



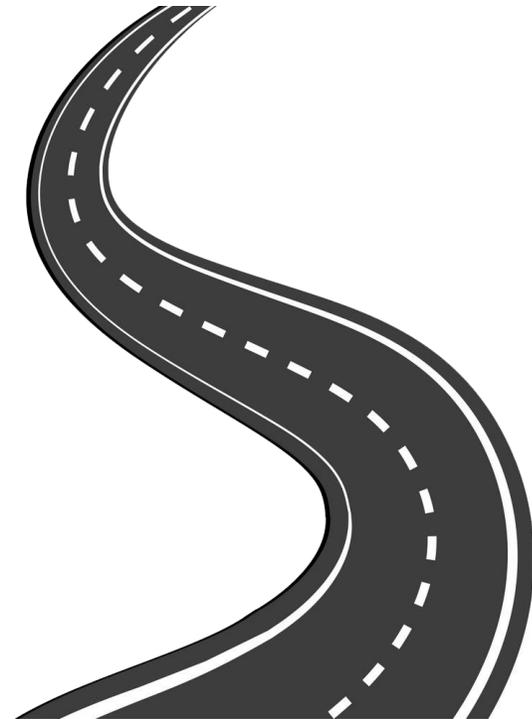
IAS 38 - Intangible Assets

Prepared By Salah Shibl

Handout

Index

- ➔ Dictionary
- ➔ Standard handout.
- ➔ Questions.



English	العربية
Intangible asset	أصل غير ملموس
Goodwill	الشهرة
Identifiable	محدد
Control	تحكم
Know how	معرفة الكيفية
Legal right	حق قانوني
Measured reliably	قياس بموثوقيه
Internally generated	متولد داخليا
Research	بحث
Development	تطوير
Technical feasibility	جدوى فنيه
Commercial feasibility	جدوى تجاريه
Intention	نية
Ability	قدرة

English	العربية
Active market	سوق نشط
Useful life	العمر الانتاجي
A finite	محدد
indefinite	غير محدد
Amortization	استهلاك
Impairment	اضمحلال
Disposal	استبعاد
Brand name	علامه تجارية
Copy right	حقوق النشر – التأليف
Pattern	نمط
Revaluation surplus	فائض اعاده تقييم
Class	فئه
design	تصميم
Without physical substance	ليس لها وجود مادي

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Asset

Usage

Assets held for sale & Discontinued operation

IFRS 5

Non Current assets held for sale

Usage

Tangible assets held for use in the production or supply goods or services or for administrative purpose

IAS 16

Property, Plant & Equipment

Usage

Biological assets
Cows
Sheep
Fruit Trees

IAS 41

Biological Assets

Usage

Intangible assets
Brand name
Patent
licenses

IAS 38

Intangible Assets

Usage

Land or Building or both are using as an investment or to earn rent

IAS 40

Investment Property

Usage

To resale in the normal course of business

IAS 2

Inventories

Objective & Definition

Objective

- Establish Criteria when an intangible asset may or should be recognized.
- To specify how intangible assets should be measured.
- To specify the disclosures requirements for intangible assets.

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Definition

Is an **Identifiable** non-monetary asset without physical substance , the asset must be :

