



**INTERNATIONAL FEDERATION
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Agenda Item

8

DATE: October 1, 2008
MEMO TO: Members of the IPSASB
FROM: Joy Keenan
SUBJECT: Intangible Assets

OBJECTIVE OF THIS SESSION

To **approve** ED 3x, “IPSAS xx, “Intangible Assets”

AGENDA MATERIAL

8.1 ED 3x, “Intangible Assets”: Mark-up copy reflecting changes to IAS 38

ACTION REQUIRED

The IPSASB is asked to:

- **Consider** the key issues noted below
- **Review** and **approve** draft ED 3x

BACKGROUND

Scope of project

In June, the Board reached decisions on the following items to be excluded from the scope of this project:

- Rights granted by statute or regulation
- Emissions Trading Schemes

The Board also concluded that the following items should be included in the scope of the project:

- The Guidance from Standards Interpretation Committee (SIC) 32, *Intangible Assets – Web Site Costs*
- Public sector terminology and examples

IAS 38 contains guidance on business combinations in relation to another IAS. The IPSASB is currently in the process of developing a standard on entity combinations, so staff believes this guidance should be excluded from the scope of the project until the entity combinations standard is approved.

See the detailed discussion of these scope issues at Issue 1, below.

Drafting

The ED is shown in markup form from IAS 38, except for the Introduction and Basis for Conclusions sections. Changes to reflect formatting and spelling conventions are not

reflected in the ED. The Introduction section is substantially the same as the Introduction to IAS 38, except for the discussion of the scope of the IPSAS, which is necessarily specific to this Standard.

In drafting the Exposure Draft, staff consulted the South African Standard of Generally Recognized Accounting Practice (GRAP) 102, *Intangible Assets*. That standard, issued in 2007, addresses many of the concerns the Board required for the ED. Accordingly, when appropriate, staff has incorporated the South African approach in drafting the ED. These instances are noted in [red text references], immediately following the relevant paragraphs. Notable differences from GRAP 102 are set out in item 5(c) below, for your consideration.

References to SIC-32 are also shown immediately following the relevant paragraphs.

Illustrative examples

In June, the Board agreed to incorporate public sector examples in the ED. As GRAP 102 contained such examples, the wording of those examples was used in place of certain of the IAS 38 examples that were not considered to reflect public sector circumstances.

ISSUES FOR DISCUSSION

1. Scope exclusions

The following issues are excluded from the scope of this project:

- (a) Rights granted by statute or legislation
- (b) Emissions trading schemes
- (c) Business (entity) combinations

As indicated above, the Board had agreed that items (a) and (b) should be excluded from the project. Rights granted by statute or legislation will be addressed in the IPSASB Conceptual Framework project, phase 2. Emissions Trading Schemes is on the IPSASB's list potential projects, which is reviewed regularly when setting project priorities.

IAS 38 contains a number of references to intangibles acquired in business combinations. Staff has deleted these examples, consistent with GRAP 102, on the basis that the entity combinations standard needs to be in place to properly assess the applicability and suitability of the guidance to the public sector.

Scope inclusions

- (a) Binding arrangements – the ED includes references to binding arrangements with IAS 38 references to contracts (i.e., “contracts (including binding arrangements)”. This treatment is consistent with GRAP 102. The Board agreed in June that the term “binding arrangement” will be defined in the financial instruments project, and would include both contractual and non-contractual arrangements. This wording in the ED may, therefore, need to be revisited when the financial instruments project is finalized.
- (b) Rights to naturally occurring assets – consistent with GRAP 102, staff has added references and examples to rights to naturally occurring assets, such as the right to use water and land throughout the ED.

Decision requested: Do you agree with the way the scope exclusions have been addressed in the Standard and the Introduction and Basis for conclusions sections? If not what changes should be made when finalizing the ED?

2. Definition of an asset/intangible asset – relationship to conceptual framework project

The definition of an asset is pivotal to this project, as the definition of an intangible asset in IAS 38 (and the ED) is predicated on the definition of an asset.

The ED defines an **intangible asset** as:

“...an identifiable non-monetary asset without physical substance.”

Paragraph 17 of the ED provides further guidance on “identifiable”.¹

The ED defines **an asset**² as:

“... a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits or service potential are expected to flow to the entity.”

Paragraph 28 requires:

“An intangible asset shall be recognized if, and only if:

- (a) it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and**
- (b) the cost or fair value of the asset can be measured reliably.”**

It is not clear why the recognition criteria in IAS 38 paragraph 28 of the ED repeat certain of the criteria in paragraph 17 of the ED for asset recognition. In particular, subparagraphs (a) and (b) seem to be circular – they presuppose that the item is an asset in determining whether to recognize the item as an intangible asset.

An alternative that would improve the clarity of the requirement would be to simply state:

Expenditure on an intangible item³ shall be recognized as an intangible asset if, and only if:
(a) it meets the definition of an intangible asset; and
(b) its cost or fair value can be measured reliably.

Staff believes this alternative wording⁴ would be also more consistent with the way the IAS 38 treats expenditures on intangible items that are expensed.

Paragraph 78 requires:

¹ The wording of the GRAP 102 criterion for identifiability differs from the IAS 38 definition. However, the wording difference is due to the fact that it does not take into account the IASB improvements to IAS 38 – both the IASB improvements up to 31 December 2006 and those issued up to 17 January 2008. The latest version of IAS 38 incorporates amendments issued up to 17 January 2008.

² IPSAS 1, “Presentation of Financial Statements” defines an asset consistent with this definition.

³ The term “intangible resources” could be used here, consistent with paragraph 15 of the ED.

⁴ This wording change has not been made in paper 8.1.

“Expenditure on an intangible item shall be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 25-77).”

Paragraph 16 of the ED paraphrases paragraph 78 as noted below:

“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 recognized as an expense when it is incurred.”

For clarity and consistency, staff believes the wording in paragraph 16 could also be changed slightly, as follows:

Expenditure to acquire an intangible item that does not meet the definition of an intangible asset is recognized as an expense when it is incurred.

The Board has allowed for the possibility of changing IAS wording if doing so would improve the clarity and application of the standard.

This issue has an impact, for example, on the drafting of the sections of the ED dealing with expenditures on research and development, which could more clearly indicate which of the intangible asset recognition criteria are not met for research expenditures (paragraphs 56-58) and which additional criteria are required to be met for intangible asset recognition for development expenditures (paragraphs 59-65) respectively. In particular, the recognition criteria for development expenditures in paragraph 59 are circular and presuppose treatment as an asset, similar to paragraph 28, in that they refer to “intangible asset” rather than “expenditure on an intangible item.”

It is not proposed, however, that the wording of those sections of the ED be changed, as the changes proposed to paragraphs 16 and 28, if adopted, would improve the clarity of the recognition criteria upfront.

Decision requested: The Board is asked to consider whether it is necessary to clarify the guidance in IAS 38 dealing with the criteria for recognition of expenditures on intangible items in paragraph 16 and paragraph 28 of the ED. Do you also agree that it is not necessary to also change the wording in paragraphs 56-65 in a similar fashion? Consider also whether this issue has any impact on phase 2 of the Conceptual Framework project?

If you agree that the wording of paragraphs 16 and 28 should be changed, do you support the alternative wording set out in the shaded text above?

3. SIC-32

Similar to GRAP 102, the ED incorporates all of the relevant guidance from SIC-32 in one place within the Standard (see paragraphs 73-77).

Staff also included relevant definitions from SIC-32 in paragraph 14 of the ED as well as SIC-32 scope exclusions (see paragraphs 11-13). The GRAP does not include the definitions or the scope exclusion. Also paragraph 77 of the ED pertaining to the useful life of capitalized web site costs is not included in the GRAP because only

matters of principle from the IFRIC interpretations are included in the GRAP Standards.⁵

The placement of the material in the ED is immediately before the section on “cost of an internally generated intangible asset,” whereas the GRAP places the material before the section dealing with internally generated intangible brands.

Decision requested: The Board is asked to consider whether the material on web site costs is included in the ED in the appropriate manner and location. In particular, do you agree with the inclusion of web site development stages in paragraph 14, and with the scope exclusions from SIC-32 in paragraphs 11-13? Do you agree that the inclusion of paragraph 77 is appropriate?

4. Relationship to IPSAS 23, “Revenue from Non-exchange Transactions (Taxes and Transfers)”

IAS 38 contains a section dealing with intangible assets acquired by way of a government grant. GRAP 102 contains a section dealing with intangible assets acquired at no or at nominal cost. Staff has combined the material in GRAP 102 and the material in IAS 38.44 in paragraphs 33-36 of the ED, and has made specific reference to the IPSAS 23, which deals with the accounting for such transactions.

Decision requested: The Board is asked to consider whether the combination of non-exchange transactions and intangible assets acquired at no or at nominal cost, and the specific changes noted above, are appropriate.

