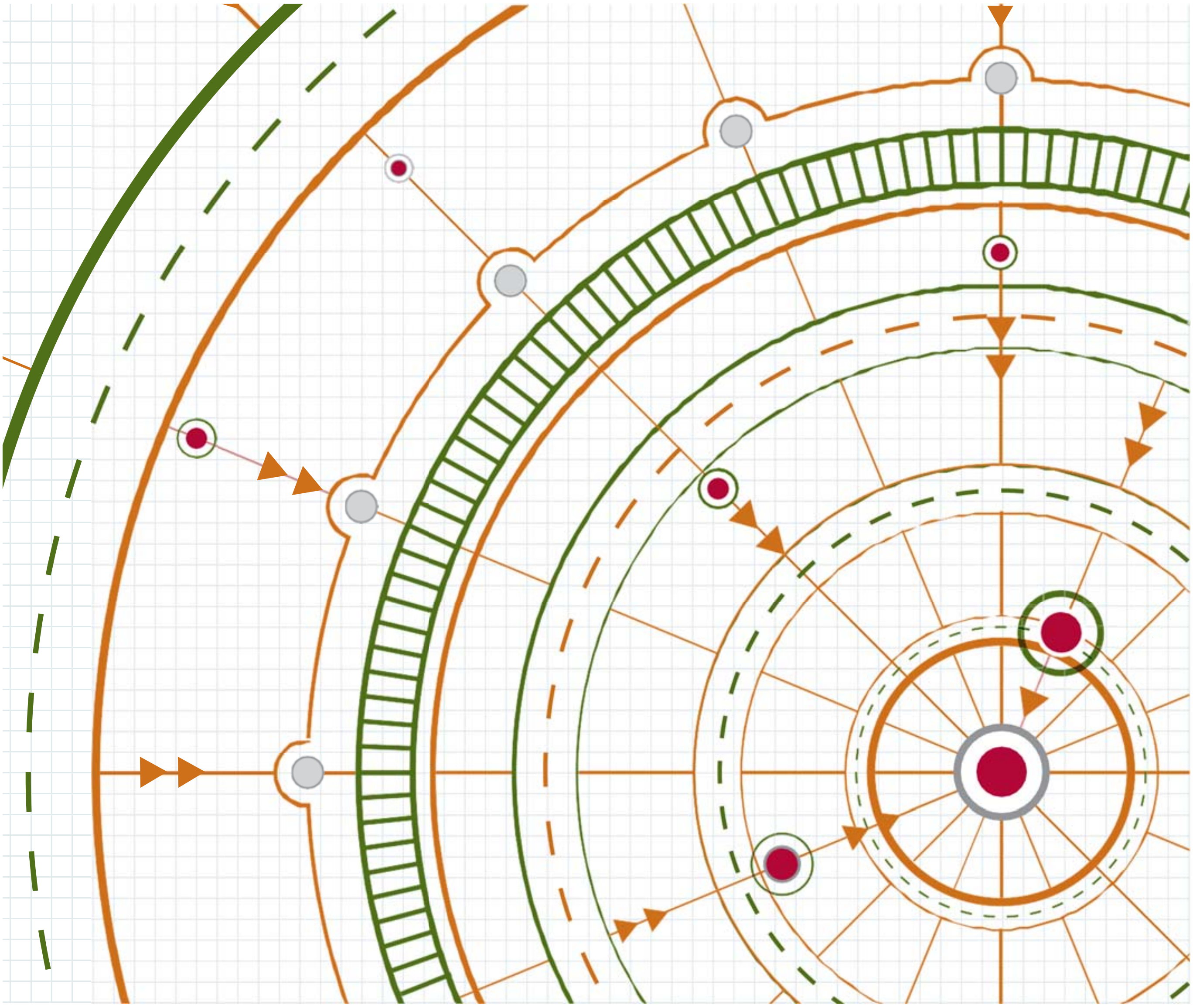
IFRS for SMEs® Standard (2015) + Q&As

IFRS® Foundation —Supporting Material for the *IFRS for SMEs* Standard

Module 18—Intangible Assets other than Goodwill



IFRS®

IFRS® Foundation Supporting Material for the *IFRS for SMEs®* Standard

including the full text of
Section 18 *Intangible Assets other than Goodwill*
of the *IFRS for SMEs* Standard
issued by the International Accounting Standards Board in October 2015

with extensive explanations, self-assessment questions and case studies

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Module 18—Intangible Assets other than Goodwill

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015.

This module has been prepared by IFRS Foundation education staff.

The contents of Section 18 *Intangible Assets other than Goodwill* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also 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. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

INTRODUCTION

Which version of the *IFRS for SMEs*® Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs* Standard.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

This module

This module focuses on the accounting and reporting of intangible assets other than goodwill applying Section 18 *Intangible Assets other than Goodwill* of the *IFRS for SMEs* Standard.
It introduces the subject, and reproduces the official text alongside explanatory notes and examples designed to enhance understanding of the requirements. The module identifies the significant judgements required in accounting for intangible assets. In addition, the module includes questions designed to test your understanding of the requirements and case studies that provide a practical opportunity to account for intangible assets applying the *IFRS for SMEs* Standard.

Module 18—Intangible Assets other than Goodwill

Upon successful completion of this module, you should, within the context of the *IFRS for SMEs* Standard, be able to:

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

IFRS for SMEs Standard

The *IFRS for SMEs* Standard is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the IFRS for SMEs Standard, Appendix A: Effective date and transition, and Appendix B: Glossary of terms, are part of the mandatory requirements.

In the *IFRS for SMEs* Standard, there are appendices to Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* These appendices provide non-mandatory guidance.

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module (January 2019) the SMEIG has not issued any Q&As relevant to this module.

Module 18—Intangible Assets other than Goodwill

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

Section 18 prescribes the accounting treatment for intangible assets other than goodwill.

The section requires an entity to recognise an intangible asset (ie an identifiable non-monetary asset without physical substance) 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.

On initial recognition an entity measures an intangible asset at cost. Section 18 provides requirements on the measurement of the cost of an intangible asset that depend on how the intangible asset is acquired. However, an entity is required to 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 recognition criteria in the *IFRS for SMEs* Standard.

On subsequent recognition, all intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Every intangible asset is considered to have a finite useful life and must be amortised over that useful life. Except in limited specified circumstances, the residual value of an intangible asset is assumed to be nil. If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting date, an entity is required to review its previous estimates and, if current expectations differ, amend the residual value, amortisation method or useful life.

If the useful life of an intangible asset cannot be established reliably, it is determined based on management's best estimate but shall not exceed 10 years.

At each reporting date, an entity is required to assess whether there is any indication that any intangible asset may be impaired. If any such indication exists, the entity must apply Section 27 *Impairment of Assets* to test the intangible asset for impairment.

An intangible asset is derecognised and a gain or loss is recognised in profit or loss either on its disposal or when no future economic benefits are expected from its use or disposal.

Module 18—Intangible Assets other than Goodwill

What has changed since the 2009 *IFRS for SMEs* Standard

The main change that was made to Section 18 by the 2015 Amendments is a modification to the determination of the useful life of intangible assets. As noted above, if the useful life of an intangible asset cannot be established reliably, the useful life shall be determined based on management's best estimate but shall not exceed 10 years (see paragraph 18.20). Before the 2015 Amendments were made, if the entity was unable to make a reliable estimate of the useful life of an intangible asset, the useful life in such circumstances was presumed to be 10 years.

Consequential changes were also made to paragraph 18.8 relating to changes made to Section 19 *Business Combinations and Goodwill* to add an undue cost or effort exemption to the requirement to recognise intangible assets separately in a business combination. Under the revised requirements, an intangible asset acquired in a business combination is recognised unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

In addition, this module reproduces other editorial changes.

Module 18—Intangible Assets other than Goodwill

REQUIREMENTS AND EXAMPLES

Scope of this section

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*).

