post material related to a particular subject. SME A generates revenue by selling advertising space on the site. The domain name is protected legally through registration with the appropriate government agencies. SME A is approached by other companies in the jurisdiction that want to acquire the website.**

The website is an intangible asset of SME A. The website is:

- identifiable because it is capable of being separated from SME A, which can sell or transfer the website to another entity. The website also has legal protection.
- non-monetary because it is neither currency held nor an asset to be received in a fixed or determinable number of units of currency.
- without physical substance.

SME A has determined that the website meets the definition of an intangible asset. Therefore, SME A would apply the recognition criteria in paragraph 18.4 to determine whether to recognise the website as an intangible asset in its statement of financial position.

**Ex 6 SME A owns 20 software licences. The software licences are used by SME A's production and administrative staff.**

The software licences are intangible assets of SME A. The software licences are:

- identifiable because they arise from contractual rights. SME A obtained the right (the licence) to use the software from its licensors.
- non-monetary because they are neither currency held nor an asset to be received in a fixed or determinable number of units of currency.
- without physical substance.

SME A has determined that the software licences meet the definition of an intangible asset. Therefore, SME A would apply the recognition criteria in paragraph 18.4 to determine whether to recognise the software licences as an intangible asset in its statement of financial position.

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**Ex 7 SME A operates 20 taxis under licence in City A granted by its city government. The taxi licences are transferable to other qualified taxi operators.**

The taxi licences are intangible assets of SME A. The taxi licences are:

- identifiable because they are capable of being separated from SME A, which can transfer the licences to other qualified taxi operators. The licences also have legal protection from SME A's city government.
- non-monetary because they are neither currency held nor an asset to be received in a fixed or determinable number of units of currency.
- without physical substance.

SME A has determined that the taxi licences meet the definition of an intangible asset. Therefore, SME A would apply the recognition criteria in paragraph 18.4 to determine whether to recognise the taxi licences as an intangible asset in its statement of financial position.

**Ex 8 SME A owns digital audiovisual material in the form of films and audio recordings that it licenses to its customers.**

The digital audiovisual material is an intangible asset of SME A. The material is:

- identifiable because it is capable of being separated from SME A, as evidenced by the licensing arrangements with its customers;
- non-monetary because it is neither currency held nor an asset to be received in a fixed or determinable number of units of currency; and
- without physical substance.

SME A has determined that the digital audiovisual material meets the definition of an intangible asset. Therefore, SME A would apply the recognition criteria in paragraph 18.4 to determine whether to recognise its digital audiovisual material as an intangible asset in its statement of financial position.

**Ex 9 SME A developed a formula that it uses to manufacture a unique glue. The glue is the leading adhesive product in the market because of its distinctive mix of chemicals. The special formula is known only by the SME's two owner managers and hence no competitors have been able to discover and replicate it. The formula is not protected by a patent, or by other means. Many competitors have approached the SME to try to purchase the formula.**

The formula is an intangible asset of SME A. The formula is:

- identifiable because it is capable of being separated from SME A and sold;
- non-monetary because it is neither currency held nor an asset to be received in a fixed or determinable number of units of currency; and
- without physical substance.

SME A has determined that the formula meets the definition of an intangible asset. Therefore, SME A would apply the recognition criteria in paragraph 18.4 to determine whether to recognise the formula as an intangible asset in its statement of financial position.

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## Examples—Items that do not satisfy the definition of an intangible asset

**Ex 10** SME A operates a fast-food outlet and builds customer relationships and loyalty through its loyalty programme. SME A expects its customers will continue to trade with it. The SME has no contracts with those customers beyond the tacit agreement to trade food and service for cash.

In the absence of legal rights to protect SME A's relationships with its customers or to control the customers' loyalty to the SME, these customer relationships would fail to meet any of the characteristics in the definition of an intangible asset: they are not identifiable. The definition is not met even though the customer relationships are non-monetary and without physical substance.

**Ex 11** SME A is a bakery that manufactures rye bread that is very popular with its customers using a recipe that it found in a famous cookbook that is in the public domain. Although the cookbook's publication is protected by copyright, there is no limitation on the use of the recipe itself. Many of the bakery's competitors produce rye bread.

The recipe does not meet the definition of an intangible asset because the recipe is not identifiable—the recipe is not separable from SME A because it cannot be separated from and sold by SME A, which does not own the recipe. Furthermore, the recipe does not arise from contractual or other legal rights even if the recipe itself is non-monetary and without physical substance.

**Ex 12** SME A has a team of skilled employees. It has identified the additional staff skills leading to future economic benefits that will flow from the training it has given its employees. SME A does not expect any employees to leave the entity. Therefore, their skills are expected to remain available to SME A for the foreseeable future.

Specific technical talent held by particular employees is unlikely to meet the definition of an intangible asset, unless legal provisions protect SME A's rights to use that talent and to protect the future economic benefits expected from it. It should be noted that the probability of inflows of future economic benefits, by itself, is not necessary to conclude that an item meets the definition of an intangible asset.

18.3 This section does not apply to the following:

- (a) **financial assets**; or
- (b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

## Educational notes

Financial assets are recognised and measured in accordance with Section 11 *Financial Instruments*. Mineral rights and mineral reserves are recognised and measured in accordance with the applicable sections of the Standard based on the nature of how an entity uses those assets.

Although not specified in Section 18, other sections in the Standard include recognition and measurement of other intangible assets which are, therefore, not in the scope of Section 18. For example, such assets include deferred tax assets (see Section 29 *Income Tax*) and rights over a finance lease asset (see Section 20 *Leases*).

### Recognition

#### General principle for recognising intangible assets

- 18.4 An entity shall recognise an intangible asset as an asset if, and only if:
- (a) it is **probable** that the expected future economic benefits that are attributable to the asset will flow to the entity;
  - (b) the cost or value of the asset can be measured reliably; and
  - (c) the asset does not result from expenditure incurred internally on an intangible item.<sup>4</sup>

...

<sup>4</sup> This section uses the term 'asset' in a way that differs in some respects from the definition in paragraph 2.44 and the Glossary. For the purpose of this section, an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

- 18.5 An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the **useful life** of the asset.
- 18.6 An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial **recognition**, giving greater weight to external evidence.
- 18.7 The probability recognition criterion in paragraph 18.4(a) is always considered satisfied for intangible assets that are separately acquired.

## Educational notes

Paragraph 18.4 sets out the general principle for the recognition of intangible assets. Although an intangible asset within the scope of Section 18 is an entity's asset, the section uses the term 'asset' in a way that differs in some respects from the definition in Section 2 *Concepts and Pervasive Principles* and the Glossary. As stated in the footnote to paragraph 18.4, for the purpose of Section 18, an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Specifically, the definition of asset used in Section 18 retained the *expectation* that the asset will generate future economic benefits that will flow to the entity.

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The probability recognition criterion is always considered to be satisfied for separately acquired intangible assets. The price an entity pays to separately acquire an intangible asset normally reflects expectations about the probability that the expected future economic benefits associated with the intangible asset will flow to the entity. In other words, the effect of probability is reflected in the cost of the intangible asset.

Paragraphs 18.5–18.7 provide guidance on how to apply the recognition principle for intangible assets.

#### *Future economic benefits*

The future economic benefits flowing from an intangible asset might include revenue from the sale of products or services, cost savings or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process might reduce future production costs instead of increasing future revenues.

The timeframe of the assessment of the probability of future economic benefits flowing from an intangible asset is limited to its useful life. The Glossary defines useful life as ‘the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity’. Paragraphs 18.19–18.20 of the Standard give more guidance on determining an asset’s useful life.

#### *Cost or value of the asset can be measured reliably*

Section 18 requires that the cost or value of the intangible asset can be measured reliably to qualify for recognition. The measurement of an intangible asset’s cost or value will depend on how the entity acquired the intangible asset (for example, through separate acquisition, as part of a business combination, by way of government grant or by exchange of assets). Paragraphs 18.10–18.13 set out the requirements on how to measure an intangible asset.

#### *Internally generated intangible item*

Expenditure incurred internally on an intangible item, including all expenditure for both research and development activities, is recognised as an expense when it is incurred. The only exception is when the expenditure forms part of the cost of another asset that meets the recognition criteria in the Standard (see paragraph 18.14).

## **Examples—Applying recognition criteria**

**Ex 13** The facts are the same as in Example 3. SME A also acquired the brand name for CU10,000 and expects to release a new product line using the brand in less than a year. SME A expects the new product line to be profitable after three years.<sup>2</sup>

SME A recognises the brand name because it meets the recognition criteria in paragraph 18.4.

- It is probable that the brand name will generate future economic benefits that will flow to SME A, as evidenced by it expecting to release a new product line in less than a year and expecting the new product line to be profitable after three years.

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<sup>2</sup> In this example, and in all other examples in this module, monetary amounts are denominated in ‘currency units’ (CU).

- The value of the brand name can be measured reliably, as evidenced by its purchase price (CU10,000).
- The brand name is not a result of an expenditure incurred internally. SME A purchased the brand name from a competitor.

**Ex 14 The facts are the same as in Example 4. SME A also obtained the licence under a franchise agreement by paying CU15,000 cash.**

SME A recognises the licence because it meets the recognition criteria in paragraph 18.4.

- It is probable that the licence will generate future economic benefits that will flow to SME A, as evidenced by the exclusive right to operate a fast-food outlet in Jurisdiction ABC.
- The value of the licence can be measured reliably, as evidenced by its purchase price (the initial cash outlay of CU15,000).
- The licence is not a result of an expenditure incurred internally. SME A obtained the licence from a franchisor.

### Acquisition as part of a business combination

- 18.8 An intangible asset acquired in a **business combination** shall be recognised unless its **fair value** cannot be measured reliably without undue cost or effort at the acquisition date.

## Educational notes

The probability criterion in paragraph 18.4(a) is not considered for intangible assets acquired as part of a business combination.

For cost–benefit reasons, the IASB added an undue cost or effort exemption to the requirement to recognise intangible assets separately from goodwill in a business combination. For some SMEs, it is complex and costly to separately recognise all intangible assets acquired as part of a business combination (see Section 19 and its related educational module). If an intangible asset acquired in a business combination cannot be measured reliably without undue cost or effort at the acquisition date, the intangible asset is subsumed in goodwill.

An entity judges whether a requirement would involve undue cost or effort based on information about the costs and benefits of the requirement at the acquisition date.

Paragraph 2.29 of Section 2 of the Standard states that whether an entity must spend undue cost or effort to obtain or judge the information necessary to comply with a requirement depends on the entity’s specific circumstances and on the SME’s judgement of the costs and benefits of applying that requirement. To make this judgement, an entity considers how users’ decision-making could be affected by not having that information. An entity would spend undue cost or effort applying a requirement if the incremental cost (for example, valuers’ fees) or additional effort (for example, endeavours by employees) substantially exceeds the benefits users would receive from having the information.

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## Examples—Recognising an intangible asset as part of a business combination

**Ex 15** SME A acquired a number of marketing-related assets (trade marks, service marks,<sup>3</sup> collective marks<sup>4</sup> and certification marks<sup>5</sup>) in a business combination.

