

INTANGIBLE ASSETS

IPSAS 31

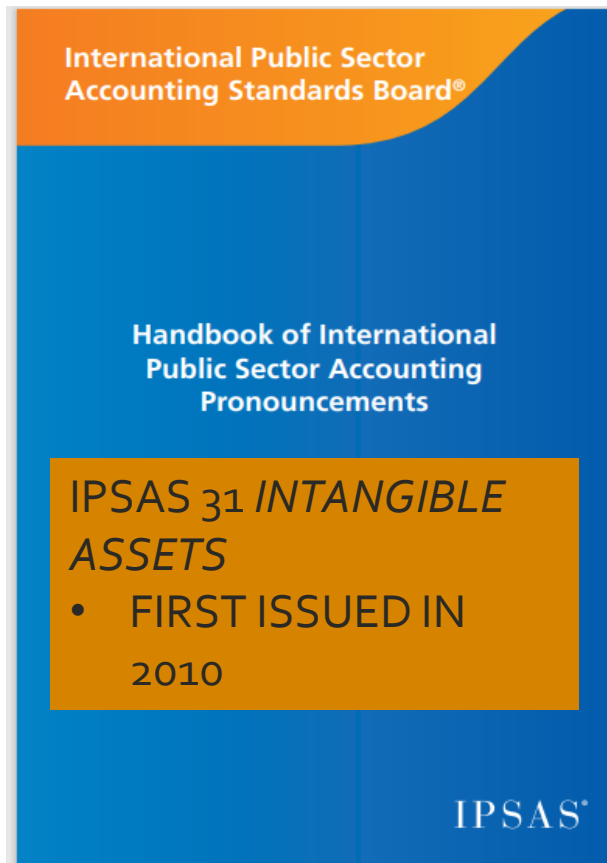
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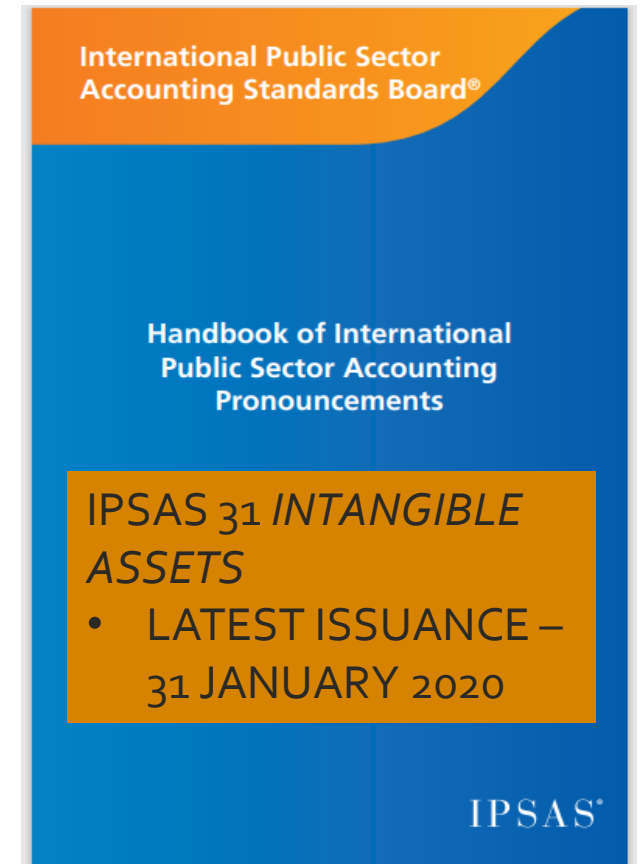
Participants are hereby advised that entity specific matters concerning the application of the MFRSs and the appropriate treatment should be addressed by the preparers with their respective auditors and/or their independent accounting advisors.

HISTORY OF IPSAS 31 *INTANGIBLE ASSETS*



AMENDED BY:

- IMPROVEMENTS TO IPSAS 2011 – 2018
- IPSAS 32 *SERVICE CONCESSION ARRANGEMENTS: GRANTOR* (2015)
- IPSAS 33 *FIRST TIME ADOPTION OF ACCRUAL BASIS IPSAS* (2015)
- IPSAS 35 *CONSOLIDATED FINANCIAL STATEMENTS* (2015)
- IPSAS 37 *JOINT ARRANGEMENTS* (2015)
- THE APPLICABILITY OF IPSAS (2016)
- IMPAIRMENT OF REVALUED ASSETS – AMENDMENTS TO IPSAS 21 & 26 (2016)
- IPSAS 39 *EMPLOYEE BENEFITS* (2016)
- IPSAS 40 *PUBLIC SECTOR COMBINATIONS* (2017)