Examples—intangible assets outside the scope of Section 18

Ex 1 **An entity trades in transferable taxi licences.**

Although each licence satisfies the definition of an intangible asset, the licences are not within the scope of Section 18 (see paragraph 18.1). The licences are inventories of the entity because they are assets held for sale in the ordinary course of business (see paragraph 13.1).

Ex 2 **When accounting for the acquisition of the net assets and operations of one of its competitors, an entity recognised as part of goodwill those assets that could not be individually identified as assets.**

Because the assets included in goodwill could not be individually identified, they are not recognised as individual intangible assets when accounting for the business combination. Instead, they are collectively recognised as part of goodwill. Goodwill is accounted for by applying Section 19 *Business Combinations and Goodwill* (see paragraph 18.1).

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.

Notes

An asset is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity (see the Glossary).

An intangible asset is an identifiable non-monetary resource without physical substance that is controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. 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 the acquisition, development, maintenance or enhancement of intangible resources, such as: scientific or technical knowledge; design and implementation of new processes or systems; licences; intellectual property; market knowledge; and trademarks (including brand names and publishing titles).

Common examples of items encompassed by these broad headings include: computer software; patents; copyrights; motion picture films; customer lists; mortgage servicing rights; fishing licences; import quotas; franchises; customer or supplier relationships; customer loyalty; and market-share and marketing rights.

Intellectual property is an intangible item that arises from human creativity or intellect (ie it consists of human knowledge and ideas) and has commercial value. Examples include copyrighted artistic works, patented business methods and patented industrial processes.

Not all the intangible resources just listed satisfy the definition of an intangible asset for the purposes of financial reporting. For example, some of the resources might not be identifiable; an entity might not have control over some resources; some might not generate future economic benefits. In addition, Section 18 prohibits an entity from recognising its internally generated intangible assets, even when the entity's internally generated items otherwise meet the definition of an intangible asset (see paragraphs 18.4(c) and 18.14).

Identifiability

The identifiability criterion distinguishes goodwill from other intangible assets. Goodwill is defined as the future economic benefits arising from assets that are not capable of being individually identified and separately recognised (see the Glossary). Goodwill arising in a business combination is accounted for according to Section 19 *Business Combinations and Goodwill*. Internally generated goodwill is not recognised as an intangible asset (see paragraph 18.15(f)).

Control

Control of an intangible asset often arises from legal rights that are enforceable in a court of law, for example, through licences, patents or trademarks. 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 because an entity may 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.

Future economic benefits

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

Intangible assets do not have physical substance. Assets with physical substance are sometimes referred to as tangible assets. Tangible assets are accounted for by applying other sections of the *IFRS for SMEs* 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*.

Some intangible assets may be contained in or on a physical substance, such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent) or a DVD (containing a film).

Examples—items that do satisfy the definition of an intangible asset

Ex 3 **An entity owns a brand name that it purchased from a competitor. The brand name is legally protected through registration with the local government as a trademark[(1)].**

The brand name (a trademark) is an intangible asset of the entity. It is an asset of the entity—control is evidenced by the legal right and the fact that the entity would have purchased the brand name with the expectation that it would increase future revenues, either by selling products or by preventing its competitors from selling products (future economic benefits). The brand name is an intangible asset: it is non-monetary (ie it is neither currency held nor an asset receivable in a fixed or determinable number of units of currency); without physical substance (because it is a legal right); identifiable (because it is evidenced by legal protection through registration); and separable (evidenced by the sale of the trademark from the competitor to the entity).

The entity would apply the recognition criteria in paragraph 18.4 to determine whether to recognise its brand name as an intangible asset.

Ex 4 **An entity holds an exclusive licence to operate a particular fast-food outlet in a specified jurisdiction under a franchise agreement.**

The exclusive right to operate in a particular jurisdiction is an intangible asset. It is an asset because the entity has control through the contractual right and because it expects to generate future economic benefits by operating the fast-food outlet. The licence is an intangible asset—it is non-monetary (ie it is neither currency held nor an asset receivable in a fixed or determinable number of units of currency); it does not have physical substance (because it is a right); and it is identifiable (because it arises from a contractual right).

The entity would apply the recognition criteria in paragraph 18.4 to determine whether to recognise its licence as an intangible asset.

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(1) Trademarks are words, names, symbols or other devices used in trade to indicate the source of a product and to distinguish it from the products of others.

Ex 5 **An entity owns and operates an interactive website on which anyone can post material related to a particular subject. The entity generates revenue by selling advertising space on the site. The domain name is protected legally through registration with the appropriate parties.**

The website is an intangible asset of the entity. It is an asset of the entity because the entity has control through ownership of the website and expects to generate future economic benefits by selling advertising space on it. The website is an intangible asset: it is non-monetary (ie it is neither currency held nor an asset receivable in a fixed or determinable number of units of currency); it does not have physical substance (because it is an electronic website); and it is identifiable (the entity has a contractual-legal right of ownership).

The entity would apply the recognition criteria in paragraph 18.4 to determine whether to recognise its website as an intangible asset.

Ex 6 **An entity owns 20 software licences. The software licences are used by the entity's production and administrative staff.**

The software licences are intangible assets of the entity. They are assets of the entity because the entity has control over the copy of the software via the licence agreement and can generate future economic benefits from that copy. The software licences are intangible assets: they are non-monetary (ie they are neither currency held nor assets receivable in a fixed or determinable number of units of currency); without physical substance (because they are electronic software); and identifiable (because they arise from contractual rights).

The entity would apply the recognition criteria in paragraph 18.4 to determine whether to recognise its software licence as an intangible asset.

Ex 7 **An entity operates 20 taxis under licence in City A. The taxi licences are transferable to other qualified taxi operators.**

The taxi licences are intangible assets of the entity. The licences are assets of the entity because the entity has control through the legal right to operate 20 taxis in the city to generate future economic benefits from taxi fares. The assets (taxi licences) are non-monetary (ie they are neither currency held nor assets receivable in a fixed or determinable number of units of currency); without physical substance (because they are legal rights); identifiable (because they arise from purchased legal rights); and separable (capable of being separated from the entity and transferred to other taxi operators).

The entity would apply the recognition criteria in paragraph 18.4 to determine whether to recognise its taxi licence as an intangible asset.

Ex 8 **An entity 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. It is an asset because control of the digital audiovisual material is evidenced by the entity's ability to license it to others in return for future economic benefits (ie licence payments). The films and audio recordings is an intangible asset (ie an identifiable non-monetary asset without physical substance) because the asset:

- is identifiable—as evidenced by the licensing arrangements (ie it is separable);
- is non-monetary—because it is neither currency held nor an asset receivable in a fixed or determinable amount of money; and
- it does not have physical substance—the value of the physical asset on which the digital audiovisual material is stored (eg CD, DVD, Blu-ray) is ignored if it is immaterial.

The entity would apply the recognition criteria in paragraph 18.4 to determine whether to recognise its digital audiovisual material as an intangible asset.

Ex 9 **The operating system of a computer operates with a software that is not an integral part of the related hardware.**

Management determines that the computer software should be treated as an intangible asset.

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

Ex 10 **An entity, a fast-food outlet, builds customer relationships and loyalty through its support services. The entity expects its customers will continue to trade with it. There are no contracts with those customers beyond the tacit agreement to trade food and service for cash.**

In the absence of legal rights to protect the entity's relationships with its customers or to control the customers' loyalty to the entity, an entity usually has insufficient control over the expected economic benefits from its customer relationships and loyalty for such items (eg a portfolio of customers, market-share, customer relationships and customer loyalty) to meet the definition of an intangible asset.

In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of a business combination) provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

Ex 11 **A bakery 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 asset of the bakery because the bakery does not have control over the recipe. The bakery is unable to restrict the access of others to the benefits from using the recipe because it is available to the public.

Ex 12 **An entity has a team of skilled employees. It can identify the incremental staff skills leading to future economic benefits that will flow from the training that it has given them. The entity does not expect any employees to leave the entity; their skills are, therefore, expected to remain available to the entity for the foreseeable future.**

In the absence of evidence to the contrary, the entity is unlikely to have sufficient control over the expected future economic benefits arising from its team of skilled staff and from the training provided to its employees in order for these items to meet the definition of an intangible asset of the entity.