SME A determines that the marketing-related assets are all protected legally (for example, through registration with government agencies, continuous use in commerce, or other means). The marketing-related assets:

- meet the contractual-legal criterion for identification as an intangible asset—it is protected by copyright (see paragraph 18.2(b)); and
- therefore, meet the definition of an intangible asset.

The marketing-related assets were acquired as part of the business combination. If their fair values can be measured reliably without undue cost or effort at the acquisition date, the criteria for recognising the assets in the statement of financial position are met.

SME A recognises the marketing-related assets (trade marks, service marks, collective marks and certification marks) acquired in a business combination separately from goodwill, unless their fair values cannot be measured reliably without undue cost or effort at the acquisition date (see paragraph 18.8).

**Ex 16** **SME A acquired a registered internet domain name in a business combination. Its registration is renewable.**

SME A determines that the registered internet domain name is an identifiable non-monetary asset without physical substance. Registration of the domain name creates an association between that name and SME A for the period of the registration. SME A determines that the registered internet domain name meets the contractual-legal criterion for identification as an intangible asset (see paragraph 18.2(b)). Therefore, the registered internet domain name meets the definition of an intangible asset.

The registered internet domain name was acquired as part of a business combination. If its fair value can be measured reliably without undue cost or effort at the acquisition date, the criteria for recognising the domain name in the statement of financial position are met.

SME A recognises the registered internet domain name acquired in a business combination separately from goodwill, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

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<sup>3</sup> A service mark identifies and distinguishes the source of a service rather than a product.

<sup>4</sup> Collective marks are used to identify the goods or services of members of a group.

<sup>5</sup> Certification marks are used to certify the geographical origin or other characteristics of a good or service.

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**Ex 17** The facts are the same as in Example 10. SME B acquires SME A in a business combination—including SME A’s customer list (a database that includes information about customers, such as their names, contact information, order histories and demographic information).

SME B determines that the customer list is an identifiable non-monetary asset without physical substance. Although a customer list does not arise from contractual or other legal rights, customer lists are often leased or exchanged. Customer lists acquired in a business combination normally meet the separability criterion (see paragraph 18.2(a)). Therefore, the customer list meets the definition of an intangible asset.

SME B determines the fair value of the customer list can be measured reliably at the acquisition date and, therefore, recognises the asset.

**Ex 18** SME A acquired a collection of plays, books, song lyrics, paintings and films (protected by copyright) in a business combination.

SME A determines that the collection is an identifiable non-monetary asset without physical substance. Because the items are protected legally (that is, through copyright) the collection meets the contractual-legal criterion (see paragraph 18.2(b)). Therefore, the collection meets the definition of an intangible asset.

The collection acquired in a business combination is recognised separately from goodwill, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

**Ex 19** SME A acquired two trade secrets (secret recipes) in a business combination. Recipe A is patented. Recipe B is not legally protected.

SME A determines that the recipes are identifiable non-monetary assets without physical substance. Recipe A meets the contractual-legal criterion for identification as an intangible asset because it is protected by patent (see paragraph 18.2(b)). Recipe B does not meet the contractual-legal criterion because it is not protected by a patent. However, Recipe B meets the separability criterion in paragraph 18.2(a)—such recipes can be, and often are, exchanged, licensed or leased to others. As a secret recipe, Recipe B cannot be replicated and it is desired by competitors or other parties that want to acquire it. Therefore, both recipes meet the definition of an intangible asset.

Both recipes are acquired in a business combination and are recognised separately from goodwill, unless their fair value cannot be measured reliably without undue cost or effort at the acquisition date.

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**Ex 20** SME A acquired water acquisition rights as part of a business combination. The rights are extremely valuable to many manufacturers operating in the same jurisdiction because manufacturers cannot acquire water and, in many cases, cannot operate their plants without water. Local authorities grant the rights at little or no cost, but in limited numbers, for fixed periods (normally 10 years), and renewal is certain at little or no cost. The rights cannot be sold other than as part of the sale of a business as a whole, so there is no secondary market for the rights. SME A cannot determine the fair value reliably without undue cost or effort. If a manufacturer returns its rights to the local authority, it is prohibited from reapplying.

SME A determines that the water acquisition rights are identifiable non-monetary assets without physical substance. Because they are protected legally (that is, the rights are granted by local authorities) the rights meet the contractual-legal criterion (see paragraph 18.2(b)). Therefore, the rights meet the definition of an intangible asset.

However, the legal rights would not be recognised as a separate intangible asset acquired in the business combination because the fair value cannot be measured reliably without undue cost or effort.

### Initial measurement

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18.9 An entity shall measure an intangible asset initially at cost.

### Educational notes

Paragraphs 18.10–18.16 provide application guidance for determining the cost of an intangible asset.

#### Separate acquisition

- 18.10 The cost of a separately acquired intangible asset comprises:
- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
  - (b) any directly attributable cost of preparing the asset for its intended use.

### Educational notes

Examples of directly attributable costs of preparing an asset for its intended use include:

- costs of employee benefits (as defined in Section 28 *Employee Benefits* of the Standard) arising directly from bringing the asset to its working condition;
- professional fees arising directly from bringing the asset to its working condition; and
- costs of testing whether the asset is functioning properly.

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Examples of expenditures that would not be part of the cost of an intangible asset include:

- costs of introducing a new product or service (including costs of advertising and promotional activities);
- costs of doing business in a new location or with a new class of customer (including costs of staff training); and
- administration and other general overhead costs.

Most subsequent expenditures will not meet the definition of or the recognition criteria for an intangible asset. Subsequent expenditures are likely to be characterised as those incurred internally to maintain the expected future economic benefits attributable to an intangible asset. Therefore, those expenditures will be recognised as an expense in profit or loss.

Section 18 did not include guidance on when an intangible asset is acquired separately and payment is deferred beyond normal credit terms. Applying paragraphs 10.4–10.5 of Section 10 *Accounting Policies, Estimates and Errors* on developing accounting policies, an entity's management would consider the guidance in paragraph 17.13 of Section 17 *Property, Plant and Equipment*. Paragraph 17.13 requires that if an item of property, plant and equipment is acquired and payment is deferred beyond normal credit terms, the cost of the property, plant and equipment is the present value of all future payments.

### **Example—Measurement of intangible assets acquired separately**

**Ex 21** On 1 January 20X1 SME A purchased a new software package to operate its production equipment for CU600,000, including CU50,000 of refundable purchase taxes. The purchase price was funded by raising a loan of CU605,000. SME A also has to pay CU5,000 in loan-raising fees to the bank. The loan is secured against the software licences.

In January 20X1 SME A incurred the following costs in customising the software so that it is more suited to the systems used by the SME:

- labour—CU120,000; and
- depreciation of plant and equipment used to make the modifications—CU15,000.

In January 20X1 SME A's production staff were trained in how to operate the new software. Training costs included:

- cost of an expert external instructor—CU7,000; and
- labour—CU3,000.

In February 20X1 SME A's production team tested the software and the information technology team made further modifications necessary to get the new software to function as intended by management. The following costs were incurred in the testing phase:

- material, net of CU3,000 recovered from the sale of the scrapped output—CU21,000;
- labour—CU11,000; and
- depreciation of plant and equipment while it was used to make the modifications—CU5,000.

The new software was ready for use on 1 March 20X1. However, because of low initial order levels, SME A incurred a loss of CU23,000 on operating the software during March.

***What is the cost of the software at initial recognition?***

<i>Description</i>	<i>Calculation or reason</i>	<i>CU</i>	<i>Reference to the Standard</i>
Purchase price	CU600,000 purchase price – CU50,000 refundable purchase taxes	550,000	18.10(a)
Loan-raising fee	Transaction cost	–	11.13
Preparation costs	CU120,000 labour + CU15,000 depreciation	135,000	18.10(b)
Training costs	Recognised as expenses in profit or loss; the software is capable of operating in the manner intended by management without incurring the training costs	–	5.4 & 18.15(c)
Cost of testing	CU21,000 material (net of the CU3,000 recovered from the sale of the scrapped output) + CU11,000 labour + CU5,000 depreciation	37,000	18.10(b)
Operating loss	Recognised as expenses in profit or loss	–	5.5
Borrowing costs	Recognised as expenses in profit or loss	–	25.2
<b>Cost of software</b>		<b>722,000</b>	

## Acquisition as part of a business combination

- 18.11 If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

### Educational notes

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (see the Glossary). Section 12 *Fair Value Measurement* of the Standard sets out the requirements and guidance on fair value measurement.

Applying Section 12, Level 1 inputs such as an unadjusted quoted price for an identical asset in an active market provides the most reliable estimate of the fair value of an intangible asset. An entity is required to use a quoted price in an active market to measure fair value whenever such a price is available. Active markets might exist in some jurisdictions for intangible assets such as transferable tax licences, fishing licences or production quotas. However, for many intangible assets, such as brands, newspaper mastheads, music and film publishing rights, patents or trade marks, an active market might not exist because each such asset is unique.

For discussion and guidance on fair value, refer to *IFRS for SMEs Accounting Standard—Educational Module 12 Fair Value Measurement*.

### Example—Measurement of intangible assets acquired in a business combination

- Ex 22** On 1 January 20X1 SME A (the acquirer) acquired all of the issued shares of SME B, its competitor (the acquiree), when the acquiree's intangible assets were:

	<i>Carrying amounts</i>	<i>Fair values</i>
	<i>CU</i>	<i>CU</i>
Customer list	–	50,000
In-process research and development project	–	80,000
Licence to operate	100,000	150,000
Brand, including trade mark and brand name	–	300,000

**In 20X1 the acquirer incurred CU200,000 in additional expenditure to complete the acquired in-process research and development project and subsequently decided to develop the related product commercially.**

On 1 January 20X1 the group's (SME A and SME B) intangible assets, excluding any goodwill, are as follows:

	<i>CU</i>
Customer list	50,000
In-process research and development project	80,000
Licence to operate	150,000
Brand, including trade mark and brand name	300,000
	<hr/> 580,000 <hr/>

The acquired in-process research and development project is recognised as an intangible asset because it was acquired in a business combination. However, the subsequent expenditure of CU200,000 is treated in the same way as expenditure to create an internally generated intangible asset—that is, it is recognised as an expense when incurred (see paragraph 18.14).

### Acquisition by way of a government grant

- 18.12 If an intangible asset is acquired by way of a **government grant**, the cost of that intangible asset is its fair value at the date the grant is received or receivable in accordance with Section 24 *Government Grants*.

### Example—Measurement of intangible assets acquired by way of a government grant

- Ex 23** On 1 January 20X1 a local government issued three identical licences to broadcast in ABC City for a 10-year period. Two licences were made available to independent third parties from outside the local community and were sold in a public auction. In an attempt to develop local ownership, the third licence was given to SME D free of charge. The fair value of each broadcasting licence is determined to be CU100,000 based on the prices received at auction. The grant does not impose specified future performance conditions.

