

B S R & Co. LLP

Ind AS 38, Intangible assets

What will you learn?



By completing this module you will be able to:



- Explain the definition of intangible assets
- Explain the initial recognition and measurement of intangible assets
- Explain the subsequent measurement of intangible assets

Agenda

Scope

Definition of intangible assets

Recognition and measurement

Amortisation

Derecognition

Q & A

Scope

Within the scope of Ind AS 38

Accounting for intangible assets except when another Standard requires or permits a different accounting treatment.

Outside the Scope of Ind AS 16

- Financial assets, as defined in Ind AS 32, Financial Instruments: Presentation
- Exploration for and Evaluation of Mineral Resources (Ind AS 106)
- Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

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Definition of intangible assets

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

An asset is a resource:

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

An asset is identifiable if it either:

- (a) is separable
- (b) arises from contractual or other legal rights

An entity controls an asset if the entity:

- (a) has the power to obtain the future economic benefits
- (b) power to restrict the access of others to those benefits

Question

- Company C has two key resources: customised software that it developed internally and for which a patent is registered; and the know-how of the staff that operate the software. Staff members are required to give one month's notice of their resignation. Whether customized software and know how are intangible assets?
- Company D is a football club. D has acquired contracts with individual players that entitle it to receive that player's services and prevent that player from leaving the club or providing services to another club for a specified period of time. Whether such contract is an intangible asset?



Question

- Lila-Harvest has an exclusive right to harvest slime-trees from the forests of Planet Lila
- The licence was granted for an initial period of 10 years by the Planet Lila Council
- The licence is specific to Lila-Harvest and cannot be sold to another forest operator

Is the licence an intangible asset?



Question

- Recently Lila-Tech commissioned an external valuer to prepare a valuation report on the whole group
- As part of the valuation, the report concluded that one of Lila-Tech's most valuable assets was its goodwill
- Goodwill had many underlying factors, but was mainly attributable to the group's loyal workforce

Is goodwill an intangible asset?



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Recognition

Cost of intangible to be recognised as an asset if:

Probable future economic
benefits will flow

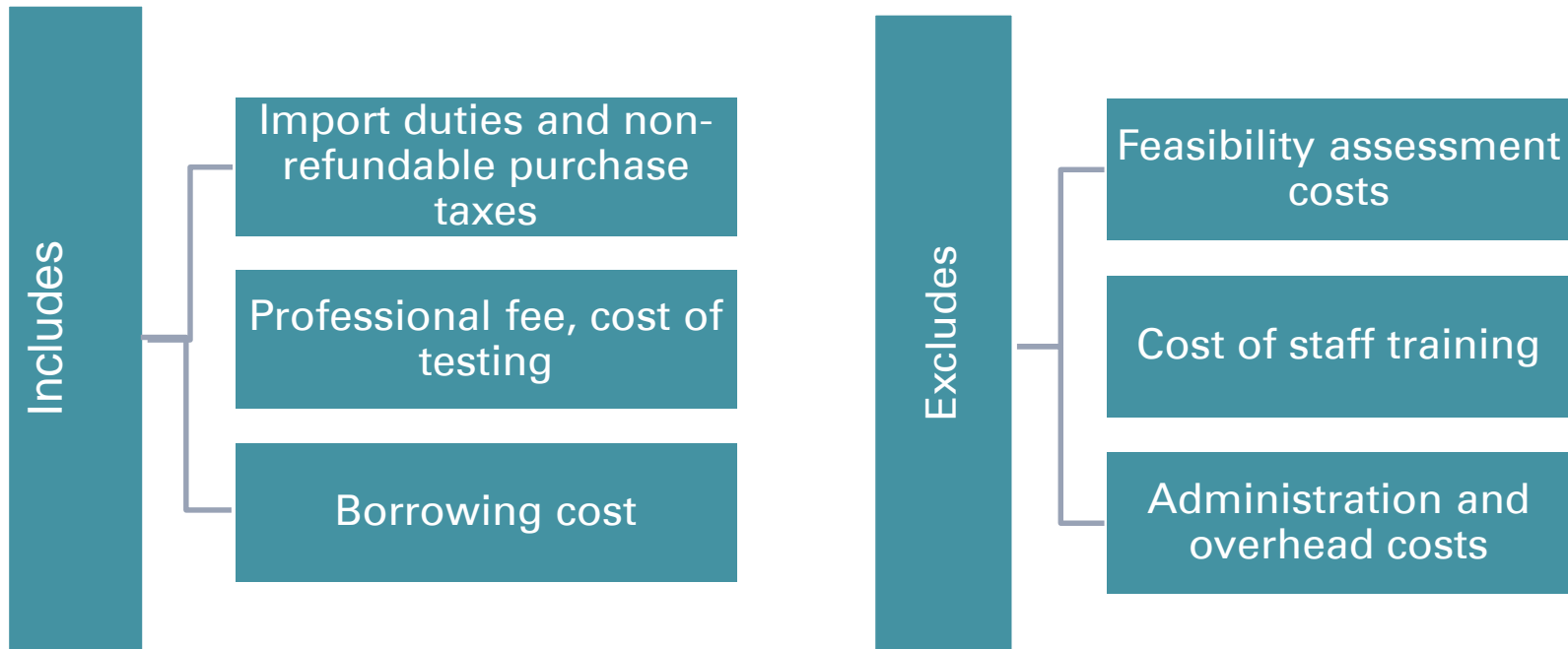
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Cost can be measured
reliably