Similarly, specific technical talent held by particular employees is unlikely to meet the definition of an intangible asset, unless legal rights protect the entity's rights to use that talent and to protect the future economic benefits expected from it.

Ex 13 **An entity 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 entity'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 entity to try to purchase the formula.**

The formula meets the definition of an intangible asset of the entity. It is identifiable because it is capable of being separated from the entity and sold (ie it is separable). It is non-monetary because it is neither currency held nor an asset receivable in a fixed or determinable number of units of currency. It meets the definition of an asset of the entity because, although the formula is not protected by legal rights, the entity has control over the formula by keeping the formula a secret from its competitors; finally, future economic benefits from the formula are expected to flow to the entity.

However, Section 18 provides that an entity may not recognise an internally generated intangible asset (see paragraphs 18.4(c), 18.14 and 18.15).

Ex 14 **The computer software for a computer-controlled machine tool cannot operate without that specific software which is an integral part of the related hardware.**

The software is treated as property, plant and equipment.

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.

Module 18—Intangible Assets other than Goodwill

Recognition

General principle for recognising intangible assets

18.4 An entity shall apply the **recognition** criteria in paragraph 2.27 in determining whether to recognise an intangible asset. Consequently, the 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.

Notes

Paragraph 18.4 sets out the general principle for the recognition of intangible assets developed from the concepts set out in paragraph 2.27 of Section 2 *Concepts and Pervasive Principles*. Paragraphs 2.27 and 2.28 set out the overall principles for recognising elements in the financial statements (ie assets, liabilities, equity, income and expenses).

Paragraphs 18.5 to 18.8 provide guidance on how to apply the recognition principle for intangible assets.

The Glossary defines probable as more likely than not.

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.

Notes

Useful life is defined in the Glossary 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. The useful life of an asset may be shorter than its economic life.

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.

Examples—applying recognition criteria

Ex 15 **An entity developed a successful brand that allows the entity to charge a premium for its products. The entity continues to spend large amounts on maintaining the brand and on developing the brand further (eg sponsoring local sports events, sponsoring select cultural events and advertising the brand).**

The costs incurred in developing and maintaining the brand are expenditures incurred internally (and which cannot be distinguished from costs incurred in respect of developing the business as a whole). Consequently, the brand is not recognised as an intangible asset because it does not satisfy the recognition criterion in paragraph 18.4(c). The costs of developing and maintaining the brand, such as sponsorship and advertising costs, are recognised as an expense as they are incurred (see paragraph 18.14).

Ex 16 **An entity acquires a competitor's brand in a separate acquisition for CU100,000.**[(1)] **The entity uses the brand to charge a premium for the products that it manufactures.**

The entity recognises the brand acquired from its competitor as an intangible asset. The CU100,000 incurred to acquire the brand satisfies the recognition criteria in paragraph 18.4. (Note: the probability recognition criterion in paragraph 18.4(a) is always considered as being satisfied for intangible assets that are separately acquired—see paragraph 18.7).

It should also be noted that amounts incurred by the entity to maintain and improve the brand are costs incurred internally and so will be recognised as an expense as incurred—see paragraphs 18.4(c), 18.14 and 18.15. Furthermore, it is unlikely that such expenditures could be separated from costs incurred in respect of the business as a whole. The nature of intangible assets is such that most subsequent expenditures will maintain the future economic benefits expected from an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria.

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.

Notes

Prior to the 2015 Amendments, paragraph 18.8 included an exemption from the requirement to recognise separately an intangible asset acquired in a business combination if it arose from legal or other contractual rights and its fair value could not be measured reliably. Specifically, this exemption was limited to one of two circumstances: (1) where the asset's fair value could not be measured reliably because it was not separable from goodwill; or (2) where the fair value could not be measured reliably due to no history or evidence of exchange transactions for the same or similar assets. In 2008, the Board amended IAS 38 as part of the second phase of its Business

[(1)] In this example, and in all other examples in this module, monetary amounts are denominated in 'currency units (CU)'.

Combinations project. As a result, the amendments removed the exemption in full IFRS Standards, on which the exemption in paragraph 18.8 was based, to clarify that the fair value of an intangible asset acquired in a business combination can be measured with sufficient reliability for it to be recognised separately from goodwill.

However, feedback on the 2012 *Request for Information: Comprehensive Review of the IFRS for SMEs* highlighted that separately recognising all intangible assets acquired as part of a business combination can be complex and costly for some SMEs. For cost-benefit reasons, the Board agreed that an undue cost or effort exemption should be added to the requirement to recognise intangible assets separately from goodwill in a business combination.

Consequently, paragraph 18.8 now provides that if an intangible asset acquired in a business combination cannot be measured reliably without undue cost or effort at the acquisition date, it is not required to be recognised separately; ie it is subsumed in goodwill.

Applying a requirement would involve undue cost or effort for an SME if the incremental cost (eg valuers' fees) or additional effort (eg endeavours by employees) would substantially exceed the benefits that having the information would provide to those expected to use the SME's financial statements (see paragraph 2.14B). If an SME already has or could easily and inexpensively acquire the information necessary to comply with a requirement, any related exemption on the grounds of undue cost or effort would not apply. In such cases, the benefits of having the information to users of the financial statements would be expected to exceed any further cost or effort by the SME. Assessing whether a requirement would involve undue cost or effort at the acquisition date should be based on information about the costs and benefits at that specific date.

Examples—application of recognition principle—recognise separate asset in business combination

Ex 17 **An entity acquired a number of marketing-related assets (trademarks, service marks,[1] collective marks[2] and certification marks[3]) in a business combination.**

When it is protected legally (eg through registration with government agencies, continuous use in commerce, or other means) a marketing-related asset (trademark, service mark, collective mark and certification mark) meets the contractual-legal criterion for identification as an intangible asset—it is protected by copyright (see paragraph 18.2(b)).

The intangible assets (trademarks, service marks, collective marks and certification marks) are recognised separately from goodwill in the accounting for the business combination, unless their fair values cannot be measured reliably without undue cost or effort at the acquisition date (see paragraph 18.8).

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(1) A service mark identifies and distinguishes the source of a service rather than a product.

(2) Collective marks are used to identify the goods or services of members of a group.

(3) Certification marks are used to certify the geographical origin or other characteristics of a good or service.

Ex 18 **An entity acquired a registered internet domain name in a business combination. Its registration is renewable.**

Registration of the domain name creates an association between that name and a designated computer on the internet for the period of the registration. As in the previous example, the registered internet domain name meets the contractual-legal criterion for identification as an intangible asset (see paragraph 18.2(b)). Consequently, it is recognised separately from goodwill in the accounting for the business combination, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Ex 19 **An entity acquired a valuable customer list (a database that includes information about customers, such as their names, contact information, order histories and demographic information) in a business combination. The customer list does not arise from contractual or other legal rights.**

Customer lists are often leased or exchanged. Such customer lists acquired in a business combination normally meet the separability criterion (see paragraph 18.2(a)). Consequently, the customer list acquired in the business combination would be recognised separately from goodwill unless the fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Ex 20 **An entity acquired a collection of artistic-related intangible assets protected by copyright (plays, books, song lyrics, paintings and films) in a business combination.**

Because they are protected legally (ie through copyright) an artistic-related intangible asset acquired in the business combination is an intangible asset that meets the contractual-legal criterion (see paragraph 18.2(b)).
The intangible asset is required to be recognised separately from goodwill in the accounting for the business combination, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Ex 21 **An entity acquired two databases in a business combination. Database A includes original works of authorship and is copyright-protected. Database B contains information created as a consequence of the entity's research (more specifically, it is scientific data that is not protected by copyright).**

