

**Statement of  
Financial Accounting Standards  
No. 37**

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**Statement of Financial Accounting Standards No.37**

**Accounting for Intangible Assets**

**I Introduction**

- (1) This Statement establishes accounting standards for intangible assets.
- (2) An intangible asset is a non-monetary asset without physical substance, and simultaneously complies with all of the following requirements:
  - (a) the definition of an intangible asset:
    - (i) identifiability;
    - (ii) control; and
    - (iii) future economic benefits.
  - (b) the recognition criteria:
    - (i) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
    - (ii) the cost of the asset can be measured reliably.
- (3) This Statement does not apply to:
  - (a) Intangible assets held by an entity for sale in the ordinary course of business (in compliance with Statements of Financial

- Accounting Standards No. 10, *Inventories*, and No. 11, *Construction Contracts*);
- (b) Deferred tax assets (in compliance with Statement of Financial Accounting Standards No. 22, *Income Taxes*);
  - (c) Leases that are within the scope of Statement of Financial Accounting Standards No. 2, *Leases*;
  - (d) Intangible assets arising from employee benefits, eg deferred pension costs arising from corporate employee pension plans (in compliance with the Statement of Financial Accounting Standards No. 18, *Accounting for Pensions*);
  - (e) Financial assets as defined in Statement of Financial Accounting Standards No. 36, *Financial Instruments: Disclosure and Presentation*;
  - (f) Goodwill acquired in a business combination (in compliance with Statement of Financial Accounting Standards No. 25, *Business Combinations*);
  - (g) Non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale);
  - (h) Intangible assets arising from an insurer's contractual rights under insurance contracts;
  - (i) The recognition and measurement of exploration and evaluation assets;
  - (j) Expenditure on the development and extraction of, minerals, oil, natural gas and similar non-regenerative resources.
- (4) 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 film. In

determining whether an asset that incorporates both intangible and tangible elements should be treated as fixed assets or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as fixed assets. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

- (5) This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (eg a prototype), the physical element of the asset is secondary to its intangible component, ie the knowledge embodied in it.
- (6) In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard.

Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of Statement of Financial Accounting Standards No. 2, *Leases*, and are within the scope of this Standard.

## II Definitions

- (7) The definitions of the terms used in this Statement are as follows:
  - (a) Amortisation: the systematic allocation of the depreciable amount of an intangible asset over its useful life.
  - (b) Cost: the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the

time of its acquisition or construction.

- (c) The residual value of an intangible asset: the estimated amount that 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.
- (d) Depreciable amount: the cost of an asset less its residual value.
- (e) Research: the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
- (f) Development: the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
- (g) Useful life: is (i) the period over which an asset is expected to be available for use by an entity; or (ii) the number of production or similar units expected to be obtained from the asset by an entity.

### III Explanation

#### Intangible assets

- (8) 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. Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer

loyalty, market share and marketing rights.

- (9) Not all the items described in paragraph 8 meet the definition of an intangible asset, ie identifiability, control over a resource and existence of future economic benefits. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date.

#### Identifiability

- (10) The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements but for which the acquirer is prepared to make a payment in the business combination.
- (11) An asset meets the identifiability criterion in the definition of an intangible asset when it:
  - (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
  - (b) 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.

**Control**

- (12) An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.
- (13) Market and technical knowledge may give rise to future economic benefits. An entity controls those benefits if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality.
- (14) An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.
- (15) An entity may have a portfolio of customers or a market share and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to trade with the entity. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (eg portfolio of customers, market shares,

customer relationships and customer loyalty) to meet the definition of intangible assets. 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.

**Future economic benefits**

- (16) 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.

**Recognition and measurement**

- (17) 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 are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole. Therefore, only rarely will subsequent expenditure—expenditure in compliance with both the definition of an intangible asset and the recognition criteria—be recognised in the carrying amount of an asset. Subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally acquired or internally generated) is always recognised in profit or loss as incurred. This is because such expenditure cannot be

distinguished from expenditure to develop the business as a whole.

- (18) 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.