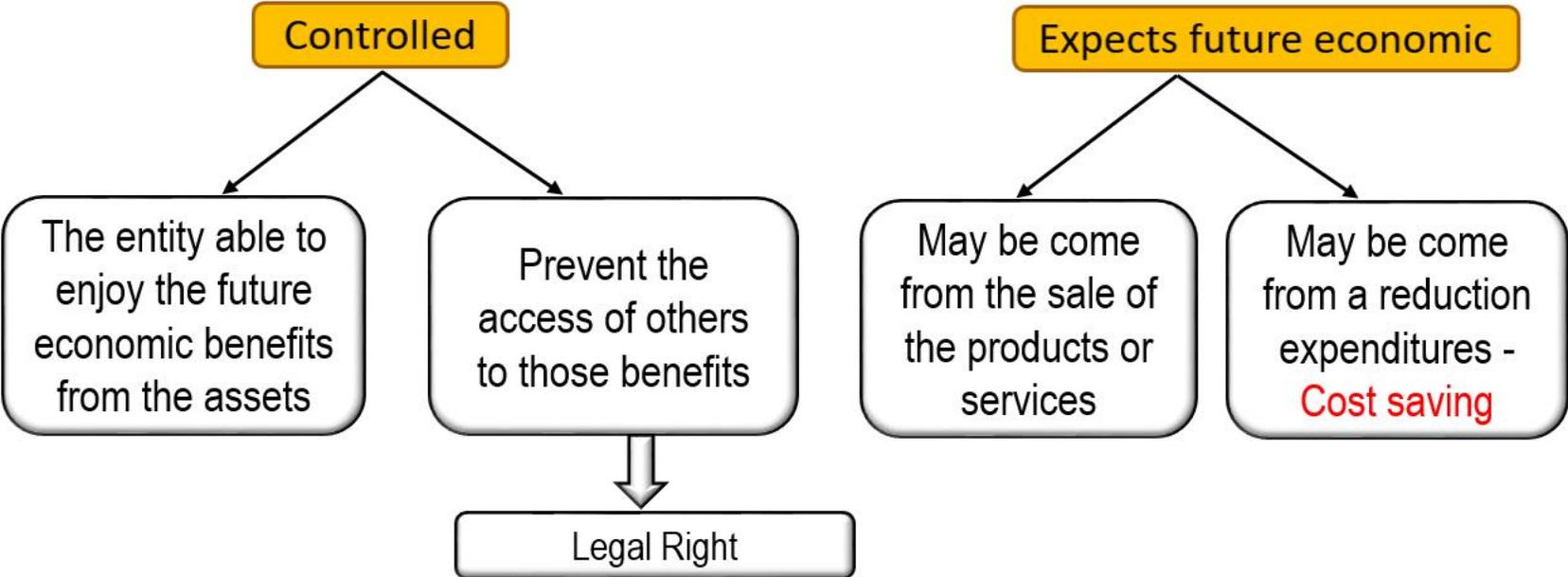
- 1- **Controlled** By the entity as a result of events in the past.
 - Purchased
 - Research & Development
- 2- Something from which the entity **Expects future economic** benefits to flow.

A Key
aspect of
the
standard

TRUE

FALSE

Objective & Definition



PATENT

CUSTOMER

~~KNOW~~
~~HOW~~

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Identifiable قابلہ للتحديد

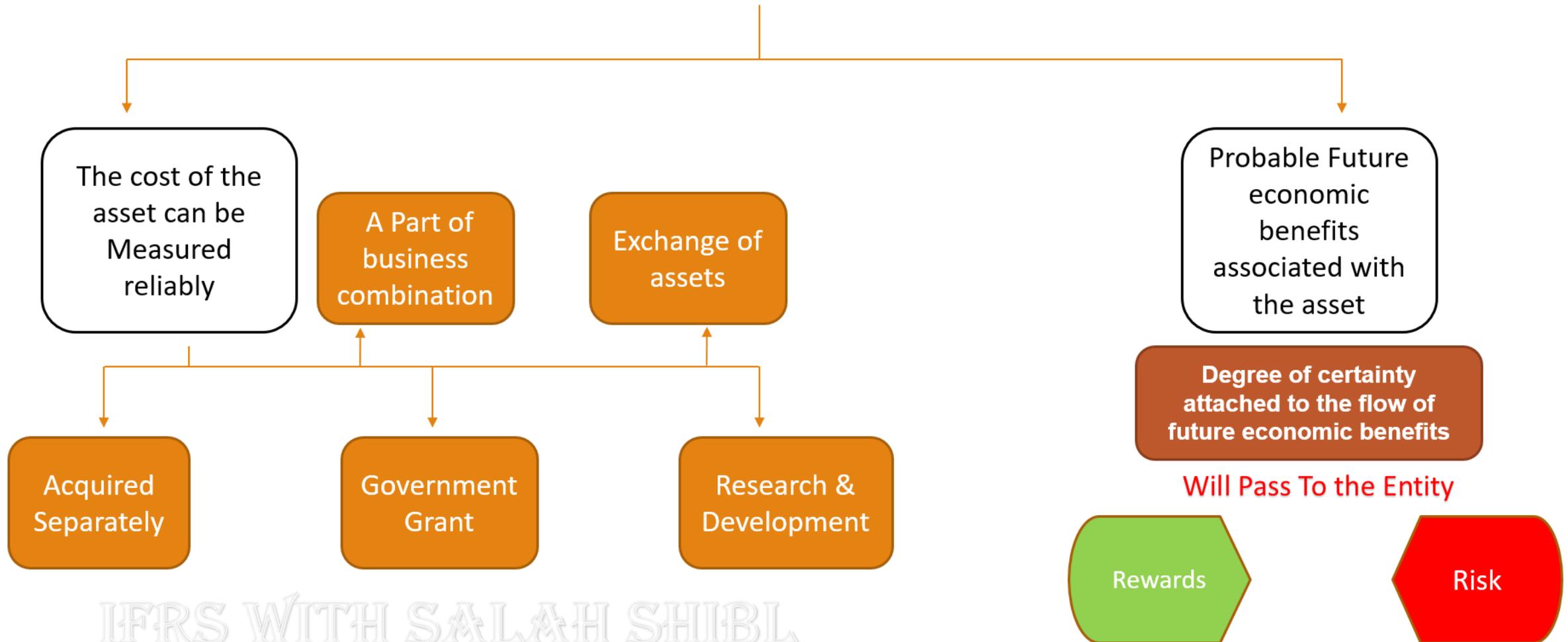
Must be identifiable in order to distinguish it from goodwill