Database A meets the contractual-legal criterion for identification as an intangible asset—it is protected by copyright (see paragraph 18.2(b)). This database is recognised separately from goodwill in the accounting for the business combination, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Database B does not meet the contractual-legal criterion for identification as an intangible asset—it is not protected by copyright. Inspite of this, Database B is identified as an intangible asset because it meets one of the two criteria that determine whether an intangible asset is identifiable, namely, the 'separability' criterion in paragraph 18.2(a). Such databases are separable from the entity; in other words, they can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Consequently, Database B would be accounted for as a separate intangible asset acquired in a business combination unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Ex 22 **An entity acquired computer software in a business combination. The computer software was internally generated by the acquiree. Only some of the software is patented.**

The patented software meets the contractual-legal criterion for identification as an intangible asset (because it is protected by patent). It is recognised separately from goodwill in the accounting for the business combination, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Unpatented software does not meet the contractual-legal criterion for identification as an intangible asset—it is not patent-protected. Inspite of this, the unpatented software is identified as an identifiable intangible asset. It meets the 'separability' criterion in paragraph 18.2(a) because such software can be, and often is, exchanged, licensed or leased to others in its entirety or in part. In such cases, applying paragraph 18.8, the unpatented software would be accounted for as a separate intangible asset acquired in the business combination unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Ex 23 **An entity acquired two trade secrets (secret recipes) in a business combination. Recipe A is patented. Recipe B is not legally protected.**

Recipe A meets the contractual-legal criterion for identification as an intangible asset because it is protected by patent (see paragraph 18.2(b)). This recipe is recognised separately from goodwill in the accounting for the business combination, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Because it is not protected by a patent, Recipe B does not meet the contractual-legal criterion for identification as an intangible asset. Inspite of this, Recipe B is identified as a separate intangible asset because it meets the separability criterion in paragraph 18.2(a)—such recipes can be, and often are, exchanged, licensed or leased to others. In such cases, applying paragraph 18.8, the unpatented recipe would be accounted for as a separate intangible asset acquired in the business combination unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Ex 24 **An entity acquired an order (or production) backlog in a business combination.**

An order (or production) backlog acquired in a business combination meets the contractual-legal criterion (it arises from contracts such as orders from customers) for identification as an intangible asset (see paragraph 18.2(b)). This is the case even if the purchase or sales orders are cancellable. It is separately recognised in the accounting for the business combination, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Ex 25 **An entity acquired customer contracts and the related customer relationships in a business combination.**

Because the relationships with the customers are established through contracts, those customer relationships arise from contractual rights. Consequently, customer contracts and the related customer relationships acquired in the business combination meet the contractual-legal criterion for identification as intangible assets (see paragraph 18.2(b)). This will be the case even if confidentiality or other contractual terms prohibit the sale or transfer of a contract separately from the acquired entity or business.

Customer relationships also meet the contractual-legal criterion for identification as intangible assets when an entity has a practice of establishing contracts with its customers, regardless of whether a contract exists at the acquisition date.

The customer contracts and the related customer relationships are recognised separately from goodwill in the accounting for the business combination unless the fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Ex 26 **An entity acquired several non-contractual customer relationships in a business combination.**

Even if a customer relationship acquired in a business combination does not arise from a contract, the relationship is an intangible asset if it meets the separability criterion. Exchange transactions for the same asset, or for a similar asset, provide evidence of separability of a non-contractual customer relationship and may also provide information about exchange prices to consider when measuring fair value.

The non-contractual customer relationships are recognised separately from goodwill in the accounting for the business combination, provided that they are separable and fair value can be measured reliably without undue cost or effort at the acquisition date.

Ex 27 **Acquirer Company (AC) acquires Target Company (TC) in a business combination on 31 December 20X5. TC manufactures goods in two distinct lines of business: sporting goods and electronics. Customer A purchases both sporting goods and electronics from TC. TC has a contract with Customer A to be its exclusive provider of sporting goods but has no contract for the supply of electronics to Customer A. Both TC and AC agree that only one overall customer relationship exists between TC and Customer A.**

The contract to be Customer A's exclusive supplier of sporting goods, whether cancellable or not, meets the contractual-legal criterion for identification as an intangible asset (see paragraph 18.2(b)), and is therefore recognised separately from goodwill, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date. Additionally, because TC establishes its relationship with Customer A through a contract, the customer relationship with Customer A meets the contractual-legal criterion for identification as an intangible asset.

Consequently, the customer relationship intangible asset is also recognised separately from goodwill, unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date. Because TC has only one customer relationship with Customer A, the fair value of that relationship incorporates assumptions about TC's relationship with Customer A related to both sporting goods and electronics. However, if AC determines that the customer relationships with Customer A for sporting goods and for electronics are separate from each other, AC would assess whether the customer relationship for electronics meets the separability criterion for identification as an intangible asset (see paragraph 18.2(b)).

Ex 28 **AC acquires TC in a business combination on 31 December 20X5. TC does business with its customers solely through purchase and sales orders. At 31 December 20X5 TC has a backlog of customer purchase orders from 60% of its customers, all of whom are recurring customers. The other 40% of TC's customers are also recurring customers. However, as of 31 December 20X5 TC has no open purchase orders or other contracts with those customers.**

Regardless of whether they are cancellable or not, the purchase orders from 60% of TC's customers meet the contractual-legal criterion for identification as intangible assets (see paragraph 18.2(b)), and are therefore recognised separately from goodwill, unless the fair value cannot be measured reliably without undue cost or effort at the acquisition date.

TC has a practice of establishing contracts with all customers. Therefore, irrespective of whether contracts, ie, purchase and sales orders, exist at 31 December 20X5, its relationship with those customers also meets the criterion for identification as an intangible asset. Consequently, a customer relationship intangible asset is recognised for both the group that has outstanding purchase and sales orders (60%) and the group that does not (40%). This asset is recognised separately from goodwill unless fair value cannot be measured reliably without undue cost or effort at the acquisition date.

Example: application of recognition principle—cannot recognise separately

Ex 29 **A group 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 them. 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. The fair value cannot be determined reliably without undue cost or effort. If a manufacturer returns its rights to the local authority, it is prohibited from reapplying.**

The legal rights are intangible assets because they are non-monetary (ie they are neither currency held nor assets receivable in a fixed or determinable number of units of currency); without physical substance (because they are legal rights) and identifiable (because they arise from purchased legal rights) (see paragraph 18.2). However, the legal rights would not be accounted for as separate intangible assets acquired in the business combination because the fair value cannot be measured reliably without undue cost or effort.

Module 18—Intangible Assets other than Goodwill

Initial measurement

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

Notes

Paragraphs 18.10–18.16 provide application guidance for the determination of the cost of an intangible asset in a variety of circumstances.

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.

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*) 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.

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 conducting business in a new location or with a new class of customer (including costs of staff training); and
- administration and other general overhead costs.

The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures will not meet the definition or the recognition criteria of an intangible asset. Rather, such expenditures are likely to be characterised as those incurred internally to maintain the expected future economic benefits attributable to an intangible asset.

Example—measurement of intangible assets acquired separately

Ex 30 On 1 January 20X1 an entity purchased a new software package to operate its production equipment for CU600,000, including CU50,000 refundable purchase taxes. The purchase price was funded by raising a loan of CU605,000. In addition, the entity has to pay CU5,000 loan raising fees to the bank. The loan is secured against the software licences.

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

- Labour—CU120,000; and
- Depreciation of plant and equipment used to perform the modifications—CU15,000.

In January 20X1 the entity'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 the entity'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 perform the modifications—CU5,000.

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

What is the cost of the software at initial recognition?

Description	*Calculation or reason*	*CU*	*Reference to IFRS for SMEs* Standard
Purchase price	CU600,000 purchase price less 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 (ie 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	–	5.4
Borrowing costs	Recognised as expenses in profit or loss	–	25.2
Cost of software		**722,000**	

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.

Notes

Paragraphs 11.27–11.32 provide requirements on fair value measurement.

A quoted price for an identical asset in an active market provides the most reliable estimate of the fair value of an intangible asset. However, although active markets may exist in some jurisdictions for intangible assets such as transferable taxi licences, fishing licences or production quotas, an active market may not exist for many intangible assets, such as brands, newspaper mastheads, music and film publishing rights, patents or trademarks, because each such asset is unique.

