



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: (212) 286-9344
Fax: (212) 286-9570

Agenda Item **3**

DATE: January 26, 2009
MEMO TO: Members of the IPSASB
FROM: Joy Keenan
SUBJECT: Intangible Assets

OBJECTIVE OF THIS SESSION

Consider and **approve** the revised Exposure Draft of an IPSAS: ED 40, “Intangible Assets.”

AGENDA MATERIAL

- 3.1** ED 40, “Intangible Assets” — Clean version (to be issued)
- 3.2** ED 40, “Intangible Assets” — Markup from December 14 IPSASB comment version

ACTION REQUIRED

Members are asked to:

- **Consider** the issues identified; and
- **Approve** ED 40.

In accordance with the usual approach for new “convergence” Standards, the clean version of ED 40 will be issued for public comment. The focus of the discussion at this session will, therefore, be on Agenda Paper 3.1. You may wish to print the IPSASB comment version for reference to show changes made to IAS 38 wording.

BACKGROUND

As part of its convergence program, the IPSASB is seeking to issue an International Public Sector Accounting Standard (IPSAS) on intangible assets, converged with International Accounting Standard (IAS) 38, “Intangible Assets.” At the IPSASB meeting in October 2008, the IPSASB considered a preliminary draft of an Exposure Draft (ED), “Intangible Assets.”

The IPSASB made a number of key decisions, including specifically scoping out powers to grant rights and to tax in paragraph 1 of the ED. The IPSASB also agreed to include

material on intangible heritage assets similar to that in IPSAS 17, “Property, Plant and Equipment.” It was also decided to move the material from SIC-32, “Intangible Assets – Web Site Costs” outside the main body of the IPSAS on the basis that SIC-32 itself does not have the same authority as IAS 38.

The IPSASB directed staff to consider how guidance in IAS 38 dealing with exchange transactions needed to be adapted to address non-exchange transactions.

Members also directed staff to review the examples and amend them, as necessary, to ensure:

1. they have a public sector flavour; and
2. it is clear that any intangible asset is an asset of the acquiring entity rather than the government (unless the government is the acquirer).

The IPSASB further asked that the ED contain transitional provisions similar to IFRS 1.

Although it was not agreed to at the October 2008 meeting, staff has also reinstated the material in IAS 38 dealing with business combinations because the first part of the IPSASB’s project on entity combinations, dealing with entity combinations from exchange transactions is also on the agenda for this meeting for approval of an ED. Appropriate terminology changes have been made throughout the “Intangible Assets” ED to reflect this.

Finally, staff was asked to review the ED for private sector specific terminology (e.g., customers).

A comment draft of those revisions was posted on the intranet in December. Staff received a number of very helpful suggestions for improving the ED and has further revised the draft ED based on comments received. The Introduction, Basis for Conclusions and Comparison with IAS 38 sections of the proposed ED have been amended to reflect the changes made.

It should be noted, however, that where there were contradictory views expressed by respondents, or where concerns were raised about matters already addressed in other IPSASs, staff did not necessarily make the suggested changes. On the more important matters, the issues are discussed below. Individual member comments are available from Staff on request.

KEY ISSUES

1. Exclusion of Powers to Grant Rights and to Tax

At the June 2008 meeting, it was agreed that powers to grant rights and to tax should be excluded from this proposed IPSAS. In the October 2008 material, this exclusion was made in the Scope section of the proposed ED. At that meeting, after

much discussion, members reconfirmed the consensus that powers to grant rights and to tax did not meet the existing definition of an asset, and therefore, would not be covered by the proposed IPSAS. Members also agreed that the most appropriate place for noting this is in the first paragraph (the Objective). In the December comment draft, staff had inserted wording in paragraph 1, with a footnote reference to paragraph 20 of that draft which drew on material from IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers).”

A number of comments were received on various topics, including a member’s reiteration of the view expressed at the October 2008 meeting, that the powers to grant rights and to tax are assets, but that they may not be recorded because of difficulty in measurement. Other members strongly supported the exclusion, but had specific comments on the wording that was in paragraph 20 of the December 2008 comment draft and the Basis for Conclusions.

One respondent, who agreed with the need for the exclusion of powers to grant rights and to tax, noted that placing this exclusion in paragraph 1 was not appropriate in the objective. Another member noted that this was the correct placement because the reason it is in the objective and not the scope paragraph is that these items are not assets. Staff did not move the material, as it sets the expectation upfront that such items are not within the purview of the proposed ED because they are not assets under the current definition of an asset, consistent with the IPSASB’s decision in October 2008.

A few others indicated that the material in paragraph 20 was more in the way of support for the IPSASB’s view and not guidance. Accordingly, staff has amended and relocated the material in paragraph 20 in the Basis for Conclusions.

Key issue #1 – Exclusion of Powers to Grant Rights and to Tax

Members are asked to **confirm** placement and wording of the specific exclusion of powers to grant rights and to tax in paragraph 1 of the ED and related descriptions in the Introduction (IN) and Basis for Conclusions (BC) sections of the ED.

2. Entity combinations

In the October 2008 draft ED, staff had excluded all the material pertaining to business combinations. That material had also been excluded from the December 2008 comment draft. However, staff has now reinstated all the material, making the necessary changes to agree with the proposed ED 41, “Entity Combinations from Exchange Transactions.” However, there are specific exclusions for intangible assets acquired in an entity combination from a non-exchange transaction because the Board’s project on entity combinations has been split into two parts. The first part is limited to entity combinations from exchange transactions and is being completed concurrently with this Standard. Thus, any intangible assets acquired in an entity combination from an exchange transaction are included in the scope of this

Standard. The second part of the entity combinations project will address entity combinations from non-exchange transactions. Until this part of the project is completed, it is appropriate to exclude intangible assets acquired in an entity combination from a non-exchange transaction, from ED 40.

Key issue #2 – Entity combinations

Members are asked to **confirm** reinstatement of IAS 38 material dealing with intangibles acquired in a business combination, as revised to reflect terminology and scope of IPSASB ED 41.

3. SIC-32 – Location of Guidance

At the June 2008 meeting, the IPSASB agreed to include the guidance in SIC-32 in the proposed IPSAS. The October 2008 draft ED included this material within the body of the proposed standard. At the October 2008 meeting, the IPSASB agreed that this material should not be within the body of the standard, but in an appendix. In the December 2008 comment draft, staff had included the SIC-32 material as an appendix, preceding the examples. A respondent made the case that this material differed somewhat from those examples, and suggested a structure similar to that in IAS 39. “Financial Instruments: Recognition and Measurement.” Staff concurred with this approach and has moved the SIC-32 material to Application Guidance preceding the Basis for Conclusions. The appendix to SIC-32 (a table) has been left with SIC-32 for pragmatic reasons. It does not seem to make sense to further split the table out and reference from the examples in the table to both the Application Guidance, and to the body of the standard.

Key issue #3 – SIC-32 – Location of Guidance

Members are asked to **confirm** moving the SIC-32 material, including the appendix to SIC-32, to Application Guidance.

4. Consistency with other IPSASs

For the following issues, staff looked to existing IPSAS material that dealt with similar issues:

- (a) Definitions – changes noted from the December 2008 comment draft have been made to be consistent with IPSAS 17 wording.
- (b) Intangible heritage assets – placement and wording of this material is consistent with IPSAS 17 treatment of heritage assets.
- (c) Non-exchange transactions – references in paragraphs 48-50 of the ED replace the IAS 38 material on government grants. References to “no or nominal cost” have been reinstated from the December comment draft so the wording mirrors the analogous discussion in IPSAS 17.

- (d) Exchanges of assets – IPSAS 17.38-.39 address exchange transactions lacking commercial substance. Paragraphs 50-51 of the proposed ED contain the analogous material. Some respondents indicated they believe these transactions to be non-exchange transactions; however, staff has left the material in IAS intact on the basis that it is consistent with IPSAS 17.
- (e) Cost/fair value – the reference to “fair value” has been reinstated in paragraph 28 of the proposed ED from the December 2008 comment draft, consistent with IPSAS 17.14.
- (f) Revaluation – IPSAS 17.51 requires revaluation to be done on a class of assets basis rather than by individual asset. Wording in paragraph 79 of the proposed ED is consistent with that in IPSAS 17.
- (g) Disclosure – IAS 38.124 requires that, where an enterprise adopts the revaluation model and carries intangible assets at revalued amounts, the equivalent historical cost amounts should be disclosed. IPSAS 17.92 does not contain such a requirement. In the December 2008 comment draft, staff had deleted this requirement from paragraph 132. Some respondents disagreed with the deletion (also from IPSAS 17) as they believe it provides useful information. Staff also added paragraph 133 in response to a comment received.
- (h) Transitional provisions and effective date – staff used the material in IPSAS 17.95-108 as the basis for developing the analogous material in paragraphs 138-150 of the proposed ED. One commenter suggested two other situations be addressed in the transitional provisions, which are not covered in either IAS 38 or IPSAS 17. Staff did not adopt that comment on the basis that they are not public-sector-specific issues.

Staff is of the view that if there is existing wording dealing with an issue in an IPSAS, it is appropriate to use that wording. Varying from such wording raises questions about whether there is a different intent and could cause inconsistency in application of the standards. Some members’ comments indicate they disagree with IPSAS 17 on some issues, notably, exchange transactions lacking commercial substance.

Staff recommends that if the IPSASB considers these issues significant, they should be addressed at a later time, rather than as a fix to this proposed ED causing a delay its publication.

Key issue #4 – Consistency with other IPSASs

Members are asked to **confirm** the approach of using existing IPSAS wording where it exists, to address analogous situations in the proposed ED.

Members are also asked to **confirm** that issues that have been addressed in an existing IPSAS should not be reopened in this convergence project.

Members are also asked to **confirm** that issues that have been addressed in an existing IPSAS should not be reopened in this convergence project.

5. Impairment

Staff made terminology changes (e.g., recoverable service amount) and added references to IPSAS 21 when appropriate, throughout the body of the standard. As noted in item 6 below, examples of non-cash-generating assets are provided in the Implementation Guidance. Paragraphs 115 and 117 contain specific guidance on non-cash-generating assets. When possible, IPSAS 17 was used as a guide.

Key issue #5 – Impairment

Members are asked to **confirm** the changes made to address impairment of intangible assets in accordance with IPSAS 21.

6. Examples

Staff made a number of changes to the examples in the December 2008 comment draft to address the IPSASB's concerns with the October 2008 draft ED.

Examples in the body of the text were removed unless they specifically replace an example in IAS 38.

Other examples were mainly amended for clarification (e.g., with respect to licences, these would be intangibles of the entity if they were acquired from a third party) or to give them a more public sector flavor (e.g., a public transit route rather than an airline route). Where private sector examples were amended to make them more public sector specific, staff attempted to make as few changes as possible to the substance of the IAS 38 example, as there was some indication by members at the October meeting that there is not significant difficulty in applying IAS 38 to the public sector at the present time. In addition, it is not possible to develop examples for every possible public sector circumstance.

As a result of comments received, the examples in the December 2008 comment draft were further amended to more closely mirror those in IAS 38. Examples of both cash-generating and non-cash generating assets are provided and references are made to IPSAS 21 or IPSAS 26 for impairment testing, as appropriate.

The example that was developed for the December 2008 comment draft on emissions trading was deleted based on a comment that consideration is being given as to whether these would be financial assets rather than intangible assets.

Illustrative examples are now presented as Implementation Guidance (consistent with the structure of IAS 39, as noted above).

Key issue #6 – Examples

Members are asked to **confirm** the appropriateness of the examples provided and to **consider** whether additional changes are required.

7. Terminology

In revisiting the terminology, staff changed references to “business” to “operating” or “operations” depending on the context.

Staff reviewed use of references to customers and felt that term was appropriate, given that some public sector entities refer to customers or clients, similar to the private sector. However, staff had added references to “beneficiaries” in the December 2008 comment draft, to expand the public sector terminology. Based on comments received, staff changed that term to “users of the entity’s services” (and similar terms depending on the context). Staff believes this phrase accurately conveys a public sector flavour consistent with “customer” as used in IAS 38.

It should be noted that some of the embedded examples of factors considered in determining useful life in the draft ED that at least one commenter thought were not sufficiently public sector (see paragraphs 97) are consistent with those in IPSAS 17 (e.g., references to production, capacity and physical output).

Key issue #7 – Terminology

Members are asked to **confirm** the changes made to the terminology in the proposed ED to make it more public-sector oriented and to **consider** whether additional changes are required.

Exposure Draft 40

March 2009

Comments are requested by July 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 February 2009. 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 **July 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
Toronto, Ontario M5V 3H2 CANADA

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

This Exposure Draft of an International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard IAS 38, “Intangible Assets” published by the International Accounting Standards Board (IASB). Extracts from IAS 38 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

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Objective

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

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 Matters for Comment that it is particularly interested in.

Specific Matters for Comment

The IPSASB would particularly value comments on the following question:

1. Do you agree that the changes made to IAS 38, in particular the scope exclusions set out in paragraphs 1, 3 and 4, and the additional public sector guidance are:
 - Necessary in the circumstances?
 - Appropriately reflected in the revised wording?
2. The IPSASB is issuing an Exposure Draft of an IPSAS, “Entity Combinations from Exchange Transactions,” which is converged with IFRS 3, “Business Combinations.” Accordingly, references in this Exposure Draft to guidance IFRS 3 have been replaced with a reference to proposed IPSAS xx, “Entity Combinations from Exchange Transactions” or “proposed IPSAS xx” on the basis that this proposed IPSAS will be issued concurrent with the IPSAS on entity combinations from exchange transactions. The IPSASB is seeking your view on whether it is appropriate to retain this material should the Entity Combinations from Exchange Transactions IPSAS not be issued concurrent with this IPSAS.