#### Separate acquisition

- (19) Normally, the price an entity pays to acquire separately an intangible asset reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. Therefore, the probability recognition criterion in paragraph 2(b)(i) is always considered to be satisfied for separately acquired intangible assets.
- (20) In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.
- (21) 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.
- (22) Examples of directly attributable costs are:
- (a) costs of employee benefits arising directly from bringing the asset to its working condition;
  - (b) professional fees arising directly from bringing the asset to its working condition; and

- (c) costs of testing whether the asset is functioning properly.
- (23) Examples of expenditures that are not part of the cost of an intangible asset are:
- (a) costs of introducing a new product or service (including costs of advertising and promotional activities);
  - (b) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
  - (c) administration and other general overhead costs.
- (24) Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. For example, the following costs are not included in the carrying amount of an intangible asset:
- (a) costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and
  - (b) initial operating losses, such as those incurred while demand for the asset's output builds up.
  - (c) costs incurred in using or redeploying an intangible asset.
- (25) Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. The income and related expenses of incidental operations are recognised immediately in profit or loss, and included in their respective classifications of income and expense.

- (26) 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 in accordance with the capitalisation treatment permitted in Statement of Financial Accounting Standards No. 3, *Borrowing Cost*.

#### **Acquisition as part of a business combination**

- (27) In accordance with Statement of Financial Accounting Standards No. 25, *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the entity. Therefore, the probability recognition criterion in paragraph 2(b)(i) is always considered to be satisfied for intangible assets acquired in business combinations.
- (28) In accordance with this Standard and Statement of Financial Accounting Standards No. 25, *Business Combinations*, an acquirer recognises at the acquisition date separately from goodwill an intangible asset of the acquiree if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognised by the acquiree before the business combination. When measuring the difference between investment cost and underlying equity in net assets in accordance with Statement of Financial Accounting Standards No. 5, *Long-term Equity Investments under Equity Method*, the acquirer shall also consider an intangible asset of the acquiree in accordance with the above requirement. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset and its fair value can be measured reliably.

#### **Measuring the fair value of an intangible asset acquired in a business combination**

- (29) The fair value of intangible assets acquired in business combinations can normally be measured with sufficient reliability to be recognised separately from goodwill. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities, that uncertainty enters into the measurement of the asset's fair value, rather than demonstrates an inability to measure fair value reliably. If an intangible asset acquired in a business combination has a finite useful life, there is a rebuttable presumption that its fair value can be measured reliably.
- (30) An intangible asset acquired in a business combination might be separable, but only together with a related tangible or intangible asset. For example, a magazine's publishing title might not be able to be sold separately from a related subscriber database, or a trademark for natural spring water might relate to a particular spring and could not be sold separately from the spring. In such cases, the acquirer recognises the group of assets as a single asset separately from goodwill if the individual fair values of the assets in the group are not reliably measurable.
- (31) Similarly, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. The acquirer recognises as a single asset a group of complementary intangible assets comprising a brand if the individual fair values of the complementary assets are not reliably measurable. If the individual fair values of the complementary assets are reliably measurable, an acquirer may recognise them as a single asset provided the individual assets have similar useful lives.
- (32) The only circumstances in which it might not be possible to measure reliably the fair value of an intangible asset acquired in a business combination are when the intangible asset arises from legal or other

contractual rights and either:

- (a) is not separable; or
- (b) is separable, but there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables.

#### Acquisition by way of a government grant

- (33) In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, by way of a government grant. This may happen when a government transfers or allocates to an entity intangible assets such as airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access other restricted resources. In accordance with Statement of Financial Accounting Standards No. 29, *Accounting for Government Grants and Disclosure of Government Assistance*, an entity may choose to recognise both the intangible asset and the grant initially at fair value.

#### Exchanges of assets

- (34) One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an intangible asset is measured at fair value. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. The acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up if:
- (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.
- (35) An entity determines whether an exchange transaction has

commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (ie risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows.

- (36) The fair value of an intangible asset for which comparable market transactions do not exist is reliably measurable if:
- (a) the variability in the range of reasonable fair value estimates is not significant for that asset; or
  - (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

If an entity is able to determine 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 cost unless the fair value of the asset received is more clearly evident.

#### Internally generated intangible assets

- (37) It is sometimes difficult to assess whether an internally generated

intangible asset qualifies for recognition because of problems in:

- (a) identifying whether and when there is an identifiable asset that will generate expected future economic benefits; and
- (b) determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs 38 through 47, and paragraphs 76 through 79 to all internally generated intangible assets.