If no active market exists for an intangible asset, its fair value is determined by estimating the amount that the entity would have paid for the asset, at the acquisition date, in an arm's length transaction between knowledgeable and willing parties, on the basis of the best information available. If quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for an identical asset (or similar asset) in an arm's length transaction may provide a basis from which to measure fair value, provided that there has not been a significant change in economic circumstances or a significant period of time between the date of the binding sale agreement, or the transaction, and the date at which the asset's fair value is measured.

It may be difficult, however, to access information related to transactions for identical or similar intangible assets as contracts are normally negotiated between individual buyers and sellers and this information is not readily available to the public. Even if the information is available, the price paid for one asset may not provide appropriate evidence for the fair value of another asset given the often unique nature of an intangible asset.

Accordingly, in the majority of cases, the fair value of an intangible asset may need to be measured using other valuation techniques. For instance, valuation techniques may be used to measure the fair value of an intangible asset acquired in a business combination if the valuation techniques reflect current transactions and practices in the industry to which the asset belongs and current market conditions. These techniques include, for example:

(a) discounting estimated future net cash flows from the asset; or

(b) estimating the costs that the entity avoids by owning intangible assets and not needing:

   (i) to license it from another party in an arm's length transaction (as in the 'relief from royalty' approach, using discounted net cash flows); or

   (ii) to recreate or replace it (as in the cost approach).

When measuring fair value is complex, entities may consider the need to use external valuation specialists.

Nevertheless, as has been noted repeatedly above, an intangible asset acquired in a business combination is only required to be recognised if its fair value can be measured reliably without undue cost or effort (see paragraph 18.8).

Example—measurement of intangible assets acquired in a business combination

Ex 31 **On 1 January 20X1 an entity (the acquirer) acquired all of the issued shares of a competitor (the acquiree) when the acquiree's intangible assets were:**

	Carrying amounts	*Fair values*
	CU	*CU*
Customer list	–	50,000
In-process research and development project	–	80,000
Licence to operate	100,000	150,000
Brand, including trademark 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 consolidated entity—the acquirer and the acquiree viewed as a single entity—will include intangible assets, excluding any goodwill, as follows:

	CU
Customer list	50,000
In-process research and development project	80,000
Licence to operate	150,000
Brand, including trademark and brand name	300,000
	580,000

Although the acquired in-process research and development is recognised as an intangible asset because it was acquired in a business combination, the subsequent expenditure of CU200,000 is treated in the same way as expenditure to create an internally generated intangible asset; ie 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 32 **On 1 January 20X1 a local government issued three identical licences to broadcast in a particular city for a 10 year period. Two licences were sold by public auction to independent third parties from outside the local community. In an attempt to develop local ownership, the third licence was given to a local entity 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.**

The licence received by the local entity is an intangible asset acquired by way of government grant. Applying Section 24 *Government Grants*, the local entity that received the third broadcasting licence is required to measure the licence at CU100,000 (its fair value) on initial recognition and recognise the grant of CU100,000 in income (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 33 **On 1 January 20X1 an entity received landing rights at a local airport in exchange for an aeroplane which had a retail selling price of CU100,000.**

The landing rights received (the intangible asset acquired in the exchange transaction) must be measured at CU100,000 (as this is deemed to be their fair value) on initial recognition. If there are no indicators that the transaction lacks commercial substance, then it is assumed that the fair value of the plane given up in this transaction is most readily measurable by reference to the average selling price—assuming an active market for planes, then the fair value of the landing rights received is most easily determined by reference to the fair value of the plane given up in the exchange transaction.

Ex 34 **On 1 January 20X1 an entity 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.**

The landing rights received (the intangible asset acquired in the exchange transaction) must be measured 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; ie 90,000 litres × CU1 per litre) plus CU10,000 cash given up in the exchange transaction.

Ex 35 **Entities A and B manufacture chemicals in Jurisdictions A and B, respectively. On 1 January 20X1 entities A and 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 Entities A and B in the exchange transaction was CU100 and CU200 respectively.**

The patented rights received (the intangible asset acquired in the exchange transaction) must be measured on initial recognition at CU100 and CU200 by entities A and B, respectively (ie it is measured at the carrying amount of the asset given up in the exchange transaction).

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.

Notes

Research is the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use (see the Glossary).

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.

Examples—expenditures recognised as an expense or as an intangible asset

Ex 36 In 20X1 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.

The following amounts will be recognised as expenses in the determination of the entity's profit or loss for the year ended 31 December 20X1:

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

Furthermore:

- An intangible asset must be recognised at a cost of CU1,500 for the acquired patent. The patent qualifies for recognition even though it was purchased as part of the creation of internally generated intangible assets. This is because paragraph 18.4(a) is always considered satisfied for intangible assets that are separately acquired (see paragraph 18.7). The patent would be amortised applying paragraphs 18.18–18.24. If there is any indication that the patent is impaired at the reporting date, it must be tested for impairment applying Section 27 *Impairment of Assets*.
- At 31 December 20X1 inventory (asset) includes CU2,500 cost of production (ie 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 *Inventories*).

Ex 37 **An entity has built up a substantial list of customers over time. The list is considered to be very valuable to the entity.**

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

The entity may 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 customer list must be measured at CU100,000 on initial recognition because it meets the recognition criteria in paragraph 18.4. Note that the list meets the definition of an intangible asset because it is separable (ie it could be separated from the entity and sold to a third party).

However, the additional CU10,000 incurred in maintaining and developing the externally acquired customer list must be recognised as an expense in the determination of 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 38 **On 20 February 20X1, an entity 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 entity hired and trained new sales staff at a cost of CU30,000.**

The cost of the pre-opening staff training and the opening event must be recognised as expenses in the determination of profit of the period in which the expenses were incurred, as required by paragraph 18.15(b) and (c).

Ex 39 **On 31 December 20X1 an entity placed an advertisement for its products in a local newspaper. The newspaper advertisement cost the entity CU20,000 which the entity paid on 1 December 20X1. The advertisement will appear in the 31 December 20X1 newspaper. The entity expects the advertisement will generate additional sales of its products in 20X2.**

The entity has a 31 December year-end.

The cost of the newspaper advertisement (CU20,000) must be recognised as an expense in the determination of profit for the period ended 31 December 20X1 (ie when the advertisement was published), as required by paragraph 18.15(d). It cannot be deferred and recognised as an expense over the period of additional sales.

Ex 40 **In June 20X1 an entity 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.**

The costs of reorganisation must be recognised as an expense in the determination of profit or loss in the period in which the external consultants provide their services (ie in the year ended 20X1), rather than during the period in which the entity 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 41 **On 31 December 20X1 an entity paid CU10,000 for a full-page advertisement featuring the entity's products in a local newspaper. The advertisement will appear in the 20 January 20X2 edition of the local newspaper. The entity has a 31 December financial year-end.**

As at 31 December 20X1 the entity must present the CU10,000 advertising costs paid to the local newspaper in advance 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 (ie 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

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

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 42 **On 1 January 20X1 an entity acquired a franchise licence for CU500,000. Management determined the useful life of the licence at 5 years with no residual value, thus the amortisation of the licence at CU100,000 per year.**

At 31 December 20X3 in response to the entry into the market of a competing franchisor, the entity assessed the recoverable amount of the franchise licence at CU180,000.

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

Useful life

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.

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 the asset is used by the 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. It would be necessary 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 usage of the asset by the 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 by competitors or potential competitors;
- the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the 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.

The useful life of an intangible asset does not reflect planned future expenditure in excess of that required to maintain the intangible asset at its standard of performance assessed at the time of estimating the asset's useful life. The useful life reflects the level of future maintenance expenditure required to maintain the asset at its standard of performance assessed, provided that the entity has the ability and intention to carry out such maintenance.