IPSAS xx—INTANGIBLE ASSETS
Contents

	Paragraph
Introduction.....	IN1 – IN18
Objective.....	1
Scope	2 –14
Intangible Heritage Assets	10 – 13
Government Business Enterprises	14
Definitions.....	15
Intangible Assets	16 – 24
Identifiability.....	18
Control	19 – 23
Future Economic Benefits or Service Potential	24
Recognition and Initial Measurement	25 – 77
Separate Acquisition	32 – 39
Acquisition as Part of an Entity Combination from an Exchange Transaction.....	40 – 47
Acquisition through a Non-exchange Transaction	48 – 50
Exchanges of Assets	51 – 53
Internally Generated Goodwill	54 – 56
Internally Generated Intangible Assets	57 – 73
Recognition of an Expense	74 – 78
Past Expenses not to be Recognized as an Asset.....	78
Measurement after Recognition.....	79 – 94
Cost Model.....	81
Revaluation Model.....	82 – 94
Useful Life	95 – 103
Intangible Assets with Finite Useful Lives	104 – 113
Amortization Period and Amortization Method.....	104 – 106
Residual Value	107 – 110
Review of Amortization Period and Amortization Method	111 – 113
Intangible Assets with Indefinite Useful Lives.....	114 – 117

Review of Useful Life Assessment.....	116 – 117
Recoverability of the Carrying Amount – Impairment Losses.....	118
Retirements and Disposals.....	119 – 125
Disclosure	126 – 137
General.....	126 – 131
Intangible Assets Measured after Recognition using the Revaluation Model.....	132 – 134
Research and Development Expenditure	135 – 136
Other Information	137
Transitional Provisions	138 –148
Effective Date	149 – 150
Application Guidance – Web Site Costs	
Basis for Conclusions	
Implementation Guidance – Illustrative Examples	
Comparison with IAS 38	

Introduction

- IN1. The Standard prescribes the accounting treatment for intangible assets by public sector entities. It is adapted to the public sector context from IAS 38, “Intangible Assets.”

Scope

- IN2. This Standard specifically excludes the power to grant rights and the power to tax on the basis that they do not meet the extant definition of an asset set out in IPSAS 1, “Presentation of Financial Statements.”
- IN3. The Standard incorporates, as Application Guidance, the guidance on accounting for web site costs from SIC Interpretation 32, “Intangible Assets – Web Site Costs,” including illustrations of the relevant accounting principles.
- IN4. This Standard specifically excludes intangible assets acquired in an entity combination from a non-exchange transaction because the Board has not yet considered entity combinations arising from non-exchange transactions.

Definition of an intangible asset

- IN5. 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 rights from binding arrangements (including rights from contracts or legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- IN6. IAS 38 indicates that an asset meets the identifiable criterion when it arises from contractual or other legal rights. In the public sector, the “identifiable” criterion has been expanded to include rights arising from binding arrangements (including rights from contracts or legal rights).

Public sector issues

- IN7. The Standard incorporates guidance on certain public sector issues that are not addressed in IAS 38, including intangible heritage assets.
- IN8. IAS 38 addresses intangible assets acquired by way of a government grant. IPSAS 23, “Revenue from Non-exchange Transactions (Taxes and Transfers)” deals with this issue as it applies in the public sector. Accordingly, this Standard states that,

where an intangible asset is acquired through a non-exchange transaction, its cost is its fair value as at the date it is acquired in accordance with IPSAS 23.

- IN9. The Standard also replaces certain of the IAS 38 examples with examples relevant to the public sector. Public sector terminology also replaces certain IAS 38 wording, as required.

Criteria for initial recognition

- IN10. The Standard requires an intangible asset to be recognized if, and only if, it is 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

- IN11. 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

- IN12. 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 or service potential for the entity.
- IN13. The Standard requires that:
- (a) the useful life of an intangible asset arising from binding arrangements (including rights from contracts or 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

IN14. The Standard requires that:

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

IN15. An entity needs to assess at each reporting date whether there is any indication that an intangible asset may be impaired in accordance with IPSAS 21. An entity needs to determine the recoverable amount of a cash-generating intangible asset in accordance with IPSAS 26, when there is an indication that the asset may be impaired. Irrespective of whether there is any indication of impairment, an entity is also required, under IPSAS 26, to test an intangible asset with an indefinite useful life, annually.

Disclosure

IN16. IAS 38 contains a requirement to disclose for each revalued class of intangible asset, the carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model. This requirement is similar to that in IAS 16, “Property, Plant and Equipment.” IPSAS 17, “Property, Plant and Equipment” did not adopt this requirement from IAS 16. Consistent with IPSAS 17, this Standard does not contain a requirement to disclose for each revalued class of intangible asset, the carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model.

Transitional Provisions

IN17. The Standard requires the entity to recognize the effects of the initial recognition of intangible assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the intangible asset is initially recognized (see paragraph 141).

IN18. The Standard clarifies that an entity shall retrospectively apply accounting policies in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” when it initially recognizes an intangible asset at cost (see paragraph 143).

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, including meeting the definition of an asset. Powers to grant rights and to tax do not meet the definition of an asset set out in IPSAS 1, “Presentation of Financial Statements” and do not, therefore, satisfy the specified criteria for recognition as an intangible asset. 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 accounting for 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 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);**
 - (d) **expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources; and**
 - (e) **intangible assets acquired in an entity combination from a non-exchange transaction.**
4. 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:
 - (a) Intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11, “Construction Contracts,” and IPSAS 12, “Inventories”);
 - (b) Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes);
 - (c) Leases that are within the scope of IPSAS13, “Leases;”

- (d) Assets arising from employee benefits (see IPSAS 25, “Employee Benefits”);
 - (e) Financial assets as defined in IPSAS 15. The recognition and measurement of some financial assets are covered by IPSAS 6, “Consolidated and Separate Financial Statements,” IPSAS 7, “Investments in Associates” and IPSAS 8, “Interests in Joint Ventures;”
 - (f) Purchase premium/goodwill acquired in an entity combination from an exchange transaction (see proposed IPSAS xx, “Entity Combinations from Exchange Transactions”);
 - (g) Deferred 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 insurance contracts. In cases when the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets.
 - (h) Non-current intangible assets 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 accounting standard dealing with non-current assets held for sale and discontinued operations.
5. 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 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.
6. 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.
7. 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 IPSAS 13 and are within the scope of this Standard.

8. 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.

Intangible Heritage Assets

9. This Standard does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.
10. Some intangible assets are described as intangible heritage assets because of their cultural, environmental or historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person in, for example, postage stamps or collectible coins. Certain characteristics, including the following, are often displayed by intangible heritage assets (although these characteristics are not exclusive to such assets):
 - (a) Their value in cultural, environmental and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
 - (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
 - (c) Their value may increase over time; and
 - (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.
11. Public sector entities may have large holdings of intangible heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

12. Some intangible heritage assets generate cash flows in addition to their heritage value, for example, royalties paid to the entity for use of an historical recording. In these cases, they may be recognized and measured on the same basis as other items of intangible assets. The existence of alternative cash flow or service potential can affect the choice of measurement base.
13. The disclosure requirements in paragraphs 126-137 require entities to make disclosures about recognized intangible assets. Therefore, entities that recognize intangible heritage assets are required to disclose in respect of those assets such matters as, for example:
 - (a) The measurement basis used;
 - (b) The amortization method used, if any;
 - (c) The gross carrying amount;
 - (d) The accumulated amortization at the end of the period, if any; and
 - (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Government Business Enterprises

14. The “Preface to International Public Sector Accounting Standards (IPSAS)” issued by the International Public Sector Accounting Standards Board explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”

Definitions

15. **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 (for the purpose of this Standard) 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 and the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

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 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 of a cash generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An **impairment loss of a non- cash generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable service 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.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recoverable amount is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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

The **residual value of an 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.

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

16. 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, lists of customers or users of a service, acquired fishing licences, acquired import quotas, franchises and relationships with customers, users of a service or suppliers..
17. Not all the items described in paragraph 16 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 an entity combination from an exchange transaction, it forms part of the purchase premium/goodwill recognized at the acquisition date (see paragraph 74).

Identifiability

18. The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from purchase premium/goodwill. Purchase premium/goodwill recognized in an entity combination arising from the acquisition of a business in an exchange transaction is an asset representing the future economic benefits or service potential arising from other assets acquired in that entity combination which are not individually identified and separately recognized. The future economic benefits or service potential may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

19. 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 binding arrangements (including rights from contracts or legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.**

Control

20. 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 or that service potential. 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. Market and technical knowledge may give rise to future economic benefits or service potential. An entity controls those benefits or that service potential 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. 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. An entity may have a portfolio of customers or users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with customers or users of its services, the customers or users of its services will continue to trade with the entity or use its services. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or users of a service or the loyalty of the customers or users of a service to the entity, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with customers or users of a service and loyalty for such items (e.g., portfolio of customers or users of a service, market share or success rates of a service, relationships with customers or users of a service and loyalty of customers or users of a service) 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 an entity combination from an exchange transaction) provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

Future Economic Benefits or Service Potential

24. 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, the use of intellectual property in a production or service process may reduce future production or service costs rather than increase future revenues (e.g., an on-line system that allows citizens to renew driving licences more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).

Recognition and Measurement at Recognition

25. 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 16-24); and
 - (b) the recognition criteria (see paragraphs 28-30).

This requirement applies to the cost measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, and the fair

- value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.
26. Paragraphs 32-39 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 40-47 deal with their application to intangible assets acquired in an entity combination from an exchange transaction. Paragraphs 48-50 deal with the measurement at recognition of intangible assets acquired through non-exchange transactions, 51-53 with exchanges of intangible assets, and paragraphs 54-56 with the treatment of internally generated goodwill. Paragraphs 57-63 deal with the recognition, and measurement at recognition, of internally generated intangible assets.
27. 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 entity's operations 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. Consistent with paragraph 63, subsequent expenditure on brands, mastheads, publishing titles, lists of customers or users of an entity's services and items similar in substance (whether externally acquired or internally generated) is always recognized in surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure on behalf of the entity as a whole.
28. **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 intangible asset will flow to the entity; and**
 - (b) **the cost or fair value of the intangible asset can be measured reliably.**
29. **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. 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. **An intangible asset shall be measured initially at cost or fair value in accordance with paragraphs 32-53.**

Separate Acquisition

32. 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.
33. 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.
34. 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.
35. Examples of directly attributable costs are:
- (a) costs of employee benefits (as defined in 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.
36. 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 operations in a new location or with a new class of customer or user of a service (including costs of staff training); and
 - (c) administration and other general overhead costs.
37. 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.
38. 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 and related expenses of incidental operations are recognized immediately in surplus or deficit, and included in their respective classifications of revenue and expense.
39. 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, "Borrowing Costs."

Acquisition as part of an entity combination from an exchange transaction

Measuring the Fair Value of an Intangible Asset Acquired in an Entity Combination from an Exchange Transaction

40. If an intangible asset acquired in an entity combination from an exchange transaction 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, uncertainty enters into the measurement of the asset's fair value. If an intangible asset acquired in an entity combination from an exchange transaction has a finite useful life, there is a rebuttable presumption that its fair value can be measured reliably.
41. An intangible asset acquired in an entity combination from an exchange transaction 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 purchase premium/goodwill if the individual fair values of the assets in the group are not reliably measurable.

42. 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 recognizes 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 recognize them as a single asset provided the individual assets have similar useful lives.
43. Quoted market prices in an active market provide the most reliable estimate of the fair value of an intangible asset (see also paragraph 85). 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.
44. 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.
45. 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 an entity combination from an exchange transaction 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

46. **Research or development expenditure that:**
- (a) **relates to an in-process research or development project acquired separately or in an entity combination from an exchange transaction and recognized as an intangible asset; and**
 - (b) **is incurred after the acquisition of that project**
- shall be accounted for in accordance with paragraphs 60-68.**
47. Applying the requirements in paragraphs 60-68 means that subsequent expenditure on an in-process research or development project acquired separately or in an entity combination from an exchange transaction 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 63; 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 63.

Intangible Assets Acquired through Non-exchange Transactions

48. **Where an intangible asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.**
49. In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, 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. A private citizen, for example a Nobel prize winner may also bequeath his or her personal papers, including the copyright to his publications to the national archives, a public entity in a non-exchange transaction.
50. 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. For the purposes of this Standard, the measurement at recognition of an intangible asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph 82, does not constitute a

revaluation. Accordingly, the revaluation requirements in paragraph 82, and the supporting commentary in paragraphs 83-94 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.

Exchanges of Assets

51. 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.
52. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential 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 or service potential of the asset received differs from the configuration of the cash flows or service potential 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, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

53. Paragraph 28(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

54. **Internally generated goodwill shall not be recognized as an asset.**
55. 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 binding arrangements (including rights from contracts or legal rights) controlled by the entity that can be measured reliably at cost.
56. 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

57. 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 58-73 to all internally generated intangible assets.

58. 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.

59. 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

60. **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.**
61. 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.
62. 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

63. **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, transfer or sale;**
 - (b) **its intention to complete the intangible asset and use, transfer or sell it;**
 - (c) **its ability to use, transfer 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, transfer or sell the intangible asset; and**
 - (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.**
64. 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.
65. 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 full-scale production; and
 - (d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.
66. 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 either IPSAS 21, "Impairment of Non-Cash-Generating Assets" or IPSAS 26, "Impairment of Cash-Generating Assets," as appropriate. If the asset will generate economic benefits or service potential only in combination with other assets, the entity applies either the concept of value in use in IPSAS 21 or cash-generating units in IPSAS 26, as appropriate.
67. Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, an operating 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 or funder's indication of its willingness to fund the plan.
68. 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 logos, copyrights or licences or developing computer software.