SME D determines that the licence received is an intangible asset acquired by way of a government grant. Applying Section 24 *Government Grants* of the Standard, SME D is required to measure the licence at CU100,000 (its fair value) on initial recognition and recognise the grant of CU100,000 as income in profit or loss (see paragraphs 24.4(a) and 24.5).

## Exchanges of assets

- 18.13 An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of such an intangible asset at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the **carrying amount** of the asset given up.

### Examples—Measurement of intangible assets acquired in exchange for other assets

- Ex 24** On 1 January 20X1 SME A received landing rights at a local airport in exchange for an aeroplane with a retail selling price of CU100,000.

Based on the exchange of assets (landing rights in exchange for an aeroplane), SME A estimates and measures the landing rights received at CU100,000 on initial recognition—the retail selling price of the aeroplane given up.

- Ex 25** On 1 January 20X1 SME A received landing rights at a local airport in exchange for 90,000 litres of aviation fuel and CU10,000 cash. Aviation fuel costs CU1 per litre.

SME A measures the landing rights received (the intangible asset acquired in the exchange transaction) at CU100,000 (their fair value) on initial recognition. The fair value of the landing rights is determined by reference to the fair value of the aviation fuel (CU90,000 = 90,000 litres × CU1 per litre) + CU10,000 cash given up in the exchange transaction.

- Ex 26** SME A and SME B manufacture chemicals in Jurisdictions A and B, respectively. On 1 January 20X1 SME A and SME B extended their respective product ranges by granting each other the right to manufacture each other's patented products in their respective home jurisdictions. Assume that the fair value of neither the asset received nor the asset given up can be measured reliably. The carrying amount of the patented rights given up by SME A and SME B in the exchange transaction was CU100 and CU200 respectively.

SME A and SME B initially recognise the patented rights received as intangible assets acquired in the exchange transaction. SME A measures the patented right at CU100 and SME B measures its right at CU200. Each right is measured at the carrying amount of the asset given up in the exchange transaction.

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## Internally generated intangible assets

- 18.14 An entity shall recognise expenditure incurred internally on an intangible item, including all expenditure for both **research** and **development** activities, as an **expense** when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this Standard.
- 18.15 As examples of applying the preceding paragraph, an entity shall recognise expenditure on the following items as an expense and shall not recognise such expenditure as intangible assets:
- (a) internally generated brands, logos, publishing titles, customer lists and items similar in substance;
  - (b) start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs);
  - (c) training activities;
  - (d) advertising and promotional activities;
  - (e) relocating or reorganising part or all of an entity; and
  - (f) internally generated goodwill.

## Educational notes

All research and development costs are recognised as an expense in profit or loss unless those costs form part of the cost of another asset that meets the recognition criteria in the Standard.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding (see the Glossary). Development is 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 (see the Glossary).

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## Examples—Expenditures recognised as an expense or as an intangible asset

**Ex 27** In 20X1 SME A, a candle manufacturer, incurred the following expenses on raw materials and labour to invent a new wax that enables candles to burn for substantially longer:

- CU1,000 on experimenting with chemicals to discover enhanced wax compounds;
- CU3,000 to evaluate the suitability of the different wax compounds invented;
- CU1,500 to patent registration costs for the most effective wax compound discovered;
- CU2,300 to develop and test the pre-production prototypes;
- CU5,000 materials and labour costs on an initial commercial production run (half of the output was sold by the end of the reporting period, 31 December 20X1); and
- CU2,000 on advertising the new product.

SME A recognises the following amounts as expenses in the determination of profit or loss for the year ended 31 December 20X1:

- CU6,300 for research and development costs (CU1,000 experimentation costs + CU3,000 evaluation costs + CU2,300 development and testing costs);
- CU2,500 for cost of goods sold (CU5,000 ÷ 2 because half of the goods produced were sold during the reporting period); and
- CU2,000 for selling expenses (advertising costs).

Furthermore:

- An intangible asset is required to be recognised at a cost of CU1,500 for the acquired patent, the amount paid by SME A to register the patent. The patent qualifies for recognition even though it was purchased as part of the creation of internally generated intangible assets. It meets the recognition criteria in paragraph 18.4 because:
  - o the probability criterion (paragraph 18.4(a)) is always considered satisfied for separately acquired intangible assets (see paragraph 18.7);
  - o the cost or value of the intangible asset can be measured reliably (paragraph 18.4(b)); and
  - o the asset does not result from expenditure incurred internally on an intangible item—even though the asset was internally generated (paragraph 18.4(c)).
- SME A would amortise the patent by applying paragraphs 18.18–18.24. If there is any indication that the patent is impaired at the reporting date, SME A is required to test the patent for impairment by applying Section 27 *Impairment of Assets* of the Standard.
- At 31 December 20X1 inventory (asset) includes CU2,500 cost of production (CU5,000 ÷ 2 because half of the goods produced were on hand at the end of the reporting period). The CU2,500 includes material and labour costs only. Consequently, the cost of the inventory is increased to include a systematic allocation of fixed and variable production overheads (see Section 13).

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**Ex 28 SME A built up a substantial list of customers over time. SME A views the list as very valuable.**

**On 1 January 20X1 SME A acquired a customer list from another entity for CU100,000. In 20X1 SME A estimates that it incurred a further CU10,000 staff costs in maintaining and developing this externally acquired customer list.**

SME A does not recognise an intangible asset for the internally generated customer list, because Section 18 specifically prohibits an entity from recognising internally generated intangible assets (see paragraph 18.15(a)). The costs of establishing the list cannot be distinguished from the cost of developing the business as a whole.

The externally acquired list:

- meets the definition of an intangible asset because it is separable (it could be separated from the entity and sold to a third party); and
- is measured at CU100,000 on initial recognition because it meets the recognition criteria in paragraph 18.4.

SME A is required to recognise the additional CU10,000 incurred in maintaining and developing the externally acquired customer list as an expense in profit or loss for the year. Subsequent expenditure on customer lists (whether externally acquired or internally generated) is always recognised in profit or loss as incurred (see paragraph 18.14).

**Ex 29 On 2 February 20X1 SME A held an event to mark the opening of its new retail outlet. The event cost CU20,000 and generated much favourable publicity. In February 20X1, before the new retail outlet was opened, the SME hired and trained new sales staff at a cost of CU30,000.**

SME A recognises the cost of the pre-opening staff training and the opening event as expenses in profit or loss for the period in which the expenses were incurred, as required by paragraph 18.15(b)–(c).

**Ex 30 On 31 December 20X1 SME A placed an advertisement for its products in a local newspaper. The newspaper advertisement cost SME A CU20,000, which the SME paid on 1 December 20X1. The advertisement will appear in the 31 December 20X1 newspaper. SME A expects the advertisement will generate additional sales of its products in 20X2.**

**SME A has a 31 December year-end.**

SME A recognises the cost of the newspaper advertisement (CU20,000) as an expense in profit or loss for the period ended 31 December 20X1 (when the advertisement is published), as required by paragraph 18.15(d). The cost cannot be deferred by being initially recognised as an asset and then recognised as an expense over the period of additional sales.

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**Ex 31** In June 20X1 SME A employed external consultants at a cost of CU20,000 to reorganise its internal operating policies and procedures. The reorganisation will take three months and is expected to reduce operating costs significantly for the foreseeable future.

**SME A has a 31 December year-end.**

SME A recognises the costs of reorganisation as an expense in profit or loss in the period in which the external consultants provide their services (in the year ended 20X1), instead of during the period in which the SME expects to benefit from reduced operating costs. The expenditure does not qualify to be recognised as an intangible asset (see paragraph 18.15(e)).

18.16 Paragraph 18.15 does not preclude recognising a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

### Example—Prepayments

**Ex 32** The facts are the same as in Example 30. However, the advertisement will appear in the 20 January 20X2 edition of the local newspaper.

As at 31 December 20X1 SME A recognises the CU20,000 advertising costs paid to the local newspaper as an asset (prepaid expense). The prepayment asset will be recognised as an expense on 20 January 20X2 when the advertisement is featured in the local newspaper (the service is received).

The advertising expenditure does not qualify to be recognised as an intangible asset at any time (see paragraph 18.15(d)).

### Past expenses not to be recognised as an asset

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18.17 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised at a later date as part of the cost of an asset.

### Measurement after recognition

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18.18 An entity shall measure intangible assets at cost less any accumulated **amortisation** and any accumulated **impairment losses**. The requirements for amortisation are set out in this section. The requirements for recognition of impairment are set out in Section 27 *Impairment of Assets*.

## Example—Measurement after initial recognition

**Ex 33** On 1 January 20X1 SME A acquired a franchise licence for CU500,000. SME A determined the useful life of the licence to be five years. The amortisation of the licence is CU100,000 per year.

**At 31 December 20X3 SME A assesses the recoverable amount of the franchise licence and determines that it is CU180,000.**

The carrying amount of the franchise licence is calculated in the next table.

<i>Description</i>	<i>Calculation or reason</i>	<i>CU</i>	<i>Reference to the Standard</i>
Cost	Purchase price at 1 January 20X1	500,000	18.10(a)
Amortisation in 20X1	CU500,000 depreciable amount ÷ 5 years	<u>(100,000)</u>	18.21 and 18.23
<b>Carrying amount at 31 December 20X1</b>	CU500,000 cost minus CU100,000 amortisation	<b>400,000</b>	18.18
Amortisation in 20X2		<u>(100,000)</u>	18.21 and 18.23
<b>Carrying amount at 31 December 20X2</b>	CU500,000 cost minus CU200,000 accumulated amortisation	<b>300,000</b>	18.18
Amortisation in 20X3		<u>(100,000)</u>	18.21 and 18.23
<b>Carrying amount at 31 December 20X3 before impairment</b>	CU500,000 cost minus CU300,000 accumulated amortisation	<b>200,000</b>	18.18
Impairment	CU200,000 carrying amount before impairment minus CU180,000 recoverable amount	<u>(20,000)</u>	18.25
<b>Carrying amount at 31 December 20X3 after impairment</b>	Impaired to recoverable amount	<b><u>180,000</u></b>	18.18

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## Useful life

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- 18.19 For the purpose of this Standard, all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.
- 18.20 If the useful life of an intangible asset cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.

## Educational notes

The useful life of an asset is:

- the period over which an asset is expected to be available for use by an entity; or
- the number of production or similar units expected to be obtained from the asset by an entity.

An intangible asset's useful life is not necessarily the same as its economic life. An asset's economic life is the period during which the asset produces economic benefits, no matter who uses those benefits at the time. The useful life is the period when an asset is used by an entity. If the entity has an intangible asset that has an economic life of 10 years, but the entity intends to sell the asset after six years, the useful life will be six years and not 10 years. The entity would be required to estimate the residual value at the end of six years—see paragraph 18.23 for requirements on estimating the residual value for intangible assets.

Many factors are considered in determining the useful life of an intangible asset, including:

- the expected use of the asset by an entity;
- typical product life cycles for the asset and public information about estimates of useful lives of similar assets that are used in a similar way;
- technical, technological, commercial or other types of obsolescence;
- the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
- expected actions of competitors or potential competitors;
- the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and an entity's ability and intention to achieve such a level;
- the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
- whether the useful life of the asset is dependent on the useful life of other assets of the entity.