Given 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 provided that there is supporting evidence for a renewal without significant cost (see paragraph 18.19). Under full IFRS Standards, an intangible asset with an indefinite useful life is not amortised, but is tested annually for impairment. In developing the *IFRS for SMEs* Standard, however, for cost-benefit rather than conceptual reasons, the Board concluded that goodwill and other indefinite-lived intangible assets should be considered to have finite lives (paragraph BC112). 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, the useful life shall be determined by management's best estimate 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, 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 43 **An entity acquires a computer program under licence for five years—the shortest licence period offered by the licensor. The entity expects to use the software for only the first three years of the licence period, while it develops its own bespoke software.**

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

Ex 44 **An entity in the business of direct-mail marketing acquires a customer list and expects to derive benefit from the information on the list for at least one year, but for no more than three years. The entity intends to add customer names and other information to the list in the future as it expands the business.**

Management must determine its best estimate of the useful life of the customer list, which may be, for example, 18 months. Although the entity may intend to add customer names and other information to the list in the future, the expected benefits of the acquired customer list relate only to the customers on that list at the date it was acquired.

Module 18—Intangible Assets other than Goodwill

Ex 45 **An entity acquires a licence to operate an airline route between two cities. The licence expires in three years. The licence may be renewed after the initial three-year period and it may be renewed every five years thereafter if the airline complies with the applicable rules and regulations. The entity intends to comply with the applicable rules and regulations required for renewals. The entity had previously acquired a number of airline routes from the same issuing authority, all of which had been renewed at least twice. The entity intends to operate on the acquired route for 20 years and it expects the related supporting infrastructure (eg airport gates, slots and terminal-facility leases) will remain in place for this time.**

The facts and circumstances provide supporting evidence that the entity intends and likely will be able to renew the contractual term for the next 20 years without incurring significant cost. Management may therefore include three five-year renewals in determining the useful life of the route licence to be 20 years.

Ex 46 **An entity acquired a broadcasting licence that expires in five years. After the initial five-year period, the licence is renewable every seven years. Renewals are subject to the condition that the entity provides 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 entity's management intends to take advantage of all three renewals. However, the entity's past performance suggests that it is uncertain that the entity will achieve the required average level of service beyond the first five-year period, notwithstanding the positive outlook held by management that the entity will soon be in a position to provide much improved customer service. 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 the entity's intention is to take advantage of all three available renewals. There is evidence to support only the first renewal of the broadcasting licence; and so the useful life should be determined as 5 years.

Ex 47 **The facts are the same as in Example 46. However, the existence of the licensing authority is uncertain beyond the initial term of five years. Management still believes the contract for the broadcasting licence will still 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 in light 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 and hence the licence must be tested for impairment by applying Section 27 *Impairment of Assets*).

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.

Notes—amortisation of an intangible asset

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. Another amount may be substituted for cost when an entity uses fair value (for example, by applying paragraphs 18.11 and 18.12) or a previous GAAP revaluation as deemed cost for an intangible asset on first-time adoption of the *IFRS for SMEs* Standard (see paragraph 35.10(d) of Section 35 *Transition to the IFRS for SMEs*).

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.

Amortisation method

An entity must 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 must 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. There are several methods that 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 determine reliably the pattern in which it expects to consume the asset's future economic benefits. It is also the most appropriate method where the future economic benefits are consumed evenly over time (eg 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 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. This may be so, 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.

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 this case, 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 *Inventories*).

Examples—amortisation of an intangible asset

Ex 48 **An entity in the business of direct-mail marketing acquires 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. The entity intends to add customer names and other information to the list in the future as it expands the business. The useful life is estimated to be 18 months.**

If diminishing returns are expected from using the customer list over management's best estimate of its useful life, the diminishing balance method of amortisation would be used.

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

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

The entity must assess at each reporting date whether there is any indication that the customer list is impaired. If any such indication exists, the entity would be required to review the customer list for impairment by applying Section 27 *Impairment of Assets* (see paragraph 18.18).

Ex 49 **The facts are the same as in Example 44. However, the existence of the licensing authority has become uncertain. When the uncertainty arose, three years of the initial five-year term remains until the entity's broadcasting licence expires. The entity expects the licence will continue to contribute to net cash inflows until the licence expires.**

The acquired licence would be amortised over its remaining useful life of three years. The entity must assess at each reporting date whether there is any indication that the acquired licence is impaired. If any such indication exists, the entity would be required to review the acquired licence for impairment by applying Section 27 *Impairment of Assets* (see paragraph 18.18).

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

Ex 50 **An entity develops a formula for manufacturing a type of cleaning product. The entity 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 entity expects it will take three years to develop a superior formula.**

The patented formula will be amortised 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 *Inventories*).

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

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

Ex 51 **On 1 February 20X1 an entity purchases a patented formula. The patented formula is available for use on this date. However, the entity only starts producing inventory using the patented formula on 1 April 20X1 because the entity did not have the appropriate plant and equipment in place to begin production.**

The entity should begin amortisation of the patent from 1 February 20X1.

If the entity has the ability to determine the pattern in which it expects to consume the future economic benefits from the patented formula, and the entity has 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, then it may be that 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.

Notes

Residual value of an asset is the estimated amount that an entity would currently obtain from disposal of an 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). 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.

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 before the end of its economic life.

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

Examples—residual value

Ex 52 **An entity acquired 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.**

The patent would be amortised 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 the useful life. If there is any indication that the patent is impaired at any reporting date, the patent would be reviewed for impairment by applying Section 27 *Impairment of Assets*.

Ex 53 **On 1 January 20X1 an entity acquired 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. The entity has a commitment from a third party to purchase that patent in five years for 60% of the amount that the entity paid for the patent, and the entity intends to sell the patent to that party in five years.**

The patent has an economic life of 15 years but a useful life of five years to the entity. The depreciable amount would be amortised over its five-year useful life, with a residual value estimated at 60% of the patent's fair value at the date it was acquired (eg 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 patent would be reviewed for impairment by applying Section 27 *Impairment of Assets*.

Ex 54 **On 1 January 20X1 an entity 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, the entity 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.**

The depreciable amount of the taxi licence at 1 January 20X1 is CU7,500 (= CU10,000 carrying amount less CU2,500 estimated residual value). Consequently, CU7,500 should be 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 then 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 taxi licence would be reviewed for impairment in accordance with Section 27 *Impairment of Assets*.

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 an accounting estimate** in accordance with paragraphs 10.15–10.18.

Example—review of amortisation period and amortisation method

Ex 55 **On 1 January 20X1 an entity 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 it expects to consume the intangible asset's future economic benefits.**

At the entity'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. To encourage the development of the local pharmaceutical industry, the government extended the term of all local medical patents and announced this unexpectedly on 31 December 20X5. 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 it expects to consume the asset's future economic benefits.

The amortisation expense recognised in the year ended 31 December 20X5 is CU25,000, which was determined as follows:

Dr	Inventories or profit or loss (amortisation expense)	CU25,000[(a)]	
	Cr Accumulated amortisation		CU25,000

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

(a) Annual amortisation (31 December 20X1–31 December 20X5) = CU500,000 ÷ 20 years = CU25,000.
The amortisation charge for 20X5 is computed based on the original useful life because the government extended the term of all local medical patents on 31 December 20X5. Hence the change in useful life occurred on the 31 December 20X5. Amortisation for 20X6 will be based on the revised useful life.

Ex 56 **On 1 January 20X1 an entity paid a system developer CU50,000 for an online system through which its customers can place orders. The entity 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, the entity undertook an impairment review and reduced the carrying amount to CU30,000. Consequently, in 20X1 the impairment loss was CU10,000. The entity assessed the useful life to be unchanged. At the end of Year 2, the entity decided to scrap the custom-developed system and replace it with a generic software package available in the market.**

The entity accounts for the change in useful life of the customer-order system as a change in an accounting estimate by applying paragraphs 10.15–10.18.
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 failure 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, and not a correction of a prior period error.

In 20X2 the amortisation expense is CU7,500[(a)] and an impairment loss of CU22,500[(b)] is recognised.

Because there are indicators present at both 31 December 20X1 and 31 December 20X2 that future economic benefits were likely to be lower than expected, an impairment test would be carried out on both dates by applying Section 27 *Impairment of Assets*.

