IAS 38 — Intangible Assets

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Overview

IAS 38 *Intangible Assets* outlines the accounting requirements for intangible assets, which are non-monetary assets which are without physical substance and identifiable (either being separable or arising from contractual or other legal rights). Intangible assets meeting the relevant recognition criteria are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortised on a systematic basis over their useful lives (unless the asset has an indefinite useful life, in which case it is not amortised).

IAS 38 was revised in March 2004 and applies to intangible assets acquired in business combinations occurring on or after 31 March 2004, or otherwise to other intangible assets for annual periods beginning on or after 31 March 2004.

History of IAS 38

Date	Development	Comments
February 1977	Exposure Draft E9 *Accounting for Research and Development Activities*	
July 1978	IAS 9 (1978) *Accounting for Research and Development Activities* issued	Effective 1 January 1980
August 1991	Exposure Draft E37 *Research and Development Costs*	

	published	
December 1993	IAS 9 (1993) *Research and Development Costs* issued	Operative for annual financial statements covering periods beginning on or after 1 January 1995
June 1995	Exposure Draft E50 *Intangible Assets* published	
August 1997	E50 was modified and re-exposed as Exposure Draft E59 *Intangible Assets*	
September 1998	IAS 38 *Intangible Assets* issued	Operative for annual financial statements covering periods beginning on or after 1 July 1998
31 March 2004	IAS 38 *Intangible Assets* issued	Applies to intangible assets acquired in business combinations occurring on or after 31 March 2004, or otherwise to other intangible assets for annual periods beginning on or after 31 March 2004
22 May 2008	Amended by *Improvements to IFRSs* (advertising and promotional activities, units of production method of amortisation)	Effective for annual periods beginning on or after 1 January 2009
16 April 2009	Amended by *Improvements to IFRSs* (measurement of intangible assets in business combinations)	Effective for annual periods beginning on or after 1 July 2009
12 December 2013	Amended by *Annual Improvements to IFRSs 2010–2012 Cycle* (proportionate	Effective for annual periods beginning on or after 1 July 2014

	restatement of accumulated depreciation under the revaluation method)	
12 May 2014	Amended by *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*	Effective for annual periods beginning on or after 1 January 2016

Related Interpretations

- IFRIC 12 *Service Concession Arrangements*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- IAS 16 supersedes SIC-6 *Costs of Modifying Existing Software*
- SIC-32 *Intangible Assets – Website Costs*

Amendments under consideration by the IASB

- Research project — Rate-regulated activities
- Research project — Intangible assets

Summary of IAS 38

Objective

The objective of IAS 38 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another IFRS. The Standard requires an entity to recognise an intangible asset if, and only if, certain criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures regarding intangible assets. [IAS 38.1]

Scope

IAS 38 applies to all intangible assets other than: [IAS 38.2-3]

- financial assets (see IAS 32 *Financial Instruments: Presentation*)
- exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*)
- expenditure on the development and extraction of minerals, oil, natural gas, and similar resources
- intangible assets arising from insurance contracts issued by insurance companies
- intangible assets covered by another IFRS, such as intangibles held for sale (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*), deferred tax assets (IAS 12 *Income Taxes*), lease assets (IAS 17

Leases), assets arising from employee benefits (IAS 19 *Employee Benefits* (2011)), and goodwill (IFRS 3 *Business Combinations*).

Key definitions

Intangible asset: an identifiable non-monetary asset without physical substance. An asset is a resource that is controlled by the entity as a result of past events (for example, purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected. [IAS 38.8] Thus, the three critical attributes of an intangible asset are:

- identifiability
- control (power to obtain benefits from the asset)
- future economic benefits (such as revenues or reduced future costs)

Identifiability: an intangible asset is identifiable when it: [IAS 38.12]

- is separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract) or
- 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.

Examples of intangible assets

- patented technology, computer software, databases and trade secrets
- trademarks, trade dress, newspaper mastheads, internet domains
- video and audiovisual material (e.g. motion pictures, television programmes)
- customer lists
- mortgage servicing rights
- licensing, royalty and standstill agreements
- import quotas
- franchise agreements
- customer and supplier relationships (including customer lists)
- marketing rights

Intangibles can be acquired:

- by separate purchase
- as part of a business combination
- by a government grant
- by exchange of assets
- by self-creation (internal generation)

Recognition

Recognition criteria. IAS 38 requires an entity to recognise an intangible asset, whether purchased or self-created (at cost) if, and only if: [IAS 38.21]

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

This requirement applies whether an intangible asset is acquired externally or generated internally. IAS 38 includes additional recognition criteria for internally generated intangible assets (see below).

The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset. [IAS 38.22] The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination. [IAS 38.33]

If recognition criteria not met. If an intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, IAS 38 requires the expenditure on this item to be recognised as an expense when it is incurred. [IAS 38.68]

Business combinations. There is a presumption that the fair value (and therefore the cost) of an intangible asset acquired in a business combination can be measured reliably. [IAS 38.35] An expenditure (included in the cost of acquisition) on an intangible item that does not meet both the definition of and recognition criteria for an intangible asset should form part of the amount attributed to the goodwill recognised at the acquisition date.

Reinstatement. The Standard also prohibits an entity from subsequently reinstating as an intangible asset, at a later date, an expenditure that was originally charged to expense. [IAS 38.71]

Initial recognition: research and development costs

- Charge all research cost to expense. [IAS 38.54]
- Development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established. This means that the entity must intend and be able to complete the intangible asset and either use it or sell it and be able to demonstrate how the asset will generate future economic benefits. [IAS 38.57]

If an entity cannot distinguish the research phase of an internal project to create an intangible asset from the development phase, the entity treats the expenditure for that project as if it were incurred in the research phase only.