5. Examples

As indicated previously, staff has based changes to the illustrative examples included in the ED on those in GRAP 102 (including both those embedded in the body of the standard and in Appendix A). One area of change is that the example following paragraph 65 of IAS 38 has been moved to Appendix A, and changed to be consistent with GRAP 102.

Decision requested: The Board is asked to consider the relevance and appropriateness of the revised illustrative examples in Appendix A and as noted throughout the ED.

6. Other issues

- (a) IPSAS 26 is consistent with IAS 36 regarding assessing impairment of an asset. Staff has added a sentence in paragraph 118 to address the different requirements in IPSAS 21 regarding assessing impairment.
- (b) Paragraphs 136-137 provide guidance on disclosure requirements for research and development expenditure that is expensed in accordance with paragraphs 56-65.

⁵ However, the ASB subsequently agreed to issue Interpretations as separate, stand alone documents. The guidance from SIC 32 included in GRAP 102 will therefore be deleted, and issued separately. This paragraph will then be included as part of the standalone interpretation as part of the ASB’s improvements project scheduled for next year.

- Although such expenditure is not intangible asset per se, this guidance is retained to be consistent with IAS 38.
- (c) The following disclosure guidance/requirement from IAS 38 is included in the ED, but is not in GRAP 102:
- Paragraph 48 (IAS 38.46) contains guidance on determining whether an exchange transaction has commercial substance. GRAP 102 excludes this guidance as it was felt it is included in the GRAP dealing with non-exchange transactions. Staff did not find specific guidance on this issue in IPSAS 23, “Revenue from Non-exchange Transactions” and accordingly, has retained this material from IAS 38.
 - Paragraph 129(d) pertaining to industrial property rights and splits out service and operating rights.
 - Paragraph 129(f) pertaining to “recipes.”
 - Paragraph 132(c) contains disclosure requirements on intangible assets acquired at no or a nominal cost, or by way of a non-exchange transaction.

Decision requested: The Board is asked to consider whether the issues noted above are appropriately addressed in the ED.

Exposure Draft 3x

November 2008

Comments are requested by March 31, 2009

*Proposed International Public Sector Accounting
Standard*

Intangible Assets



International Federation
of Accountants

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, *Intangible Assets*, for publication in October 2008. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **March 31, 2009**. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
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Email responses should be sent to: publicsectorpubs@ifac.org

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

ACKNOWLEDGMENT

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Objective

The objective of this Exposure Draft is to propose the accounting treatment for intangible assets of public sector entities that is harmonized with IAS 38.

Presentation of the Proposed Amendments To IAS 38

The Exposure Draft presents a marked-up copy of the full text of IAS 38. The proposed changes are identified in mark-up. Additional guidance relevant to the public sector is inserted following the appropriate IAS 38 paragraph.

Request for Comments

The IPSASB invites comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The IPSASB has identified the following Specific Matter for Comment that it is particularly interested in.

Specific Matter for Comment

The IPSASB would particularly value comments on the following question:

Do you agree that the changes made to IAS 38, in particular the scope exclusions and the additional public sector guidance are:

- Necessary in the circumstances?
- Appropriately reflected in the revised wording?

IPSAS xx INTANGIBLE ASSETS

Contents

	Paragraph
Introduction	
Reasons for Issuing this Standard	
Objective	1
Scope	2 - 13
Definitions	14
Intangible Assets	15 – 24
Identifiability	17 - 19
Control	20 – 23
Future Economic Benefits or Service Potential	24
Recognition and Measurement	25 -77
Intangible Assets Acquired at No or a Nominal Cost and other Non-exchange Transactions	33 - 36
Separate Acquisition—	37 - 44
Acquisition as Part of a Business Combination	
— Acquisition by way of a Government Grant	
Subsequent Expenditure on an Acquired In-process Research and Development Project	45- 46
Exchanges of Assets	47- 49
Internally Generated Goodwill	50 - 52
Internally Generated Intangible Assets	53 - 77
Research phase	56 - 58
Development phase	59 - 69
Cost of an internally generated intangible capital asset	70 - 72
Web site costs	73 - 77
Recognition of an Expense	78 - 81
Past Expenses not to be Recognized as an Asset	81
Measurement after Recognition	82 - 96
Cost Model	84
Revaluation Model	85 - 96
Useful Life	98 - 106
Intangible Assets with Finite Useful Lives	107 - 116
Amortization Period and Amortization Method	107 - 109
Residual Value	110 - 113
Review of Amortization Period and Amortization Method	114 - 116
Intangible Assets with Indefinite Useful Lives	117 - 120
Review of Useful Life Assessment	119 - 120
Recoverability of the Carrying Amount - Impairment Losses	121
Retirements and Disposals	122 - 127
Disclosure	128 - 138
General	128 - 133
Intangible Assets Measured after Recognition using the Revaluation Model	134 - 135
Research and Development Expenditure	136 - 137

Other Information	138
Transitional Provisions and Effective Date	139 - 140
— Exchanges of Similar Assets	
— Early Application	
Basis for Conclusions	
Appendix A – Illustrative Examples	
Appendix B – Web Site Costs	

Introduction

IN1. The standard prescribes the accounting and disclosure by public sector entities for intangible assets. It is based on IAS 38, “Intangible Assets.”

Scope

IN2. This Standard excludes all the guidance contained in IAS 38 on accounting for intangible assets acquired as part of an entity combination and in-process research and development costs acquired in an entity combination. The standard does not apply to rights granted by statute or legislation or to Emissions Trading schemes.¹

IN3. The Standard incorporates guidance on accounting for web site costs from SIC Interpretation 32, *Intangible Assets – Web Site Costs*, including an appendix to illustrate the relevant accounting principles.

IN4. The Standard incorporates guidance on certain public sector issues that are not addressed in IAS 38, including rights to naturally occurring assets, intangible assets acquired at no or a nominal cost and other non-exchange transactions and rights arising from binding arrangements. It also replaces certain of the IAS 38 examples with examples relevant to the public sector. Public sector terminology replaces certain IAS 38 wording, as required.

IN5. IAS 38 requires intangible assets to be measured initially at cost. This Standard states that, where an intangible asset is acquired at no cost or for a nominal consideration, or by way of other non-exchange transactions, its cost is its fair value as at the date it is acquired in accordance with IPSAS 23, “Revenue from Non-exchange Transactions (Taxes and Transfers).”

Definition of an intangible asset

IN6. The Standard states that an asset meets the “identifiable” criterion in the definition of an intangible asset when it:

- (a) is separable, i.e., 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 rights (including rights arising from binding arrangements) or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

¹ The nature of rights granted by statute or legislation will be addressed in the IPSASB Conceptual Framework project, phase 2, particularly a consideration of the definition of assets in relation to powers and rights. Emissions Trading Schemes is on the IPSASB’s list potential projects, which is reviewed regularly when setting project priorities.

IN7. In the public sector, the “identifiable” criterion has been expanded to include contractual rights arising from binding arrangements.

Criteria for initial recognition

IN8. The Standard requires an intangible asset to be recognized if, and only if, it was probable that the expected future economic benefits or service potential attributable to the asset would flow to the entity, and its cost could be measured reliably.

Subsequent expenditure

IN9. The Standard requires subsequent expenditure on an acquired in-process research and development to be:

- (a) recognized as an expense when incurred if it is research expenditure;
- (b) recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognizing such expenditure as an intangible asset; and
- (c) recognized as an intangible asset if it is development expenditure that satisfies the criteria for recognizing such expenditure as an intangible asset.

Useful life

IN10. The Standard requires an intangible asset to be regarded 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.

IN11. The Standard requires that:

- (a) the useful life of an intangible asset arising from contractual rights (including rights arising from binding arrangements) or other legal rights should not exceed the period of those rights, but may be shorter depending on the period over which the asset is expected to be used by the entity; and
- (b) if the rights are conveyed for a limited term that can be renewed, the useful life should include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

Intangible assets with indefinite useful lives

IN12. The Standard requires that:

- (a) an intangible asset with an indefinite useful life should not be amortized.

- (b) the useful life of such an asset 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.

Impairment testing intangible assets with finite useful lives

- IN13. An entity needs to determine the recoverable amount of an intangible asset with a finite useful life that is amortized over a period exceeding twenty years from the date it is available for use only when, in accordance with IPSAS 26, there is an indication that the asset may be impaired.