69. **Internally generated brands, mastheads, publishing titles, lists of customers or users of an entity's services and items similar in substance shall not be recognized as intangible assets.**
70. Expenditure on internally generated brands, mastheads, publishing titles, lists of customers or users of an entity's services and items similar in substance cannot be distinguished from the cost of developing the entity's operations as a whole. Therefore, such items are not recognized as intangible assets.

Cost of an Internally Generated Intangible Asset

71. The cost of an internally generated intangible asset for the purpose of paragraph 31 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 28, 29 and 63. Paragraph 78 prohibits reinstatement of expenditure previously recognized as an expense.
72. 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 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.

IPSAS 5, "Borrowing Costs" specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset that is a qualifying asset.

73. 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.

Recognition of an Expense

74. **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 25-73); or**
 - (b) **the item is acquired in an entity combination from an exchange transaction and cannot be recognized as an intangible asset. If this is the case, it forms part of the amount recognized as purchase premium/goodwill at the acquisition date (see proposed IPSAS xx).**
75. 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 the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 60), except when it was acquired as part of the cost of an entity combination from an exchange transaction. 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 IPSAS 17. 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 operation (i.e., pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);
 - (b) Expenditure on training activities;
 - (c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and
 - (d) Expenditure on relocating or reorganizing part or all of an entity.
76. An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver information about a service to users of that service.

77. Paragraph 74 does not preclude an entity from recognizing a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 74 does not preclude an entity from recognizing a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Past Expenses not to be Recognized as an Asset

78. **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

79. **An entity shall choose either the cost model in paragraph 81 or the revaluation model in paragraph 82 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.**
80. 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

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

Revaluation Model

82. **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 reporting date the carrying amount of the asset does not differ materially from its fair value.**
83. 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 except for intangible assets acquired through non-exchange transactions (see paragraph 48).
- 84. 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 71), 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 through a non-exchange transaction (see paragraph 48).
- 85. It is uncommon for an active market with the characteristics described in paragraph 15 to exist for an intangible asset, although this may happen. For example, in some jurisdictions, an active market may exist for freely transferable homogeneous class of licences or production quotas the entity has acquired from another entity. 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.
- 86. 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.
- 87. 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.
- 88. **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.**
- 89. **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.**
90. 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 IPSAS 21 for a non-cash-generating intangible asset or IPSAS 26 for a cash-generating intangible asset.
91. 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.
92. **If the carrying amount of a class of intangible assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**
93. **If the carrying amount of a class of intangible assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance in the revaluation surplus in respect of that class of assets.**
94. The revaluation surplus included in net assets may be transferred directly to 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 accumulated surpluses or deficits is not made through surplus or deficit.

Useful Life

95. **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 or provide service potential for the entity.**
96. The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized (see paragraphs 104-113), and an intangible asset with an indefinite useful life is not (see paragraphs 114-117). The

Implementation Guidance accompanying this Standard illustrates the determination of useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations

97. 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.
98. 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.
99. 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.
100. 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.
101. **The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or 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 binding arrangements (including rights from contracts or 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 recognized as an intangible asset in an entity combination from an exchange transaction is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.
102. There may be economic, political, social and legal factors influencing the useful life of an intangible asset. Economic, political or social 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 such economic benefits or service potential. The useful life is the shorter of the periods determined by these factors.
103. Existence of the following factors, among others, indicates that an entity would be able to renew the binding arrangements (including rights from contracts or legal rights) without significant cost:
- (a) there is evidence, possibly based on experience, that the binding arrangements (including rights from contracts or 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 or service potential 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

104. 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 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 surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.
105. 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.
106. Amortization is usually recognized in 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 IPSAS 12).

Residual Value

107. **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.**
108. 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.

109. 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 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.
110. 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

111. **The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each 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 IPSAS 3.**
112. 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.
113. 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 operating 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

114. **An intangible asset with an indefinite useful life shall not be amortized.**
115. In accordance with 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

116. **The useful life of an intangible asset that is not being amortized shall 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 shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.**
117. In accordance with 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 IPSAS 26, with its carrying amount, and recognizing any excess of the carrying amount over the recoverable amount as an impairment loss. Although this guidance applies to cash-generating assets, it may also be considered in respect of non-cash-generating assets.

Recoverability of the Carrying Amount—Impairment Losses

118. To determine whether an intangible asset is impaired, an entity applies IPSAS 21 or IPSAS 26, as appropriate. Those Standards explain 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

119. **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.**
120. **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 surplus or deficit when the asset is derecognized (unless IPSAS 13 requires otherwise on a sale and leaseback).**
121. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). In determining the date of disposal of such an asset, an entity applies the criteria in IPSAS 9, “Revenue from Exchange Transactions” for recognizing revenue from

- the sale of goods or IPSAS 23 for recognizing revenue from non-exchange transactions. IPSAS 13 applies to disposal by a sale and leaseback.
122. If, in accordance with the recognition principle in 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.
123. In the case of a reacquired right in an entity combination from an exchange transaction, 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.
124. 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 IPSAS 9 reflecting the effective yield on the receivable.
125. 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 the relevant international or national standard dealing with non-current assets held for sale and discontinued operations.

Disclosure

General

126. **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 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, those acquired separately, and those acquired through entity combinations from exchange transactions;**
 - (ii) **assets classified as held for sale or included in a disposal group 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 and other disposals;**
 - (iii) **increases or decreases during the period resulting from revaluations under paragraphs 82, 92 and 93 and from impairment losses recognized or reversed directly in revaluation surplus in accordance with IPSAS 21 or IPSAS 26 (if any);**
 - (iv) **impairment losses recognized in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**
 - (v) **impairment losses reversed in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**
 - (vi) **any amortization recognized during the period;**
 - (vii) **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**
 - (viii) **other changes in the carrying amount during the period.**
127. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:
- (a) brand names;
 - (b) mastheads and publishing titles;
 - (c) computer software;
 - (d) licences and franchises;
 - (e) copyrights, patents and other property rights, service and operating rights;
 - (f) recipes, formulae, models, designs and prototypes; and

- (g) intangible assets under development.

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

- 128. An entity discloses information on impaired intangible assets in accordance with IPSAS 21 or IPSAS 26 in addition to the information required by paragraph 126(e)(iii)-(v).
- 129. 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.
- 130. **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 through a non-exchange transaction and initially recognized at fair value (see paragraph 48):**
 - (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.**
131. 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 97.

Intangible Assets Measured after Recognition using the Revaluation Model

132. **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; and**
 - (ii) **the carrying amount of revalued intangible assets;**
 - (b) **the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the reporting period and any restrictions on the distribution of the balance to the owners of the net asset; and**
 - (c) **the methods and significant assumptions applied in estimating the assets' fair values.**
133. Users of financial statements may also find the following information relevant to their needs:
- (a) The carrying amount of temporarily idle intangible assets;
 - (b) The gross carrying amount of any fully amortized intangible asset that is still used to provide future economic benefits or service potential;
 - (c) The carrying amount of intangible assets retired from active use and held for disposal; and
 - (d) When the cost model is used, the fair value of intangible assets when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

134. 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

135. **An entity shall disclose the aggregate amount of research and development expenditure recognized as an expense during the period.**
136. Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 72 and 73 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 135).

Other Information

137. 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.

Transitional Provisions

138. **An entity shall apply this Standard:**
- (a) **to the accounting for intangible assets acquired in entity combinations from exchange transactions for which the agreement date is on or after xx; and**
 - (b) **to the accounting for all other intangible assets prospectively from the beginning of the first annual period beginning on or after xx. Thus, the entity shall not adjust the carrying amount of intangible assets recognized 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 IPSAS 3.**
139. **Entities are not required to recognize intangible assets for reporting periods beginning on a date within five years following the date of first adoption of the accrual basis of accounting in accordance with International Public Sector Accounting Standards.**
140. **An entity that adopts the accrual basis of accounting for the first time in accordance with International Public Sector Accounting Standards shall initially recognize intangible assets at cost or fair value. For intangible assets that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition (as indicated in paragraph 48).**

141. **The entity shall recognize the effect of the initial recognition of intangible assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the intangible asset is initially recognized.**
142. Prior to first application of this Standard, an entity may recognize its intangible assets on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not recognized. This Standard requires entities to initially recognize intangible assets at cost or fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the intangible asset's fair value as at the date of acquisition. Where the cost of acquisition of an intangible asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.
143. IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an intangible asset at cost in accordance with this Standard, it shall also recognize any accumulated amortization and any accumulated impairment losses that relate to that intangible asset, as if it had always applied those accounting policies.
144. Paragraph 28 of this Standard requires that an intangible asset be recognized if, and only if:
- (a) it is probable that the expected future economic benefits or service potential that are attributable to the intangible asset will flow to the entity; and
 - (b) the cost or fair value of the intangible asset can be measured reliably.
145. The transitional provisions in paragraphs 139 and 140 are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with International Public Sector Accounting Standards, with effect from the effective date of this Standard or subsequently. When entities adopt the accrual basis of accounting in accordance with International Public Sector Accounting Standards for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of intangible assets. For this reason, for a five-year period following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards, entities are not required to comply fully with the requirements of paragraph 28.
146. Notwithstanding the transitional provisions in paragraph 139 and 140, entities that are in the process of adopting the accrual basis of accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.

147. The exemption from the requirements of paragraph 28 implies that the associated measurement and disclosure provisions of this Standard do not need to be complied with in respect of those intangible assets or classes of intangible asset that are not recognized under paragraphs 139 and 140.
148. **When an entity takes advantage of the transitional provisions in paragraphs 139 and 140 that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 139 shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but that are now recognized shall be disclosed.**

Effective Date

149. **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 a period beginning before xx, it shall disclose that fact.**
150. 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.

Amendments to Other IPSASs

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

- A1. In IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors,” paragraph 22 is amended to read as follows:

22. The initial application of a policy to revalue assets in accordance with IPSAS 17, Property, Plant and Equipment” or ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS xx, “Intangible Assets” is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or ~~that relevant Standard~~ IPSAS xx, rather than in accordance with this Standard.

- A2. In IPSAS 17, “Property, Plant and Equipment,” paragraph 65 is amended to read as follows:

65. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with the ~~relevant international or national accounting standard dealing with intangible assets~~ IPSAS xx, “Intangible Assets.”

- A3. In IPSAS 21, “Impairment of Non-Cash Generating Assets,” paragraph BC13 is amended to read as follows:

BC13. IAS 36 contains specific requirements for testing intangible assets for impairment, and for recognizing and measuring impairment losses related to intangible assets. These requirements complement the requirements of IAS 38, “Intangible Assets.” ~~The IPSASB has not issued an IPSAS on intangible assets, so has not considered the applicability of the IAS 36 impairment requirements to non-cash generating intangible assets in the public sector. Non-cash generating intangible assets are not excluded from the scope of this Standard. Therefore this Standard applies to those assets. Public sector intangible assets such as those reflecting the entity’s ability to issue licenses may arise in a cash-generating context. Other intangible assets may arise in a non-cash-generating context and should be tested for impairment according to the requirements of this Standard.~~

- A4. In IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers),” paragraph IG27 is amended to read as follows:

IG27. This is an exchange transaction. In return for the grant, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. IPSAS 9 and ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS xx, “Intangible Assets” apply to this transaction.

Application Guidance — Web Site Costs

This Application Guidance is an integral part of IPSAS xx. The purpose of the application guidance is to illustrate examples of certain aspects of the requirements of IPSAS xx as they apply to web site costs during each of the stages of web site development.

- AG1. 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, provide electronic services, and sell products and services. A web site designed for internal access may be used to store entity policies and details of customers or users of a service, and search relevant information.
- AG2. 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; and
 - (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.
- AG3. Once development of a web site has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.
- AG4. When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:
- (a) whether the web site is an internally generated intangible asset that is subject to the requirements of this Standard; and
 - (b) the appropriate accounting treatment of such expenditure.
- AG5. This Application Guidance 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.

- AG6. IPSAS xx does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 12 and IPSAS 11) or leases that fall within the scope of IPSAS 13. Accordingly, this Application Guidance 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 Application Guidance. When a web site is leased under a finance lease, the lessee applies this Application Guidance after initial recognition of the leased asset.
- AG7. 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.
- AG8. A web site arising from development is recognized as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph 28 of this Standard for recognition and initial measurement, an entity can satisfy the requirements in paragraph 63 of this Standard. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits or serviced potential in accordance with paragraph 63(d) of this Standard when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits or service potential, and consequently all expenditure on developing such a web site is recognized as an expense when incurred.
- AG9. Any internal expenditure on the development and operation of an entity's own web site is 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 are evaluated to determine the appropriate accounting treatment (additional guidance is provided in the table included at the end of this Application Guidance). For example:
- (a) The Planning stage is similar in nature to the research phase in paragraphs 60-62 of this Standard. Expenditure incurred in this stage is recognized as an expense when it is incurred;
 - (b) 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, are similar in nature to the development phase in paragraphs 63-70 of this Standard. Expenditure incurred in these stages is included in the cost of a web site recognized as an intangible asset in accordance with paragraph AG8 of this Application Guidance 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 licence to reproduce) on the web site, is included in the cost of development when this condition is met. However, in accordance with paragraph 78 of this Standard, expenditure on an intangible item that was initially recognized as an expense in previous financial statements is not recognized as part of the cost of an intangible asset at a later date (e.g., if the costs of a copyright have been fully amortized, and the content is subsequently provided on a web site);

- (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), is recognized as an expense when incurred in accordance with paragraph 75(c) of this Standard. For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure is recognized as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site; and
- (d) The Operating stage begins once development of a web site is complete. Expenditure incurred in this stage is recognized as an expense when it is incurred unless it meets the recognition criteria in paragraph 25 of this Standard.

AG10. A web site that is recognized as an intangible asset under paragraph AG 8 of this Application Guidance is measured after initial recognition by applying the requirements of paragraphs 79-94 of this Standard. The best estimate of a web site's useful life should be short.