A Comparison with MFRS 138

	IPSAS 31	MFRS 138
Powers & rights conferred by legislation, a constitution, or by equivalent means	Scope exclusion	Within scope
Recognition of intangible heritage assets	Doesn't require or prohibit	Doesn't have similar guidance
Intangible assets acquired by way of government grant	Modify to refer to IA acquired through non-exchange transactions	Provide guidance
Exchanges of assets when an exchange transaction lacks commercial substance	Doesn't have similar guidance	Provide guidance

A Comparison with MFRS 138

	IPSAS 31	MFRS 138
Different terminology - examples	<ul style="list-style-type: none"> • Revenue • Surplus or deficit • Rights from binding arrangement • Future economic benefits or service potential 	<ul style="list-style-type: none"> • Income • Profit or loss • Contractual or other legal rights • Future economic benefits
Examples	Modified for public sector circumstances	
Standing Interpretation Committee's Interpretation 32	Added as application guidance	

Scope of IPSAS 31

- Applied in accounting for intangible assets (IAs) except for (IPSAS 31:3):
 - IAs within the scope of another Standard, e.g.,
 - Those held for sale in course of business (IPSAS 12 & IPSAS 11)
 - Leases within scope of IPSAS 13
 - Employee benefit assets (IPSAS 39)
 - Recognition and initial measurement of service concession assets (IPSAS 32)
 - Goodwill in BC (IPSAS 40)
 - **Financial assets**, as defined in IPSAS 28
 - **Intangible heritage assets** (Disclosure requirements)

- IA acquired in business combinations
- Goodwill acquired in business combinations
- Non-current IA classified as held for sale

Intangible heritage assets

- Does not require recognition. (31.11)
- If recognise, must apply disclosure requirements and may apply measurement requirements.
- Rarely held for their ability to generate cash inflows. May have legal and social obstacles to using them (31.13)
- Some have future economic benefits or service potential - royalties for use of historical recording – recognised and measured similar to other cash-generating intangible assets (31.14)

What is an intangible asset?

- An intangible asset is defined as (31:16):

An identifiable non-monetary asset without physical substance

- The *Conceptual Framework* defines an asset as a resource:
 - ***controlled*** by the entity as a result of past events; and
 - A resource is an item with ***service potential (SP)*** or the ability to generate ***future economic benefits (FEP)***.

IDENTIFIABILITY

- An intangible asset is **identifiable** when it (31:19)
 - Is ***separable*** (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or as part of a package) regardless of whether the entity decides to do so; ***or*** e.g. unpatented technology
 - arises from **binding arrangements (*rights from contracts or other legal rights*)**, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. e.g. a broadcasting license

IDENTIFIABILITY

- An entity should be in a position to **control** the use of the intangible asset (31:21).
 - Control implies the ***power to*** both ***obtain the FEB or SP Flowing*** from the asset as well as to ***restrict others to those benefits or service potential***.
 - The question of control can most easily be demonstrated through the existence of legally enforceable rights (e.g. a brand name protected by a trademark), but this is not always a prerequisite for control (e.g. an intellectual property could be kept a secret from outsiders).



- The interrelated rules of identifiability, control, and FEB/SP effectively mean that certain items, particularly internally generated goodwill, brands, etc. cannot be recognised as assets.
- IPSAS 31 specifically ***prohibits*** the recognition of goodwill, brands, mastheads, publishing titles, customer lists and items similar that are internally generated (31:61).
 - Expenditures on these internally generated intangibles cannot be distinguished from the cost of developing the business as a whole.

Recognition

An item is recognised as an IA when entity can demonstrate if it (31:26)

Meets the definition of intangible asset; and

Meets both recognition criteria

An intangible asset **shall be recognised** as an asset if, and only if (31:28):

- (i) It is ***probable*** that ***expected FEB*** or ***SP*** associated with the asset will flow to the entity; **and**
- (ii) The ***cost or fair value*** of the asset can be ***measured reliably***.

Note:

- Criteria **applied at time costs incurred**.
- Applies to costs **incurred initially** to acquire or internally generate an IA ***and*** **incurred subsequently** to add to, replace part of or service it.

Measurement - Overview

Initial recognition

- At cost for exchange transaction or internally generated
- At fair value for asset acquired through non-exchange transaction

Apply AP to entire class of IA

Subsequent recognition
Choose AP (31:71)

Cost Model

At cost *less* accumulated depn and accumulated impairment losses (31:73)

OR

Revaluation Model

At revalued amount *less* subsequent accumulated depn and accumulated impairment losses (31:74)

Initial measurement

- 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)

Measure at Cost

-
-
-
-
-



How to
measure
cost?