- Non-current Assets
- Property, plant, and equipment
- Goodwill ←
- Intangible Assets ←

It could be rented or sold or transfer separately (i.e. separable)

Acquired separately through purchase , there is may be a transfer of legal right that would help to make an asset identifiable

Recognition

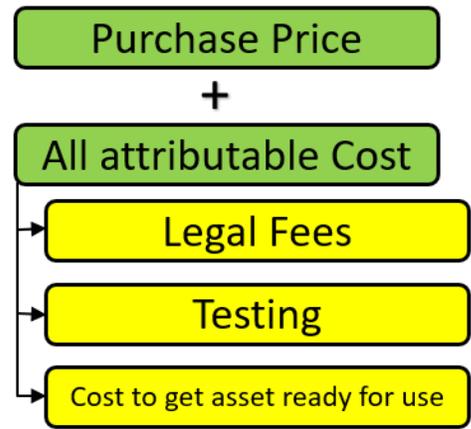


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Initial recognition

1
Acquired Separately

At Cost



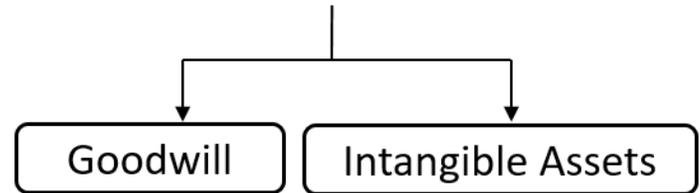
- Cost doesn't apply
- Interest expenses due to deferred payment
 - Marketing & advertising campaign cost
 - Training Cost
 - Any cost after asset become ready for use
 - Initial losses

2
A Part of business combination

At Fair Value



Consideration = \$120M



FV of Asset
\$20M
Net Assets = \$100M

-
FV of Liability

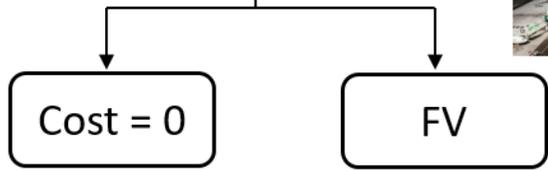
Research & Development

3
Government Grant

At Fair Value / Cost



IAS 20



4
Exchange of assets

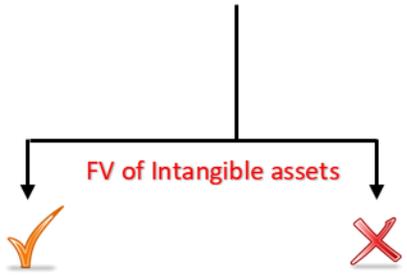
At Fair Value / assets given up



Alpha receives landing rights to airport Y in an arm's length transaction



500,000 Litre @\$1



	DR	CR
Land Right	\$500,000	
Fuel		\$500,000

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What if Intangible asset internally generated ?