Examples illustrating Application Guidance

This table accompanies, but is not part of, IPSAS xx. The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2-AG3 and to illustrate application of paragraphs AG4-AG10 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

Stage/Nature of expenditure	Accounting treatment
Planning <ul style="list-style-type: none"> • Undertaking feasibility studies; • Defining hardware and software specifications; • Evaluating alternative products and suppliers; and • Selecting preferences. 	Recognize as an expense when incurred in accordance with paragraph 60 of this Standard.
Application and Infrastructure Development <ul style="list-style-type: none"> • Purchasing or developing hardware. 	Apply the requirements of the IPSAS 17.
<ul style="list-style-type: none"> • Obtaining a domain name; • Developing operating software (e.g., operating system and server software); • Developing code for the application; • Installing developed applications on the web server; and • Stress testing. 	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 28 and 63 ¹ of this Standard.
Graphical Design Development <ul style="list-style-type: none"> • Designing the appearance (e.g., layout and colour) of web pages. 	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 28 and 63 ¹ of this Standard.

¹ All expenditure on developing a web site solely or primarily for to fulfill a statutory requirement or to be used primarily in providing information to the public at large regarding the entity's own products and services is recognized an expense when incurred in accordance with paragraph xx of this Standard.

Stage/Nature of expenditure	Accounting treatment
<p>Content Development</p> <ul style="list-style-type: none"> • 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, and topics that subscribers access. 	<p>Recognize as an expense when incurred in accordance with paragraph 75(c) of this Standard 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 28 and 63¹ of this Standard.</p>
<p>Operating</p> <ul style="list-style-type: none"> • Updating graphics and revising content; • Adding new functions, features and content; • Registering the web site with search engines; • Backing up data; • Reviewing security access; and • Analyzing usage of the web site. 	<p>Assess whether it meets the definition of an intangible asset and the recognition criteria set out in paragraph 28 of this Standard, in which case the expenditure is recognized in the carrying amount of the web site asset.</p>
<p>Other</p> <ul style="list-style-type: none"> • 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; • Clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (e.g., false-start testing); and • Training employees to operate the web site. 	<p>Recognize as an expense when incurred in accordance with paragraphs 71-77 of this Standard.</p>

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 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 31 December 2008 version of IAS 38.²

Scope

- BC3. The IPSASB has specifically excluded from the scope of IPSAS xx, the power to grant rights and to tax because such powers do not meet the extant definition of an asset set out in IPSAS 1. Moreover, they do not meet the identifiability criterion for recognition as an intangible asset because such powers are not separable from the government.
- BC4. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence, for example, the power to tax or an intention to levy taxation is not a past event that gives rise to an asset. In accordance with IPSAS 23, the power to tax produces an asset for accounting and financial reporting purposes only when it is exercised and taxable event has occurred, resulting in taxes receivable.
- BC5. Governments also have the power to exercise a regulatory role over certain activities, for example driving, hunting, fishing, logging, drug approval and food inspection, and over industries such as broadcasting, telecommunications, stock

² 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 Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

exchanges, financial services and pension funds. In some cases, in exercising its regulatory role, the government grants rights to persons or to other entities (e.g., by issuing licences, permits, charters or an exclusive franchise to perform a service on behalf of government). The regulated items do not necessarily meet the criteria for recognition of an intangible asset of the public sector entity. However, such licences may be an intangible asset of another entity that acquires them. Any fees the government levies in respect of its regulatory role (e.g., licences, registration fees or royalties) are accounted for either in accordance with IPSAS 9, “Revenue from Exchange Transactions” or IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers)” according to their substance.

- BC6. The IASB has issued an Interpretation of IAS 38 dealing with accounting for web site costs. The IPSASB believes the guidance contained in SIC Interpretation 32, “Intangible Assets – Web Site Costs,” (SIC-32) is relevant to the public sector. Accordingly, IPSAS xx includes as application guidance the definitions and guidance contained in SIC-32, including the appendix that illustrates the relevant accounting principles and how they are linked to IPSAS xx. As application guidance, this material is an integral part of IPSAS xx.

Public Sector Issues

- BC7. IAS 38 indicates that an asset meets the identifiable criterion when it arises from contractual or other legal rights. In the public sector, the “identifiable” criterion has been expanded to include rights arising from binding arrangements (including rights from contracts or legal rights) to better describe the types of arrangements in the public sector.
- BC8. The IPSASB incorporated in IPSAS xx guidance on certain public sector issues that are not addressed in IAS 38, notably heritage assets.
- BC9. In addition, the guidance in IAS 38 on the acquisition of intangible assets by way of a government grant has been replaced with acquisition through non-exchange transactions. This guidance is based on analogous material in IPSAS 17, “Property, Plant and Equipment.”
- BC10. The Standard replaces certain IAS 38 examples with examples relevant to the public sector.

Comparison with IAS 38

International Public Sector Accounting Standard IPSAS xx, “Intangible Assets” is drawn primarily from International Accounting Standard IAS 38, “Intangible Assets” as at 31 December 2008. The main differences between IPSAS xx and IAS 38 are as follows:

- Commentary additional to that in IAS 38 has been included in various paragraphs of IPSAS xx (as shown in markup) to clarify the applicability of the requirements to accounting by public sector entities.
- IPSAS xx incorporates the guidance contained in SIC Interpretation 32, “Intangible Assets – Web Site Costs” as Application Guidance to illustrate the relevant accounting principles.
- IPSAS xx includes guidance contained in IAS 38 on accounting for intangible assets acquired as part of an entity combination from an exchange transaction and in-process research and development costs acquired in an entity combination from an exchange transaction, as the Board’s intention is to issue its guidance on entity combinations from exchange transactions concurrently with this Standard.
- 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 deficit,” “future economic benefits or service potential,” “accumulated surpluses or deficits,” “operating/operation,” “rights from binding arrangements (including rights from contracts or legal rights)” and “net assets/equity” in IPSAS xx. The equivalent terms in IAS 38 are “income,” “statement of comprehensive income,” “balance sheet,” “profit or loss,” “future economic benefits,” “retained earnings,” “business,” “contractual or other legal rights” and “equity.”
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 48-50 of IPSAS xx modify this guidance to refer to intangible assets acquired through non-exchange transactions. IAS 38 permits intangible assets acquired by way of a government grant to be recognized initially at fair value or at a nominal amount. IPSAS xx adds a requirement in paragraph xx (consistent with paragraph 17 of IPSAS 17, “Property, Plant and Equipment”) that where an item is acquired at through a non-exchange transaction (at no cost, or for a nominal cost), its cost is measured at its fair value as at the date it is acquired. In addition, reference is made to IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers),” which requires such assets to be initially recognized at fair value as at the date of acquisition.
- The example in paragraph 65 of IAS 38 has been modified to a public sector example, and moved to Implementation Guidance. Other illustrative examples

included in IAS 38 have been modified only as necessary to better address 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 are amended to refer to IPSAS 21 and/or IPSAS 26, as appropriate. In particular, a specific reference was added in paragraph 117 to address the requirements of IPSAS 21, which differ slightly from those of IPSAS 26.
- IPSAS xx does not require or prohibit the recognition of intangible heritage assets. An entity that recognizes intangible heritage assets is required to comply with the disclosure requirements of this Standard with respect to those intangible heritage assets that have been recognized and may, but is not required to, comply with other requirements of this Standard in respect of those intangible heritage assets. IAS 38 does not have a similar exclusion.
- Under IAS 38, revaluation increases and decreases may only be offset on an individual item basis. Under IPSAS xx, revaluation increases and decreases are offset on a class of asset basis, consistent with IPSAS 17.
- IPSAS 17 contains transitional provisions for the first time adoption of accrual basis IPSASs. Specifically, IPSAS 17 contains transitional provisions allowing entities to not recognize property, plant and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. The transitional provisions also allow entities to recognize intangible assets at fair value on first time adoption, consistent with IPSAS 17.

Implementation Guidance – Illustrative Examples

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

(a) Cost of an Internally Generated Intangible Asset

The following guidance provides examples on applying paragraph xx 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 31, 20X8, expenditure incurred for the development of the system was CU1,000,³ of which CU900 was incurred before March 1, 20X8 and CU100 was incurred between 1 March 20X8 and March 31, 20X8. The entity is able to demonstrate that, at March 1, 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., March 1, 20X8). The CU900 expenditure incurred before March 1, 20X8 is recognized as an expense because the recognition criteria were not met until March 1, 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 March 31, 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 financial year ending March 31, 20X9, 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 CU,200 to adjust the carrying amount of the developed system before the 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 IPSAS 21 are met.

(b) 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.

³ In this Standard, monetary amounts are denominated in 'currency units (CU).

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 list of property owners

A local authority acquires a list of property owners from another public sector entity which is responsible for registering property deeds. The other entity is at another level of government, and is not part of the reporting entity for the local authority. The list is to be used for the purpose of generating tax revenues for the local authority and the local authority expects that it will be able to derive benefit from the information on the acquired list⁴ for at least one year, but no more than three years.

The list of property owners would be amortized over management's best estimate of its useful life, say 18 months. Although the other entity responsible for registering property deeds may intend to add property owner names and other information to the list in the future, the expected benefits of the acquired list relate only to the property owners on that list at the date it was acquired. The list of property owners also would be reviewed for impairment in accordance with IPSAS 26 by assessing annually and whenever there is any indication that it may be impaired.

Example 2—An acquired patent that expires in 15 years

The entity acquires a patent over a formula for a vaccine, from another entity to secure the entity's ability to provide free vaccinations to its constituents. The vaccine protected by the patent is expected to be a source of service potential for at least 15 years. The entity has a commitment from another entity 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 21, by assessing at each reporting date whether there is any indication that it may be impaired.

Example 3—The vaccine patent in example 2

The entity acquires an asset, the patent over a formula for a vaccine, from another entity to secure the entity's ability to provide free vaccinations to its constituents. It is expected that the formula will need to be slightly modified every 10 years to maintain its efficacy.

⁴ Although the local authority 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. Subsequent additions would be considered to be internally-developed intangible assets, and accounted for in accordance with this Standard.

There is evidence to support ongoing renewal of the patent. A contract with the other entity stipulates that the other entity will maintain the efficacy of the formula continuously, and evidence supports its ability to do so. The costs to renew the patent and maintain the efficacy of the formula are expected to be insignificant and will be paid to the other entity when the improvements are made.

An analysis of product lifecycle studies, and demographic and environmental trends, provides evidence that the patent will provide service potential to the entity by enabling it to deliver its vaccination program for an indefinite period. Accordingly, the patent would be treated as having an indefinite useful life. Therefore, the patent would not be amortized unless its useful life is determined to be finite. The patent would be tested for impairment in accordance with IPSAS 21 by assessing at each reporting date whether there is any indication that it may be impaired.

Example 4—An acquired copyright that has a remaining legal life of 50 years

The entity acquires a copyright from another entity to enable it to reproduce and sell the copyrighted material on a cost-recovery basis to its constituency. An analysis of the habits of the entity's constituency and other 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 by assessing annually and whenever there is any indication that it may be impaired.

Example 5—An acquired broadcasting licence that expires in five years

The entity acquires a broadcasting licence from another entity. It intends to provide free broadcasting services in the community. The broadcasting licence is renewable every 10 years if the entity provides at least an average level of service to its users of its service 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 service potential indefinitely.

The broadcasting licence would be treated as having an indefinite useful life because it is expected to contribute to the entity's service potential 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 21 by assessing at each reporting date whether there is any indication that it may be impaired.

Example 6—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 provide service potential 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 21.

Example 7—An acquired public transit route between two cities that expires in three years

The entity acquires from another entity the public transit route which generates revenues. The transit route may be renewed every five years, and the acquiring entity intends to comply with the applicable rules and regulations surrounding renewal. Transit route renewals are routinely granted at a minimal cost and historically have been renewed when the entity has complied with the applicable rules and regulations. The acquiring entity expects to use the route indefinitely between the two cities. An analysis of demand and cash flows supports those assumptions.

Because the facts and circumstances support the acquiring entity's ability to continue providing transit service indefinitely between the two cities, the intangible asset related to the transit route 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 annually and whenever there is an indication that it may be impaired.

Exposure Draft [403x](#)

March [2009](#)~~2008~~

Comments are requested by July 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 ~~February 2009~~~~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 ~~July~~~~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
Toronto, Ontario M5V 3H2 CANADA

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> ~~http://www.ifac.org~~.

ACKNOWLEDGMENT

This Exposure Draft of an International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard IAS 38, “Intangible Assets” published by the International Accounting Standards Board (IASB). Extracts from IAS 38 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

The approved text of the IFRSs is that published by the IASB in the English language, and copies may be obtained directly from IASB Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom.

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Objective

The objective of this Exposure Draft is to propose the accounting treatment for intangible assets of public sector entities. [The Exposure Draft](#) ~~that~~ is converged 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 Matters [for Comment](#) that it is particularly interested in.

Specific Matters [for Comment](#)

The IPSASB would particularly value comments on the following question:

[1.](#) Do you agree that the changes made to IAS 38, in particular the scope exclusions [set out in paragraphs 1, 3 and 4](#), and the additional public sector guidance are:

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

[2.](#) [The IPSASB is issuing an Exposure Draft of an IPSAS, “Entity Combinations from Exchange Transactions,” which is converged with IFRS 3, “Business Combinations.” Accordingly, references in this Exposure Draft to guidance IFRS 3 have been replaced with a reference to proposed IPSAS xx, “Entity Combinations from Exchange Transactions” or “proposed IPSAS xx” on the basis that this proposed IPSAS will be issued concurrent with the IPSAS on entity combinations from exchange transactions. The IPSASB is seeking your view on whether it is appropriate to retain this material should the Entity Combinations from Exchange Transactions IPSAS not be issued concurrent with this IPSAS.](#)

Introduction

- IN1. The ~~Standard~~ prescribes the accounting treatment for intangible assets; financial reporting and disclosure by public sector entities. ~~for intangible assets.~~ It is adapted to the public sector context from IAS 38, “Intangible Assets.”