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The useful life of an intangible asset does not reflect planned future expenditure exceeding that required to maintain the intangible asset at its standard of performance assessed when estimating the asset's useful life. The useful life reflects the level of future maintenance expenditure required to maintain the asset at that standard of performance, if an entity is able and intends to carry out such maintenance.

Because of the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Consequently, it is likely that their useful life is short.

If an intangible asset arises from contractual or other legal rights, an entity is permitted to include renewal period(s) in determining the useful life of the intangible asset if there is supporting evidence for a renewal without significant cost (see paragraph 18.19). In accordance with full IFRS Accounting Standards, an intangible asset with an indefinite useful life is not amortised but is tested annually for impairment. In developing the Standard, however, for cost–benefit rather than conceptual reasons, the IASB concluded that goodwill and other indefinite-lived intangible assets should be considered to have finite lives (paragraph BCZ18.8 of the *Basis for Conclusions on the IFRS for SMEs Accounting Standard*). On this basis, all intangible assets accounted for in accordance with Section 18 are considered to have a finite useful life (paragraph 18.19). Accounting for intangible assets on the basis of a finite useful life relieves SMEs from carrying out annual impairment testing. Instead, intangible assets are amortised and their respective recoverable amounts are considered for impairment testing only if there is an indication of impairment.

If the useful life of an intangible asset cannot be established reliably, an entity's management is required to determine its best estimate of the useful life with a 10-year limit.

If there is an indication that the useful life of an intangible asset has changed since the most recent reporting date, then, as required by paragraph 18.24, an entity reviews its estimates of the asset's useful life. Applying paragraph 10.16 of the Standard, the entity is required to account prospectively for any change therein as a change in accounting estimate.

## **Examples—Determination of the useful life of an intangible asset**

**Ex 34 SME A acquires a computer program with a licence for five years—the shortest licence period offered by the licensor. SME A expects to use the software for only the first three years of the licence period, while it develops its own bespoke software.**

SME A determines that the best estimate of the useful life of the software held under licence is three years. The fact that SME A has the right to use the software for five years does not extend its useful life beyond the period over which the SME expects to use the asset.

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**Ex 35** SME A acquires a licence to operate an airline route between two cities. The licence expires in five years. The licence may be renewed after the initial five-year period and it may be renewed every five years thereafter if the airline complies with the applicable rules and regulations. SME A intends to comply with the applicable rules and regulations required for renewals. SME A has previously acquired a number of airline routes from the same issuing authority, all of which have been renewed at least twice. SME A intends to operate on the acquired route for 20 years and it expects the related supporting infrastructure will remain in place for this time (for example, airport gates, slots and terminal-facility leases).

The facts and circumstances provide supporting evidence that SME A intends, and is likely to be able, to renew the contractual term for the next 20 years. The licence arises from contractual rights and there is supporting evidence that a renewal would not incur a significant cost. Therefore, SME A may include three five-year renewals in determining the useful life of the route licence to be 20 years.

**Ex 36** SME A acquired a broadcasting licence that expires in five years. After the initial five-year period, the licence is renewable every seven years. Renewals are conditional on the SME providing at least an average level of service to its customers as measured by customer ratings. It must also comply with the relevant legislative requirements. The licence could potentially be renewed three times at little cost and the SME's management intends to take advantage of all three renewals. Management also expects that the SME will soon be in a position to provide much improved customer service. However, SME A's past performance suggests that it is uncertain that the SME will achieve the required average level of service beyond the first five-year period. Historically, there has been no challenge to the licence renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future.

The facts and circumstances do not provide sufficient evidence to support the management view that SME A both intends and is able to take advantage of all three available renewals. There is evidence to support only the initial five-year period. Therefore, the useful life should be determined as five years.

**Ex 37** The facts are the same as in Example 36. However, the existence of the licensing authority is uncertain beyond the initial term of five years. Management's view is that the contract for the broadcasting licence will remain legally enforceable for the next 12 years.

Management expects a further 12 years of use of the licence, but this cannot be established reliably because of the possibility that the licensing authority might cease to exist after five years. The useful life of the licence should, therefore, be limited to five years.

A change in the legal environment is an impairment indicator. Hence, SME A is required to test the licence for impairment by applying Section 27.

## Amortisation period and amortisation method

- 18.21 An entity shall allocate the **depreciable amount** of an intangible asset on a systematic basis over its useful life. The amortisation charge for each period shall be recognised as an expense, unless another section of this Standard requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.
- 18.22 Amortisation begins when the intangible asset is available for use, ie when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortisation ceases when the asset is derecognised. The entity shall choose an amortisation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine that pattern reliably, it shall use the straight-line method.
- 18.22A There is a presumption that an amortisation method based on the **revenue** generated by an activity that includes the use of an intangible asset is inappropriate. However, an entity can rebut this presumption and use an amortisation method based on revenue generated by an activity that includes the use of an intangible asset only in the limited circumstances:
- (a) in which the intangible asset is expressed as a **measure** of revenue (that is, when rights over the use of an intangible asset are specified as a fixed total amount of revenue to be generated); or
  - (b) when it can be demonstrated that revenue and the consumption of the intangible asset's future economic benefits are highly correlated.

## Educational notes

### *Depreciable amount*

The depreciable amount of an intangible asset is its cost, or other amount substituted for cost (in the financial statements), less its residual value (see the Glossary). The depreciable amount is usually cost less residual value.

### *Residual value*

The residual value of an intangible asset is the estimated amount an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life (see the Glossary). However, the useful life of an intangible asset is zero, unless particular criteria are satisfied (see paragraph 18.23).

### *Amortisation period*

Amortisation begins when the asset is available for use, which is not necessarily the date at which the intangible asset is brought into use. Amortisation of an intangible asset does not cease when the intangible asset is no longer used, unless the asset has been fully amortised or has been derecognised. An intangible asset is fully amortised when its carrying amount is zero or equal to its residual value.

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### *Amortisation method*

An entity is required to choose an amortisation method that best reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine that pattern reliably, it is required to use the straight-line method.

For intangible assets, the objective of amortisation is to reflect the pattern of consumption of the economic benefits over time. Several methods can be used to allocate an intangible asset's depreciable amount over its estimated useful life. The three most common methods are:

- *the straight-line method*—the asset's depreciable amount is allocated evenly over its useful life. Hence, straight-line amortisation results in a constant amortisation charge over the useful life of the asset. The straight-line basis is the default method if an entity cannot reliably determine the pattern in which it expects to consume the asset's future economic benefits. It is also the most appropriate method if the future economic benefits are consumed evenly over time (for example, it is often appropriate for licences and franchises).
- *the diminishing balance method*—the annual amortisation charge is a fixed percentage of the opening carrying amount. This method results in more amortisation in earlier years than under the straight-line basis. It would be appropriate if future economic benefits from the intangible asset are expected to be greater in the earlier years of the asset's expected useful life. For example, in the case of an acquired customer relationship intangible asset.
- *the units of production method*—the asset's depreciable amount is allocated over its useful life based on the asset's usage, activity or units produced instead of the passage of time.

### *Amortisation method based on revenue*

Amortisation methods based on revenue are generally not appropriate. However, they are permissible if:

- the intangible asset is expressed as a measure of revenue (that is, when rights over the use of an intangible asset are specified as a fixed total amount of revenue to be generated); or
- the entity can demonstrate that revenue and the consumption of the intangible asset's future economic benefits are highly correlated.

If an intangible asset's predominant limiting factor is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract might be based on a fixed amount of total revenue to be generated from the extraction instead of being based on time or on the amount of gold extracted. For example, a contract might allow the extraction of gold from the mine until total cumulative revenue from the sale of gold reaches CU20 million.

In another example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged. For example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches CU10 million.

In some cases, revenue is established as the predominant limiting factor in the contract for using an intangible asset and the contract specifies a fixed total amount of revenue to be generated. In such cases, the revenue to be generated might be an appropriate basis for amortising the intangible asset.

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### *Recognition of amortisation*

Amortisation is usually recognised in profit or loss. However, sometimes the future economic benefits embodied in an asset are consumed in producing other assets. In such cases, the amortisation charge constitutes part of the cost of the other asset and is included in that other asset's carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see Section 13).

### **Examples—Amortisation of an intangible asset**

**Ex 38** SME A, which is in the business of direct-mail marketing, purchases a customer list and expects it will be able to derive benefit from the information on the list for at least one year, but no more than three years. SME A intends to add customer names and other information to the list in the future as it expands the business. The useful life of the list is estimated to be 18 months.

If SME A determines that diminishing returns are expected from using the customer list over management's best estimate of its useful life, the SME would use the diminishing balance method of amortisation.

However, if SME A cannot reliably determine the pattern in which it expects to consume the customer list's future economic benefits, the SME would amortise the customer list using the straight-line method over 18 months (that is, management's best estimate of its useful life).

The amortisation charge (expense) is recognised in profit or loss.

SME A assesses at each reporting date whether there is any indication that the customer list is impaired. If any such indication exists, SME A would be required to review the customer list for impairment by applying Section 27 (see paragraph 18.18).

**Ex 39** The facts are the same as in Example 36. However, the existence of the licensing authority has become uncertain. When the uncertainty arose, three years of the initial five-year term remained until SME A's broadcasting licence expires. SME A expects the licence will continue to contribute to net cash inflows until the licence expires.

SME A determines that it will amortise the acquired licence over its remaining useful life of three years. SME A assesses at each reporting date whether there is any indication that the acquired licence is impaired. If any such indication exists, SME A would be required to review the acquired licence for impairment by applying Section 27 (see paragraph 18.18).

The straight-line basis is used for amortisation unless another amortisation method better reflects the pattern in which SME A expects to consume the asset's future economic benefits and that pattern can be determined reliably.

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**Ex 40 SME A develops a formula for manufacturing a type of cleaning product. The SME purchases a patent to protect the formula. The patented formula is used to produce the cleaning products. The patented formula is expected to have a useful life of three years because the SME expects it will take three years to develop a superior formula.**

SME A determines that it will amortise the patented formula over its three-year useful life. As the cleaning products are produced using the patented formula, the amortisation of the patent will be included in the cost of the cleaning products (see Section 13).

If any impairment indicators exist, the SME would be required to review the patented formula for impairment by applying Section 27 (see paragraph 18.18).

The straight-line basis is used for amortisation unless another amortisation method better reflects the pattern in which the SME expects to consume the asset's future economic benefits and that pattern can be determined reliably.

**Ex 41 On 1 February 20X1 SME A purchases a patented formula. The patented formula is available for use on this date. However, SME A only starts producing inventory using the patented formula on 1 April 20X1 because SME A did not have the appropriate plant and equipment in place to begin production.**

SME A determines that it should begin amortisation of the patent from 1 February 20X1.

SME A has the ability to determine the pattern in which it expects to consume the future economic benefits from the patented formula. The SME has also decided that the unit of production method of amortisation better reflects the pattern in which it expects to consume the asset's future economic benefits. Therefore, the amortisation charge allocated to the period from 1 February 20X1 to 1 April 20X1 would be zero.