IAS 38 Prohibits recognition intangible assets internally generated

Future
economic
benefits

Measure
reliably

Identifiable

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Is subjective and cannot be measured reliably

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If an entity cannot distinguish the research phase of an internal project to create an intangible asset from the development phase, the entity treats the expenditure for that project as if it were incurred in the research phase only.

1-1-2020 Project



Research

1-8-2020

Development

Production



Time Line

Cost of activities aimed at obtaining new knowledge

Cost of search of material

Cost of search of devices

Cost of search of systems

It cannot be certain that future economic benefits will probably flow to the entity from this project

Research Costs should therefore be written off as an expense (P/L) as they are incurred

Technical feasibility & Commercial viability

The technical feasibility of completion

The entity's intention to complete

The entity's ability to use or sell the intangible assets

Adequate technical & financial resources

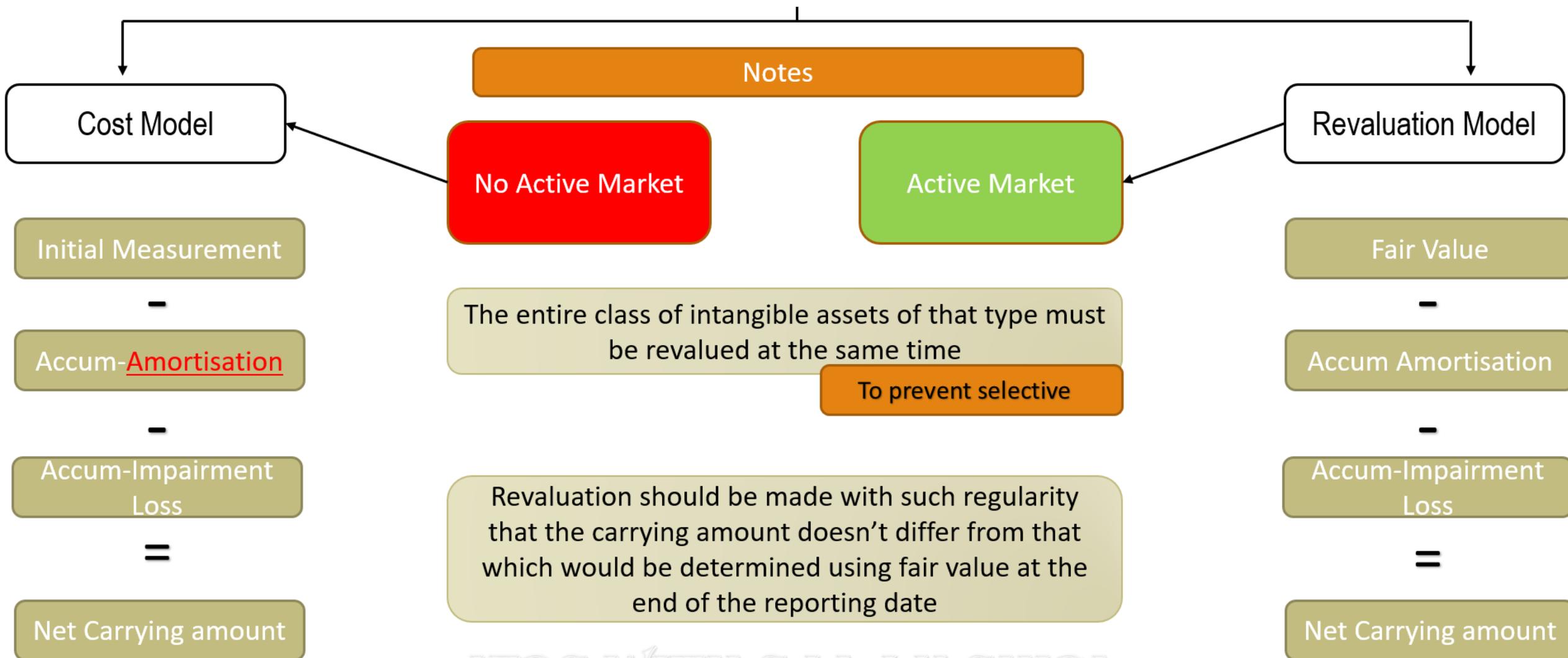
Entity's ability to measure the expenditure