Disclosure

- IN14. If an intangible asset is assessed as having an indefinite useful life, the Standard requires an entity to disclose the carrying amount of that asset and the reasons supporting the indefinite useful life assessment.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognize an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the recognition, measurement and disclosure of intangible assets.
3. This Standard shall be applied in accounting for intangible assets, except:
 - (a) intangible assets that are within the scope of another Standard;
 - (b) financial assets, as defined in IAS 32 IPSAS 15, “Financial Instruments: Disclosure and Presentation;”
 - (c) the recognition and measurement of exploration and evaluation assets (see **the relevant international or national accounting standard dealing with exploration for and evaluation of mineral resources**); and
 - (d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.
4. This Standard applies to all public sector entities other than Government Business Enterprises.
5. This Standard does not apply to:
 - (a) Rights granted by statute or legislation.²
 - (b) Emissions Trading schemes.³
- 6.3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

² The nature of these rights will be addressed in the IPSASB Conceptual Framework project, phase 2.

³ This topic is on the IPSASB’s list potential projects, which is reviewed regularly when setting project priorities.

- (a) ~~I~~ntangible assets held by an entity for sale in the ordinary course of business (see ~~IPSAS 12~~~~IAS 2~~, “Inventories” and ~~IPSAS~~~~IAS 11~~, “Construction Contracts.”)
- (b) ~~D~~eferred tax assets (see ~~IAS 12~~ the relevant international or national accounting standard dealing with income ~~t~~axes).
- (c) ~~L~~eases that are within the scope of ~~IPSAS 13~~~~IAS 17~~ “Leases.”
- (d) ~~A~~ssets arising from employee benefits (see ~~IPSAS 25~~~~IAS 19~~ “Employee Benefits”).
- (e) ~~F~~inancial assets as defined in ~~IAS 32~~~~IPSAS 15~~. The recognition and measurement of some financial assets are covered by ~~IPSAS 6~~ ~~IAS 27~~, “Consolidated and Separate Financial Statements, ” ~~IPSAS 7~~~~IAS 28~~ “Investments in Associates” and ~~IPSAS 8~~~~IAS 31~~, “Interests in Joint Ventures.”
- (f) ~~G~~oodwill acquired in a business combination (see ~~IFRS 3~~ the relevant international or national accounting standard dealing with entity Business ~~c~~ombinations).
- (g) ~~D~~eferred acquisition costs, and intangible assets, arising from an insurer’s contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with IFRS 4 ~~i~~nsurance ~~c~~ontracts. ~~IFRS 4 sets out~~ In cases when the relevant international or national accounting standard does not set out specific disclosure requirements ~~for those deferred acquisition costs but not~~ for those intangible assets. ~~Therefore~~, the disclosure requirements in this Standard apply to those intangible assets.
- (h) ~~N~~on-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with ~~IFRS 5~~ the relevant international or national accounting standard dealing with Non-current assets held for sale and discontinued operations.

7.4 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 under ~~IAS 16~~~~IPSAS 17~~, “Property, Plant and Equipment” 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 property, plant and equipment. 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.

- [8.5](#) 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 (e.g., a prototype), the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.
- [69.](#) 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 ~~IAS 17~~[IPSAS 13, “Leases”](#) and are within the scope of this Standard.
- [10.7](#) Exclusions from the scope of a Standard may occur if activities or transactions are so specialized that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of insurance contracts. Therefore, this Standard does not apply to expenditure on such activities and contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.
- [11.](#) This Standard applies to an entity’s own web site that arises from development and is for internal or external access. [From SIC 32.7]
- [12.](#) This Standard does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under IPSAS 17. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity’s web site, the expenditure is recognized as an expense when the services are received. [From SIC 32.5, amended to remove references to IAS.]
- [13.](#) This Standard does not apply to intangible assets held by an entity for sale in the ordinary course of business (see IPSAS 12 and IPSAS 11) or leases that fall within the scope of IPSAS 13. Accordingly, this Standard does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity. When a web site is leased under an operating lease, the lessor applies this Interpretation. When a web site is leased under a finance lease, the lessee applies this Interpretation after initial recognition of the leased asset. [From SIC 32.6, amended to remove references to IAS.]

Definitions

- [14.8](#) The following terms are used in this Standard with the meanings specified:

An *active market* is a market in which all the following conditions exist:

- (a) the items traded in the market are homogeneous;
- (b) willing buyers and sellers can normally be found at any time; and
- (c) prices are available to the public.

Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

An *asset* is a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits or service potential are expected to flow to the entity.

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated amortization and accumulated impairment losses thereon.

Cost is 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, or, when applicable, the amount attributed to that asset when initially recognized ~~in accordance with the specific requirements of other IFRSs, e.g., IFRS 2, Share-based payment.~~

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Fair value of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

An *impairment loss* is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An *intangible asset* is an identifiable non-monetary asset without physical substance.

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

The *residual value of an intangible asset* is 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.

Useful life is:

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

Web site development stages:

The stages of a web site's development can be described as follows:

- (a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- (b) Application and Infrastructure Development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- (c) Graphical Design Development – includes designing the appearance of web pages.
- (d) Content Development – includes creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. This information may either be stored in separate databases that are integrated into (or accessed from) the web site or coded directly into the web pages.
- (e) Operating Stage – begins once development of a web site has been completed. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.

[Items (a)-(d) from SIC-32.2, item (e) from SIC-32.3]

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Intangible Assets

15.9 Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists and the right to use water and/or land; ~~mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.~~

16.10 Not all the items described in paragraph 15.9 meet the definition of an intangible asset, i.e., identifiability, control over a resource and existence of future economic benefits or service potential. 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 recognized 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 (see paragraph 68).~~

Identifiability

~~11. — The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not 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.~~

17.12 An asset is identifiable if it either:

- (a) is separable, i.e., 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, identifiable asset or liability, regardless of whether the entity intends to do so; or
- (b) arises from contractual rights (including rights arising from binding arrangements) or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. [GRAP 10.12]

18. Entities may execute a regulatory right over certain activities, for example, fishing, mining or industries such as telecommunications and energy. These regulatory rights and the power to transfer, license, rent or execute such rights, does not meet the definition of an intangible asset when these rights are granted in terms of statute. These rights, once issued, are usually an intangible asset of those individuals or entities that acquired each right, provided that the acquirer can demonstrate that the definition and recognition criteria of an intangible asset are met. [GRAP 102.13]
19. The rights to use naturally occurring assets, including non-cultivated biological resources and water rights, which are administrated by government, must be recognized as intangible assets when the recognition criteria in paragraph 28 are met. When the recognition criteria have been met, those rights that have been acquired, transferred, or donated and that are not included in the value of the associated land should be recognized as intangible assets. [GRAP 102.15]

Control

- ~~20.~~¹³ An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential 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 or service potential 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 or service potential in some other way.
- ~~21.~~¹⁴ Market and technical knowledge may give rise to future economic benefits or service potential. 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.
- ~~22.~~¹⁵ An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential 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 or service potential 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 or service potential expected from it, and it also meets the other parts of the definition.
- ~~23.~~¹⁶ 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 [or service potential](#) from customer relationships and loyalty for such items (e.g., 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 [or service potential](#) 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 [or Service Potential](#)

[24.17](#) The future economic benefits [or service potential](#) 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, a municipality develops a system that allows citizens to renew licences on-line. This system results in increased service potential to deliver municipal services rather than increased future revenues.](#)~~For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.~~[\[New example from GRAP, paragraph 20\]](#)

Recognition and Measurement

[25.18](#) The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

- (a) the definition of an intangible asset (see paragraphs [158-2417](#)); and
- (b) the recognition criteria (see paragraphs [2821-3123](#)).

This requirement applies 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.

[26.19](#) Paragraphs [33-36 deal with intangible assets acquired at no or a nominal cost, or by way of other non-exchange transactions](#), paragraphs [3725-4432](#) deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs [4533-4643](#) deal with ~~their application to intangible assets acquired in a business combination~~ subsequent expenditure on an acquired in-process research and development project. ~~Paragraph 44 deals with the initial measurement of intangible assets acquired by way of a government grant.~~ Paragraphs [45-46 deal with subsequent expenditure on an acquired in-process research and development project](#), paragraphs [4745-49479](#) with exchanges of intangible assets, and paragraphs [5048-5052](#) with the treatment of internally generated goodwill.

Paragraphs ~~5153-6772~~ deal with the initial recognition and measurement of internally generated intangible assets. Paragraphs 73-77 deal with web site costs.

27.9 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 or service potential 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 incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset—be recognized in the carrying amount of an asset. Consistently with paragraph ~~6663~~, subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally acquired or internally generated) is always recognized in profit or loss surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the business as a whole.

28.21 **An intangible asset shall be recognized if, and only if:**

- (a) **it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and**
- (b) **the cost or fair value of the asset can be measured reliably.**

29.22 **An entity shall assess the probability of expected future economic benefits or service potential 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.**

30.23 An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential 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.