Scope

- IN2. This Standard specifically excludes the power to grant rights and the power to tax on the basis that they do not meet the extant definition of an asset set out in IPSAS 1, “Presentation of Financial Statements.” ~~Emissions Trading. The Standard also 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.~~⁺
- IN3. The Standard incorporates, as Application Guidance, in an Appendix, guidance on accounting for web site costs from SIC Interpretation 32, “Intangible Assets – Web Site Costs,” including illustrations of the relevant accounting principles.
- IN4. ~~This Standard specifically excludes~~ The Standard also incorporates guidance on certain public sector issues that are not addressed in IAS 38, including intangible heritage assets. 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 in an entity combination from at no cost or for a nominal consideration, or by way of other non-exchange transaction because the Board has not yet considered entity combinations arising from non-exchanges, its cost is its fair value as at the date it is acquired in accordance with IPSAS 23, “Revenue from Non-exchange transactions. Transactions (Taxes and Transfers).”~~

Definition of an intangible asset

- ~~IN5.~~ 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 (including rights from contracts) or other legal rights).~~

⁺ ~~This guidance will be added to this Standard as a conforming change when the IPSASB completes its entity combinations project.~~

regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

IN6. IAS 38 indicates that an asset meets the identifiable criterion when it arises from contractual or other legal rights. IN7. In the public sector, the “identifiable” criterion has been expanded to include ~~contractual~~ rights arising from binding arrangements (including rights from contracts or legal rights).

Public sector issues

IN7. The Standard incorporates guidance on certain public sector issues that are not addressed in IAS 38, including intangible heritage assets.

IN8. IAS 38 addresses intangible assets acquired by way of a government grant. IPSAS 23, “Revenue from Non-exchange Transactions (Taxes and Transfers)” deals with this issue as it applies in the public sector. Accordingly, this Standard states that, where an intangible asset is acquired through a non-exchange transaction, its cost is its fair value as at the date it is acquired in accordance with IPSAS 23.

IN9. The Standard also replaces certain of the IAS 38 examples with examples relevant to the public sector. Public sector terminology also replaces certain IAS 38 wording, as required.

Criteria for initial recognition

IN8.IN10. The Standard requires an intangible asset to be recognized if, and only if, it ~~is~~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.~~IN11. 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.~~IN12. 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 or service potential for the entity.

~~IN11.~~IN13. The Standard requires that:

- (a) the useful life of an intangible asset arising from ~~contractual rights (including rights arising from~~ binding arrangements (including rights from contracts) 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.~~IN14. The Standard requires that:

- (a) an intangible asset with an indefinite useful life should not be amortized; ~~and 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.~~IN15. An entity needs to assess at each reporting date whether there is any indication that an intangible asset may be impaired in accordance with IPSAS 21. An entity needs to determine the recoverable amount of a cash-generating intangible asset ~~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, when there is an indication that the asset may be impaired. Irrespective of whether there is any indication of impairment, an entity is also required, under IPSAS 26, to test an intangible asset with an indefinite useful life, annually.

Disclosure

IN16. IAS 38 contains a requirement to disclose for each revalued class of intangible asset, the carrying amount that would have been recognized had the revalued class

of intangible assets been measured after recognition using the cost model. This requirement is similar to that in IAS 16, “Property, Plant and Equipment.” IPSAS 17, “Property, Plant and Equipment” did not adopt this requirement from IAS 16. Consistent with IPSAS 17, this Standard does not contain a requirement to disclose for each revalued class of intangible asset, the carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model.

~~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.~~

Transitional Provisions

~~IN17.~~**IN15.** The Standard requires the entity to recognize the effects of the initial recognition of intangible assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the intangible asset is initially recognized ~~in accordance with IPSAS xx~~ (see paragraph ~~141~~).**132**).

~~IN18.~~**IN16.** The ~~Standard~~**standard** clarifies that an entity shall retrospectively apply accounting policies in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” when it initially recognizes an intangible asset at cost ~~in accordance with IPSAS xx~~ (see paragraph ~~143~~).**134**).

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, including meeting the definition of an asset.~~met. Powers to grant rights and to tax~~~~are not intangible assets on the basis that they~~ do not meet the definition of an asset set out in IPSAS 1, “Presentation of Financial Statements” and do not, therefore, satisfy the specified criteria for recognition as an intangible asset.~~(see paragraph 20 for further discussion of this issue).~~ 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~~ accounting for~~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 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; and
 - (e) intangible assets acquired in an entity combination from a non-exchange transaction.
4. ~~resources.~~ 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:
 - (a) Intangible assets held by an entity for sale in the ordinary course of operations~~business~~ (see IPSAS 11, “Construction Contracts,” and IPSAS 12, “Inventories”); ”.”
 - (b) Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes);

- ✱
 - (c) Leases that are within the scope of IPSAS13, “Leases.”
 - ~~(d)~~ Assets arising from employee benefits (see IPSAS 25, “Employee Benefits.”);
 - (e) Financial assets as defined in IPSAS 15. The recognition and measurement of some financial assets are covered by IPSAS 6, “Consolidated and Separate Financial Statements,” IPSAS 7, “Investments in Associates” and IPSAS 8, “Interests in Joint Ventures.”
 - (f) Purchase premium/goodwill~~Goodwill~~ acquired in an entity~~business~~ combination from an exchange transaction (see proposed IPSAS xx, “Entity Combinations—the relevant international or national accounting standard dealing with entity combinations from Exchange Transactions”);
 - ~~(g)~~
 - ~~(g)~~ In-process research and development projects acquired through an entity combination (see the relevant international or national accounting standard dealing with entity combinations).
 - ~~(h)~~ Deferred 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 insurance contracts. In cases when the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets.
 - ~~(h)~~~~(i)~~ Non-current intangible assets 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 accounting standard dealing with non-current assets held for sale and discontinued operations.
5. 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 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.

6. 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.
7. 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 IPSAS 13, [“Leases”](#) and are within the scope of this Standard.
8. 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.

~~Government Business Enterprises~~

- ~~9. The “Preface to International Public Sector Accounting Standards (IPSAS)” issued by the International Public Sector Accounting Standards Board explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”~~

Intangible Heritage Assets

- ~~9.10.~~ This ~~Standard~~[standard](#) does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize [intangible](#) heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.
- ~~10.11.~~ Some intangible assets are described as intangible heritage assets because of their cultural, environmental or historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person in, for example, postage stamps or collectible coins. Certain characteristics, including the following, are often displayed by intangible heritage assets (although these characteristics are not exclusive to such assets):

- (a) (a) Their value in cultural, environmental and educational ~~an~~ historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
 - (b) (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
 - (c) (c) Their value may increase over time; and
 - (d) (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.
- 11.12. Public sector entities may have large holdings of intangible heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.
- 12.13. Some intangible heritage assets generate cash flows in addition to their heritage value, for example, royalties paid to the entity for use of an historical recording. In these cases, they may be recognized and measured on the same basis as other items of intangible assets. The existence of alternative cash flow or service potential can affect the choice of measurement base.
- 13.14. The disclosure requirements in paragraphs 126-137 ~~118-128~~ require entities to make disclosures about recognized intangible assets. Therefore, entities that recognize intangible heritage assets are required to disclose in respect of those assets such matters as, for example:
- (a) (a) The measurement basis used;
 - (b) (b) The amortization ~~depreciation~~ method used, if any;
 - (c) (c) The gross carrying amount;
 - (d) (d) The accumulated amortization ~~depreciation~~ at the end of the period, if any; and
 - (e) (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Government Business Enterprises

14. The “Preface to International Public Sector Accounting Standards (IPSAS)” issued by the International Public Sector Accounting Standards Board explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”

Definitions

15. 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 (for the purpose of this Standard) 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 and ~~or~~ the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. ~~construction, or, when applicable, the amount attributed to that asset when initially recognized.~~

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 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 of a cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non- cash generating asset is the amount by which the carrying amount of an asset exceeds its ~~or~~ recoverable service 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.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recoverable amount is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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.

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

16. 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, beneficiary or constituents~~ lists of customers or users of a service, acquired, fishing licences, ~~acquired~~ import quotas, franchises and relationships with customers, users of a service~~beneficiaries, constituents~~ or suppliers, ~~and customer or beneficiary loyalty~~.

17. Not all the items described in paragraph 16 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 an entity combination from an exchange transaction, it forms part of the purchase premium/goodwill recognized at the acquisition date (see paragraph 74).

Identifiability

18. The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from purchase premium/goodwill. Purchase premium/goodwill recognized in an entity combination arising from the acquisition of a business in an exchange transaction is an asset representing the future economic benefits or service potential arising from other assets acquired in that entity combination which are not individually identified and separately recognized. The future economic benefits or service potential may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

- ~~19.~~18. 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 (including rights from contracts) or ~~other~~ legal rights, ~~rights~~, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Control

- ~~20.~~19. 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 or that service potential. 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, ~~(or binding arrangements)~~, 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.
20. ~~The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example driving, hunting, fishing, logging, drug approval and food inspection, and over industries such as broadcasting, telecommunications, stock exchanges, financial services and pension funds. These regulatory roles and the right to levy taxes do not meet the definition of an intangible asset of the government because the government cannot ordinarily transfer the regulatory role. Further, similar to internally generated intangible assets, it is difficult to assess whether and when there is an identifiable asset that will generate expected future economic benefits or service potential, the specific past event that would give rise to an asset and to accurately measure the economic benefits or service potential and to determine the cost of any potential asset reliably. Transactions or events expected to occur in the future do not in themselves give rise to assets—hence, for example, an intention to levy taxation is not a past event that gives rise to an asset. However, once the government issues licences to third parties (e.g., driving, hunting, fishing or logging) such licences may be an intangible asset of the third party, but not of the government. Further, any fees the government levies in respect of its regulatory role (e.g., licences, registration fees or royalties) are accounted for in accordance with IPSAS 9, "Revenue from Exchange Transactions." Any taxes a government levies are accounted for in accordance with IPSAS 23, "Revenue from Non-Exchange Transactions (Taxes and Transfers)." Costs incurred to exercise the ability to tax (e.g., preparation of a valuation roll to levy property tax) are not part of the cost of an intangible asset. Rather, they are the cost related to earning the tax revenue. [from IPSAS 23.32, 34]~~
21. Market and technical knowledge may give rise to future economic benefits or service potential. An entity controls those benefits or that service potential 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. 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. An entity may have a portfolio of customers or ~~users~~beneficiaries of its services or its success rate in reaching intended ~~users~~beneficiaries of its services (~~e.g., encouraging recycling or inoculation~~) and expect that, because of its efforts in building ~~customer or beneficiary~~ relationships with customers or users of its services, and loyalty, the customers or ~~users~~beneficiaries of its services will continue to trade with the entity or use its services. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or ~~users of a service~~beneficiaries or the loyalty of the customers or ~~users of a service~~beneficiaries to the entity, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with customers or ~~users of a service~~beneficiaries and loyalty for such items (e.g., portfolio of customers or users of a service, ~~beneficiaries~~, market share ~~or program~~ success rates of a service, rate, customer/beneficiary relationships with customers or users of a service and ~~customer/beneficiary~~ loyalty of customers or users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect customer/~~beneficiary~~ relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of ~~an entity-business combination from an exchange transaction~~) provide evidence that the entity is nonetheless able to control the expected future economic benefits ~~or service potential~~ flowing from the customer ~~or beneficiary~~ relationships. Because such exchange transactions also provide evidence that the customer ~~or beneficiary~~ relationships are separable, those customer relationships meet the definition of an intangible asset.

Future Economic Benefits or Service Potential

24. 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, the use of intellectual property in a production or service process may reduce future production ~~oreosts of providing a service or increase~~ service costs ~~potential~~ rather than increase future revenues (e.g., an on-line system that allows citizens to renew driving licences more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).

Recognition and ~~Initial~~ Measurement at Recognition

25. 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 ~~16-24~~15-24); and
 - (b) the recognition criteria (see paragraphs 28-30).

- This requirement applies to the cost measured at recognition (the cost in an exchange transaction costs incurred initially to acquire or to internally generate an intangible asset, and the fair value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.
26. Paragraphs ~~32-39~~32-34 ~~deal with the initial measurement of intangible assets acquired by way of non-exchange transactions, paragraphs 35-42~~ deal with the application of the recognition criteria to separately acquired ~~intangible assets, paragraphs 45-47 with exchanges of~~ intangible assets, and paragraphs ~~40-47~~48-50 deal with their application to intangible assets acquired in an entity combination from an exchange transaction. Paragraphs 48-50 deal with the measurement at recognition of intangible assets acquired through non-exchange transactions, 51-53 with exchanges of intangible assets, and ~~with the treatment of internally generated goodwill. paragraphs 54-56~~ Paragraphs ~~51-67~~ 51-67 with the treatment of internally generated goodwill. Paragraphs 57-63 deal with the ~~initial~~ recognition, and measurement at recognition, of internally generated intangible assets.
27. 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 entity's operations/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. Consistent with paragraph 63, subsequent expenditure on brands, mastheads, publishing titles, lists of customer/customer, beneficiary or users of an entity's services/constituent lists and items similar in substance (whether externally acquired or internally generated) is always recognized in surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure on behalf of to develop the entity/business as a whole.
28. **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 intangible asset will flow to the entity; and
 - (b) the cost or fair value of the intangible asset can be measured reliably.
29. **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. 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. An intangible asset shall be measured initially at cost or fair value in accordance with paragraphs 32-53.²

~~Intangible Assets Acquired through a Non-exchange Transactions [this section has been moved up from IAS 38.44]~~

- ~~32. When an intangible asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.~~
- ~~33. In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, through a non-exchange transaction. This may happen when another public sector entity 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.~~
- ~~34. 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 through a non-exchange transaction. For the purposes of this Standard, the measurement at recognition of an intangible asset acquired at no or nominal cost, at its fair value consistent with the requirements of paragraph 32, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 75, and the supporting commentary in paragraphs 76-87, only apply when an entity elects to revalue an intangible item in subsequent reporting periods. [last two sentences consistent with IPSAS 17.29]~~

Separate Acquisition

- ~~32.35.~~ 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.