Probable future economic benefits through sale or internal use

It's probably that future economic benefits will flow to the entity from this project

Once these strict criteria are met , IAS 38 Requires development expenditure to be capitalized

Subsequent Measurement



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Useful life

Finite

ذات عمر محدد

- ☞ Expected usage
- ☞ The stability of the industry
- ☞ The level of maintenance expenditure required
- ☞ Legal or similar limits on the use of assets

ليس لها عمر محدد

Indefinite

Legal right

benefits within specific time



The useful life of an intangible asset that arise from contractual or other legal rights shouldn't exceed the period of the rights, but may be shorter depending on the period over which the entity expects to use the asset.



Should be
amortized
over its
expected
useful life

Start when the assets is available for use

Stop when derecognize or become held for sale

Should reflect the pattern in which the asset's future economic benefits are consumed

Amortization charge be recognized in P/L

No foreseeable limit to the period over which the asset is expected to generate net cash inflows to the entity



Should **not** be
amortized
IAS 36
Require
tested for
impairment
each year

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Bye

Retirements and disposal

When an assets is **disposed from use** or **sold** or **no future economic benefits** are expected from its use, it should be eliminated from the statement of financial position

Cost Model



Gains or losses are the difference between the net disposal proceeds and the carrying amount of the asset . **They should be recognized as income or expense in profit or loss.**

	DR	CR
Cash	XXX	
RS	XXX	
RE		XXX
Intangible asset		XXX
Gain on disposal		XXX

Derecognition

Leave the amount in the equity
(revaluation surplus)

Transferred directly to retained earnings

The transfer to retained earnings should not be made through profit or loss for the year , in other words it must not be made as a reclassification a djustment

Derecognition asset criteria is the same as IFRS 15 revenue from contract criteria (Transfer of control)

☞ But a gain its (gain or loss) **not** revenue

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QUESTIONS

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Question

Query Two

When I looked at the note detailing the intangible assets we include in our consolidated statement of financial position, I noticed that several brand names associated with subsidiaries we acquired recently were included in this figure. Therefore I also expected to see a figure for the Omega brand name included within intangible assets. There doesn't appear to be any amount for the Omega brand name included within intangible assets and I don't understand why. The Omega brand name has been developed within Omega for a number of years and is well regarded by our customers. Surely it's a mistake not to include it as well? (6 marks)

Answer



Question

Query Three

When I read the disclosure note relating to intangible non-current assets in the consolidated financial statements, I notice that this figure includes brand names associated with subsidiaries which we've acquired in recent years. However, the brand names which are associated directly with products sold by Omega (the parent entity) are not included within the non-current assets figure. This is another inconsistency that I don't understand. Please explain how this practice can be in line with IFRS requirements. One final question: would I be right in thinking that, as with property, plant and equipment, we can use the fair value model to measure intangible assets? (8 marks)

Answer



Question

- (ii) On 1 April 2016, Epsilon purchased a brand from a competitor for an agreed price of \$80 million. The directors of Epsilon believe that the useful life of the brand is indefinite. On 31 March 2017, no reliable estimate of its selling price was available but the directors of Epsilon estimated that the value in use of the brand was \$85 million. The directors of Epsilon wish to use the fair value model for measuring intangible assets whenever permitted by International Financial Reporting Standards. (5 marks)

Required:

Explain and state how the two events should be reported in the financial statements of Epsilon for the year ended 31 March 2017.

Note: The mark allocation is shown against each of the two events above.

Answer



Question

Query Three

As you know, in the year to September 2016 we spent considerable sums of money designing a new product. We spent the six months from October 2015 to March 2016 researching into the feasibility of the product. We charged these research costs to profit or loss. From April 2016, we were confident that the product would be commercially successful and we fully committed ourselves to financing its future development. We spent most of the rest of the year developing the product, which we will begin to sell in the next few months. These development costs have been recognised as intangible assets in our statement of financial position. How can this be right when all these research and development costs are design costs? Please justify this with reference to relevant reporting standards.