## Residual value

- 18.23 An entity shall assume that the **residual value** of an intangible asset is 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.

## Educational notes

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal. The amount is determined as if the asset were already of the age and in the condition expected at the end of its useful life (see the Glossary). In other words, residual value is the amount the entity would receive if it were to sell the asset today in the condition expected at the end of the asset's useful life.

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An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (see the Glossary).

A residual value other than zero implies that an entity expects to dispose of the intangible asset at the end of its economic life.

The residual value of an intangible asset might increase to an amount equal to or greater than the asset's carrying amount. If it does, the intangible asset's amortisation charge is zero. However, if the residual value subsequently decreases to an amount below the asset's carrying amount, amortisation is applied.

## Examples—Residual value

**Ex 42 SME A purchased a patent that expires in 15 years. The product protected by the patented technology is expected to be a source of net cash inflows for at least 15 years.**

SME A determines that it will amortise the patent over its useful life of 15 years to a nil residual value. The residual value is zero because the patent expires at the end of its useful life. If there is any indication that the patent is impaired at any reporting date, the SME would review the patent for impairment by applying Section 27.

**Ex 43 On 1 January 20X1 SME A purchased for CU100,000 a patent that expires in 15 years. The product protected by the patented technology is expected to be a source of net cash inflows for the entire 15-year period. SME A has a commitment from a third party to purchase that patent in five years for 60% of the amount that the SME paid for the patent. The SME intends to sell the patent to that party in five years.**

SME A determines that the patent has an economic life of 15 years but a useful life of five years. The depreciable amount would be amortised over its five-year useful life, with a residual value estimated at 60% of the amount SME A paid at the date the patent was acquired (that is, at the date of acquisition the residual value is CU60,000). If there is any indication that the patent is impaired at any reporting date, the SME would review the patent for impairment by applying Section 27.

**Ex 44 On 1 January 20X1 SME A acquired a five-year taxi licence in an active market for CU10,000. The taxi licence is expected to be a source of net cash inflows for the entire five-year period. However, SME A expects to sell the taxi licence in the active market in three years. On 1 January 20X1 taxi licences with two years of remaining useful life were trading at CU2,500. The active market for taxi licences is expected to continue to exist for the foreseeable future.**

SME A determines the depreciable amount of the taxi licence at 1 January 20X1 is CU7,500 (CU10,000 carrying amount minus CU2,500 estimated residual value). The CU7,500 is amortised over the licence's three-year useful life. At each reporting date, if there is a significant change in the market price for taxi licences with a two-year remaining useful life, the residual value should be updated (see paragraph 18.24).

If there is any indication that the licence is impaired at any reporting date, the SME would review the taxi licence for impairment by applying Section 27.

## Review of amortisation period and amortisation method

- 18.24 Factors such as a change in how an intangible asset is used, technological advancement and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual **reporting date**. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life. The entity shall account for the change in residual value, amortisation method or useful life as a change in **accounting estimate** in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

## Examples—Review of amortisation period and amortisation method

- Ex 45** On 1 January 20X1 SME A acquired a patent protected medicine formula for CU500,000. Management estimated the useful life of the intangible asset to be 20 years (which is the remaining period of the patent) and its residual value at nil. Furthermore, management decided that the straight-line method reflects the pattern in which the SME expects to consume the intangible asset's future economic benefits.

At SME A's 31 December 20X5 financial year-end, new information arose that caused management to reconsider its initial assessment of the amortisation period of the intangible asset. On 31 December 20X5 the government unexpectedly announced that it was extending the term of all local medical patents to encourage the development of the local pharmaceutical industry. Management now estimates the useful life of the formula to be 25 years (estimated from the date of acquisition). Management continues to assert that the straight-line method reflects the pattern in which the SME expects to consume the asset's future economic benefits.

In the year ended 31 December 20X5 SME A recognises amortisation expense of CU25,000, which is calculated based on the original useful life because the government extended the term of all local medical patents on 31 December 20X5.

Dr	Inventories or profit or loss (amortisation expense)	CU25,000 <sup>(a)</sup>	
	Cr	Accumulated amortisation	CU25,000

*To record amortisation expense for the year ended 31 December 20X5.*

<sup>(a)</sup> Annual amortisation (31 December 20X1–31 December 20X5) = CU500,000 ÷ 20 years = CU25,000.

The amortisation expense recognised in the year ended 31 December 20X6 is CU18,750, which is calculated based on the revised remaining useful life because the government extended the term of all local medical patents on 31 December 20X5.

Dr	Inventories or profit or loss (amortisation expense)	CU18,750 <sup>(a)</sup>	
	Cr	Accumulated amortisation	CU18,750

*To record amortisation expense for the year ended 31 December 20X6.*

<sup>(a)</sup>  $CU500,000$  (original cost) minus  $CU125,000$  (accumulated amortisation for 5 years,  $CU25,000 \times 5$  years) =  $CU375,000 \div 20$  years (remaining useful life, 25 years – 5 years) =  $CU18,750$ .

**Ex 46** On 1 January 20X1 SME A paid a system developer CU50,000 for an online system through which its customers can place orders. SME A estimated that the system would have a useful life of five years and amortised the cost accordingly. Unfortunately, the system never worked as anticipated and customer use declined considerably after the first year because of ongoing system problems resulting in incorrect orders. At the end of the first year, after charging amortisation for the year of CU10,000, SME A reviewed the system for impairment and reduced the carrying amount to CU30,000. Consequently, in 20X1 the impairment loss was CU10,000. SME A determined the useful life to be unchanged. At the end of Year 2, SME A decided to scrap the custom-developed system and replace it with a generic software package available in the market.

SME A accounts for the change in the useful life of the customer-order system as a change in an accounting estimate by applying paragraphs 10.15–10.18 of the Standard. The amortisation in the first two years during which the custom-developed system was used was based on an assessment of future economic benefits coming from that system.

A prior period error results from the SME failing to take into account information that was available at the time. Until the end of the second year, the best available information was that the system would provide future economic benefits. The change in the useful life of the system is a change of accounting estimate, not a correction of a prior period error.

In 20X2 the amortisation expense is CU7,500<sup>(a)</sup> and an impairment loss of CU22,500<sup>(b)</sup> is recognised.

Indicators that future economic benefits are likely to be lower than expected are present at both 31 December 20X1 and 31 December 20X2. Therefore, SME A would carry out an impairment test on both dates by applying Section 27.

<sup>(a)</sup> Carrying amount at 31 December 20X1 = CU30,000  
 Remaining useful life at 31 December 20X2 = 4 years  
 Amortisation =  $CU30,000 \div 4$  years = CU7,500

<sup>(b)</sup> Carrying amount at 31 December 20X2 (before impairment) =  $CU30,000 - CU7,500 = CU22,500$   
 Carrying amount at 31 December 20X2 (after impairment—that is, after the system is scrapped) = nil  
 Impairment at 31 December 20X2 = CU22,500

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## Recoverability of the carrying amount—impairment losses

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- 18.25 To determine whether an intangible asset is impaired, an entity shall apply Section 27. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the **recoverable amount**, of an asset and when it recognises or reverses an impairment loss.

### Educational notes

If there is an indication that an intangible asset might be impaired, this could suggest that the entity should review its remaining useful life, amortisation method or residual value, even if no impairment loss is recognised for the asset (see paragraph 27.10 of the Standard).

## Retirements and disposals

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- 18.26 An entity shall derecognise an intangible asset, and shall recognise a gain or loss in **profit or loss**:
- (a) on disposal; or
  - (b) when no future economic benefits are expected from its use or disposal.

### Educational notes

The disposal of an intangible asset might occur in a variety of ways (for example, by sale, by entering into a finance lease, by donation or by retiring the use of the intangible asset).

The gain or loss arising from derecognising an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss is recognised in profit or loss when the asset is derecognised (unless the transaction results in a sale and leaseback, in which case Section 20 specifies the treatment of the gain or loss).

### Examples—Derecognition of an intangible asset

- Ex 47 On 14 December 20X5 SME A sold an item of computer software. The customer took immediate delivery of the software.**

SME A is required to derecognise the intangible asset on 14 December 20X5 when SME A loses control of the asset, assuming all the other conditions in paragraph 23.10 of the Standard are met.

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**Ex 48** SME A sells cardboard boxes made out of a special type of cardboard, which the SME has protected by purchasing a patent. In late 20X4 SME A received several complaints from customers saying that they had received batches of defective cardboard boxes. These defects led to several important customers cancelling their future orders.

In May 20X5, because of a significant drop in sales, SME A temporarily halted production of its patented cardboard boxes. Expecting that the customers would return and that demand for cardboard boxes would increase in the foreseeable future, SME A did not dispose of its cardboard-manufacturing operations.

On 30 June 20X6 management discovered that a competitor had developed a new type of cardboard that many customers decided was superior to SME A's patented product. As a result, management expected that sales would not improve to the extent that it could recommence manufacturing cardboard boxes. Therefore, management decided that the assets of the cardboard-manufacturing operations (comprising inventory, plant, equipment and the patent) should be scrapped.

**SME A has a year-end of 31 December.**

SME A is required to derecognise the patent on 30 June 20X6. From this date no future economic benefits are expected from its use or disposal.

The reduction in expected future economic benefits (that is, a reduction in sales) due to customers cancelling their orders in late 20X4 is an impairment indicator. Hence, the assets of the cardboard-manufacturing operations should be tested for impairment under Section 27 on 31 December 20X4. The subsequent significant drop in sales is also an impairment indicator. Therefore, the assets of the cardboard-manufacturing operations should be tested again for impairment on 31 December 20X5.

If expected future economic benefits from the intangible asset are reduced, that reduction is an impairment indicator. However, if no future economic benefits are expected from the intangible asset, SME A would derecognise that asset.

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## Disclosures

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18.27 An entity shall disclose the following for each class of intangible assets:

- (a) the useful lives or the amortisation rates used;
- (b) the amortisation methods used;
- (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the **reporting period**;
- (d) the line item(s) in the **statement of comprehensive income** (and in the **income statement**, if presented) in which any amortisation of intangible assets is included; and
- (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
  - (i) additions;
  - (ii) disposals;
  - (iii) acquisitions through business combinations;
  - (iv) amortisation;
  - (v) impairment losses recognised or reversed in profit or loss in accordance with Section 27; and
  - (vi) other changes.

This reconciliation need not be presented for prior periods.

## Educational notes

A class of intangible assets is a grouping of intangible assets of a similar nature and use in an entity's operations. Examples of separate classes of intangible assets include:

- (a) brand names;
- (b) mastheads and publishing titles;
- (c) computer software;
- (d) licences and franchises;
- (e) copyrights, patents and other industrial property rights, service and operating rights; and
- (f) recipes, formulas, models, designs and prototypes.