31. A distinction between the costs incurred in the acquisition, development and construction of an item of property, plant and equipment, and the intangible asset associated with the item of property, plant and equipment needs to be made when both the tangible and the intangible asset are recognized and measured. An intangible asset should only be recognized when the requirements in paragraph 28 have been met. For example, an airport is generally separable from the landing rights associated with the airport. If the landing rights meet the criteria specified in paragraph 28, the landing rights should be recognized as an intangible asset. The recognition criteria in IPSAS 17, “Property, Plant and Equipment” should be applied to the recognition of the airport building. [GRAP 102.27]

32.24 An intangible asset shall be measured initially at cost.

Intangible Assets Acquired at No or a Nominal Cost, or by way of other Non-exchange Transactions

Acquisition by way of a Government Grant

33. When an intangible asset is acquired at no or a nominal cost, or by way of other non-exchange transactions, the cost shall be its fair value as at the date of acquisition. [GRAP 102.29]

34.44 In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, ~~or by way of other non-exchange transactions by way of a government grant.~~ This may happen when another public sector entity 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 IAS 20 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. If an entity chooses not to recognise the asset initially at fair value, the entity recognises the asset initially at a nominal amount (the other treatment permitted by IAS 20) plus any expenditure that is directly attributable to preparing the asset for its intended use.~~

An intangible asset may also be donated or contributed to the entity. For example, a private medical research facility donates a patent for a vaccine to a public sector entity that manufactures the vaccine to be used in public health care facilities. An intangible asset may also be acquired at nil or nominal consideration through the exercise of powers of sequestration. [GRAP 102.30, slight modifications]

35. Such transactions should be accounted for in accordance with IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers).” IPSAS 23 requires the cost of the item to be measured at its fair value as at the date it is acquired. [GRAP 102.30, slight modifications]

36. For the purposes of this Standard, the measurement at initial recognition of an intangible asset acquired at no or a nominal cost, at its fair value consistent with the requirements of paragraph 33, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 85 and the supporting commentary in paragraphs 86-90 only apply where an entity elects to revalue an intangible asset in subsequent reporting periods. [GRAP 102.31]

Separate Acquisition

37.25 Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other

words, the entity expects there to be an inflow of economic benefits [or service potential](#), even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph [28+\(a\)](#) is always considered to be satisfied for separately acquired intangible assets.

[38.26](#) 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.

[39.27](#) 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.

[40.28](#) Examples of directly attributable costs are:

- (a) costs of employee benefits (as defined in [IAS 19/IPSAS 25](#)) 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.

[41.29](#) 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.

[42.30](#) 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. 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.

~~43.31~~ 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. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the ~~revenue~~~~income~~ and related expenses of incidental operations are recognized immediately in ~~profit or loss~~~~surplus or deficit~~, and included in their respective classifications of ~~income~~~~revenue~~ and expense.

~~44.32~~ 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 recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in IPSAS 5/IAS 23, “Borrowing Costs.”

Measuring the Fair Value of an Intangible Asset Acquired in a Business Combination

~~35~~ — ~~If an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. 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. 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.~~

~~36~~ — ~~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 recognizes 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.~~

~~37~~ — ~~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.~~

~~38~~ — ~~Not used in IAS 38~~

- 39 — ~~Quoted market prices in an active market provide the most reliable estimate of the fair value of an intangible asset (see also paragraph 78). The appropriate market price is usually the current bid price. If current bid prices are unavailable, the price of the most recent similar transaction may provide a basis from which to estimate fair value, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the asset's fair value is estimated.~~
- 40 — ~~If no active market exists for an intangible asset, its fair value is the amount that the entity would have paid for the asset, at the acquisition date, in an arm's length transaction between knowledgeable and willing parties, on the basis of the best information available. In determining this amount, an entity considers the outcome of recent transactions for similar assets.~~
- 41 — ~~Entities that are regularly involved in the purchase and sale of unique intangible assets may have developed techniques for estimating their fair values indirectly. These techniques may be used for initial measurement of an intangible asset acquired in a business combination if their objective is to estimate fair value and if they reflect current transactions and practices in the industry to which the asset belongs. These techniques include, when appropriate:~~
- ~~(a) — applying multiples reflecting current market transactions to indicators that drive the profitability of the asset (such as revenue, market shares and operating profit) or to the royalty stream that could be obtained from licensing the intangible asset to another party in an arm's length transaction (as in the 'relief from royalty' approach); or~~
 - ~~(b) — discounting estimated future net cash flows from the asset.~~

Subsequent Expenditure on an Acquired In-process Research and Development Project

45.42 Research or development expenditure that:

- (a) relates to an in-process research or development project acquired separately ~~or in a business combination~~ and recognized as an intangible asset; and**
- (b) is incurred after the acquisition of that project**

shall be accounted for in accordance with paragraphs 5654-6562.

46.43 Applying the requirements in paragraphs 5654-6562 means that subsequent expenditure on an in-process research or development project acquired separately ~~or in a business combination~~ and recognized as an intangible asset is:

- (a) recognized as an expense when incurred if it is research expenditure;**

- (b) recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 597; 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 597.

Exchanges of Assets

[47.45](#) 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 following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

[48.46](#) 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 (i.e., 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. The result of these analyses may be clear without an entity having to perform detailed calculations.

[49.47](#) Paragraph ~~281~~(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. 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 Goodwill

50.48 Internally generated goodwill shall not be recognized as an asset.

51.49 In some cases, expenditure is incurred to generate future economic benefits or service potential, 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 recognized as an asset because it is not an identifiable resource (i.e., 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.

52.50 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.

Internally Generated Intangible Assets

53.51 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 or service potential; 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 542-672 to all internally generated intangible assets.

54.52 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.

Although the terms 'research' and 'development' are defined, the terms 'research phase' and 'development phase' have a broader meaning for the purpose of this Standard.

[55.53](#) 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

[56.54](#) **No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred.**

[57.55](#) In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential. Therefore, this expenditure is recognized as an expense when it is incurred.

[58.56](#) 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

[59.57](#) **An intangible asset arising from development (or from the development phase of an internal project) shall be recognized 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 or service potential. 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.**

[60.58](#) 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 or service potential. This is because the development phase of a project is further advanced than the research phase.

[61.59](#) 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.

[62.](#) An example of research and development costs is when the department of defense conducts research into, and subsequently develops, a weapon system. Research costs include costs incurred to evaluate alternative systems, the formulation of a proposed system, the design and finalization of a possible system. Development costs include the actual design, testing and development of a particular weapon system. Costs are recognized from the point that it is concluded that the development will be successful. [GRAP 102.56]

[63.60](#) To demonstrate how an intangible asset will generate probable future economic benefits or service potential, an entity assesses the future economic benefits or service potential to be received from the asset using the principles in [IAS 36](#) [IPSAS 21](#), “Impairment of Non-Cash-Generating Assets” or [IPSAS 26](#), “Impairment of Cash-Generating Assets.” If a cash-generating ~~the~~ asset will generate economic benefits or service potential only in combination with other assets, the entity applies the concept of cash-generating units in [IAS 36](#) [IPSAS 26](#).

[64.61](#) Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a business plan showing the technical, financial and other resources needed and the entity’s ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender’s indication of its willingness to fund the plan.

- [65.62](#) An entity's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing copyrights or licences or developing computer software.
- [66.63](#) **Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets.**
- [67.64](#) 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-operation](#) as a whole. Therefore, such items are not recognized as intangible assets.
- [68.](#) For example, a municipality develops a database of property owners that will be used to determine who owns the property within the municipality's jurisdiction. The database will allow the municipality to deliver services more effectively. The expenditure incurred during the development of the database cannot be distinguished from the cost incurred by the municipality to meet the statutory obligation. The development of the database of property owners is complying with the requirement of the statute. Such costs should be recognized as an expense rather than an intangible asset in accordance with paragraph 66. [GRAP102.66]
- [69.](#) Another example will be where the department of defence maps the coastline and ocean beds surrounding a coastline. The information obtained will be used by the department to deliver a better and more effective service. The costs to develop and prepare these maps should be recognized as an expense rather than as an intangible asset. However, copies of these maps can also be held for sale by the department, in which case the IPSAS 12, "Inventories" should be applied. [GRAP102.67]

Cost of an Internally Generated Intangible Asset

- [70.65](#) The cost of an internally generated intangible asset for the purpose of paragraph [3224](#) is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs [2821](#), [2922](#) and [5957](#). Paragraph [8174](#) prohibits reinstatement of expenditure previously recognized as an expense.
- [71.66](#) 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 (as defined in ~~IAS 19~~ [IPSAS 25](#)) arising from the generation of the intangible asset;

- (c) fees to register a legal right; and
- (d) amortization of patents and licences that are used to generate the intangible asset.

~~IAS 23-IPSAS 5~~ specifies criteria for the recognition of interest as an element of the cost of a an internally generated intangiblequalifying asset.

72.67 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.