- (38) To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:
- (a) a research phase; and
  - (b) a development phase.

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

#### Research phase

- (39) In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is recognised as an expense when it is incurred.

(40) Examples of research activities are:

- (a) activities aimed at obtaining new knowledge;
- (b) the search for, evaluation and final selection of, applications of research findings or other knowledge;
- (c) the search for alternatives for materials, devices, products, processes, systems or services; and
- (d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

#### Development phase

- (41) In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. This is because the development phase of a project is further advanced than the research phase.

(42) Examples of development activities are:

- (a) the design, construction and testing of pre-production or pre-use prototypes and models;
- (b) the design of tools, jigs, moulds and dies involving new technology;
- (c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- (d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

- (43) To demonstrate how an intangible asset will generate probable future economic benefits, an entity assesses the future economic benefits to be received from the asset using the principles in Statement of Financial Accounting Standards No. 35, *Impairment of Assets*. If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of cash-generating units.
- (44) Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

#### **Cost of an internally generated intangible asset**

- (45) The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraph 64 and paragraph 78. Reinstatement of expenditure previously recognised as an expense is prohibited.
- (46) The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:
- (a) costs of materials and services used or consumed in generating the intangible asset;
  - (b) costs of employee benefits arising from the generation of the intangible asset;
  - (c) fees to register a legal right; and
  - (d) amortisation of patents and licences that are used to generate the intangible asset.

Statement of Financial Accounting Standards No. 3, *Borrowing Cost*,

specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset.

- (47) The following are not components of the cost of an internally generated intangible asset:
- (a) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
  - (b) identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
  - (c) expenditure on training staff to operate the asset.

#### **Internally generated goodwill**

- (48) In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (ie it is not separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost.
- (49) Differences between the market value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

#### **Recognition of an expense**

- (50) In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is

recognised as an expense when it is incurred. For example, except when it forms part of the cost of a business combination, expenditure on research is recognised as an expense when it is incurred. Other examples of expenditure that is recognised as an expense when it is incurred include:

- (a) expenditure on start-up activities, unless this expenditure is included in the cost of fixed assets. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business or expenditures for starting new operations or launching new products or processes.
- (b) expenditure on training activities.
- (c) expenditure on advertising and promotional activities.
- (d) expenditure on relocating or reorganising part or all of an entity.

### Useful life

- (51) Many factors are considered in determining the useful life of an intangible asset, including:
- (a) the expected usage of the asset by the entity;
  - (b) typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
  - (c) technical, technological, commercial or other types of obsolescence;
  - (d) 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;

- (e) expected actions by competitors or potential competitors;
  - (f) the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;
  - (g) 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
  - (h) whether the useful life of the asset is dependent on the useful life of other assets of the entity.
- (52) The term 'indefinite' does not mean 'infinite'. The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the entity's ability and intention to reach such a level. A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.
- (53) Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short.
- (54) There may be both economic and legal factors influencing the useful life of an intangible asset. Economic factors determine the period over which future economic benefits will be received by the entity. Legal factors may restrict the period over which the entity controls access to these benefits. The useful life is the shorter of the periods determined by these factors.
- (55) 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. However, if the cost of renewal is significant when compared with the future economic benefits expected to flow to the entity from renewal, the 'renewal' cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.

## **Intangible assets with finite useful lives**

### **Amortisation period and amortisation method**

- (56) A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the unit of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method.

### **Residual value**

- (57) The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. The residual value of an intangible asset with a finite useful life shall be assumed to be zero. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

### **Review of amortisation period and amortisation method**

- (58) During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortisation period needs to be changed.

- (59) Over time, the pattern of future economic benefits expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortisation is appropriate rather than a straight-line method.

## **Intangible assets with indefinite useful lives**

- (60) An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. An intangible asset with an indefinite useful life shall not be amortised.

### **Review of useful life assessment**

- (61) Reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable amount, determined in accordance with Statement of Financial Accounting Standards No. 35, *Impairment of Assets*, with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount as an impairment loss.

## **Retirements and disposals**

- (62) The consideration receivable on disposal of an intangible asset is recognised initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with Statement of Financial Accounting Standards No. 32, *Revenue*, reflecting the effective yield on the receivable.
- (63) Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset

has been fully depreciated or is classified as held for sale (or included in a disposal group that is classified as held for sale).