## Example—Disclosures for each class of intangible asset

**Ex 49** An SME could disclose information about intangible assets in its financial statements as follows:

### Note 1 Accounting policies

#### *Intangible assets other than goodwill*

Intangible assets, other than goodwill, are measured at cost minus accumulated amortisation and accumulated impairment losses. The cost of assets minus their residual values is allocated over their estimated useful lives, using the straight-line amortisation method. The estimated useful lives of intangible assets are:

- Patents 20 years
- Formulas 10 years
- Computer software 3 years

### Note 4 Intangible assets other than goodwill

	<i>Patents</i> CU'000	<i>Formulas</i> CU'000	<i>Computer software</i> CU'000	<i>Total</i> CU'000
Cost	10,000	13,000	4,400	27,400
Accumulated amortisation	(4,400)	(3,200)	(2,300)	(9,900)
<b>Carrying amount at 1 January 20X2</b>	<b>5,600</b>	<b>9,800</b>	<b>2,100</b>	<b>17,500</b>
Addition	–	2,000	1,000	3,000
Acquired in a business combination	5,000	4,000	2,000	11,000
Disposals	(1,400)	(1,200)	(300)	(2,900)
Amortisation	(730)	(1,700)	(2,250)	(4,680)
Impairment	–	(600)	–	(600)
<b>Carrying amount at 31 December 20X2</b>	<b>8,470</b>	<b>12,300</b>	<b>2,550</b>	<b>23,320</b>
Cost	13,000	16,000	6,400	35,400
Accumulated amortisation	(4,530)	(3,700)	(3,850)	(12,080)

18.28 An entity shall also disclose:

- (a) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is **material** to the entity's **financial statements**;
- (b) for intangible assets acquired by way of a government grant and initially recognised at fair value (see paragraph 18.12):
  - (i) the fair value initially recognised for these assets; and
  - (ii) their carrying amounts.
- (c) the existence and carrying amounts of intangible assets to which the entity has restricted title or that are pledged as security for liabilities; and
- (d) the amount of contractual commitments for the acquisition of intangible assets.

## Example—Other disclosures

**Ex 50** An SME could present disclosures about intangible assets as follows:

### **Note 4 Intangible assets other than goodwill**

At 31 December 20X5 SME A's taxi licence was pledged as security for a CU80,000 loan from Entity B. This pledge also existed at 31 December 20X4.

In December 20X5 SME A signed an agreement to acquire a brand name from Entity B on 31 March 20X7 for CU90,000. SME A had no contractual commitments for the acquisition of intangible assets at 31 December 20X4.

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18.29 An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period (ie the amount of expenditure incurred internally on research and development that has not been capitalised as part of the cost of another asset that meets the recognition criteria in this Standard).

### Example—Disclosures of research and development

Ex 51 An SME could disclose research and development expenditure as follows:

<b>Note 3 Profit before tax</b>		
The following items have been recognised as expenses (income) in determining profit before tax:		
	<b>20X2</b>	<b>20X1</b>
	CU	CU
Research and development costs	100,000	120,000

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## SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs Accounting Standard* (Standard) to transactions and events often requires the use of judgement. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful to a user of financial statements in assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6 of the Standard, an entity discloses the judgements management has made when applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, in accordance with paragraph 8.7 of the Standard, an entity discloses information that explains key assumptions about the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the Standard require disclosure of information about particular judgements and estimation uncertainties.

### Definition and recognition

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In most cases, identifying whether an asset meets the definition of an intangible asset is straightforward. However, there might be situations in which judgement is required. Specifically, there might be situations in which an entity needs to decide whether an asset meets the identifiability criteria—whether the asset is separable from the entity or it arises from contractual or other legal rights. Concluding whether an asset meets the definition of an intangible asset is critical because an entity will then assess whether such an asset meets the recognition criteria for an intangible asset (which is different from the recognition criteria for an asset discussed in Section 2 *Concepts and Pervasive Principles*).

Furthermore, in assessing whether an intangible asset meets the recognition criteria, significant judgements might be required in assessing:

- whether it is probable that the expected future economic benefits attributable to the asset will flow to the entity. Inherent in this assessment is estimation and uncertainty.
- whether the cost or value of an asset can be measured reliably. Measurement uncertainty is always involved in measuring the cost or value of an asset (measurement uncertainty is discussed in Section 2).

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## Intangible assets acquired in a business combination

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Significant judgement might be required to identify all the intangible assets an entity is required to recognise separately in a business combination (if their fair values can be measured reliably without undue cost or effort). Failure to do so will result in the understatement of separately identified intangible assets and the overstatement of goodwill, with the potential effect of amortising the intangible assets over an incorrect period.

### Measurement

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An entity is required to measure an intangible asset at its cost at initial recognition. In most cases, little difficulty is encountered in determining the cost of an intangible asset. However, significant judgements in measuring the cost of an intangible asset at initial recognition might arise, for example:

- if the item is acquired in an exchange transaction—an entity measures fair value by applying Section 12 *Fair Value Measurement*, or measures it for the asset given up, and also judges whether those fair values can be measured reliably.
- if the item is acquired in a business combination—an entity measures the fair value of the intangible asset when an active market does not exist for the asset acquired, and also judges whether that fair value can be measured reliably without undue cost or effort.
- if the item is acquired by way of government grant—an entity measures the fair value of the intangible asset when an active market does not exist for the asset acquired.
- if payment for the item is deferred beyond normal credit terms—an entity estimates the discount rate at which to discount all future payments to arrive at the present value that will be included in the cost of the intangible asset.

Significant judgements in accounting for the amortisation of an intangible asset might include:

- estimating the useful life of the intangible asset; and
- determining the appropriate amortisation method that reflects the pattern in which the entity expects to consume the future economic benefits of the intangible asset.

Significant judgements in accounting for the impairment of an intangible asset might be necessary when:

- assessing whether there is any indication that an item might be impaired; and
- measuring the recoverable amount of the intangible asset if there is an indication that the item might be impaired (see *IFRS for SMEs Accounting Standard—Educational Module 27 Impairment of Assets*).

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## TRANSITION REQUIREMENTS

The third edition of the *IFRS for SMEs Accounting Standard* (Standard) is effective for annual reporting periods beginning on or after 1 January 2027. Early application is permitted. Changes made to Section 18 *Intangible Assets other than Goodwill* from the second edition of the Standard are summarised on page 6.

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## COMPARISON WITH FULL IFRS ACCOUNTING STANDARDS

The requirements in full IFRS Accounting Standards (see IAS 38 *Intangible Assets*) and those in the *IFRS for SMEs Accounting Standard* (see Section 18 *Intangible Assets other than Goodwill*) differ as at February 2025. The main differences are that:

- Section 18 is written in simpler language than that used in IAS 38.
- Section 18 requires all research and development costs to be recognised as an expense when incurred. IAS 38 requires all research costs to be recognised as an expense when incurred, but development costs incurred after a project is deemed to be commercially viable are recognised as an asset.
- Section 18 deems all intangible assets (including intangible assets with indefinite lives) to have finite lives and requires them to be amortised over their useful lives. IAS 38 requires intangible assets with indefinite lives to be carried at cost less impairment loss, if any.
- If the useful life of an intangible asset cannot be established reliably, Section 18 requires a determination based on management's best estimate, but such an estimate cannot exceed 10 years. IAS 38 does not have a similar restriction on determining the useful life of an intangible asset.
- Section 18 states that an intangible asset acquired in a business combination is required to be recognised unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date. IFRS 3 *Business Combinations* and IAS 38 assume that if an intangible asset is separable or arises from contractual or other legal rights, the reliable measurement criterion is always satisfied (see paragraph 33 of IAS 38). Neither IFRS 3 nor IAS 38 provides undue cost or effort exemptions.
- IAS 38 permits an option to use the revaluation model for the measurement of some intangible assets after initial recognition. Section 18 does not.
- Section 18 requires a review of the amortisation period and amortisation method only if specific indicators are present, such as a change in how an intangible asset is used, or technological advancement. IAS 38 requires an annual review of the amortisation period and amortisation method of intangible assets with a finite useful life.
- The *IFRS for SMEs Accounting Standard* (see Section 24 *Government Grants*) prescribes a single method of accounting for intangible assets acquired by way of government grants. Full IFRS Accounting Standards (see IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*) allow a choice of methods for such intangible assets.
- IAS 38 provides guidance on which fair value to use for exchanges of assets. In particular, if an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident. Section 18 does not specify which fair value to use to measure the cost of the acquired asset. IAS 38 also provides guidance on when an exchange transaction has commercial substance. Section 18 does not.
- In accordance with IAS 38, if payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised. Section 18 includes no equivalent requirements.

For differences related to testing an intangible asset for impairment, see *IFRS for SMEs Accounting Standard—Educational Module 27 Impairment of Assets*.

This table sets out the disclosure requirements in IAS 38 compared with the disclosure requirements in Section 18. 'X' means a disclosure requirement has no equivalent.

<b>IAS 38 paragraph</b>	<b>Section 18 paragraph</b>
118(a)–(d)	263(a)–(d)
118(e) (i), (ii), (iii), (iv), (v), (vi), (viii)	263(e)(i), (ii), (iii), (iv), (v), (vi), (vii)
118(e) (vii)	X
122	264
124	265
126	266

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## TEST YOUR KNOWLEDGE

Test your knowledge of the requirements in Section 18 *Intangible Assets other than Goodwill* by answering the questions provided.

You should assume that all amounts mentioned are material.

Once you have completed the test, check your answers against those supplied on pages 57–58.

**Mark the box next to the most correct statement.**

### Question 1

What are intangible assets?

- (a) Identifiable monetary assets without physical substance.
- (b) Non-monetary assets without physical substance.
- (c) Identifiable non-monetary assets without physical substance.
- (d) Non-monetary assets with physical substance.

### Question 2

An intangible asset is identifiable when:

- (a) it is separable, that is, it is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability.
- (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from an entity or from other rights and obligations.
- (c) either (a) or (b) applies.
- (d) none of the above.

### Question 3

An SME is required to measure intangible assets after initial recognition:

- (a) at fair value.
- (b) at fair value or at cost less any accumulated amortisation and any accumulated impairment losses (same accounting policy for all items in the same class of intangible asset).
- (c) at fair value or at cost less any accumulated amortisation and any accumulated impairment losses (elected on an item-by-item basis).
- (d) at cost less any accumulated amortisation and any accumulated impairment losses.

---

## Question 4

The cost of an intangible asset at initial recognition is measured at its fair value when:

- (a) it is internally generated.
- (b) it is acquired as part of a business combination.
- (c) it is acquired by way of a government grant.
- (d) (a), (b) and (c).
- (e) (b) and (c).
- (f) none of the above.

## Question 5

An entity acquired a trade mark for a leading consumer product. The trade mark has a remaining legal life of five years but is renewable every 10 years at little cost. The acquiring entity intends to renew the trade mark continuously and evidence supports its ability to do so. An analysis of (1) product life-cycle studies, (2) market, competitive and environmental trends, and (3) brand-extension opportunities provides evidence that the trade-marked product will generate net cash inflows for the acquiring entity for an indefinite period. However, management determines that the useful life cannot be established reliably. The useful life of the intangible asset is:

- (a) five years—the initial period of the contractual rights.
- (b) determined based on management's best estimate but does not exceed 10 years.
- (c) 15 years—the initial period of the contractual rights plus a renewal period.
- (d) five years—the period of the contractual rights, but with no amortisation charges because the intangible asset is expected to generate cash flows for an indefinite period.