~~Example illustrating paragraph 65~~

~~An entity is developing a new production process. During 20X5, expenditure incurred was CU1000^(a), of which CU900 was incurred before 1 December 20X5 and CU100 was incurred between 1 December 20X5 and 31 December 20X5. The entity is able to demonstrate that, at 1 December 20X5, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be CU500.~~

~~At the end of 20X5, the production process is recognized as an intangible asset at a cost of CU100 (expenditure incurred since the date when the recognition criteria were met, i.e., 1 December 20X5). The CU900 expenditure incurred before 1 December 20X5 is recognized as an expense because the recognition criteria were not met until 1 December 20X5. This expenditure does not form part of the cost of the production process recognized in the balance sheet.~~

~~During 20X6, expenditure incurred is CU2,000. At the end of 20X6, the recoverable amount of the know how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be CU1,900.~~

~~At the end of 20X6, the cost of the production process is CU2,100 (CU100 expenditure recognized at the end of 20X5 plus CU2,000 expenditure recognized in 20X6). The entity recognizes an impairment loss of CU200 to adjust the carrying amount of the process before impairment loss (CU2100) to~~

~~its recoverable amount (CU1900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in IAS 36 are met.~~

~~^(*) In this Standard, monetary amounts are denominated in 'currency units (CU)':~~

[Example above moved to Appendix and changed to relevant example in GRAP 102.68]

Web site costs

73. An entity may incur internal expenditure on the development and operation of its own web site for internal or external access. A web site designed for external access may be used for various purposes, such as to promote and advertise an entity's own products and services, to provide electronic services, to sell products and services and to list approved supplier details. A web site designed for internal access may be used to store entity policies and customer details, and search relevant information. [GRAP-102.60]
74. An entity's own web site that arises from development and is for internal or external access, is an internally generated intangible asset that is subject to the requirements of this Standard. [GRAP-102.61]
75. A web site arising from development should be recognized as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph 28 for recognition and initial measurement, an entity can satisfy the requirements in paragraph 59. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits or service potential in accordance with 59(d) when, for example, the web site is used for increased service delivery when used by taxpayers to submit tax returns electronically. When an entity is not able to demonstrate how a web site developed to comply with a statute or to be used primarily in providing information to the public at large on the generation of future economic benefits or service potential, all expenditure on developing such a web site should be recognized as an expense when incurred. [SIC-32.8, minor editing]
76. Any internal expenditure on the development and operation of an entity's own web site should be accounted for in accordance with this Standard. The nature of each activity for which expenditure is incurred (e.g., training employees and maintaining the web site) and the web site's stage of development or post-development should be evaluated to determine the appropriate accounting treatment (additional guidance is provided in Appendix B). For example:
- (a) Expenditure incurred in the planning stage is similar in nature to the research phase in paragraphs 56-58 and should be recognized as an expense when it is incurred. [SIC-32.9a edited]

- (b) Expenditure incurred in the application and infrastructure development stage, the graphical design stage and the content development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own products and services should be included in the cost of a web site recognized as an intangible asset when the expenditure can be directly attributed and is necessary to creating producing or preparing the web site for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own products and services) specifically for a web site, or expenditure to enable use of the content (e.g., a fee for acquiring a user number) on the web site, should be included in the cost of development when this condition is met. However, in accordance with paragraph 81, expenditure on an intangible item that was initially recognized as an expense in previous financial statements should not be recognized as part of the cost of an intangible asset at a later date; [SIC-32.9b/GRAP 102]
- (c) Expenditure incurred in the content development stage, to the extent that content is developed to advertise and promote an entity's own products and services (e.g., digital photographs of products and services), should be recognized as an expense when incurred in accordance with paragraph 79(c). For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products or services and for enhancing the entity's service delivery, expenditure should be recognized as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site. [SIC-32.9c/GRAP 102]
- (d) Expenditure incurred in the operating stage should be recognized as an expense when it is incurred unless it meets the recognition criteria in paragraph 28. [SIC32.9d]

77. A web site that is recognized as an intangible asset under this Standard should be measured after initial recognition by applying the requirements of paragraphs 82-97. The best estimate of a web site's useful life should be short. [SIC-32.10]

Recognition of an Expense

78.68 Expenditure on an intangible item shall be recognized as an expense when it is incurred unless:

- ~~(a) it forms part of the cost of an intangible asset that meets the recognition criteria-(see paragraphs 18-6725-77); or~~
- ~~(b) the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, form part of the amount recognised as goodwill at the acquisition date (see IFRS 3).~~

79.69 In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In these cases, the expenditure is recognized as an expense when it is incurred. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 5654), ~~except when it forms part of the cost of a business combination~~. Other examples of expenditure that is recognized as an expense when it is incurred include:

- (a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with ~~IAS 16~~ IPSAS 17, “Property, Plant and Equipment.” 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 operation (i.e., pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e., preoperating costs).
- (b) Expenditure on training activities.
- (c) Expenditure on advertising and promotional activities.
- (d) Expenditure on relocating or reorganizing part or all of an entity.

80.70 Paragraph 7868 does not preclude recognizing a prepayment as an asset when payment for the delivery of goods or services has been made in advance of the delivery of goods or the rendering of services.

Past Expenses not to be Recognized as an Asset

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

Measurement after Recognition

82.72 **An entity shall choose either the cost model in paragraph 8474 or the revaluation model in paragraph 8575 as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.**

83.73 A class of intangible assets is a grouping of assets of a similar nature and use in an entity’s operations. The items within a class of intangible assets are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements representing a mixture of costs and values as at different dates.

Cost Model

84.74 After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

Revaluation Model

85.75 After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the balance sheet reporting date the carrying amount of the asset does not differ materially from its fair value.

86.76 The revaluation model does not allow:

- (a) the revaluation of intangible assets that have not previously been recognized as assets; or
- (b) the initial recognition of intangible assets at amounts other than cost.

87.77 The revaluation model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 70.65), the revaluation model may be applied to the whole of that asset. ~~Also, the revaluation model may be applied to an intangible asset that was received by way of a government grant and recognized at a nominal amount (see paragraph 44).~~

88.78 It is uncommon for an active market with the characteristics described in paragraph 148 to exist for an intangible asset, although this may happen. For example, an active market may exist for freely transferable bus routes, fishing licences or production quotas. ~~For example, in some jurisdictions, an active market may exist for freely transferable taxi licences, fishing licences or production quotas.~~ However, an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents or trademarks, because each such asset is unique. Also, although intangible assets are bought and sold, contracts are negotiated between individual buyers and sellers, and transactions are relatively infrequent. For these reasons, the price paid for one asset may not provide sufficient evidence of the fair value of another. Moreover, prices are often not available to the public. [Changed examples are from GRAP 102.81]

89.79 The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revalued. If the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in fair value,

thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in fair value.

90.80 If an intangible asset is revalued, any accumulated amortization at the date of the revaluation is either:

- (a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
- (b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

91.81 If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortization and impairment losses.

92.82 If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.

93.83 The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with [IAS 36](#) [IPSAS 21](#) or [IPSAS 26](#).

94.84 If the fair value of the asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

95.85 If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be ~~recognised in other comprehensive income~~ credited directly to ~~equity under the heading of a~~ revaluation surplus. However, the increase shall be recognized in ~~profit or loss~~ surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognized in ~~profit or loss~~ surplus or deficit.

96.86 If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in ~~profit or loss~~ surplus or deficit. However, the decrease shall be ~~recognised in other comprehensive income~~ ~~However, the decrease shall be~~ debited directly to ~~equity under the heading of revaluation surplus a~~ revaluation surplus to the extent of any credit balance in the revaluation surplus in respect of that asset.

97.87 The revaluation surplus included in net assets may be transferred directly to ~~retained earnings~~ accumulated surpluses or deficits when the surplus is realized. The whole surplus may be realized on the retirement or disposal of the asset.

However, some of the surplus may be realized as the asset is used by the entity; in such a case, the amount of the surplus realized is the difference between amortization based on the revalued carrying amount of the asset and amortization that would have been recognized based on the asset's historical cost. The transfer from revaluation surplus to ~~retained earnings~~accumulated surpluses or deficits is not made through ~~surplus or deficit~~profit or loss.

Useful Life

98.88 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.

99.89 The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized (see paragraphs ~~10797-116406~~), and an intangible asset with an indefinite useful life is not (see paragraphs ~~117407-120410~~). The Illustrative Examples accompanying this Standard illustrate the determination of useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations (see Appendix A).

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

- (a) the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
- (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 or service potential 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.

101.91 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.

102.92 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.

103.93 The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.

104.94 **The useful life of an intangible asset that arises from contractual rights (including rights arising from binding arrangements) 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 rights (including rights arising from binding arrangements) 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. ~~The useful life of a reacquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.~~**

105.95 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 or service potential will be received by the entity. Legal factors may restrict the period over which the entity controls access to ~~these such economic~~ benefits or service potential. The useful life is the shorter of the periods determined by these factors.