#### IV Accounting Standards

##### Recognition and measurement

- (64) The recognition of an item as an intangible asset requires an entity to demonstrate that the item simultaneously meets all of the following requirements:
- (a) the definition of an intangible asset:
    - (i) identifiability; and
    - (ii) control; and
    - (iii) future economic benefits.
  - (b) the recognition criteria:
    - (i) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
    - (ii) the cost of the asset can be measured reliably.

These requirements apply to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

- (65) An asset meets the identifiability criterion in the definition of an intangible asset when it:
- (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or

liability; or

- (b) 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.
- (66) An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.
- (67) An intangible asset shall be measured initially at cost. However, for an intangible asset acquired by way of a government grant, an entity shall apply the requirements and guidance in paragraph 72.

##### Separate acquisition

- (68) Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset.
- (69) 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 should be recognized as interest expense over the period of credit by applying the effective interest method. The straight-line method may be applied if the outcome of the amortization is not significantly different between the straight-line method and the effective interest method. However, this requirement does not apply to interest capitalised in accordance with Statement of Financial Accounting Standards No. 3, *Borrowing Cost*.

##### Acquisition as part of a business combination

- (70) An acquirer recognises at the acquisition date an intangible asset of the acquiree if the asset's fair value can be measured reliably. When

measuring the difference between investment cost and underlying equity in net assets in accordance with Statement of Financial Accounting Standards No. 5, *Long-term Equity Investments under Equity Method*, the acquirer shall also consider an intangible asset of the acquiree in accordance with the above requirement. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset and its fair value can be measured reliably.

**Subsequent expenditure on an acquired in-process research and development project**

(71) That subsequent expenditure on an in-process research or development project in a business combination and recognised as an intangible asset is:

- (a) recognised as an expense when incurred if it is research expenditure;
- (b) recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 78; and
- (c) added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 78.

This requirement also applies to the subsequent expenditure on an in-process research or development acquired separately.

**Acquisition by way of a government grant**

(72) An entity shall recognize an intangible asset acquired free of charge, or for nominal consideration, by way of a government grant at fair value in accordance with Statement of Financial Accounting Standards No. 29, *Accounting for Government Grants and Disclosure of*

*Government Assistance.*

**Exchanges of assets**

(73) One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an intangible asset is measured at fair value. The acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up if:

- (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.

(74) An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (ie risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows.

(75) If an entity is only able to determine reliably the fair value of the asset

given up, then the fair value of the asset given up shall be used to measure the cost of the asset received. Similarly, if an entity is only able to determine reliably the fair value of the asset received, then the fair value of the asset received shall be used to measure the cost. If an entity is able to determine 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 cost unless the fair value of the asset received is more clearly evident.

### **Internally generated intangible assets**

(76) To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into a research phase and a development phase. If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

#### **Research phase**

(77) No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

#### **Development phase**

(78) An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) its intention to complete the intangible asset and use or sell it.
- (c) its ability to use or sell the intangible asset.

- (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
  - (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
  - (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.
- (79) Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.

### **Internally generated goodwill**

(80) Internally generated goodwill shall not be recognised as an asset.

### **Recognition of an expense**

- (81) Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:
- (a) it forms part of the cost of an intangible asset that meets the definition of an intangible asset and the recognition criteria ; or
  - (b) this expenditure (included in the cost of the business combination) shall form part of the amount attributed to goodwill at the acquisition date in accordance with Statement of Financial Accounting Standards No. 25, *Business Combinations*.
- (82) Expenditure on an intangible item that was initially recognised as an

expense shall not be recognised as part of the cost of an intangible asset at a later date.

### Measurement after recognition

- (83) After initial recognition, an intangible asset shall be carried at its cost plus revaluation appreciation according to laws and regulations, less any accumulated amortisation and any accumulated impairment losses.

### Useful life

- (84) An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.
- (85) 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.
- (86) Existence of the following factors, among others, indicates that an entity would be able to renew the contractual or other legal rights without significant cost:
- (a) there is evidence, possibly based on experience, that the contractual or other legal rights will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;

- (b) there is evidence that any conditions necessary to obtain renewal will be satisfied; and
- (c) the cost to the entity of renewal is not significant when compared with the future economic benefits expected to flow to the entity from renewal.