---

## Question 6

On 31 December 20X2 SME A sold a brand name to SME B for CU250,000. SME A estimates that it cost CU100,000 to develop the brand name during 20X1. SME B estimates that it spent CU50,000 in maintaining and developing the brand name in 20X3.

On 31 December 20X3 SME C gained control over SME B in a business combination, when the fair value of the brand was estimated at CU400,000.

For the purpose of this example, ignore amortisation.

The brand name is required to be recognised:

- (a) on 31 December 20X1 by SME A at CU100,000; on 31 December 20X2 by SME B at CU250,000; on 31 December 20X3 by SME C (in its consolidated financial statements) at CU400,000.
- (b) on 31 December 20X2 by SME B at CU300,000; on 31 December 20X3 by SME C (in its consolidated financial statements) at CU400,000.
- (c) on 31 December 20X2 by SME B at CU250,000; on 31 December 20X3 by SME C (in its consolidated financial statements) at CU400,000.

## Question 7

On 31 December 20X2 SME A sold a brand name to SME B for CU250,000. SME A estimates that it cost CU100,000 to develop the brand name during 20X1. SME B estimates that it spent CU50,000 in maintaining and developing the brand name in 20X3.

On 31 December 20X3 SME C gained control over SME B in a business combination, when the fair value of the brand could not be determined without undue cost or effort.

For the purpose of this example, ignore amortisation.

The brand name is required to be recognised:

- (a) on 31 December 20X1 by SME A at CU100,000; on 31 December 20X2 by SME B at CU250,000; on 31 December 20X3 by SME C (in its consolidated financial statements) at CU400,000.
- (b) on 31 December 20X2 by SME B at CU300,000; on 31 December 20X3 by SME C (in its consolidated financial statements) at CU400,000.
- (c) on 31 December 20X2 by SME B at CU250,000; on 31 December 20X3 not recognised separately by SME C (in its consolidated financial statements) and is subsumed in goodwill on acquisition of SME B by SME C.

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## Question 8

On 1 January 20X1 an SME acquired a taxi licence for CU95,000, including CU5,000 non-refundable purchase taxes. The purchase agreement specified that payment must be made in full on 31 December 20X1. Legal fees of CU2,000 were incurred in acquiring the taxi licence and paid on 1 January 20X1.

An appropriate discount rate is 10% per year.

On 1 January 20X1 the SME is required to measure the initial cost of the taxi licence at:

- (a) CU102,000.
- (b) CU97,000.
- (c) CU88,364.
- (d) CU107,000.

## Question 9

On 1 January 20X1 an SME acquired a patent for CU100,000. At 31 December 20X1 management determined that:

- the patent's useful life is 20 years from the date of acquisition;
- the SME will consume the patent's future economic benefits evenly over 20 years from the date of acquisition; and
- the fair value of the patent is CU130,000.

The SME is required to measure the carrying amount of the patent on 31 December 20X1 at:

- (a) CU100,000.
- (b) CU95,000.
- (c) CU130,000.
- (d) CU123,500.

---

## Question 10

On 1 January 20X1 an SME acquired a patent for CU100,000. At 31 December 20X1 management determined that:

- the patent's useful life is 20 years from the date of acquisition;
- the SME will consume the patent's future economic benefits evenly over 20 years from the date of acquisition; and
- the fair value of the patent is CU130,000.

On 31 December 20X5 the entity reassessed the patent and determined that:

- the patent's useful life is 14 years from the date of acquisition;
- the SME will consume the patent's future economic benefits evenly over 14 years from the date of acquisition; and
- the recoverable amount (the fair value less costs to sell) of the patent is CU70,000.

The SME is required to measure the carrying amount of the patent on 31 December 20X5 at:

- (a) CU72,000.
- (b) CU100,000.
- (c) CU64,286.
- (d) CU70,000.

## Question 11

On 1 January 20X1 an SME acquired a competitor's publishing title for CU30,000. On 1 January 20X4 the entity started publishing the new title.

On 31 December 20X8 the SME decided to sell the publishing title and took actions that made its sale within 12 months highly probable. The publishing title was sold on 31 March 20X9.

The SME is required to account for the publishing title as:

- (a) an intangible asset (other than goodwill) from the date of acquisition (1 January 20X1) to 31 December 20X8 and as an inventory (asset held for sale in the ordinary course of business) from 31 December 20X8 to the date of disposal (31 March 20X9).
- (b) an item of inventory from the date of acquisition (1 January 20X1) to the date of disposal (31 March 20X9).
- (c) an intangible asset (other than goodwill) from the date of acquisition (1 January 20X1) to the date of disposal (31 March 20X9).
- (d) none of the above.

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## Question 12

If an intangible asset is exchanged for another asset and the fair values of both assets cannot be measured reliably, how is the cost of the acquired intangible measured?

- (a) At the carrying amount of the asset received.
- (b) At the carrying amount of the asset given up.
- (c) At either the carrying amount of the asset received or the carrying amount of the asset given up.

## Question 13

If the useful life of an intangible asset cannot be measured reliably, how is it determined?

- (a) Based on management's best estimate with no limit.
- (b) Based on management's best estimate but not exceeding 10 years.
- (c) Based on management's best estimate but not exceeding five years.
- (d) Management should not amortise the intangible asset.

## Question 14

How often should the useful life of an intangible asset be reviewed?

- (a) At least at each financial year-end.
- (b) Every 10 years.
- (c) At management's discretion.
- (d) When factors such as a change in how an intangible asset is used and technical advancement are present.

## Question 15

When can expenditure incurred internally for both research and development activities be capitalised?

- (a) Always.
- (b) Never.
- (c) When the development starts.
- (d) When it forms part of the cost of another asset, for example property, plant and equipment that meets the recognition criteria in the *IFRS for SMEs Accounting Standard*.

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### Question 16

When does amortisation of an intangible asset begin?

- (a) When the intangible asset is available for use.
- (b) When the intangible asset is substantially complete.
- (c) At management's discretion.

### Question 17

Which model is required for the subsequent measurement of intangible assets?

- (a) The revaluation model.
- (b) The cost model (cost less any accumulated amortisation and any accumulated impairment losses).
- (c) Either (a) or (b).
- (d) The revaluation model for intangible assets whose fair value can be measured reliably without undue cost or effort; and the cost model for all other intangible assets.

### Question 18

Which of the following is NOT a disclosure requirement for intangible assets?

- (a) The amortisation method used.
- (b) The useful lives used.
- (c) The aggregate amount of research and development expenditure recognised as an expense during the period.
- (d) A description of any fully amortised intangible asset that is still in use.

## Answers

- Q1 (c)—See paragraph 18.2.  
 Q2 (c)—See paragraph 18.2.  
 Q3 (d)—See paragraph 18.18.  
 Q4 (e)—See paragraphs 18.11 and 18.12.  
 Q5 (b)—See paragraphs 18.19 and 18.20.  
 Q6 (c)—See paragraphs 18.14 (SME A); 18.10 (SME B)—the subsequent expenditure of CU50,000 incurred by SME B is not capitalised because it is expenditure incurred internally on an intangible item; and 18.11 (SME C).  
 Q7 (c)—See paragraphs 18.14 (SME A); 18.10 (SME B); and 18.8 (SME C).  
 Q8 (c)—Calculation: CU95,000 (purchase price including non-refundable taxes) ÷ 1.1 = CU86,364 (present value of the purchase price) + CU2,000 (direct costs, legal fees) = CU88,364.  
 Q9 (b)

	CU
Cost	100,000
Less amortisation (CU100,000 depreciable amount ÷ 20 years useful life)	(5,000)
Carrying amount	<u>95,000</u>

- Q10 (d)

	CU
1 January 20X1—cost	100,000
Accumulated amortisation: 20X1–20X4 (CU100,000 ÷ 20 years × 4 years)	(20,000)
Carrying amount at 31 December 20X4	<u>80,000</u>
Amortisation: 20X5 (CU80,000 ÷ 10 years remaining useful life)	(8,000)
Carrying amount at 31 December 20X5 (before impairment testing)	<u>72,000</u>
Recoverable amount	<u>70,000</u>

The factors giving rise to the reduction in the useful life of the patent might also be indicators of impairment. The impairment test would require that the carrying amount of the asset be reduced by a further CU2,000 to its recoverable amount CU70,000.

- Q11 (c)—See paragraphs 18.4 and 18.26(a). The decision to sell an intangible asset does not in itself mean it meets the definition of inventory and so does not change the classification of the intangible asset to inventory.

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- Q12 (b)—See paragraph 18.13.  
Q13 (b)—See paragraph 18.20.  
Q14 (d)—See paragraph 18.24.  
Q15 (d)—See paragraph 18.14.  
Q16 (a)—See paragraph 18.22.  
Q17 (b)—See paragraph 18.18.  
Q18 (d)—See paragraphs 18.27–18.29.

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## APPLY YOUR KNOWLEDGE

You can apply your knowledge of the requirements in Section 18 *Intangible Assets other than Goodwill* of the *IFRS for SMEs* Accounting Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those on pages 60–61, 63–64 and 66–67.

### Case study 1

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SME D incurred the following expenditures in establishing its taxi business in a local city:

<i>Date</i>	<i>CU</i>	<i>Additional information</i>
1 May 20X1	1,500	General start-up costs
30 June 20X1	7,000	Legal costs directly attributable to the acquisition of the taxi licences
30 June 20X1	100,000	Payment to the taxi licensing authority for the taxi licences, including CU10,000 refundable purchase taxes
1 July 20X1	100	Printing business cards
1 July 20X1	20,000	Payment for an advertisement to be published every day for the next 12 months in a local daily newspaper

At 31 December 20X1 SME D determined that:

- the economic life of the taxi licence is five years from 30 June 20X1 (the date of acquisition of taxi licences);
- the residual value of the taxi licences is nil;
- the SME expects to consume the future economic benefits of the taxi licences evenly over five years from the date of acquisition; and
- the taxi licences show no indication that they might be impaired.

The taxi drivers own their own vehicles, which they operate under SME D's taxi licences.

**Prepare accounting entries to record this information in the accounting records of SME D for the year ended 31 December 20X1.**

Ignore all forms of taxation, apart from the refundable purchase tax.

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## Answer to Case study 1

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### 1 May 20X1

Dr	Profit or loss (expenses)	CU1,500	
	Cr	Cash	CU1,500

*To recognise start-up costs incurred for the taxi operations.<sup>1</sup>*

### 30 June 20X1

Dr	Intangible asset—taxi licence—cost	CU7,000	
	Cr	Cash	CU7,000

*To recognise legal costs directly attributable to the acquisition of the taxi licences.*

Dr	Intangible asset—taxi licence—cost	CU90,000	
Dr	Refundable purchase taxes	CU10,000 <sup>2</sup>	
	Cr	Cash	CU100,000

*To recognise the acquisition of the taxi licences.*

### 1 July 20X1

Dr	Profit or loss (operating expenses)	CU100	
	Cr	Cash	CU100

*To recognise as an expense the costs of printing business cards.*

Dr	Prepaid expenses (asset)	CU20,000	
	Cr	Cash	CU20,000

*To recognise advertising costs paid on 1 July 20X1 for the 12 months ending 30 June 20X2.<sup>3</sup>*

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<sup>1</sup> Paragraph 18.15(b) requires start-up costs to be recognised as an expense.