106.96 Existence of the following factors, among others, indicates that an entity would be able to renew the contractual rights (including rights arising from binding arrangements) or other legal rights without significant cost:

- (a) there is evidence, possibly based on experience, that the contractual rights (including rights arising from binding arrangements) 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 or service potential expected to flow to the entity from renewal.

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

Amortization Period and Amortization Method

107.97 The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall 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) in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations IFRS 5 and the date that the asset is derecognized. The amortization method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortization charge for each period shall be recognized in profit or loss surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

108.98 A variety of amortization 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 or service potential 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 or service potential. There is rarely, if ever, persuasive evidence to support an amortization method for intangible assets with finite useful lives that results in a lower amount of accumulated amortization than under the straight-line method.

109.99 Amortization is usually recognized in profit or loss surplus or deficit. However, sometimes the future economic benefits or service potential embodied in an asset are absorbed in producing other assets. In this case, the amortization charge constitutes part of the cost of the other asset and is included in its carrying

amount. For example, the amortization of intangible assets used in a production process is included in the carrying amount of inventories (see [IAS-2 IPSAS 12](#), “Inventories”).

Residual Value

~~110.100~~ **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.**

~~111.101~~ The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

~~112.102~~ An estimate of an asset’s residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each [financial year-end reporting date](#). A change in the asset’s residual value is accounted for as a change in an accounting estimate in accordance with IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors.”

~~113.103~~ 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 Amortization Period and Amortization Method

~~114.104~~ **The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each [financial year-end reporting date](#). If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits [or service potential](#) embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall**

be accounted for as changes in accounting estimates in accordance with IAS 8/IPSAS 3.

~~115.405~~ 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 amortization period needs to be changed.

~~116.406~~ Over time, the pattern of future economic benefits or service potential expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortization is appropriate rather than a straight-line method. Another example is if use of the rights represented by a licence is deferred pending action on other components of the business plan. In this case, economic benefits or service potential that flow from the asset may not be received until later periods.

Intangible Assets with Indefinite Useful Lives

~~117.407~~ **An intangible asset with an indefinite useful life shall not be amortized.**

~~118.408~~ In accordance with ~~IAS 36~~ IPSAS 26, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount

- (a) annually, and
- (b) whenever there is an indication that the intangible asset may be impaired.

In accordance with IPSAS 21, an entity is required to assess at each reporting date whether there is an indication that an asset may be impaired.

Review of Useful Life Assessment

~~119.409~~ **The useful life of an intangible asset that is not being amortized 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 IAS 8/IPSAS 3.**

~~120.410~~ In accordance with ~~IAS 36~~ IPSAS 21 or IPSAS 26, 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 ~~IAS 36~~ IPSAS 21 or 26, with its carrying amount, and recognizing any excess of the carrying amount over the recoverable amount as an impairment loss.

Recoverability of the Carrying Amount—Impairment Losses

~~121.111~~ To determine whether an intangible asset is impaired, an entity applies ~~IAS 36~~ IPSAS 21 or IPSAS 26. ~~Those~~ Standards explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognizes or reverses an impairment loss.

Retirements and Disposals

~~122.112~~ An intangible asset shall be derecognized:

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

~~123.113~~ 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 recognized in profit or loss surplus or deficit when the asset is derecognized (unless ~~IAS 17~~ IPSAS 13 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

~~124.114~~ The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or by donation). In determining the date of disposal of such an asset, an entity applies the criteria in ~~IAS 18~~ IPSAS 9, “Revenue from Exchange Transactions” for recognizing revenue from the sale of goods or IPSAS 23 for recognizing revenue from non-exchange transactions. ~~IAS 17~~ IPSAS 13 applies to disposal by a sale and leaseback.

~~125.115~~ If, in accordance with the recognition principle in paragraph ~~21~~ 28, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognizes 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.

~~115A~~ ~~In the case of a reacquired right in a business combination, if the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, shall be used in determining the gain or loss on reissue.~~

~~126.116~~ The consideration receivable on disposal of an intangible asset is recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with ~~IAS 18~~ IPSAS 9 reflecting the effective yield on the receivable.

~~127.117~~ Amortization 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) in accordance with IFRS 5—the relevant international or national standard dealing with non-current assets held for sale and discontinued operations.

Disclosure

General

~~128.118~~ 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 amortization rates used;
- (b) the amortization methods used for intangible assets with finite useful lives;
- (c) the gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
- (d) the line item(s) of the income statement~~statement of financial performance~~ in which any amortization 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 from internal development and, those acquired separately, ~~and those acquired through business combinations~~;
 - (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5—the relevant international or national standard dealing with non-current assets held for sale and discontinued operations;
 - (iii) ~~and~~ other disposals;
 - (iv) increases or decreases during the period resulting from revaluations under paragraphs 8575, 9585 and 9686 and from impairment losses recognized or reversed ~~in other~~

~~comprehensive income~~ in accordance with ~~IAS 36~~IPSAS 21 or IPSAS 26 (if any);

- (iv) impairment losses recognized in ~~profit or loss during the period in~~ accordance with ~~IAS 36~~IPSAS 21 or IPSAS 26 (if any);
- (vi) impairment losses reversed ~~in profit or loss during the period~~ in accordance with ~~IAS 36~~IPSAS 21 or IPSAS 26 (if any);
- (vii) any amortization recognized during the period;
- (viii) 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

~~(ix)~~(viii) other changes in the carrying amount during the period.

~~129.119~~ 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;
- ~~(a)~~~~(b)~~ mastheads and publishing titles;
- ~~(b)~~~~(e)~~ computer software;
- ~~(c)~~~~(d)~~ licences;
- ~~(d)~~~~(e)~~ copyrights, patents and other industrial property rights, service and operating rights;
- ~~(e)~~ ~~(f)~~ rights to use naturally occurring assets, for example the right to use water;
- (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.

~~130.120~~ An entity discloses information on impaired intangible assets in accordance with ~~IPSAS 21~~IAS 36 or IPSAS 26 in addition to the information required by paragraph ~~128.118~~(e)(iii)-(vi).

~~131.121~~**HAS-8** IPSAS 3 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:

- (a) the assessment of an intangible asset's useful life;
- (b) the amortization method; or
- (c) residual values.

~~132.122~~**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 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 amortization period of any individual intangible asset that is material to the entity's financial statements.**
- (c) **for intangible assets acquired at no or at nominal cost, or by way of a government grant non-exchange transaction and initially recognized at fair value (see paragraph 3344):**
 - (i) **the fair value initially recognized for these assets;**
 - (ii) **their carrying amount; and**
 - (iii) **whether they are measured after recognition under the cost model or the revaluation model.**
- (d) **the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.**
- (e) **the amount of contractual commitments for the acquisition of intangible assets.**

~~133.123~~**When an entity describes the factor(s) that played a significant role in determining that the useful life of an intangible asset is indefinite, the entity considers the list of factors in paragraph 100-90.**

Intangible Assets Measured after Recognition using the Revaluation Model

~~134.124~~134.124 If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:

- (a) **by class of intangible assets:**
 - (i) **the effective date of the revaluation;**
 - (ii) **the carrying amount of revalued intangible assets; and**
 - (iii) **the carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model in paragraph [8474](#);**
- (b) **the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders; and**
- (c) **the methods and significant assumptions applied in estimating the assets' fair values.**

~~135.125~~135.125 It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the combination of a class of intangible assets that includes amounts measured under both the cost and revaluation models.

Research and Development Expenditure

~~136.126~~136.126 An entity shall disclose the aggregate amount of research and development expenditure recognized as an expense during the period.

~~137.127~~137.127 Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs [66](#) and [6772](#) for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph [136126](#)).

Other Information

~~138.128~~138.128 An entity is encouraged, but not required, to disclose the following information:

- (a) a description of any fully amortized intangible asset that is still in use; and
- (b) a brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria in this Standard ~~or because they were acquired or generated before the version of IAS 38 *Intangible Assets* issued in 1998 was effective.~~

Transitional Provisions and Effective Date

~~139.129~~ An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after xx. Earlier application is encouraged. If an entity applies this Standard for an earlier period, it shall disclose that fact.

~~140.~~ When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

~~130~~ **An entity shall apply this Standard:**

~~(a) — to the accounting for intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004; and~~

~~(b) — to the accounting for all other intangible assets prospectively from the beginning of the first annual period beginning on or after 31 March 2004. Thus, the entity shall not adjust the carrying amount of intangible assets recognised at that date. However, the entity shall, at that date, apply this Standard to reassess the useful lives of such 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 IAS 8.~~

~~130A~~ An entity shall apply the amendments in paragraph 2 for annual periods beginning on or after 1 January 2006xxxx. If an entity applies IFRS 6 for an earlier period, those amendments shall be applied for that earlier period.