Judgment is required in applying the recognition criteria to an entity's specific
circumstances

Measurement

Cost includes directly attributable cost of preparing the asset for its intended use



Research and development expense

Research phase

- original and planned investigation to gain knowledge and understanding
- expenditure expensed as incurred

Development phase

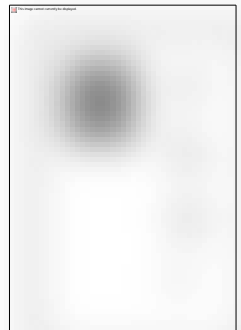
- is application of research findings to plan or design for production of new/improved products, devices etc.
- expenditure can be capitalized if entity can demonstrate:
 - technical feasibility established
 - intention to complete and use or sell
 - ability to use or sell
 - how economic benefits will be generated
 - availability of adequate technical, financial, other resources
 - ability to measure expenditure reliably

Restriction on capitalization of internally generated goodwill, start-up costs, brands

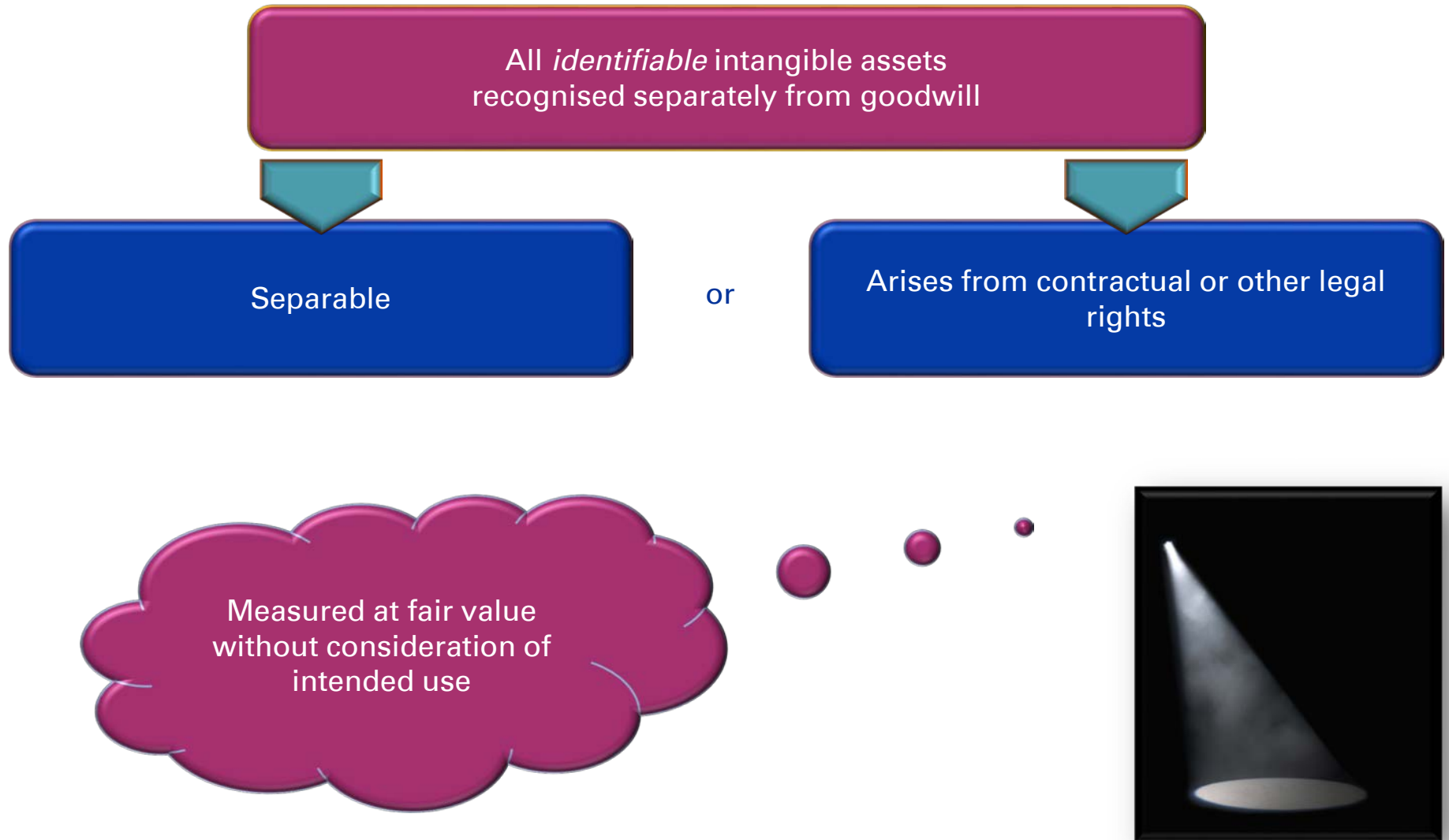
Question

- Lila-Innovation is developing a new bedtime drink that will wake humans up at a certain time each morning without the need for an alarm
- The primary market for Wake-Me is Earth, where “9 to 5” working hours are still common
- Lila-Innovation is very confident about the product, but is seeking FDA approval, which is a rigorous process

Can Lila-Innovation start capitalising development costs prior to FDA approval?



Intangible assets under business combination (1)



Intangible assets under business combination (2)



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Principles of amortisation

Systematic allocation of depreciable amount of an intangible asset over useful life

Amount determined after deducting residual value

Changes are changes in estimates

Review of key assumptions at least each year-end

Useful life

Useful life is :

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

Factors in assessing useful life

- Expected usage
- Technical or commercial obsolescence