Separate purchase - Cost

Costs include:

- a) Purchase price plus import duties and non-refundable purchase taxes less trade discounts and rebates; and
- b) Directly attributable to bringing asset to condition necessary for it to be capable of operating in manner intended by management.

Separate purchase

- Cost

- Costs incurred **after** asset placed in working condition necessary for it to be capable of operating in manner intended by management (the cut-off point) **are not** be included in carrying amount of asset.
- These include:
 - Costs incurred while an item capable of operating in manner intended by management has **yet to be brought into use**;
 - Initial operating losses, such as those incurred while demand for the item's output builds up; and
 - Costs of using or redeploying the item.

Separate purchase

- Cost

- The cost of an intangible asset is the cash price equivalent at the recognition date -
 - If payment is deferred beyond normal trade credit terms, the cash price equivalent is arrived at by discounting the deferred payment (or payments) to present value.
 - Discount rate? – rate currently charged by others for similar debt instruments?
 - The difference between the cash price equivalent and the total payments is recognised as interest over the period of the credit (or unwinding of discount) – finance costs; unless capitalised per IPSAS 5.

Acquired as part of an acquisition (Public Sector Combination - Cost

- The cost of an intangible asset acquired as part of an acquisition is its **FV at the date of the acquisition** (31:39A & IPSAS 40).
- An acquirer recognises, separately from goodwill, intangible assets of the acquiree irrespective of whether the asset has been recognised by the acquiree before the acquisition.
 - Consider In-Process R&D (31:39B)
- If an intangible asset acquired in a BC is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset (31:39C).
 - A range of possible outcomes with different probabilities does not indicate that FVs cannot be measured, rather those probabilities are incorporated in its measurement.

Internally generated - Cost

Internally generated Goodwill

- Is **not recognised** as an intangible asset (31:46).

It fails to meet the criteria of

- **Reliable measurement;**
- **Lack of identity separate from other resources;**
- **Control by the reporting entity.**

Others

- IPSAS 31 specifies **additional** rules on recognition criteria.

Because of:

- **The inherent uncertainties surrounding the likely FEB arising from such assets, and**
- **The difficulties in determining cost reliably.**

Internally generated - R vs. D

- IPSAS 31 identifies 2 different phases in generation of the asset (31:50):
 - Research phase
 - 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 (31:51).

Internally generated - Research phase

- By their nature, research costs will not meet the criteria for recognition of an internally generated IA – can't demonstrate generating probable FEB/SP
- All expenditure shall be recognised **as an expense when it is incurred** (31:52).
- Examples of research activities are (31:54):
 - activities aimed at obtaining new knowledge;
 - the search for, evaluation and final selection of, applications of research findings or other knowledge;
 - the search for alternatives for materials, devices, products, processes, systems or services; and
 - the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Internally generated - Development phase

An IA shall be recognised, but only if it can be demonstrated that all of the following six criteria have been met (31:55).

- 1) the *technical feasibility* of completing the IA so that it will be available for use or sale
- 2) the entity's *intention to complete the IA and use or sell it*
- 3) the entity's *ability to use or sell the IA*
- 4) how the IA will generate *probable FEBs/SP*. Among other things, the entity can demonstrate the existence of a market for the output of the IA or the IA itself or, if it is to be used internally, the usefulness of the IA
- 5) the *availability of adequate* technical, financial and other *resources to complete the development and to use or sell the IA*
- 6) the entity's ability to *measure reliably the expenditure* attributable to the IA during its development

Internally generated - Development phase

- Examples of development activities are (31:57):
 - the design, construction and testing of pre-production or pre-use prototypes and models;
 - the design of tools, jigs, moulds and dies involving new technology;
 - the design, construction and operation of a pilot plant or operation that is not of a scale economically feasible for commercial production or use in providing services;
 - the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services; and
 - Website costs and software development costs.

Internally generated - Cost

**Cost elements = Sum of expenditure incurred whilst recognition criteria met
(31:63)**

Comprises all costs directly attributable, or can be reasonably allocated, to create, produce and prepare the IA for its intended use (31:64)

Examples include:

- **Costs of materials & services used or consumed in generating IA;**
- **Cost of employee benefits**
- **Fees to register a legal right**
- **Amortisation of patents & licenses used to generate IA**

Selling and administrative costs, inefficiencies and initial operating deficits and the costs of training staff to use the asset are excluded (31:65)

Borrowing costs per IPSAS 5

Web site costs

- A web site arising from development shall be recognised as an intangible asset if, and only if:
 - the general requirements described in *IPSAS 31:28 for recognition and initial measurement are met, and*
 - an entity can *satisfy the (six) criteria requirements in IPSAS 31:55* . Particular attention to how an entity meets criterion 55(d) -

An entity is not able to demonstrate how a web site developed primarily for promoting and advertising its own products and services will generate probable future economic benefits or service potential; all expenditure on developing such a web site shall be recognised as an expense when incurred.