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

(b) Carrying amount at 31 December 20X2 (before impairment) = CU30,000 - CU7,500 = CU22,500
Carrying amount at 31 December 20X2 (after impairment ie scrap) = nil
Impairment at 31 December 20X2 = CU22,500

Recoverability of the carrying amount—impairment losses

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.

Notes

If there is an indication that an intangible asset may be impaired, this may indicate 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).

Retirements and disposals

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.

Notes

The disposal of an intangible asset may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). To determine the date of disposal of such an asset, an entity is required to apply the criteria in Section 23 *Revenue* for recognising revenue from the sale of goods (see paragraph 23.10).

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. It 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 *Leases* specifies the treatment of the gain or loss).

Examples—derecognition of an intangible asset

Ex 57 **On 14 December 20X5 an entity sold an item of computer software. The purchaser took immediate delivery of the software.**

The entity must derecognise the intangible asset on 14 December 20X5 when the risks and rewards of ownership of the software passed to the purchaser, assuming all the other conditions in paragraph 23.10 are met.

Ex 58 **An entity sells cardboard boxes made out of a special type of cardboard, which the entity has protected by purchasing a patent. In late 20X4 an entity experienced several complaints from customers that they had received batches of defective cardboard boxes. This led to several important customers cancelling their future orders.**

In May 20X5, because of a significant drop in the level of sales, the entity 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, the entity 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 customers decided was superior to the entity's patented product. As a result, management gave up hope that sales would improve to the extent that it could recommence manufacturing cardboard boxes. Management therefore decided that the assets of the cardboard-manufacturing operations (comprising inventory, plant, equipment and the patent) should be scrapped.

The entity has a year-end of 31 December.

The entity must 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 (ie reduction in sales) due to customers cancelling their orders in late 20X4 is an impairment indicator, and hence the assets of the cardboard-manufacturing operations should be tested for impairment under Section 27 *Impairment of Assets* on 31 December 20X4. The subsequent significant drop in the level of sales is also an impairment indicator, and the assets of the cardboard-manufacturing operations should therefore be tested again for impairment on 31 December 20X5.

If expected future economic benefits from the intangible asset are reduced, this is an impairment indicator. However, if no future economic benefits are expected from the intangible asset, this results in derecognition of that asset.

Disclosures

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; and

(vi) other changes.

This reconciliation need not be presented for prior periods.

Notes

A class of intangible assets is a grouping of intangible assets of a similar nature and use in an entity's operations (see the Glossary). The following are examples of separate classes of intangibles:

(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;

(f) recipes, formulas, models, designs and prototypes; and

(g) intangible assets under development.

Example—disclosures for each class of intangible assets

Ex 59 **An entity 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 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 estimated useful lives of intangible assets are:

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

Note 4 Intangible assets other than goodwill

	Patents	*Formulas*	*Computer software*	*Total*
	CU'000	*CU'000*	*CU'000*	*CU'000*
Cost	10,000	13,000	4,400	27,400
Accumulated amortisation	(4,400)	(3,200)	(2,300)	(9,900)
Carrying amount at 1 January 20X2	**5,600**	**9,800**	**2,100**	**17,500**
Additions	–	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)
Carrying amount at 31 December 20X2	**8,470**	**12,300**	**2,550**	**23,320**
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 60 **An entity could present disclosures about intangible assets as follows:**

Note 4 Intangible assets other than goodwill

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

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 61 **An entity could disclose research and development expenditure as follows:**

Note 3 Profit before tax

The following items have been recognised as expenses (income) in determining profit before tax:

	20X2	**20X1**
	CU	CU
Research and development costs	100,000	120,000

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, applying paragraph 8.7, an entity must disclose information about the key assumptions concerning 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 *IFRS for SMEs* Standard require disclosure of information about particular judgements and estimation uncertainties.

Identification

In most cases little difficulty is encountered in identifying intangible assets. However, significant judgement may be required to identify all intangible assets that must be recognised separately in the accounting for a business combination (if their fair values can be measured 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 effect that the intangible may be amortised over an incorrect period.

Measurement

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 may arise, for example, in the following circumstances:

- If payment for the item is deferred beyond normal credit terms—estimating 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.
- If the item is acquired in an exchange transaction—measuring fair value when an active market does not exist for the asset received, or for the asset given up, and also judging whether those fair values can be measured reliably.
- If the item is acquired in a business combination—measuring the fair value of the intangible asset when an active market does not exist for the asset acquired, and also judging whether the fair value can be measured reliably without undue cost or effort.
- If the item is acquired by way of government grant—measuring the fair value of the intangible asset when an active market does not exist for the asset acquired.

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

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

The need for significant judgements in accounting for the impairment of an intangible asset may arise when:

- assessing whether there is any indication that an item may be impaired; and
- if there is an indication that the item may be impaired, measuring the recoverable amount of the intangible asset (see Module 27 *Impairment of Assets*).

Module 18—Intangible Assets other than Goodwill

COMPARISON WITH FULL IFRS STANDARDS

When accounting for and reporting intangible assets for periods beginning on 1 January 2017, the main differences between the requirements of full IFRS Standards (see IAS 38 *Intangible Assets)* and the *IFRS for SMEs* Standard (see Section 18 *Intangible Assets other than Goodwill*) are:

- The *IFRS for SMEs* Standard is drafted in simpler language than that used in full IFRS Standards.
- Full IFRS Standards require 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 to be capitalised. The *IFRS for SMEs* Standard requires all research and development costs to be recognised as expenses when incurred.
- Full IFRS Standards require indefinite-lived intangible assets to be carried at cost less impairment loss, if any. The *IFRS for SMEs* Standard deems all intangible assets (including indefinite-lived intangible assets) to have finite lives and requires them to be amortised over their useful lives.
- If the useful life of an intangible asset cannot be established reliably, the *IFRS for SMEs* Standard requires a determination based on management's best estimate, but such an estimate may not exceed 10 years. Full IFRS Standards do not have a similar restriction on determining the useful life of an intangible asset.
- IFRS 3 (2008) and IAS 38 *Intangible Assets* 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) and do not provide undue cost or effort exemptions. The *IFRS for SMEs* Standard states 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.
- Full IFRS Standards permit an option to use the revaluation model for the measurement of intangible assets after initial recognition. The *IFRS for SMEs* Standard does not.
- Full IFRS Standards require an annual review of the amortisation period and amortisation method of intangible assets with a finite useful life. The *IFRS for SMEs* Standard requires a review *only* if certain indicators are present, such as a change in how an intangible asset is used, technological advancement etc.
- Full IFRS Standards (see IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*) allow a choice of methods in accounting for intangible assets acquired by way of government grants. The *IFRS for SMEs* Standard (see Section 24 *Government Grants*) prescribes a single method of accounting for them.
- Full IFRS Standards provide 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. The *IFRS for SMEs* Standard does not specify which fair value to use to measure the cost of the acquired asset. Also, full IFRS Standards provide guidance on when an exchange transaction has commercial substance. The *IFRS for SMEs* Standard is silent on this.
- Under full IFRS Standards 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. The *IFRS for SMEs* Standard is silent on this.

- In May 2014, the Board amended IAS 38 to make it clear that a depreciation method based on revenue generated by an activity that includes the use of an asset is not appropriate. This amendment occurred too late to be considered by the Board as part of the 2015 Amendments to the *IFRS for SMEs* Standard.

For differences related to impairment testing, see Module 27 *Impairment of Assets*.

Module 18—Intangible Assets other than Goodwill

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for accounting and reporting intangible assets other than goodwill applying the *IFRS for SMEs* Standard 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 set out beneath it.

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, ie 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 entity must 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) all of (a)–(c) above.
- ☐ (e) both (b) and (c) above.
- ☐ (f) none of the above.

Question 5

An entity acquired a trademark for a leading consumer product. The trademark has a remaining legal life of five years but is renewable every 10 years at little cost. The acquiring entity intends to renew the trademark continuously and evidence supports its ability to do so. An analysis of (i) product life-cycle studies, (ii) market, competitive and environmental trends, and (iii) brand-extension opportunities provides evidence that the trademarked 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 shall 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, as it is expected to generate cash flows for an indefinite period.