### Intangible assets with finite useful lives

#### Amortisation period and amortisation method

- (87) The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method. Amortisation shall begin when the asset is available for use, and cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used.

#### Residual value

- (88) The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
  - (b) there is an active market for the asset and:
    - (i) residual value can be determined by reference to that

market; and

- (ii) it is probable that such a market will exist at the end of the asset's useful life.

(89) The residual value is reviewed at least at each financial year-end. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with Statement of Financial Accounting Standards No. 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

(90) 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 amortization charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

#### **Review of amortisation period and amortisation method**

(91) The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with Statement of Financial Accounting Standards No. 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

#### **Intangible assets with indefinite useful lives**

(92) An intangible asset with an indefinite useful life shall not be amortised.

#### **Review of useful life assessment**

(93) The useful life of an intangible asset that is not being amortised shall be reviewed each 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 shall be accounted for as a change in an accounting estimate in accordance with Statement of Financial Accounting Standards No. 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

#### **Recoverability of the carrying amount—impairment losses**

(94) To determine whether an intangible asset is impaired, an entity applies Statement of Financial Accounting Standards No. 35, *Impairment of Assets*.

An entity shall assess at each reporting date whether there is any indication that an intangible asset may be impaired.

An entity is required to test an intangible asset with an indefinite useful life for impairment annually, and whenever there is an indication that the intangible asset may be impaired.

#### **Retirements and disposals**

(95) An intangible asset shall be derecognised:

- (a) on disposal; or
- (b) when no future economic benefits are expected from its use or disposal.

(96) The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised (unless

Statement of Financial Accounting Standards No. 2, *Leases*, requires otherwise on a sale and leaseback).

(97) An intangible asset shall be treated as a disposal when all the following conditions have been satisfied:

- (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the intangible assets ;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the intangible assets sold;
- (c) the amount of disposal can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(98) If in accordance with the recognition principle in paragraph 2 (b) (i) and (ii) an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognises the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.

## Disclosure

### General

(99) An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

- (a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
- (b) the amortisation methods used for intangible assets with finite useful lives;
- (c) the initial cost, revaluation appreciation, accumulated amortisation and accumulated impairment losses at the beginning and end of the period;
- (d) the line item(s) of the income statement in which any amortisation of intangible assets is included;
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
  - (i) additions, indicating separately those acquired separately, those acquired through business combinations, a government grant, and exchanges of assets, and those from internal development;
  - (ii) assets classified as held for sale or included in a disposal group classified as held for sale and other disposals;
  - (iii) in accordance with Statement of Financial Accounting Standards No. 35, *Impairment of Assets* (if any) :
    - 1 impairment losses recognised or reversed directly in equity during the period (if any);
    - 2 impairment losses recognised in profit or loss during the period (if any);
    - 3 impairment losses reversed in profit or loss during the period (if any);
  - (iv) any amortisation recognised during the period;

(v) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

(vi) other changes in the carrying amount during the period.

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

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

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

(101) The Statement of Financial Accounting Standards No. 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in the assessment of an intangible asset's useful

life, the amortisation method, or residual values.

(102) An entity shall also disclose:

- (a) for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall consider the factor(s) that are listed in the paragraph 51 and describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.
- (b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements.
- (c) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.
- (d) the amount of contractual commitments for the acquisition of intangible assets.

#### **Research and development expenditure**

(103) An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

#### **Other information**

(104) An entity is encouraged, but not required, to disclose the following information:

- (a) a description of any fully amortised intangible asset that is still in use; and
- (b) a brief description of significant intangible assets controlled by

the entity but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before the version of this Statement.

## VI Notes

(105) This Statement was issued on July 20, 2006, and shall be effective for financial statements for the fiscal year beginning on and after January 1, 2007. Earlier adoption is permitted.

(106) The entity shall not adjust the carrying amount of intangible assets recognised when applying this Standard. However, the entity shall, at that date, apply this Standard to reassess the useful lives of its recognised intangible assets. If, as a result of that reassessment, the entity changes its assessment of the useful life of an asset, that change shall be accounted for as a change in an accounting estimate in accordance with Statement of Financial Accounting Standards No. 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The provisions of this Statement need not be applied to immaterial items.