Web site costs

Stage	Accounting treatment
Planning Stage	Treated like research costs - expensed
Application and Infrastructure Development stage, Graphical Design stage, Content Development stage	Capitalised as an intangible asset as long as expenditure is not for advertising entity's products on the website (i.e. photographs of products) and can be directly attributed to the website development to operate in a manner intended by management (31:28, 31:55)
Operating stage	Expensed if does not meet the definition of IA and recognition criteria in para. 28.
Other – selling & admin expenditure, employees training	Expensed

Web site costs - exclusions

- Expenditure on purchasing, developing, and operating hardware (e.g. servers and internet connections) of a web site are accounted for under IPSAS 17.
- IPSAS 31 does not apply to situations where the entity is in the business of creating websites for others.
- Expenditure on an Internet service provider hosting the entity's web site is expensed when incurred.

Revaluation model

- The revalued amount is the **fair value** of the intangible asset **at the date of the revaluation** -
 - FV is determined by reference to an ***active market*** (31:74).

- An active market is (IPSAS 21:14):

A market in which all the following conditions exist:

- **The items traded within the market are homogeneous;**
- **Willing buyers and sellers can normally be found at any time; and**
- **Prices are available to the market.**

- Existence of an active market is considered rare - would expect that in most cases the cost model would be used.

Revaluation model

- Note: the revaluation model **does not permit** (31:75):
 - The revaluation of intangible assets that have not been previously recognised as assets;
or
 - The initial recognition of intangible assets at amounts other than cost.

Revaluation model

- Revaluations shall be carried out **regularly**, so that the CA of the asset does not differ materially from its FV at the reporting date (31:74).
 - Frequency of revaluations required depends on the movements in FVs of assets subject to valuation (31:78)
 - Items that experience significant and volatile movements in FVs require annual revaluations.

- If an item is revalued, the **entire class** of assets to which that asset belongs shall be revalued, unless there is no active market for those assets (31:71).
 - In which case, those assets are carried using the cost model (31:80).
- Applied to the whole of asset notwithstanding that only part of the cost was recognised as an asset (31:76).

Revaluation model

“Class” of assets

A grouping of assets of a similar nature and use in entity's operations
(31:118)

- **Examples** include:
 - Brand names
 - Mastheads and publishing titles
 - Computer software
 - Licences
 - Copyrights, patents and other industrial property rights, service and operating rights
 - Recipes, formulae, models, designs & prototypes
 - IAs under development

USEFUL LIFE

- An entity shall **assess** whether the **useful life** of an intangible asset is (31:87):
 - **Finite**, and if so, the length of, or number of production or similar units

The useful life of asset that arises from binding arrangements (rights from contracts or other legal rights) shall not exceed that period (31:93).

Where term of contractual or other legal rights can be renewed, useful life shall include renewal period only if there is evidence to support renewal by the entity without significant cost (31:93, 95)

- OR



USEFUL LIFE

FINITE

- An entity shall **assess** whether the **useful life** of an intangible asset is (31:87):
 - **Indefinite** (note: not infinite (31:90))

Based on an analysis of all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provide service potential to, the entity (31:87).

Backed by evidence and analysis supporting that there are no legal, regulatory, contractual, competitive, economic or other factors that limit the life of asset.

Disclose the CA and reasons supporting this decision (31:121(a)).

Amortisation

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life (31:96). (Straight-line?)

- **Commences** when asset is available for use.
- **Ceases** at earlier of date asset classified as held for sale & date asset derecognised.
- Recognised as an expense, unless another IFRS permits or requires it to be included in the CA of another asset.

- Method shall reflect the pattern in which the asset's economic benefits or service potential are consumed.
- Period & method shall be **reviewed** at least at each reporting date, any changes shall be accounted for as changes in accounting estimates according to IPSAS 3 (31:103).

Indefinite useful life

An intangible asset with an indefinite useful life shall not be amortised (31:106)

- Reviewed each period to determine whether events & circumstances continue to support an indefinite useful life assessment for the asset.
- If they do not, useful life changed to finite – treated as accounting estimate change.

- However, impairment review required at least annually.
- Change from indefinite to finite is an indicator that asset may be impaired - entity tests asset for impairment.