~~130B~~ IAS 1 Presentation of Financial Statements (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 85, 86 and 118(e)(iii). An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

~~130C~~ IFRS 3 (as revised in 2008) amended paragraphs 12, 33-35, 68, 69, 94 and 130, deleted paragraphs 38 and 129 and added paragraph 115A. An entity shall apply prospectively those amendments for annual periods beginning on or after 1 July 2009. Therefore, amounts recognised for intangible assets and goodwill in prior business combinations shall not be adjusted. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendments shall also be applied for that earlier period.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS xx, “Intangible Assets.” This Basis for Conclusions only notes the IPSASB’s reasons for departing from provisions of the related International Accounting Standard.

Background

- BC1. The International Public Sector Accounting Standards Board (IPSASB)’s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB’s work program. The IPSASB’s policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.
- BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the ‘comparison with IFRS’ included in each IPSAS. The Comparison with IAS 38 references the December 2008 version of IAS 38.⁴
- BC3. The IASB has issued an Interpretation of IAS 38 dealing with accounting for web site costs. The Board believes the guidance contained in SIC Interpretation 32, “Intangible Assets – Web Site Costs,” (SIC-32) is relevant to the public sector. Accordingly, IPSAS xx incorporates the definitions and guidance contained in SIC-32, together with the appendix in SIC-32 that illustrates the relevant accounting principles and how they are linked to IPSAS xx.
- BC4. This Standard excludes guidance in IAS 38 on accounting for intangible assets acquired as part of a business combination and in-process research and development costs acquired in a business combination, as the Board has not yet considered the applicability of entity combinations to the public sector. It is expected that the Board will revise IPSAS xx to incorporate this guidance when it issues its standard on entity combinations.
- BC5. The IPSASB incorporated in IPSAS xx guidance on certain public sector issues that are not addressed in IAS 38, notably intangible assets acquired at no or a

⁴ The International Accounting Standards (IASs) were issued by the IASB’s predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretation of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

nominal cost, or by way of other non-exchange transactions. This guidance replaced the guidance in IAS 38 on acquisition by way of a government grant.

BC6. The Standard replaces certain of the IAS 38 examples with examples relevant to the public sector.

Appendix A

Illustrative Examples

This guidance accompanies, but is not part of, IPSAS xx. The purpose of this appendix is to illustrate the application of the certain aspects of the requirements of IPSAS xx.

~~These examples accompany, but are not part of, IAS 38.~~

Cost of an Internally Generated Intangible Asset

The following guidance provides examples on applying paragraph 70 of this standard.

An entity developed a new system to schedule court cases more effectively that will result in increased service delivery. During the financial year ending March 20X8, expenditure incurred for the development of the system was CU1,000,⁵ of which CU900 was incurred before 1 March 20X8 and CU100 was incurred between 1 March 20X8 and 31 March 20X8. The entity is able to demonstrate that, at 1 March 20X8, the newly developed system met the criteria for recognition as an intangible asset. The recoverable service amount of the system (including future cash outflows to complete the development before it is available for use) is estimated to be CU500.

At the end of the financial year, the developed system is recognized as an intangible asset at a cost of CU100 (expenditure incurred since the date when the recognition criteria were met, i.e., 1 March 20X8). The CU900 expenditure incurred before 1 March 20X8 is recognised as an expense because the recognition criteria were not met until 1 March 20X8. This expenditure does not form part of the cost of the system recognized in the statement of financial position.

During the financial year ending 31 March 20X9, expenditure incurred is CU2,000. At the end of this financial year, the recoverable service amount of the system (including future cash outflows to complete the system before it is available for use) is estimated to be CU1,900.

At the end of the 20X9 financial year, the cost of the developed system is CU2,100 (CU100 expenditure recognized at the end of 20X8 plus CU2,000 expenditure recognized in the 20X9 financial year). The entity recognizes an impairment loss of CU200 to adjust the carrying amount of the developed system before impairment loss (CU2,100) to its recoverable service amount (CU1,900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in the IPSAS 21 or IPSAS 26 are met.

⁵ ~~(*)~~ -In this Standard, monetary amounts are denominated in 'currency units (CU)'.

~~An entity is developing a new production process. During 20X5, expenditure incurred was CU1000^(a), of which CU900 was incurred before 1 December 20X5 and CU100 was incurred between 1 December 20X5 and 31 December 20X5. The entity is able to demonstrate that, at 1 December 20X5, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be CU500.~~

~~At the end of 20X5, the production process is recognized as an intangible asset at a cost of CU100 (expenditure incurred since the date when the recognition criteria were met, i.e., 1 December 20X5). The CU900 expenditure incurred before 1 December 20X5 is recognized as an expense because the recognition criteria were not met until 1 December 20X5. This expenditure does not form part of the cost of the production process recognized in the balance sheet.~~

~~During 20X6, expenditure incurred is CU2,000. At the end of 20X6, the recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be CU1,900.~~

~~At the end of 20X6, the cost of the production process is CU2,100 (CU100 expenditure recognized at the end of 20X5 plus CU2,000 expenditure recognized in 20X6). The entity recognizes an impairment loss of CU200 to adjust the carrying amount of the process before impairment loss (CU2100) to its recoverable amount (CU1900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in IAS 36 are met.~~

~~^(a) In this Standard, monetary amounts are denominated in ‘currency units (CU)’.~~

Assessing the Useful Lives of Intangible Assets

The following guidance provides examples on determining the useful life of an intangible asset in accordance with this standard.

Each of the following examples describes an acquired intangible asset, the facts and circumstances surrounding the determination of its useful life, and the subsequent accounting based on that determination.

Example 1—An acquired customer list

~~A direct-mail marketing company acquires a customer list and expects that it will be able to derive benefit from the information on the list for at least one year, but no more than three years.~~

~~The customer list would be amortized over management’s best estimate of its useful life, say 18 months. Although the direct-mail marketing company may intend to add customer names and other information to the list in the future, the expected~~

~~benefits of the acquired customer list relate only to the customers on that list at the date it was acquired. The customer list also would be reviewed for impairment in accordance with [IAS 36 Impairment of Assets](#) by assessing at each reporting date whether there is any indication that the customer list may be impaired.~~

Example 1—An acquired database of property owners

A municipality acquires a database of property owners from the entity responsible for property deeds for the purpose of raising taxes and expects that it will be able to derive benefit from the information on the database for at least one year, but no more than three years.

Because the municipality acquired the database and had not generated the database internally, the database will fall within the recognition criteria of an intangible asset. The database would be amortized over management's best estimate of its useful life, for example 18 months. Although the municipality may intend to add property owners and other information to the database in the future, the expected benefits of the acquired database relate only to the property owners on that database at the date it was acquired.

The database also would be reviewed for impairment in accordance with [IPSAS 21](#) or [IPSAS 26](#) by assessing at each reporting date whether there is any indication that the database may be impaired.

Example 2—An acquired patent that expires in 15 years

The product protected by the patented technology is expected to be a source of net cash inflows for at least 15 years. The entity has a commitment from a third party to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and the entity intends to sell the patent in five years.

The patent would be amortized over its five-year useful life to the entity, with a residual value equal to the present value of 60 per cent of the patent's fair value at the date it was acquired. The patent would also be reviewed for impairment in accordance with [IPSAS 26](#) ~~IAS 36~~ by assessing at each reporting date whether there is any indication that it may be impaired.

Example 3—An acquired copyright that has a remaining legal life of 50 years

An analysis of consumer habits and market trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

The copyright would be amortized over its 30-year estimated useful life. The copyright also would be reviewed for impairment in accordance with [IPSAS 26](#) ~~IAS 36~~ by assessing at each reporting date whether there is any indication that it may be impaired.

Example 4—An acquired broadcasting licence that expires in five years

The broadcasting licence is renewable every 10 years if the entity provides at least an average level of service to its customers and complies with the relevant legislative requirements. The licence may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition. The acquiring entity intends to renew the licence indefinitely and evidence supports its ability to do so. Historically, there has been no compelling challenge to the licence renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future. Therefore, the licence is expected to contribute to the entity's net cash inflows indefinitely.

The broadcasting licence would be treated as having an indefinite useful life because it is expected to contribute to the entity's net cash inflows indefinitely. Therefore, the licence would not be amortized until its useful life is determined to be finite. The licence would be tested for impairment in accordance with [IPSAS 26](#) ~~IAS 36~~ annually and whenever there is an indication that it may be impaired.

Example 5—The broadcasting licence in Example 4

The licensing authority subsequently decides that it will no longer renew broadcasting licences, but rather will auction the licences. At the time the licensing authority's decision is made, the entity's broadcasting licence has three years until it expires. The entity expects that the licence will continue to contribute to net cash inflows until the licence expires.

Because the broadcasting licence can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired licence would be amortized over its remaining three-year useful life and immediately tested for impairment in accordance with [IPSAS 26](#) ~~IAS 36~~.

