

AASB 138 – INTANGIBLE ASSETS

Asset Definition

A resource controlled by the entity as a result of past events from which the future economic benefits are expected to flow to the entity.

Intangible Asset Definition

An identifiable non-monetary asset without physical substance.

The conceptual framework does not specify that identifiability (separability), tangibility, and existence of markets for the asset are relevant in the decision about whether to record and report an asset.

Characteristics of Intangible Assets

- Identifiable
 - Identifiability creates barriers to recognition in financial statements
 - It is test of:
 - Separability: the capacity of being separated from the entity and sold, transferred, licensed, rented or exchanged
 - Contractual or other legal rights to demonstrate control over asset. The well-defined property rights associated with most tangible and financial resources currently recognised as assets often do not extend to intangibles
 - Many intangibles are not separable and saleable and poorly defined property rights:
 - Difficult to write fully specified contracts for intangibles
 - No liquid secondary markets for intangibles – reliable measurement is problematic
- Non-monetary
 - Monetary assets: money, or assets to be received in fixe or determinable amounts of money
 - Intangibles are not financial assets
 - Future economics benefits associated with intangibles are not fixed/determinable

Subsequent measurements for intangibles

- Intangible asset should be initially measured at cost (AASB 138 para. 24). Therefore, a transaction must have occurred
- After initial recognition, choice of measurement base – cost model or revaluation model (AASB 138 para. 74, 75)
- Revaluations to fair value are allowed where fair value is determined by reference to an active market
 - A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis
 - It is uncommon for an active market to exist for intangible assets
- An entity needs to evaluate which intangible assets have a limited versus indefinite life
 - Limited: subject to amortisation and impairment testing
 - Indefinite: subject to impairment testing only

Recognition issues for intangibles

		Recognition	Initial Measurement
Internally Generated Intangibles		<ul style="list-style-type: none"> Generally: not capitalised (e.g. customer list, mastheads) <ul style="list-style-type: none"> Not separable Recognition criteria of assets hardly satisfied Expenditures to build a brand name are immediately expensed Internally developed research costs are expensed Exception: development expenditure, and exploration and evaluation costs 	N/A at cost
Externally acquired intangibles	Acquired separately	<ul style="list-style-type: none"> Can be capitalised <ul style="list-style-type: none"> Separable Tend to satisfy asset recognition tests 	Cost = Purchase price + tax + direct cost (legal, consulting, registration etc)
	Acquired through business combination		Cost = fair value at acquisition
Goodwill purchased through business combination			Cost = acquisition cost less FV of net asset of acquired entity

Research and Development

AASB 138 Intangible Assets defines:

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

Research and development expenditures

Research	Development
Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.	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
Examples: <ul style="list-style-type: none"> Activities aimed at obtaining new knowledge 	Examples: <ul style="list-style-type: none"> Design and testing of a pre-production prototype

<ul style="list-style-type: none"> • Searching for alternatives for materials, processes 	<ul style="list-style-type: none"> • Design of tools, moulds and dies involved in new technology
<p>Expenditure on research shall be recognised as an expense</p> <ul style="list-style-type: none"> • Cannot suitably demonstrate that it will at this stage generate future economic benefits 	<p>All six conditions must be satisfied before development costs can be capitalised:</p> <ol style="list-style-type: none"> 1. Reliable measurement 2. Adequate resources 3. Technical feasibility 4. Probable future economic benefits 5. Ability to use or sell 6. Intention to complete

Accounting for Intangibles as a controversial issue

- Differential accounting treatment for intangibles is criticised
- Understatement of assets because internally generated intangibles are not recognised
 - Implications on agency relationship?
- Companies with significant investment in intangible items are likely to be undervalued
 - Create a significant difference between a company's book and market value
- It reduces the information content of financial statements
 - Ongoing tension between the reporting of relevant and faithfully represented information
 - Research evidence shows that information about investments in intangibles and the outcomes of this investment such as patents is highly relevant to investors

Disclosure requirements for intangible assets

General Requirements

- a) Each class of intangible asset, distinguishing between internally generated and other intangible assets
- b) Where useful lives are indefinite and finite. If finite – the useful lives or amortisation rates and the methods used
- c) Opening and closing amounts for accumulated amortisation, impairments, revaluations and movements in income statement line items e.g. amortisation expense
- d) Where intangible assets are measured after acquisition using revaluation models, full details of revaluations. Opening and closing balances and reconciliations. Significant assumptions in determining fair values. (AASB 138.118)

Research and development

The standard specifically requires the entity to disclose the aggregate amount of research and development recognised as expenditure during the period. (AASB 138.126)