- Legal or similar limits

Methods of depreciation

- Straight-line
- Diminishing balance
- Unit-of-production
- Revenue-based (in limited circumstances)

Useful life

Useful lives of intangible assets can be

Finite

or

Indefinite

- There is no foreseeable limit on period of cash inflows
- Planned future expenditure other than to maintain standard is not included
- Does not mean infinite

Example

- Assessment whether useful life of Brand is finite or indefinite, following factors may be assessed:
 - How well and for how long has the brand been established in the market? And what has been the brand's resilience to economic and social changes since its creation?
 - How stable is the industry in which the brand is used?
 - Is the brand expected to become obsolete at some point in the future? Can the brand be deployed in more than one industry or with more than one technology?
 - Is the brand used in a market that is subject to significant, enduring entry barriers?
 - Is sufficient ongoing marketing effort to support the brand included in the entity's financial forecasts, such that benefits arising from the use of the brand are expected to be maintained beyond the foreseeable future? Is this level of marketing effort economically reasonable?

Subsequent measurement

Cost model

- Cost less accumulated amortisation and any accumulated impairment losses

Revaluation model

- Revalued amount less accumulated amortisation and any accumulated impairment losses
- Frequency of revaluations depends on change in fair value of PPE
- Entire class to which the assets belongs to be revalued unless there is no active market for particular asset
- Surplus revaluation generally recognised in OCI

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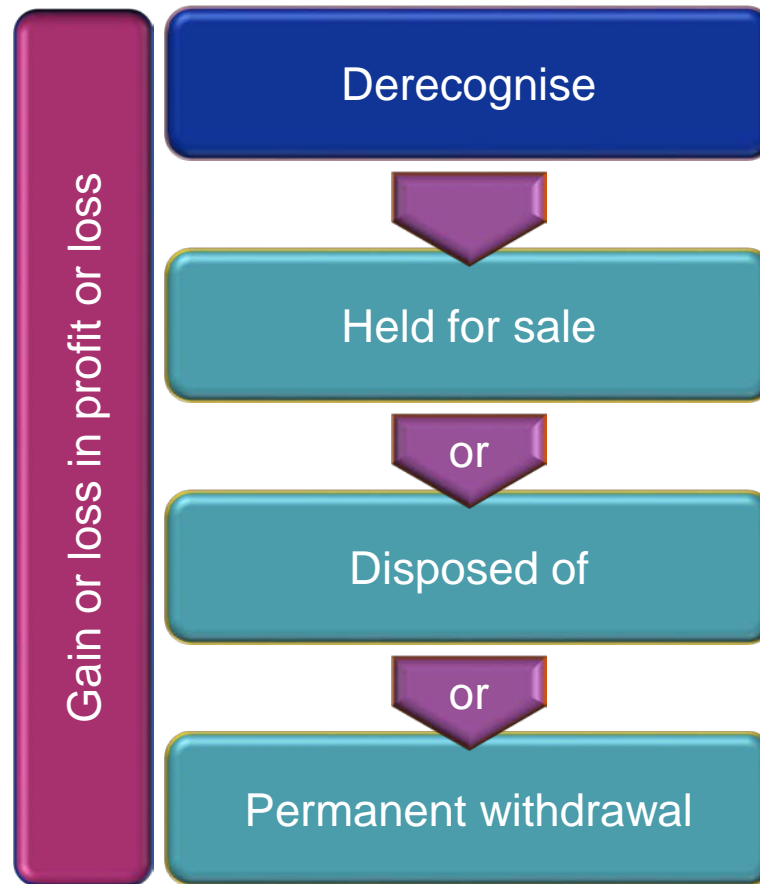
Recognition and measurement

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Thank You

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