Impairment

- IPSAS 21 or 26 applies to intangible assets.
- Specifically, it requires:
 - Annual (and whenever necessary) impairment testing for IA with indefinite lives; and
 - When change of status made to asset from indefinite to finite life.
- In addition, if IA **not yet in use** need to test for impairment annually (and whenever necessary).

Derecognition

- An asset shall be *derecognised*, i.e. removed from the statement of financial position:
 - on disposal or
 - when it is withdrawn from use and no future economic benefits or service potential are expected from its use or disposal.
- The gain or loss on derecognition is the difference between the net disposal proceeds and the carrying amount and shall be recognised in surplus or deficit (unless IPSAS 13 requires otherwise on a sale and leaseback).
- Gains shall not be recognised as revenue.

DISCLOSURES

Refer to the model financial statements and the cross references to the relevant IFRSs for an understanding of IPSAS 31 disclosures

Consolidated statement of financial position

As at 31 December 2013

	Notes	2013 €000	2012 €000	IPSAS 1.53, IPSAS 1.63 (c) IPSAS 1.53, IPSAS 1.63 (d) (e)
Assets				
Current assets				
Cash and cash equivalents	26	3,481,533	3,304,129	IPSAS 1.88 (i)
Receivables from exchange transactions	27	2,912,503	2,551,029	IPSAS 1.88 (h)
Receivables from non-exchange transactions	28	1,378,826	1,359,401	IPSAS 1.88 (g)
Current portion of long-term receivables from exchange transactions	27	19,758	19,193	IPSAS 1.88 (g)
Inventories	29	254,385	236,634	IPSAS 1.88 (f)
Investments	30	2,883,350	2,146,596	IPSAS 1.88 (b)
		10,930,355	9,616,982	IPSAS 1.70, IPSAS 1.76
Non-current assets				
Property, plant and equipment	31	24,412,408	21,783,237	IPSAS 1.88 (a)
Investments	30	111,492	-	IPSAS 1.88 (e), IPSAS 7.44
Intangible assets	32	100,432	44,884	IPSAS 1.88 (c)
Investment property	33	192,478	84,999	IPSAS 1.88 (b)
Long term receivables from exchange transactions	27	99,328	115,526	IPSAS 1.88 (g)
		24,916,138	22,028,646	IPSAS 1.70, IPSAS 1.76
Total assets		35,846,493	31,645,628	IPSAS 1.89

32. Intangible assets - software

	€000	<i>IPSAS 31.117 (e)</i>
Cost		
At 1 January 2012	<u>318,584</u>	
Additions	8,393	<i>IPSAS 31.117 (e)(i)</i>
At 31 December 2012	<u>326,977</u>	
Additions - internal development	71,291	
At 31 December 2013	<u>398,268</u>	
Amortization and impairment		
At 1 January 2012	(271,886)	
Amortization	(10,207)	<i>IPSAS 31.117 (e)(vi)</i>
At 31 December 2012	<u>(282,093)</u>	
Amortization	(15,018)	
Impairment loss	(725)	
At 31 December 2013	<u>(297,836)</u>	
Net book values		
At 31 December 2013	<u>100,432</u>	
At 31 December 2012	<u>44,884</u>	

The Group has incurred research and development costs during the period, to advance its renewable energy program. These costs are not eligible for capitalization and have been subsequently expensed. The expense amounted to €9.800 billion (2012: €8.200 billion).

IPSAS 31.125

i) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

*IPSAS 31.31
IPSAS 31.43*

The useful life of the intangible assets is assessed as either finite or indefinite.

IPSAS 31.73

Intangible assets with a finite life is amortized over its useful life:

IPSAS 31.55

Software

10 - 20 years

*IPSAS 31.87
IPSAS 31.96
IPSAS 26.22
IPSAS 31.103*

Intangible assets with a finite useful life are assessed for impairment whenever there is an indication that the asset may be impaired.

The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in surplus or deficit as the expense category that is consistent with the nature of the intangible asset.

*IPSAS 31.117

IPSAS 31.106
IPSAS 31.107
IPSAS 31.108

IPSAS 31.112*

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is derecognized.

2.2 Summary of significant accounting policies *continued*

Research and development costs

The Group expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Group can demonstrate:

IPSAS 31.52
IPSAS 31.55

- ▶ The technical feasibility of completing the asset so that the asset will be available for use or sale
- ▶ Its intention to complete and its ability to use or sell the asset
- ▶ How the asset will generate future economic benefits or service potential
- ▶ The availability of resources to complete the asset
- ▶ The ability to measure reliably the expenditure during development

IPSAS 31.73

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

IPSAS 26.23

IPSAS 26.73

IPSAS 31.121

THANK YOU