² ~~Determining cost of an intangible asset is described in paragraphs 32-47. In some cases, cost is deemed to be fair value.~~

~~33.36.~~ 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.

~~34.37.~~ 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.

~~35.38.~~ Examples of directly attributable costs are:

- (a) costs of employee benefits (as defined in 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.

~~36.39.~~ 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 ~~operations~~business in a new location or with a new class of customer or user of a service~~beneficiary~~ (including costs of staff training); and
- (c) administration and other general overhead costs.

~~37.40.~~ 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.

~~38.41.~~ 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 and related expenses of incidental operations are recognized immediately in surplus or deficit, and included in their respective classifications of revenue and expense.

- 39.42. 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, “Borrowing Costs.”

Acquisition as part of an entity combination from an exchange transaction

Measuring the Fair Value of an Intangible Asset Acquired in an Entity Combination from an Exchange Transaction

40. If an intangible asset acquired in an entity combination from an exchange transaction 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, uncertainty enters into the measurement of the asset’s fair value. If an intangible asset acquired in an entity combination from an exchange transaction has a finite useful life, there is a rebuttable presumption that its fair value can be measured reliably.
41. An intangible asset acquired in an entity combination from an exchange transaction 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 purchase premium/goodwill if the individual fair values of the assets in the group are not reliably measurable.
42. 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 recognizes 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 recognize them as a single asset provided the individual assets have similar useful lives.

43. Quoted market prices in an active market provide the most reliable estimate of the fair value of an intangible asset (see also paragraph 85). 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.
44. 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.
45. 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 an entity combination from an exchange transaction 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

46.43. Research or development expenditure that:

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

shall be accounted for in accordance with paragraphs 60-6854-62.

47.44. Applying the requirements in paragraphs 60-6854-62 means that subsequent expenditure on an in-process research or development project acquired separately or in an entity combination from an exchange transaction 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 63](#)~~paragraph 57~~; 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 63](#)~~57~~.

Intangible Assets Acquired through Non-exchange Transactions

- 48. Where an intangible asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.**
- 49. In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, 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. A private citizen, for example a Nobel prize winner may also bequeath his or her personal papers, including the copyright to his publications to the national archives, a public entity in a non-exchange transaction.
- 50. 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. For the purposes of this Standard, the measurement at recognition of an intangible asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph 82, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 82, and the supporting commentary in paragraphs 83-94 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.

Exchanges of Assets (~~See IAS 16.24-26, IPSAS 17.37-40~~)

- 51.45. 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.
- 52.46. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential 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 or service potential of the asset received differs from the configuration of the cash flows or service potential 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, if tax ~~applies~~. The result of these analyses may be clear without an entity having to perform detailed calculations.

~~53.~~ ~~47.~~ Paragraph 28(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

~~54.~~ ~~48.~~ Internally generated goodwill shall not be recognized as an asset.

~~55.~~ ~~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 ~~binding arrangements contractual rights~~ (including rights arising from ~~contracts binding arrangements~~) or ~~other~~ legal rights) controlled by the entity that can be measured reliably at cost.

~~56.~~ ~~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

~~57.51.~~ 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 ~~58-752-673~~ to all internally generated intangible assets.

~~58.52.~~ 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”~~^{“research”} and ~~“development”~~^{“development”} are defined, the terms ~~“research phase”~~^{“research phase”} and ~~“development phase”~~^{“development phase”} have a broader meaning for the purpose of this Standard.

~~59.53.~~ 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

~~60.54.~~ **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.**

~~61.55.~~ 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.

~~62.56.~~ 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

63.57. 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, transfer or sale;**
- (b) **its intention to complete the intangible asset and use, transfer or sell it;it.**
- (c) **its ability to use, transfer 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, transfer or sell the intangible asset; and**
- (f) **its ability to measure reliably the expenditure attributable to the intangible asset during its development.**

64.58. 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.

65.59. 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 [full-scale](#) production; and
 - (d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.
- ~~66.60.~~ 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 either IPSAS 21, “Impairment of Non-Cash-Generating Assets” or IPSAS 26, “Impairment of Cash-Generating Assets,” as appropriate. If ~~thea-cash-generating~~ asset will generate economic benefits or service potential only in combination with other assets, the entity applies either the concept of value in use in IPSAS 21 or cash-generating units in IPSAS 26, as appropriate.
- ~~67.61.~~ Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, an operating 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 [or funder’s](#) indication of its willingness to fund the plan.
- ~~68.62.~~ 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 [logos](#), copyrights or licences or developing computer software.
- ~~69.63.~~ **Internally generated brands, mastheads, publishing titles, [lists of customer](#) or [users of an entity’s services](#) and items similar in substance shall not be recognized as intangible assets.**
- ~~70.64.~~ Expenditure on internally generated brands, mastheads, publishing titles, [lists of customer](#) or [users of an entity’s services](#) and items similar in substance cannot be distinguished from the cost of developing the [entity’s operations](#) as a whole. Therefore, such items are not recognized as intangible assets.

Cost of an Internally Generated Intangible Asset

- ~~71.65.~~ The cost of an internally generated intangible asset for the purpose of paragraph 31 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 28, 29 and ~~63~~⁵⁷. Paragraph ~~78~~⁷¹ prohibits reinstatement of expenditure previously recognized as an expense.
- ~~72.66.~~ 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 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.

IPSAS 5, "[Borrowing Costs](#)" specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset that is a qualifying asset. ~~under that Standard.~~

~~73.67.~~ 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 above moved to Appendix and changed to public sector example.]~~

Recognition of an Expense

~~74.68.~~ 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 [25-73](#)~~25-67~~); or~~
- ~~(b) the item is acquired in an entity combination from an exchange transaction and cannot be recognized as an intangible asset. If this is the case, it forms part of the amount recognized as purchase premium/goodwill at the acquisition date (see proposed IPSAS xx).~~

~~75.69.~~ 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 the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those

goods. In the case of supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 60), except when it was acquired as part of the cost of an entity combination from an exchange transaction. Other examples services. Examples of expenditure that is recognized as an expense when it is incurred include:

(a)(a) Expenditure on research (see paragraph 54).

(b) 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 IPSAS 17.17, “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 operation (i.e., pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs); costs).

(b)(e) Expenditure on training activities; activities).

(c)(d) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and pamphlets).

(d)(e) Expenditure on relocating or reorganizing part or all of an entity.

76.69a. An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver information about a service to users of that service. an advertisement to customers.

77. 70. Paragraph 7468 does not preclude an entity from recognizing a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 7468 does not preclude an entity from recognizing a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Past Expenses not to be Recognized as an Asset

78.71. 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

~~79.72.~~ An entity shall choose either the cost model in paragraph ~~8174~~ or the revaluation model in paragraph ~~8275~~ 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.

~~80.73.~~ 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

~~81.74.~~ After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

Revaluation Model

~~82.75.~~ 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 ~~reporting date~~ the carrying amount of the asset does not differ materially from its fair value.

~~83.76.~~ 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 except for intangible assets acquired through non-exchange transactions (see paragraph 48).~~as required under paragraph 32.~~

~~84.77.~~ 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 ~~7165~~), 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 through a ~~non-exchange transaction and recognized at a nominal amount~~ (see paragraph ~~48~~).s 32-34).

~~85.78.~~ It is uncommon for an active market with the characteristics described in paragraph 15 to exist for an intangible asset, although this may happen. For example, in some jurisdictions, an active market may exist for freely transferable homogeneous class of licences or production quotas the entity has acquired from another entity.~~third party.~~ 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.

~~86.79.~~ 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.

~~87.80.~~ 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.

~~88.81.~~ **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.**

~~89.82.~~ **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.**

~~90.83.~~ 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 IPSAS 21 for a non-cash-generating intangible asset or IPSAS 26 for a cash-generating intangible asset.

~~91.84.~~ 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.

- ~~92.85.~~ If the carrying amount of a class of intangible assets is increased as a result of a revaluation, the increase shall be credited directly to ~~–~~revaluation surplus. However, the increase shall be recognized in ~~in-~~ surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in ~~in-~~ surplus or deficit.
- ~~93.86.~~ If the carrying amount of a class of intangible assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be ~~debited~~ directly to revaluation surplus to the extent of any credit balance in the revaluation surplus in respect of that class of assets.
- ~~94.87.~~ The revaluation surplus included in net assets may be transferred directly to 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 accumulated surpluses or deficits is not made through surplus or deficit.

Useful Life

- ~~95.88.~~ 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 or provide service potential for the entity.
- ~~96.89.~~ The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized (see paragraphs ~~104-113~~~~97-106~~), and an intangible asset with an indefinite useful life is not (see paragraphs ~~114-117~~~~407-440~~). The Implementation Guidance~~Illustrative Examples~~ accompanying this Standard illustrates 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~~).
- ~~97.90.~~ 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.

| 98.91. The term ~~“indefinite”~~“indefinite” does not mean ~~“infinite.”~~“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.

| 99.92. 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.

| 100.93. 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.

| 94.101. The useful life of an intangible asset that arises from ~~contractual rights (including rights arising from~~ binding arrangements (including rights from contracts) 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 binding arrangements contractual rights—(including rights arising from contracts~~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 recognized as an intangible asset in an entity combination from an exchange transaction is the

remaining contractual period of the contract in which the right was granted and shall not include renewal periods.-

95.102. There may be ~~both~~ economic, political, social and legal factors influencing the useful life of an intangible asset. Economic, political or social 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 such economic benefits or service potential. The useful life is the shorter of the periods determined by these factors.

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

- (a) there is evidence, possibly based on experience, that the binding arrangements contractual rights (including rights arising from contracts 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 or service potential 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

104.97. 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 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– surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

~~98.~~105. 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.~~

~~106.~~99. Amortization is usually recognized in– 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 [IPSAS 12](#)).~~IPSAS 12, “Inventories”~~).

Residual Value

~~107.~~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.

~~101.~~108. 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.

~~102.~~109. 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 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~~IPSAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors."~~

110.~~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

~~111.~~104. The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each 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 IPSAS 3.

~~105.~~112. 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.

~~113.~~106. 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 operating 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

~~114.~~107. An intangible asset with an indefinite useful life shall not be amortized.

~~115.~~108. In accordance with 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

~~116.109.~~ The useful life of an intangible asset that is not being amortized shall 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 shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.

~~117.110.~~ In accordance with ~~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 IPSAS ~~21 or~~ IPSAS 26, with its carrying amount, and recognizing any excess of the carrying amount over the recoverable amount as an impairment loss. Although this guidance applies to cash-generating assets, it may also be considered in respect of non-cash-generating assets.

Recoverability of the Carrying Amount—Impairment Losses

~~118.111.~~ To determine whether an intangible asset is impaired, an entity applies IPSAS 21 or IPSAS 26, as appropriate.~~26.~~ Those Standards explain 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

~~119.112.~~ 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.

~~113.120.~~ 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 ~~surplus~~ or deficit when the asset is derecognized (unless IPSAS 13 requires otherwise on a sale and leaseback).

~~121.114.~~ The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction).~~by donation~~). In determining the date of disposal of such an asset, an entity applies the criteria in IPSAS 9, “Revenue from Exchange Transactions” for recognizing revenue from the sale of goods or IPSAS 23 for recognizing revenue from non-exchange transactions. IPSAS 13 applies to disposal by a sale and leaseback.

~~115.122.~~ If, in accordance with the recognition principle in 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.

123. In the case of a reacquired right in an entity combination from an exchange transaction, 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.

~~124.116.~~ 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 IPSAS 9 reflecting the effective yield on the receivable.

~~117.125.~~ 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 the relevant international or national standard dealing with non-current assets held for sale and discontinued operations.

Disclosure

General

126.118. 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 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, those acquired separately, and those acquired through entity combinations from exchange transactions; separately;
 - (ii) assets classified as held for sale or included in a disposal group 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 and other disposals;
 - (iii) increases or decreases during the period resulting from revaluations under paragraphs 82, 92 and 93 and from impairment losses recognized or reversed~~paragraphs 75, 85 and 86 and from impairment losses recognized or reversed~~ directly in revaluation surplus in accordance with IPSAS 21 or IPSAS 26 (if any);
 - (iv) impairment losses recognized in surplus or deficit during the period in accordance with- IPSAS 21 or IPSAS 26 (if any);
 - (v) impairment losses reversed in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);
 - (vi) any amortization recognized during the period;
 - (vii) 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
 - (viii) other changes in the carrying amount during the period.

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

- (a) brand names;

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

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

~~120.~~ 128. An entity discloses information on impaired intangible assets in accordance with IPSAS 21 or IPSAS 26 in addition to the information required by paragraph 126(e)(iii)-(v) ~~118(e)(iii)-(v)~~.

129. ~~121.~~ 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.

~~122.~~ 130. **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 throughat no or at nominal cost, or by way of a non-exchange transaction and initially recognized at fair value (see paragraph 4833):**
 - (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.

~~131.123.~~ 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 97~~paragraph 90.

Intangible Assets Measured after Recognition using the Revaluation Model

~~132.124.~~ 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; and
 - (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 74;~~
- (b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the reporting period and any restrictions on the distribution of the balance to the owners of the net asset; and
- (c) the methods and significant assumptions applied in estimating the assets' fair values.