Question 6

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

On 31 December 20X3 Entity C gained control over Entity 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 must be recognised:

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

Module 18—Intangible Assets other than Goodwill

Question 7

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

On 31 December 20X3 Entity C gained control over Entity 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 must be recognised:

☐ (a) on 31 December 20X1 by Entity A at CU100,000; on 31 December 20X2 by Entity B at CU250,000; on 31 December 20X3 by Entity C (in its consolidated financial statements) at CU400,000.

☐ (b) on 31 December 20X2 by Entity B at CU300,000; on 31 December 20X3 by Entity C (in its consolidated financial statements) at CU400,000.

☐ (c) on 31 December 20X2 by Entity B at CU250,000; on 31 December 20X3 not recognised separately by Entity C (in its consolidated financial statements) and is subsumed in goodwill on acquisition of Entity B by Entity C.

Question 8

On 1 January 20X1 an entity acquired a taxi licence for CU95,000, including CU5,000 non-refundable purchase taxes. The purchase agreement provided 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 entity shall 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 entity acquired a patent for CU100,000. At 31 December 20X1 management:

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

The entity shall 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 entity acquired a patent for CU100,000. At 31 December 20X1 management:

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

On 31 December 20X5 the entity reassessed the patent as follows:

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

The entity shall 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 a publisher acquired a competitor's publishing title for CU30,000.
On 1 January 20X4 the entity commenced publishing using the new title.

On 31 December 20X8 the entity 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 entity 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.

Module 18—Intangible Assets other than Goodwill

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 which shall not exceed 10 years.
- ☐ (c) based on management's best estimate but which shall not exceed 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, eg property, plant and equipment that meets the recognition criteria in the *IFRS for SMEs* Standard.

Module 18—Intangible Assets other than Goodwill

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.

Module 18—Intangible Assets other than Goodwill

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 (Entity A); 18.10 (Entity B)—the subsequent expenditure of CU50,000 incurred by Entity B is not capitalised because it is expenditure incurred internally on an intangible item; and 18.11 (Entity C).
Q7 (c)—see paragraphs 18.14 (Entity A); 18.10 (Entity B); and 18.8 (Entity 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 (CU 100,000 depreciable amount ÷ 20 years useful life)	(5,000)
Carrying amount	95,000

Q10 (d)

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

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.
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.

Module 18—Intangible Assets other than Goodwill

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for accounting and reporting intangibles other than goodwill applying the *IFRS for SMEs* Standard by completing the case studies below.

Once you have completed the case studies check your answers against those set out below.

Case study 1

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

Date	*CU*	*Additional information*
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 of the drivers
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 made the following assessments:

- 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 entity expects to consume the taxi licences' future economic benefits evenly over five years from the date of acquisition.
- There is no indication that the taxi licences might be impaired.

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

Prepare accounting entries to record the information set out above 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.

Answer to Case study 1

1 May 20X1

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

To recognise start-up costs incurred for the taxi operations.[1]

30 June 20X1

Dr	Intangible asset (taxi licence)—cost	CU7,000[(A)]	
	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[(A)]	
Dr	Receivable—refundable purchase taxes	CU10,000[2]	
	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 for the taxi drivers.

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

To recognise advertising costs paid on 1 July 20X1 for the twelve months ending 30 June 20X2[3]

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[(a)]	
	Cr Intangible asset (taxi licences)—accumulated amortisation		CU9,700

To recognise amortisation of taxi licences from the date when the asset was ready for use (for the six-month period ended 31 December 20X1).

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

(a) CU97,000[(b)] cost ÷ 5 year useful life = CU19,400 amortisation for a year.
Amortisation for 6 months = CU9,700 (ie CU19,400 ÷ 12 months × 6 months).

(b) ∑(A) = CU97,000 cost of intangible asset—taxi licences.

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[1] Paragraph 18.15(b) requires start-up costs to be recognised as an expense.
[2] The cost of an intangible asset excludes refundable purchase taxes (see paragraph 18.10(a)).
[3] Paragraph 18.15(d) requires advertising and promotional activities to be recognised as an expense.

Case study 2

On 1 January 20X4 SME F acquired a trademark for a line of products in a separate acquisition from a competitor for CU300,000. Based on an analysis of (i) product life cycle studies; (ii) the market, particularly competitive and environmental trends; and (iii) brand-extension opportunities; management's best estimate of the useful life of the trademark is 10 years. SME F amortises the trademark 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 extinguish 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 assessed the recoverable amount of the trademark at 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 the information set out above in the accounting records of SME F from 1 January 20X4 to 31 December 20X7.

Ignore all forms of taxation.

Answer to Case study 2

1 January 20X4

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

To recognise the acquisition of the trademark in a separate acquisition.

For the year ended 20X4

Dr	Profit or loss (operating expenses)—amortisation of trademark	CU30,000[(a)]	
	Cr Intangible asset (trademark)—accumulated amortisation and accumulated impairment		CU30,000

To recognise the annual amortisation of the trademark during the period.

For the year ended 20X5

Dr	Profit or loss (operating expenses)—amortisation of trademark	CU30,000[(a)]	
	Cr Intangible asset (trademark)—accumulated amortisation and accumulated impairment		CU30,000

To recognise the annual amortisation of the trademark during the period.

For the year ended 20X6

Dr	Profit or loss (operating expenses)—amortisation of trademark	CU30,000[(a)]	
	Cr Intangible asset (trademark)—accumulated amortisation and accumulated impairment		CU30,000

To recognise the annual amortisation of the trademark during the period.

For the year ended 31 December 20X7

Dr	Profit or loss (operating expenses)—amortisation of trademark	CU30,000[(a)]	
	Cr Intangible asset (trademark)—accumulated amortisation and accumulated impairment		CU30,000

To recognise the annual amortisation of the trademark during the period.

At 31 December 20X7

Dr	Profit or loss (operating expenses)—impairment of trademark	CU130,000[(b)]	
	Cr Intangible asset (finite life trademark)—accumulated amortisation and accumulated impairment		CU130,000

To recognise the impairment loss for the trademark.

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

(a) CU300,000 cost ÷ 10 years useful life = CU30,000 amortisation per year.

(b) CU180,000 carrying amount (ie CU300,000 cost less (CU30,000 amortisation per year × 4 years since acquisition until 31 December 20X7) less CU50,000 recoverable amount = CU130,000 impairment loss.

Note: amortisation for 20X8 will be based on the revised useful life.

Case study 3

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

Description	*Additional information*
Internet domain name	Acquired in a separate acquisition on 1 January 20X4 for CU300,000. The entity is unable to make a reliable estimate of its 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:

Description	*CU*	*Additional information*
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 entity.

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.

Answer to Case study 3

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*
Carrying amount at 31 December 20X5	240,000	– (h)	60,000	–	–	– (h)	300,000
Cost	300,000	–	100,000	–	–	–	400,000
Accumulated amortisation	(60,000) (a)	–	(40,000) (c)	–	–	–	(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) (a)	(15,000) (b)	(40,000) (c)	– (e)	(31,250) (f)	(3,333) (g)	(132,083)
Carrying amount at 31 December 20X6	697,500	585,000	420,000	80,000	468,750	16,667	2,267,917
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 (ie 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 (ie 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 x 2 years = CU40,000.

(d) Yearly amortisation for customer list acquired on 1 January 20X4 = CU20,000.[c]

Amortisation of customer lists acquired in a business combination = CU400,000 cost ÷ 5 years × 3 ÷ 12 months (ie 30 September to 31 December 20X6) = CU20,000.

Total amortisation charge for 31 December 20X6 = CU20,000 + CU 20,000 = CU40,000.

(e) The entity will start amortising the in-process research and development that it acquired in a business combination when it is available for use as intended by management.

(f) CU500,000 cost ÷ 4 years remaining useful life × 3 ÷ 12 months (ie 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 (ie 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).