Example 6—An acquired airline route authority between two ~~European~~ cities that expires in three years

The route authority may be renewed every five years, and the acquiring entity intends to comply with the applicable rules and regulations surrounding renewal. Route authority renewals are routinely granted at a minimal cost and historically have been renewed when the airline has complied with the applicable rules and regulations. The acquiring entity expects to ~~provide service use the route~~ indefinitely ~~between the two cities from its hub airports and expects that the related supporting infrastructure (airport gates, slots, and terminal facility leases) will remain in place at those airports for as long as it has the route authority~~. An analysis of demand and cash flows supports those assumptions.

Because the facts and circumstances support the acquiring entity's ability to continue ~~providing~~ air service indefinitely ~~between the two cities~~, the intangible asset related to the route authority is treated as having an indefinite useful life. Therefore, the route authority would not be amortized until its useful life is determined to be finite. It would be tested for impairment in accordance with [IPSAS 26](#) ~~IAS 36~~ annually and whenever there is an indication that it may be impaired.

~~Example 7—An acquired trademark used to identify and distinguish a leading consumer product that has been a market-share leader for the past eight years~~

~~The trademark has a remaining legal life of five years but is renewable every 10 years at little cost. The acquiring entity intends to renew the trademark continuously and evidence supports its ability to do so. An analysis of (1) product life cycle studies, (2) market, competitive and environmental trends, and (3) brand extension opportunities provides evidence that the trademarked product will generate net cash inflows for the acquiring entity for an indefinite period.~~

~~The trademark would be treated as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. Therefore, the trademark would not be amortised until its useful life is determined to be finite. It would be tested for impairment in accordance with IAS 36 annually and whenever there is an indication that it may be impaired.~~

~~Example 8—A trademark acquired 10 years ago that distinguishes a leading consumer product~~

~~The trademark was regarded as having an indefinite useful life when it was acquired because the trademarked product was expected to generate net cash inflows indefinitely. However, unexpected competition has recently entered the market and will reduce future sales of the product. Management estimates that net cash inflows generated by the product will be 20 per cent less for the foreseeable future. However, management expects that the product will continue to generate net cash inflows indefinitely at those reduced amounts.~~

~~As a result of the projected decrease in future net cash inflows, the entity determines that the estimated recoverable amount of the trademark is less than its carrying amount, and an impairment loss is recognised. Because it is still regarded as having an indefinite useful life, the trademark would continue not to be amortised but would be tested for impairment in accordance with IAS 36 annually and whenever there is an indication that it may be impaired.~~

Example 7—An acquired vaccine for malaria control

The vaccine has a remaining legal life of five years but will be improved every 10 years at little cost. The entity intends to improve the vaccine continuously, and evidence supports its ability to do so. An analysis of product lifecycle studies, and market and environmental trends, provides evidence that the vaccine will generate net cash inflows for the entity for an indefinite period.

The vaccine would be treated as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. Therefore, the vaccine would not be amortized until its useful life is determined to be finite. It would be tested for impairment in accordance with IPSAS 21 annually, or with IPSAS 26 annually and whenever there is an indication that it may be impaired.

~~Example 9—A trademark for a line of products that was acquired several years ago in a business combination~~

~~At the time of the business combination the acquiree had been producing the line of products for 35 years with many new models developed under the trademark. At the acquisition date the acquirer expected to continue producing the line, and an analysis of various economic factors indicated there was no limit to the period the trademark would contribute to net cash inflows. Consequently, the trademark was not amortised by the acquirer. However, management has recently decided that production of the product line will be discontinued over the next four years.~~

~~Because the useful life of the acquired trademark is no longer regarded as indefinite, the carrying amount of the trademark would be tested for impairment in accordance with IAS 36 and amortised over its remaining four year useful life.~~

Appendix B

Implementation Guidance

Web site costs (Examples illustrating paragraphs 73-77)

This guidance accompanies, but is not part of, IPSAS xx. The purpose of the appendix is to illustrate examples of web site costs during each of the stages of web site development. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

<u>Stage/Nature of expenditure</u>	<u>Accounting treatment</u>
<p><u>Planning</u></p> <ul style="list-style-type: none"> • <u>undertaking feasibility studies</u> • <u>defining hardware and software specifications</u> • <u>evaluating alternative products and suppliers</u> • <u>selecting preferences</u> 	<p><u>Recognize as an expense when incurred in accordance with paragraph 56</u></p>
<p><u>Application and infrastructure development</u></p> <ul style="list-style-type: none"> • <u>purchasing or developing hardware</u> • <u>obtaining a domain name</u> • <u>developing operating software (e.g., operating system and server software)</u> • <u>developing code for the application</u> • <u>installing developed applications on the web server</u> • <u>stress testing</u> 	<p><u>Apply the requirements of the IPSAS 17, “Property, Plant and Equipment”</u></p> <p><u>Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in paragraphs 25 and 59⁶</u></p>
<p><u>Graphical design development</u></p> <ul style="list-style-type: none"> • <u>designing the appearance (e.g., layout and colour) of web pages</u> 	<p><u>Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in paragraphs 25 and 59⁶</u></p>

⁶ All expenditure on developing a web site to fulfill a statutory requirement or to be used primarily in providing information to the public at large on the generation of future economic benefits or service potential is recognized as an expense when incurred in accordance with paragraph 78.

<u>Stage/Nature of expenditure</u>	<u>Accounting treatment</u>
<u>Content development</u> <ul style="list-style-type: none">• <u>creating, purchasing, preparing (e.g., creating links and identifying tags), and uploading information, either textual or graphic in nature, on the web site before the completion of the web site's development. Examples of content include information about an entity, products or services offered, and topics that subscribers access</u>	<u>Recognize as an expense when incurred in accordance with paragraph xx(c) to the extent that content is developed to advertise and promote an entity's own products and services (e.g., digital photographs of products). Otherwise, recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in paragraphs 25 and 59⁶</u>
<u>Operating</u> <ul style="list-style-type: none">• <u>updating graphics and revising content</u>• <u>adding new functions, features and content</u>• <u>registering the web site with search engines</u>• <u>backing up data</u>• <u>reviewing security access</u>• <u>analyzing usage of the web site</u>	<u>Assess whether it meets the definition of an intangible asset and the recognition criteria set out in paragraph 25, in which case the expenditure is recognized in the carrying amount of the web site asset</u>
<u>Other</u> <ul style="list-style-type: none">• <u>selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use to operate in the manner intended by management</u>• <u>clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (e.g., false start testing)</u>• <u>training employees to operate the web site</u>	<u>Recognize as an expense when incurred in accordance with paragraphs 70-72 and paragraphs 78-81</u>

Comparison with IAS 38

International Public Sector Accounting Standard IPSAS xx, “Intangible Assets” is drawn primarily from International Accounting Standard IAS 38, “Intangible Assets” (revised in 2003, as amended in 2005). The main differences between IPSAS xx and IAS 38 are as follows:

- Commentary additional to that in IAS 38 has been included in paragraphs 15, 17, 18, 19, 24, 31, 33-36, 62, 68-69, 88 and 129 of IPSAS xx to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS xx incorporates the guidance contained in SIC Interpretation 32 *Intangible Assets – Web Site Costs* (see paragraphs 73-77), relevant definitions and an appendix to illustrate the relevant accounting principles.
- This Standard excludes guidance contained in IAS 38 on accounting for intangible assets acquired as part of a business combination and in-process research and development costs acquired in a business combination, as the Board has not yet considered the applicability of entity combinations to the public sector.
- IPSAS xx uses different terminology, in certain instances, from IAS 38. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” “statement of financial position,” “surplus or equity,” “economic benefits,” “retained earnings” and “net assets/equity” in IPSAS xx. The equivalent terms in IAS 38 are “income,” “income statement,” “balance sheet,” “profit or loss/net profit,” “economic benefits and service potential,” “accumulated surpluses or deficits” and “equity.”
- IPSAS xx also refers to as “contractual rights (including rights arising from binding arrangements)” and “economic benefits and service potential.” The equivalent terms in IAS 38 are “contractual rights” and “economic benefits.”
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraph 34 of IPSAS xx modifies this guidance to refer to intangible assets acquired at no or at a nominal cost or by way of other non-exchange transactions and makes reference to IPSAS 23, which requires such assets to be initially recorded at fair value as at the date of acquisition.
- The example in paragraph 65 of IAS 38 (paragraph 70 of IPSAS xx) has been modified to a public sector example, and moved to Appendix A. Other illustrative examples included in IAS 38 have been modified as necessary to better meet public sector circumstances.
- The guidance in IAS 38 on impairment testing addresses the guidance in IAS 36 for exchange transactions. IPSAS xx deals with both exchange and non-exchange transactions. Accordingly, certain references in IAS 38 to IAS 36 refer to IPSAS 21 and/or IPSAS 26, as appropriate. In particular, a specific reference was added in paragraph 118 to address the requirements of IPSAS 21.