~~125.133.~~ Users of financial statements may also find the following information relevant to their needs:

- (a) The carrying amount of temporarily idle intangible assets;
- (b) The gross carrying amount of any fully amortized intangible asset that is still used to provide future economic benefits or service potential;

(c) The carrying amount of intangible assets retired from active use and held for disposal; and

(d) When the cost model is used, the fair value of intangible assets when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

134. 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

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

136.127. Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 7266 and 673 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 135paragraph 126).

Other Information

137.128. 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.

Transitional Provisions ~~and Effective Date~~

138. An entity shall apply this Standard:

- (a) to the accounting for intangible assets acquired in entity combinations from exchange transactions for which the agreement date is on or after xx; and
- (b) to the accounting for all other intangible assets prospectively from the beginning of the first annual period beginning on or after xx. Thus, the entity shall not adjust the carrying amount of intangible assets recognized 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 IPSAS 3.

~~139.129. An entity that applies accrual basis accounting 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.~~

~~. 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 Entities are not required to recognize intangible assets for reporting periods beginning on a date within five years following the date of first adoption of the accrual basis of accounting in accordance with International Public Sector Accounting Standards. ~~[IPSAS 17.95, amended]~~

~~140.131.~~ An entity that adopts the accrual basis of accounting for the first time in accordance with International Public Sector Accounting Standards shall initially recognize intangible assets at cost or fair value. For intangible assets that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition (as indicated in paragraph 48). ~~32 of this Standard. [IPSAS 17.96, amended]~~

~~141. 132.~~ The entity shall recognize the effect of the initial recognition of intangible assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the intangible asset is initially recognized. ~~[IPSAS 17.97, amended]~~

~~142.133.~~ Prior to first application of this Standard, an entity may recognize its intangible assets on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not recognized. This Standard requires entities to initially recognize intangible assets at cost or, fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the intangible asset's fair value as at the date of acquisition. Where the cost of acquisition of an intangible asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition. ~~[IPSAS 17.98, amended]~~

143.~~134.~~ IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an intangible asset at cost in accordance with this Standard, it shall also recognize any accumulated amortization and any accumulated impairment losses that relate to that intangible asset, as if it had always applied those accounting policies.
~~[IPSAS 17.99, amended]~~

144.
~~135.~~ Paragraph 28 of this Standard requires that the cost of intangible asset ~~to be~~ recognized if, and only if:

- (a) it~~It~~ is probable that the expected future economic benefits or service potential that are attributable to the intangible asset will flow to the entity; and
- (b) the cost or fair value of the intangible asset can be measured reliably.
~~[IPSAS 17.100, amended]~~

145.
~~136.~~ The transitional provisions in paragraphs 139~~130~~ and 140~~131~~ are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with International Public Sector Accounting Standards, with effect from the effective date of this Standard or subsequently. When entities adopt the accrual basis of accounting in accordance with International Public Sector Accounting Standards for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of intangible assets. For this reason, for a five-year period following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards, entities are not required to comply fully with the requirements of paragraph 28.
~~[IPSAS 17.101, amended]~~

146. ~~137.~~ Notwithstanding the transitional provisions in paragraph 139~~130~~ and 140~~131~~, entities that are in the process of adopting the accrual basis of accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.
~~[IPSAS 17.102, amended]~~

147. ~~138.~~ The exemption from the requirements of paragraph 28 implies that the associated measurement and disclosure provisions of this Standard do not need to be complied with in respect of those intangible assets or classes of intangible asset that are not recognized under paragraphs 139~~130~~ and 140~~131~~.
~~[IPSAS 17.103, amended]~~

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.~~

148. When an entity takes advantage of the transitional provisions in paragraphs 139 and 140 that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 139 shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but that are now recognized shall be disclosed.

Effective Date

149. 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 a period beginning before xx, it shall disclose that fact.

150. When an entity adopts the IPSASB’s policy is to converge the accrual basis of accounting, as defined by 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 , for financial reporting purposes, subsequent to this effective date, this ‘comparison with IFRS’ included in each IPSAS. The Comparison with IAS 38 references the December 2008 version of IAS 38.³~~

³ ~~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.~~

- ~~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 includes as illustrative guidance the definitions and guidance contained in SIC 32, together with the appendix 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 developed public sector standards for entity combinations. While there may be existing international or national standards that address business combinations, these may or may not be consistent with the guidance in IAS 38 (e.g., the definition of goodwill, which directly affects which business combination items might be intangible assets). Moreover, the IPSASB may determine it necessary to modify IFRS 3, “Business Combinations” for the public sector. It is expected that the Board will revise IPSAS xx to incorporate this guidance from IAS 38 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 heritage assets and intangible assets through non-exchange transactions. This guidance replaces the guidance in IAS 38 on acquisition by way of a government grant.~~
- ~~BC6. The Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption.replaces certain of the IAS 38 examples with examples relevant to the public sector.~~

Amendments to Other IPSASs

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. In IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors,” paragraph 22 is amended to read as follows:

22. The initial application of a policy to revalue assets in accordance with IPSAS 17, Property, Plant and Equipment” or ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS xx, “Intangible Assets” is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or ~~that relevant Standard~~ IPSAS xx, rather than in accordance with this Standard.

A2. In IPSAS 17, “Property, Plant and Equipment,” paragraph 65 is amended to read as follows:

65. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS xx, “Intangible Assets.”

A3. In IPSAS 21, “Impairment of Non-Cash Generating Assets,” paragraph BC13 is amended to read as follows:

BC13. IAS 36 contains specific requirements for testing intangible assets for impairment, and for recognizing and measuring impairment losses related to intangible assets. These requirements complement the requirements of IAS 38, “Intangible Assets.” ~~The IPSASB has not issued an IPSAS on intangible assets, so has not considered the applicability of the IAS 36 impairment requirements to non-cash generating intangible assets in the public sector. Non-cash generating intangible assets are not excluded from the scope of this Standard. Therefore this Standard applies to those assets.~~ Public sector intangible assets such as those reflecting the entity’s ability to issue licenses may arise in a cash generating context. Other intangible assets may arise in a non-cash-generating context and should be tested for impairment according to the requirements of this Standard.

A4. In IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers),” paragraph IG27 is amended to read as follows:

IG27. This is an exchange transaction. In return for the grant, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. IPSAS 9 and ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS xx, “Intangible Assets” apply to this transaction.

[Application Guidance — Web Site Costs](#)

Appendix A

Illustrative Examples

This ~~Application Guidance~~ ~~guidance accompanies, but is an integral~~ ~~not~~ part of, IPSAS xx. The purpose of ~~the application guidance~~ ~~this appendix~~ is to illustrate ~~examples the application of~~ certain aspects of the requirements of IPSAS xx.

~~(a) Cost of an Internally Generated Intangible Asset~~

~~The following guidance provides examples on applying paragraph 65 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 CU1,000,⁴ 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 recognized 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.~~

~~A similar approach could be applied with respect to the measurement of, for instance, internally developed publications and agricultural research (e.g., seed programs) that satisfy the recognition requirements in the Standard.~~

⁴ ~~In this Standard, monetary amounts are denominated in 'currency units (CU).(CU)'.~~

~~(b) 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 list of property owners**~~

~~A municipality acquires a list of property owners from the third party entity responsible for registering property deeds. The list is to be used for the purpose of generating tax revenues for the municipality and the municipality expects that it will be able to derive benefit from the information on the acquired list⁵ for at least one year, but no more than three years.~~

~~The list of property owners 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 property owner names and other information to the list in the future, the expected benefits of the acquired list relate only to the property owners on that list at the date it was acquired. The list also would be reviewed for impairment in accordance with IPSAS 26, "Impairment of Cash-Generating Assets" by assessing at each reporting date whether there is any indication that the list of property owners may be impaired.~~

~~**Example 2—An acquired patent that expires in 15 years**The entity acquires a patent from a third party for a process that will increase the entity's service potential. The process protected by the patented technology is expected to be a source of service potential 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 21, "Impairment of Non-Cash-Generating Assets" 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**~~

⁵ ~~Although the local authority/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. Subsequent additions would be considered to be internally developed intangible assets, and accounted for in accordance with this Standard.~~

~~The entity acquires a copyright from a third party to enable it to reproduce and sell the copyrighted material at a cost recovery basis to its constituency. An analysis of the habits of the entity's constituency and other 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 by assessing annually and whenever there is any indication that it may be impaired.~~

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

~~The entity acquires a broadcasting licence from a third party. It intends to provide free broadcasting services in the community. The broadcasting licence is renewable every 10 years if the entity provides at least an average level of service to its beneficiaries or constituents 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 service potential indefinitely.~~

~~The broadcasting licence would be treated as having an indefinite useful life because it is expected to contribute to the entity's service potential 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 21 by assessing at each reporting date whether 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.~~

Example 6—An acquired public transit route authority between two cities that expires in three years

~~The entity acquires the public transit route authority from a third party which generate revenues. 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 entity has complied with the applicable rules and regulations. The acquiring entity expects to use the route indefinitely between the two cities. An analysis of demand and cash flows supports those assumptions.~~

~~Because the facts and circumstances support the acquiring entity's ability to continue providing transit 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 annually and whenever there is an indication that it may be impaired.~~

as **Example 7—An acquired vaccine**

~~The entity acquires the vaccine from a third party to provide free vaccinations to its constituents. 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 provide service potential for the entity to deliver the vaccination program for an indefinite period.~~

~~The vaccine would be treated as having an indefinite useful life because it is expected to contribute to service potential 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 and whenever there is an indication that it may be impaired.~~

Example 8—An acquired allowance (credit) under an emission trading program (“cap and trade”)

~~A central authority, an international body sets a limit on the amount of a pollutant that can be emitted. It issues emission permits for a prescribed period and entities holding permits are required to hold an equivalent number of allowances (or credits) which represent the right to emit a specific amount. The central authority does not have an intangible asset related to these allowances. However, an entity that acquires the allowance from the central authority and also buys credits from a third party to increase its emission allowance, does have an intangible asset from these transactions.~~

~~Because the allowances are issued for a prescribed period, the entity would treat the allowances acquired as having an indefinite useful life because they are expected to contribute to the acquiring entity's cash flows indefinitely. They would be tested for impairment in accordance with IPSAS 26 annually and whenever there is an indication that they may be impaired.~~

Appendix B

Implementation Guidance—Web Site Costs

~~This guidance accompanies, but is not part of, IPSAS xx. The purpose of the appendix is to illustrate examples of certain aspects of the requirements of IPSAS xx. As they apply to 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.~~

~~1.~~AG1. 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, provide electronic services, and sell products and services. A web site designed for internal access may be used to store entity policies and ~~customer or program beneficiary~~ details of customers or users of a service, and search relevant information.

~~2.~~AG2. 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;~~preferences.
- (b) Application and Infrastructure Development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress ~~testing;~~testing.
- (c) Graphical Design Development – includes designing the appearance of web ~~pages; and~~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.

~~3.~~AG3. Once development of a web site has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.

~~4.~~AG4. When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:

- (a)- whether the web site is an internally generated intangible asset that is subject to the requirements of this Standard; and
- (b) the appropriate accounting treatment of such expenditure.

~~5.AG5.~~ This ~~Application Guidance~~~~Interpretation~~ 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 ~~17.17, “Property, Plant and Equipment.”~~ 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.

~~6.AG6.~~ ~~IPSAS xx~~ ~~This guidance~~ does not apply to intangible assets held by an entity for sale in the ordinary course of ~~operations~~~~business~~ (see IPSAS 12, ~~“Inventories”~~ and IPSAS 11, ~~“Construction Costs”~~) or leases that fall within the scope of IPSAS ~~13.13, “Leases.”~~ Accordingly, this ~~Application Guidance~~~~example~~ 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 ~~Application Guidance~~~~guidance~~. When a web site is leased under a finance lease, the lessee applies this ~~Application Guidance~~~~guidance~~ after initial recognition of the leased asset.

~~7.AG7.~~ 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~~~~this~~ Standard.

~~AG8.~~ ~~8.~~—A web site arising from development is recognized as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph 28 ~~of this Standard~~ for recognition and initial measurement, an entity can satisfy the requirements in ~~paragraph 63~~~~57~~ of this Standard. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits ~~or serviced potential~~ in accordance with paragraph ~~63(d)~~~~57(d)~~ of this Standard when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits ~~or service potential,~~ and consequently all expenditure on developing such a web site is recognized as an expense when incurred.

~~AG9.~~ ~~9.~~—Any internal expenditure on the development and operation of an entity’s own web site ~~is~~~~shall 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 ~~are~~~~shall be~~ evaluated to determine the appropriate accounting treatment (additional guidance is provided in the table included at the end of this ~~Application Guidance~~~~guidance~~). For example:

- (a) The Planning stage is similar in nature to the research phase in paragraphs ~~60-62~~~~54-56~~ of this Standard. Expenditure incurred in this stage is recognized as an expense when it is ~~incurred;~~~~incurred~~.

- (b) 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, are similar in nature to the development phase in paragraphs ~~63-70~~⁵⁷⁻⁶⁴ of this Standard. Expenditure incurred in these stages is included in the cost of a web site recognized as an intangible asset in accordance with paragraph [AG 8](#) of this [Application Guidance](#)~~guidance~~ 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 licence to reproduce) on the web site, is included in the cost of development when this condition is met. However, in accordance with paragraph ~~78~~⁷¹ of this Standard, expenditure on an intangible item that was initially recognized as an expense in previous financial statements ~~is shall~~ not ~~be~~ recognized as part of the cost of an intangible asset at a later date (e.g., if the costs of a copyright have been fully amortized, and the content is subsequently provided on a web ~~site~~^{); site}).
- (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), is ~~recognized~~ as an expense when incurred in accordance with paragraph ~~75(c)~~^{69(e)} of this Standard. For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure is recognized as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web ~~site; and~~^{site}.
- (d) The Operating stage begins once development of a web site is complete. Expenditure incurred in this stage is recognized as an expense when it is incurred unless it meets the recognition criteria in paragraph 25 of this Standard.