Initial recognition: in-process research and development acquired in a business combination

A research and development project acquired in a business combination is recognised as an asset at cost, even if a component is research. Subsequent expenditure on that project is accounted for as any other research and development cost (expensed except to the extent that the expenditure satisfies the criteria in IAS 38 for recognising such expenditure as an intangible asset). [IAS 38.34]

Initial recognition: internally generated brands, mastheads, titles, lists

Brands, mastheads, publishing titles, customer lists and items similar in substance that are internally generated should not be recognised as assets. [IAS 38.63]

Initial recognition: computer software

- Purchased: capitalise
- Operating system for hardware: include in hardware cost
- Internally developed (whether for use or sale): charge to expense until technological feasibility, probable future benefits, intent and ability to use or sell the software, resources to complete the software, and ability to measure cost.
- Amortisation: over useful life, based on pattern of benefits (straight-line is the default).

Initial recognition: certain other defined types of costs

The following items must be charged to expense when incurred:

- internally generated goodwill [IAS 38.48]
- start-up, pre-opening, and pre-operating costs [IAS 38.69]
- training cost [IAS 38.69]
- advertising and promotional cost, including mail order catalogues [IAS 38.69]
- relocation costs [IAS 38.69]

For this purpose, 'when incurred' means when the entity receives the related goods or services. If the entity has made a prepayment for the above items, that prepayment is recognised as an asset until the entity receives the related goods or services. [IAS 38.70]

Initial measurement

Intangible assets are initially measured at cost. [IAS 38.24]

Measurement subsequent to acquisition: cost model and revaluation models allowed

An entity must choose either the cost model or the revaluation model for each class of intangible asset. [IAS 38.72]

Cost model. After initial recognition intangible assets should be carried at cost less accumulated amortisation and impairment losses. [IAS 38.74]

Revaluation model. Intangible assets may be carried at a revalued amount (based on fair value) less any subsequent amortisation and impairment losses only if fair value can be determined by reference to an active market. [IAS 38.75] Such active markets are expected to be uncommon for intangible assets. [IAS 38.78] Examples where they might exist:

- production quotas
- fishing licences
- taxi licences

Under the revaluation model, revaluation increases are recognised in other comprehensive income and accumulated in the "revaluation surplus" within equity except to the extent that it reverses a revaluation decrease previously recognised in profit and loss. If the revalued intangible has a finite life and is, therefore, being amortised (see below) the revalued amount is amortised. [IAS 38.85]

Classification of intangible assets based on useful life

Intangible assets are classified as: [IAS 38.88]

- **Indefinite life:** no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.
- **Finite life:** a limited period of benefit to the entity.

Measurement subsequent to acquisition: intangible assets with finite lives

The cost less residual value of an intangible asset with a finite useful life should be amortised on a systematic basis over that life: [IAS 38.97]

- The amortisation method should reflect the pattern of benefits.
- If the pattern cannot be determined reliably, amortise by the straight line method.
- The amortisation charge is recognised in profit or loss unless another IFRS requires that it be included in the cost of another asset.
- The amortisation period should be reviewed at least annually. [IAS 38.104]

Expected future reductions in selling prices could be indicative of a higher rate of consumption of the future economic benefits embodied in an asset. [IAS 18.92]

The standard contains a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. However, there are limited circumstances when the presumption can be overcome:

- The intangible asset is expressed as a measure of revenue; and
- it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated. [IAS 38.98A]

Note: The guidance on expected future reductions in selling prices and the clarification regarding the revenue-based depreciation method were introduced by *Clarification of Acceptable Methods of Depreciation and Amortisation*, which applies to annual periods beginning on or after 1 January 2016.

Examples where revenue based amortisation may be appropriate

IAS 38 notes that in the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation of the asset. The standard provides the following examples where revenue to be generated *might* be an appropriate basis for amortisation: [IAS 38.98C]

- A concession to explore and extract gold from a gold mine which is limited to a fixed amount of revenue generated from the extraction of gold
- A right to operate a toll road that is based on a fixed amount of revenue generation from cumulative tolls charged.

The asset should also be assessed for impairment in accordance with IAS 36. [IAS 38.111]

Measurement subsequent to acquisition: intangible assets with indefinite useful lives

An intangible asset with an indefinite useful life should not be amortised. [IAS 38.107]

Its useful life should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate. [IAS 38.109]

The asset should also be assessed for impairment in accordance with IAS 36. [IAS 38.111]

Subsequent expenditure

Due to the nature of intangible assets, subsequent expenditure will only rarely meet the criteria for being recognised in the carrying amount of an asset. [IAS 38.20] Subsequent expenditure on brands, mastheads, publishing titles, customer lists and similar items must always be recognised in profit or loss as incurred. [IAS 38.63]

Disclosure

For each class of intangible asset, disclose: [IAS 38.118 and 38.122]

- useful life or amortisation rate
- amortisation method
- gross carrying amount
- accumulated amortisation and impairment losses
- line items in the income statement in which amortisation is included
- reconciliation of the carrying amount at the beginning and the end of the

period showing:
- additions (business combinations separately)
- assets held for sale
- retirements and other disposals
- revaluations
- impairments
- reversals of impairments
- amortisation
- foreign exchange differences
- other changes

- basis for determining that an intangible has an indefinite life
- description and carrying amount of individually material intangible assets
- certain special disclosures about intangible assets acquired by way of government grants
- information about intangible assets whose title is restricted
- contractual commitments to acquire intangible assets

Additional disclosures are required about:

- intangible assets carried at revalued amounts [IAS 38.124]
- the amount of research and development expenditure recognised as an expense in the current period [IAS 38.126]

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