<sup>2</sup> The cost of an intangible asset excludes refundable purchase taxes (see paragraph 18.10(a)).

<sup>3</sup> Paragraph 18.15(d) requires advertising and promotional activities to be recognised as an expense but if payment is made in advance they are recognised as an asset (see paragraph 18.16).

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**For the year ended 31 December 20X1**

Dr	Profit or loss (operating expenses)	CU10,000	
	Cr	Prepaid expenses (asset)	CU10,000

*To recognise an expense for advertising prepaid on 1 July 20X1 for the six months ending 31 December 20X1.*

Dr	Profit or loss (operating expenses)	CU9,700 <sup>(a)</sup>	
	Cr	Intangible asset (taxi licences)—amortisation	CU9,700

*To recognise amortisation of taxi licences from the date when the asset was ready for use (for the six months ending 31 December 20X1).*

**The calculations and explanatory notes below do not form part of the answer to this case study:**

- (a)  $CU97,000$  cost ( $CU90,000$  purchase price +  $CU7,000$  legal costs)  $\div$  5-year useful life =  $CU19,400$  amortisation for a year.  
Amortisation for 6 months =  $CU9,700$  ( $CU19,400 \div 12$  months  $\times$  6 months).

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## Case study 2

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On 1 January 20X4 SME F purchased a trade mark for a line of products in a separate acquisition from a competitor for CU300,000. Management analyses product life-cycle studies, the market—particularly competitive and environmental trends—and brand-extension opportunities. Based on this analysis, management’s best estimate of the useful life of the trade mark is 10 years. SME F amortises the trade mark using the straight-line method.

On 31 December 20X7, a competitor unexpectedly revealed a technological breakthrough. The competitor is expected to exploit its breakthrough to launch a new product that SME F expects to put an end to demand for its patented product line. Demand for SME F’s patented product line is expected to remain strong until December 20X9, when the competitor is expected to launch its new product. On 31 December 20X7 SME F determined that the recoverable amount of the trade mark is CU50,000.

SME F intends to continue manufacturing the patented products until 31 December 20X9.

SME F has a 31 December financial year-end.

**Prepare accounting entries to record this information in the accounting records of SME F from 1 January 20X4 to 31 December 20X7.**

Ignore tax effects.

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## Answer to Case study 2

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### 1 January 20X4

Dr	Intangible asset (trade mark)—cost	CU300,000	
	Cr	Cash	CU300,000

*To recognise the acquisition of the trade mark in a separate acquisition.*

### For the year ended 31 December 20X4

Dr	Profit or loss (operating expenses)—amortisation of trade mark	CU30,000 <sup>(a)</sup>	
	Cr	Intangible asset (trade mark)—accumulated amortisation and accumulated impairment	CU30,000

*To recognise the annual amortisation of the trade mark during the period.*

### For the year ended 31 December 20X5

Dr	Profit or loss (operating expenses)—amortisation of trade mark	CU30,000 <sup>(a)</sup>	
	Cr	Intangible asset (trade mark)—accumulated amortisation and accumulated impairment	CU30,000

*To recognise the annual amortisation of the trade mark during the period.*

### For the year ended 31 December 20X6

Dr	Profit or loss (operating expenses)—amortisation of trade mark	CU30,000 <sup>(a)</sup>	
	Cr	Intangible asset (trade mark)—accumulated amortisation and accumulated impairment	CU30,000

*To recognise the annual amortisation of the trade mark during the period.*

### For the year ended 31 December 20X7

Dr	Profit or loss (operating expenses)—amortisation of trade mark	CU30,000 <sup>(a)</sup>	
	Cr	Intangible asset (trade mark)—accumulated amortisation and accumulated impairment	CU30,000

*To recognise the annual amortisation of the trade mark during the period.*

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**At 31 December 20X7**

Dr	Profit or loss (operating expenses)—impairment of trade mark	CU130,000 <sup>(b)</sup>	
	Cr	Intangible asset (trade mark)—accumulated amortisation and impairment	CU130,000

*To recognise the impairment loss for the trade mark.*

**The calculations and explanatory notes below do not form part of the answer to this case study:**

- (a)  $\text{CU}300,000 \text{ cost} \div 10 \text{ years useful life} = \text{CU}30,000 \text{ amortisation per year.}$
- (b)  $\text{CU}180,000 \text{ carrying amount (CU}300,000 \text{ cost} - (\text{CU}30,000 \text{ amortisation per year} \times 4 \text{ years since acquisition until 31 December 20X7)}) - \text{CU}50,000 \text{ recoverable amount} = \text{CU}130,000 \text{ impairment loss.}$   
Note: amortisation for 20X8 will be based on the revised useful life.

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## Case study 3

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At 1 January 20X5 (the beginning of the comparative reporting period) SME J, an internet service provider, owned the following intangible assets:

<i>Description</i>	<i>Additional information</i>
Internet domain name	Acquired in a separate acquisition on 1 January 20X4 for CU300,000. SME J is unable to make a reliable estimate of the asset's useful life. Management's best estimate is 12 years.
Software	Internally developed. Estimated useful life—10 years from date of development. Remaining useful life—five years.
Customer list	Acquired in a separate acquisition on 1 January 20X4 for CU100,000. Estimated useful life—five years from date of acquisition.
Ringtones	Internally developed. Estimated useful life—three years from date of development.

On 30 June 20X6 SME J acquired ringtones developed by an independent third party for CU20,000. The useful life of the ringtones is expected to be three years from the date of acquisition.

On 30 September 20X6 SME J acquired 60% of the issued share capital of SME K in a business combination when the fair value of SME K's identifiable intangible assets were:

<i>Description</i>	<i>CU</i>	<i>Additional information</i>
Internet domain name	500,000	Unable to make a reliable estimate of the useful life. Management's best estimate is 12 years.
Software	600,000	Internally developed. Estimated remaining useful life of 10 years.
Customer list	400,000	Internally generated. Estimated remaining useful life of five years.
Advertising contracts	500,000	Five-year contracts (all contracts started on 1 October 20X5) for customers' advertisements to appear in a designated space on SME K's website.
In-process research and development	80,000	Various current research and development projects to enhance the value of the services offered by the SME.

In the last quarter of 20X6 SME K incurred CU10,000 on research and development. No projects were completed during the period.

At 31 December 20X6 SME J confirmed its previous assessments of the group's intangible assets.

**Draft an extract showing how the intangible assets could be presented and disclosed in the consolidated financial statements of SME J Group for the year ended 31 December 20X6.**

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## Answer to Case study 3

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Extract from SME J Group's consolidated statement of financial position at 31 December 20X6:

	Note	20X6	20X5
Intangible assets	4	CU2,267,917	CU300,000

Extract from the notes to SME J Group's 31 December 20X6 consolidated financial statements:

### Note 1 Accounting policies

#### *Intangible assets other than goodwill*

Intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. The cost of assets less their residual values is allocated over their estimated useful lives, using the straight-line amortisation method. The useful life of internet domain names cannot be established reliably, so the useful life is determined based on management's best estimate but does not exceed 10 years. The estimated useful lives of intangible assets are:

- Advertising contracts            5 years
- Software                            10 years
- Customer lists                    5 years
- Ringtones                         3 years
- Internet domain names         10 years

#### Note 4 Intangible assets other than goodwill (amounts in CU)

	Internet domain name	Software	Customer lists	In-process research and development	Advertising contracts	Ringtones	Total
<b>Carrying amount at 31 December 20X5</b>	<b>240,000</b>	– <sup>(h)</sup>	<b>60,000</b>	–	–	– <sup>(h)</sup>	<b>300,000</b>
Cost	300,000	–	100,000	–	–	–	400,000
Accumulated amortisation	(60,000) <sup>(a)</sup>	–	(40,000) <sup>(c)</sup>	–	–	–	(100,000)
Additions	–	–	–	–	–	20,000	20,000
Acquired in a business combination	500,000	600,000	400,000	80,000	500,000	–	2,080,000
Amortisation	(42,500) <sup>(a)</sup>	(15,000) <sup>(b)</sup>	(40,000) <sup>(c)</sup>	– <sup>(e)</sup>	(31,250) <sup>(f)</sup>	(3,333) <sup>(g)</sup>	(132,083)
<b>Carrying amount at 31 December 20X6</b>	<b>697,500</b>	<b>585,000</b>	<b>420,000</b>	<b>80,000</b>	<b>468,750</b>	<b>16,667</b>	<b>2,267,917</b>
Cost	800,000	600,000	500,000	80,000	500,000	20,000	2,500,000
Accumulated amortisation	(102,500)	(15,000)	(80,000)	–	(31,250)	(3,333)	(232,083)

**The calculations and explanatory notes below do not form part of the answer to this case study:**

- (a) Yearly amortisation of internet domain name acquired on 1 January 20X4 = CU300,000 cost ÷ 10 years = CU30,000.  
Amortisation of internet domain name acquired in a business combination = CU500,000 cost ÷ 10 years × 3 ÷ 12 months (30 September to 31 December 20X6) = CU12,500.  
Until 31 December 20X5: CU30,000 × 2 years = CU60,000 amortisation of internet domain name.  
In 20X6: CU30,000 + CU12,500 = CU42,500 amortisation of internet domain name in 20X6.
- (b) CU600,000 cost ÷ 10 years × 3 ÷ 12 months (30 September to 31 December 20X6) = CU15,000 amortisation of software.
- (c) Customer list acquired on 1 January 20X4:  
Amortisation per year = CU100,000 ÷ 5 years = CU20,000.  
Accumulated amortisation (31 December 20X4 and 20X5) = CU20,000 × 2 years = CU40,000.
- (d) Yearly amortisation for customer list acquired on 1 January 20X4 = CU20,000.<sup>(c)</sup>  
Amortisation of customer lists acquired in a business combination = CU400,000 cost ÷ 5 years × 3 ÷ 12 months (30 September to 31 December 20X6) = CU20,000.  
Total amortisation charge for 31 December 20X6 = CU20,000 + CU20,000 = CU40,000.
- (e) The entity will start amortising the in-process research and development that it acquired in a business combination when that research and development is available for use as intended by management.
- (f) CU500,000 cost ÷ 4 years remaining useful life × 3 ÷ 12 months (30 September to 31 December 20X6) = CU31,250 amortisation of advertising contract intangible asset.
- (g) CU20,000 cost ÷ 3 years remaining useful life × 6 ÷ 12 months (30 June to 31 December 20X6) = CU3,333 amortisation of ringtones.
- (h) Internally generated intangible assets are never recognised under Section 18 (see paragraph 18.14).



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