[AG10. 10.](#)—A web site that is recognized as an intangible asset under paragraph [AG 8](#) of this [Application Guidance](#)~~guidance~~ is measured after initial recognition by applying the requirements of paragraphs ~~79-94~~⁷²⁻⁸⁷ of this Standard. The best estimate of a web site's useful life should be short.

Examples illustrating Application Guidance~~guidance in Appendix B~~

This table accompanies, but is not part of, IPSAS xx. The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2-AG3 and to illustrate application of paragraphs AG4-AG10 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

Stage/Nature of expenditure	Accounting treatment
Planning <ul style="list-style-type: none"> • Undertaking<u>undertaking</u> feasibility studies; • Defining<u>defining</u> hardware and software specifications; • Evaluating<u>evaluating</u> alternative products and suppliers; <u>and</u> • Selecting<u>selecting</u> preferences. 	Recognize as an expense when incurred in accordance with paragraph <u>60</u> 54 of this Standard.
Application and <u>Infrastructure Development</u> infrastructure development <ul style="list-style-type: none"> • Purchasing<u>purchasing</u> developing hardware. 	or Apply the requirements of the IPSAS <u>17</u> 17 , “ <u>Property, Plant and Equipment</u> ”
<ul style="list-style-type: none"> • Obtaining<u>obtaining</u> a domain name; • Developing<u>developing</u> operating software (e.g., operating system and server software); • Developing<u>developing</u> code for the application; • Installing<u>installing</u> developed applications on the web server; <u>and</u> • Stress<u>stress</u> testing. 	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 28 and <u>63</u> 57 ⁷ of this Standard.

⁶ All expenditure on developing a web site solely or primarily for to fulfill a statutory requirement or to be used primarily in providing information to the public at large regarding the entity’s own products and services is recognized an expense when incurred in accordance with paragraph xx of this Standard.

⁷ ~~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.~~

Stage/Nature of expenditure	Accounting treatment
<p>Graphical Design Developmentdesign development</p> <ul style="list-style-type: none"> • Designingdesigning the appearance (e.g., layout and colour) of web pages. 	<p>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 28 and 63¹⁵⁷⁶ of this Standard.</p>
<p>Content Developmentdevelopment</p> <ul style="list-style-type: none"> • Creatingcreating, 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. 	<p>Recognize as an expense when incurred in accordance with paragraph 75(c)^{69(c)} of this Standard 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 28 and 63¹⁵⁷⁶ of this Standard.</p>
<p>Operating</p> <ul style="list-style-type: none"> • Updatingupdating graphics and revising content; • Addingadding new functions, features and content; • Registeringregistering the web site with search engines; • Backingbacking up data; • Reviewingreviewing security access; and • Analyzinganalyzing usage of the web site. 	<p>Assess whether it meets the definition of an intangible asset and the recognition criteria set out in paragraph 28 of this Standard, in which case the expenditure is recognized in the carrying amount of the web site asset.</p>

Stage/Nature of expenditure	Accounting treatment
<p>Other</p> <ul style="list-style-type: none"> • Selling, 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; • Clearly, clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (e.g., false--start testing); <u>and</u> • Training, training employees to operate the web site. 	<p>Recognize as an expense when incurred in accordance with paragraphs 71-7765-70 of this Standard.</p>

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 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 31 December 2008 version of IAS 38.⁸

Scope

BC3. The IPSASB has specifically excluded from the scope of IPSAS xx, the power to grant rights and to tax because such powers do not meet the extant definition of an asset set out in IPSAS 1. Moreover, they do not meet the identifiability criterion for recognition as an intangible asset because such powers are not separable from the government.

BC4. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence, for example, the power to tax or an intention to levy taxation is not a past event that gives rise to an asset. In accordance with IPSAS 23, the power to tax produces an asset for accounting and financial reporting purposes only when it is exercised and taxable event has occurred, resulting in taxes receivable.

BC5. Governments also have the power to exercise a regulatory role over certain activities, for example driving, hunting, fishing, logging, drug approval and food inspection, and over industries such as broadcasting, telecommunications, stock

⁸ 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 Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

exchanges, financial services and pension funds. In some cases, in exercising its regulatory role, the government grants rights to persons or to other entities (e.g., by issuing licences, permits, charters or an exclusive franchise to perform a service on behalf of government). The regulated items do not necessarily meet the criteria for recognition of an intangible asset of the public sector entity. However, such licences may be an intangible asset of another entity that acquires them. Any fees the government levies in respect of its regulatory role (e.g., licences, registration fees or royalties) are accounted for either in accordance with IPSAS 9, “Revenue from Exchange Transactions” or IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers)” according to their substance.

BC6. The IASB has issued an Interpretation of IAS 38 dealing with accounting for web site costs. The IPSASB believes the guidance contained in SIC Interpretation 32, “Intangible Assets – Web Site Costs,” (SIC-32) is relevant to the public sector. Accordingly, IPSAS xx includes as application guidance the definitions and guidance contained in SIC-32, including the appendix that illustrates the relevant accounting principles and how they are linked to IPSAS xx. As application guidance, this material is an integral part of IPSAS xx.

Public Sector Issues

BC7. IAS 38 indicates that an asset meets the identifiable criterion when it arises from contractual or other legal rights. In the public sector, the “identifiable” criterion has been expanded to include rights arising from binding arrangements (including rights from contracts or legal rights) to better describe the types of arrangements in the public sector.

BC8. The IPSASB incorporated in IPSAS xx guidance on certain public sector issues that are not addressed in IAS 38, notably heritage assets.

BC9. In addition, the guidance in IAS 38 on the acquisition of intangible assets by way of a government grant has been replaced with acquisition through non-exchange transactions. This guidance is based on analogous material in IPSAS 17, “Property, Plant and Equipment.”

BC10. The Standard replaces certain IAS 38 examples with examples relevant to the public sector.

|

Comparison with IAS 38

International Public Sector Accounting Standard IPSAS xx, “Intangible Assets” is drawn primarily from International Accounting Standard IAS 38, “Intangible Assets” as at 31 December 2008. (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 various paragraphs of IPSAS xx (as shown in markup) to clarify the applicability of the requirementsstandards to accounting by public sector entities.
- IPSAS xx incorporates the guidance contained in SIC Interpretation 32, “Intangible Assets – Web Site Costs” as Application Guidance in an appendix to illustrate the relevant accounting principles.
- IPSAS xx includesThis Standard excludes guidance contained in IAS 38 on accounting for intangible assets acquired as part of an entity-business combination from an exchange transaction and in-process research and development costs acquired in an entity-business combination from an exchange transaction, as the Board’s intention is to issue its guidance on-has not yet considered the applicability of entity combinations from exchange transactions concurrently with this Standard.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 deficit,” “future equity,” “economic benefits or service potential,” “accumulated surpluses or deficits,” “operating/operation,” “~~“contractual~~ rights (including rights arising from binding arrangements (including rights from contracts or legal rights))”” and “net assets/equity”assets/equity.” in IPSAS xx. The equivalent terms in IAS 38 are “income,” “~~“income~~ statement of comprehensive income,” “balance sheet,” “profit or loss,” “future loss/net profit,” “economic benefits,” “retained earnings,” “business,” “contractual or other legal rights” and “equity.”“equity”
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 48-5032-34 of IPSAS xx modify this guidance to refer to intangible assets acquired through non-exchange transactions. IAS 38 permits intangible assets acquired by way of a government grant to be recognized initially at fair value or at a nominal amount. IPSAS xx adds a requirement in paragraph xx32 (consistent with paragraph 17 of IPSAS 17, “Property, Plant and Equipment)17.17) that where an item is acquired at through a non-exchange transaction (at no cost, or for a nominal cost), its cost is measured at its fair value as at the date it is acquired. In addition, reference is made to IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers),” which requires such assets to be initially recognizedrecorded at fair value as at the date of acquisition.

- The example in paragraph 65 of IAS 38 has been modified to a public sector example, and moved to [Implementation Guidance, Appendix A](#). Other illustrative examples included in IAS 38 have been modified only as necessary to better address 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 [are amended to](#) refer to IPSAS 21 and/or IPSAS 26, as appropriate. In particular, a specific reference was added in paragraph [117408](#) to address the requirements of IPSAS [21, which differ slightly from those of IPSAS 26.21.](#)
- IPSAS xx does not require or prohibit the recognition of [intangible](#) heritage assets. An entity that recognizes [intangible](#) heritage assets is required to comply with the disclosure requirements of this Standard with respect to those [intangible](#) heritage assets that have been recognized and may, but is not required to, comply with other requirements of this Standard in respect of those [intangible](#) heritage assets. IAS 38 does not have a similar exclusion.
- Under IAS 38, revaluation increases and decreases may only be [offsetmatched](#) on an individual item basis. Under IPSAS xx, revaluation increases and decreases are offset on a class of asset basis, consistent with IPSAS 17.
- IPSAS 17 contains transitional provisions for the first time adoption of accrual basis IPSASs. Specifically, IPSAS 17 contains transitional provisions allowing entities to not recognize property, plant and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. The transitional provisions also allow entities to recognize intangible assets at fair value on first [time adoption,adopting](#), consistent with IPSAS 17.

Implementation Guidance – Illustrative Examples

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

(a) Cost of an Internally Generated Intangible Asset

The following guidance provides examples on applying paragraph xx 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 ~~31~~March ~~31~~, 20X8, expenditure incurred for the development of the system was CU1,000,⁹ of which CU900 was incurred before ~~1~~March ~~1~~, 20X8 and CU100 was incurred between 1 March 20X8 and 31 March 20X8. The entity is able to demonstrate that, at ~~1~~March ~~1~~, 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 ~~1~~, 20X8). The CU900 expenditure incurred before ~~1~~March ~~1~~, 20X8 is recognized as an expense because the recognition criteria were not met until ~~1~~March ~~1~~, 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 ~~31~~, 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 financial year ending ~~31~~March ~~31~~ 20X9, 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 CU,200 to adjust the carrying amount of the developed system before the 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 IPSAS 21 are met.

(b) 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.

⁹ In this Standard, monetary amounts are denominated in ‘currency units (CU).(CU)’.

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 list of property owners

A local authority acquires a list of property owners from another public sector entity which is responsible for registering property deeds. The other entity is at another level of government, and is not part of the reporting entity for the local authority. The list is to be used for the purpose of generating tax revenues for the local authority and the local authority expects that it will be able to derive benefit from the information on the acquired list¹⁰ for at least one year, but no more than three years.

The list of property owners would be amortized over management's best estimate of its useful life, say 18 months. Although the other entity responsible for registering property deeds may intend to add property owner names and other information to the list in the future, the expected benefits of the acquired list relate only to the property owners on that list at the date it was acquired. The list of property owners also would be reviewed for impairment in accordance with IPSAS 26 by assessing annually and whenever there is any indication that it may be impaired.

Example 2—An acquired patent that expires in 15 years

The entity acquires a patent over a formula for a vaccine, from another entity to secure the entity's ability to provide free vaccinations to its constituents. The vaccine protected by the patent is expected to be a source of service potential for at least 15 years. The entity has a commitment from another entity 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 21, by assessing at each reporting date whether there is any indication that it may be impaired.

Example 3—The vaccine patent in example 2

The entity acquires an asset, the patent over a formula for a vaccine, from another entity to secure the entity's ability to provide free vaccinations to its constituents. It is expected that the formula will need to be slightly modified every 10 years to maintain its efficacy.

¹⁰ Although the local authority/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. Subsequent additions would be considered to be internally-developed intangible assets, and accounted for in accordance with this Standard.

There is evidence to support ongoing renewal of the patent. A contract with the other entity stipulates that the other entity will maintain the efficacy of the formula continuously, and evidence supports its ability to do so. The costs to renew the patent and maintain the efficacy of the formula are expected to be insignificant and will be paid to the other entity when the improvements are made.

An analysis of product lifecycle studies, and demographic and environmental trends, provides evidence that the patent will provide service potential to the entity by enabling it to deliver its vaccination program for an indefinite period. Accordingly, the patent would be treated as having an indefinite useful life. Therefore, the patent would not be amortized unless its useful life is determined to be finite. The patent would be tested for impairment in accordance with IPSAS 21 by assessing at each reporting date whether there is any indication that it may be impaired.

Example 4—An acquired copyright that has a remaining legal life of 50 years

The entity acquires a copyright from another entity to enable it to reproduce and sell the copyrighted material on a cost-recovery basis to its constituency. An analysis of the habits of the entity's constituency and other 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 by assessing annually and whenever there is any indication that it may be impaired.

Example 5—An acquired broadcasting licence that expires in five years

The entity acquires a broadcasting licence from another entity. It intends to provide free broadcasting services in the community. The broadcasting licence is renewable every 10 years if the entity provides at least an average level of service to its users of its service 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 service potential indefinitely.

The broadcasting licence would be treated as having an indefinite useful life because it is expected to contribute to the entity's service potential 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 21 by assessing at each reporting date whether there is any indication that it may be impaired.

Example 6—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 provide service potential 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 21.

Example 7—An acquired public transit route between two cities that expires in three years

The entity acquires from another entity the public transit route which generates revenues. The transit route may be renewed every five years, and the acquiring entity intends to comply with the applicable rules and regulations surrounding renewal. Transit route renewals are routinely granted at a minimal cost and historically have been renewed when the entity has complied with the applicable rules and regulations. The acquiring entity expects to use the route indefinitely between the two cities. An analysis of demand and cash flows supports those assumptions.

Because the facts and circumstances support the acquiring entity's ability to continue providing transit service indefinitely between the two cities, the intangible asset related to the transit route 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 annually and whenever there is an indication that it may be impaired.