Answer



Question

Doug Co is developing a new production process. During 20X3, expenditure incurred was \$100,000, of which \$90,000 was incurred before 1 December 20X3 and \$10,000 between 1 December 20X3 and 31 December 20X3. Doug Co can demonstrate that, at 1 December 20X3, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process is estimated to be \$50,000.

Required

How should the expenditure be treated?

Answer



Question

An intangible asset is measured by a company at fair value. The asset was revalued by \$400 in 20X3, and there is a revaluation surplus of \$400 in the statement of financial position. At the end of 20X4, the asset is valued again, and a downward valuation of \$500 is required.

Required

State the accounting treatment for the downward revaluation.

Answer



Question

Dexterity is a public listed pharmaceutical company. It has been considering the accounting treatment of its intangible assets and has asked for your opinion on how the matters contained in the exhibits should be treated in its financial statements for the year to 31 March 20X5.

Exhibit 1 – Acquisition of subsidiary

On 1 October 20X4 Dexterity acquired Temerity, a small company that specialises in pharmaceutical drug research and development. The purchase consideration was by way of a share exchange and valued at \$35m. The fair value of Temerity's net assets was \$15m (excluding any items referred to below). Temerity owns a patent for an established successful drug that has a remaining life of eight years. A firm of specialist advisors, Leadbrand, has estimated the current value of this patent to be \$10m, however the company is awaiting the outcome of clinical trials where the drug has been tested to treat a different illness. If the trials are successful, the value of the drug is then estimated to be \$15m. Also included in the company's statement of financial position is \$2m for medical research that has been conducted on behalf of a client.

Exhibit 2 – Patent

Dexterity has developed and patented a new drug which has been approved for clinical use. The costs of developing the drug were \$12m. Based on early assessments of its sales success, Leadbrand have estimated its market value at \$20m.

Exhibit 3 – Production process

On 1 October 20X3 Dexterity began a project to investigate a more efficient production process. Expenses relating to the project of \$2m were charged in the statement of profit or loss and other comprehensive income in the year ended 31 March 20X4. Further costs of \$1.5m were incurred in the three-month period to 30 June 20X4. On that date it became apparent that the project was technically feasible and commercially viable. Further expenditure of \$3m was incurred in the six-month period from 1 July 20X4 to 31 December 20X4. The new process, which began on 1 January 20X5, was expected to generate cost savings of at least \$600,000 per annum over the ten-year period commencing 1 January 20X5.



Question Exhibit 3 – Production process

On 1 October 20X3 Dexterity began a project to investigate a more efficient production process. Expenses relating to the project of \$2m were charged in the statement of profit or loss and other comprehensive income in the year ended 31 March 20X4. Further costs of \$1.5m were incurred in the three-month period to 30 June 20X4. On that date it became apparent that the project was technically feasible and commercially viable. Further expenditure of \$3m was incurred in the six-month period from 1 July 20X4 to 31 December 20X4. The new process, which began on 1 January 20X5, was expected to generate cost savings of at least \$600,000 per annum over the ten-year period commencing 1 January 20X5.

Exhibit 4 – Advertising

In December 20X4, Dexterity paid \$5m for a television advertising campaign for its products that will run for six months from 1 January 20X5 to 30 June 20X5. The directors believe that increased sales as a result of the publicity will continue for two years from the start of the advertisements.

Requirements

- (a) In accordance with IAS 38 *Intangible Assets*, discuss whether intangible assets should be recognised, and, if so, how they should be initially and subsequently recognised in the following circumstances:
- (i) When they are purchased separately from other assets
 - (ii) When they are obtained as part of acquiring a whole a business
 - (iii) When they are developed internally
- (10 marks)**

Note. Your answer should consider goodwill separately from other intangibles.

- (b) Explain how the transactions described in Exhibit 1 to Exhibit 4 would be accounted for in the financial statements of Dexterity for the year ended 31 March 20X5 in accordance with IAS 38.

The marks allocated are as follows:

Exhibit 1 – Acquisition of subsidiary	(4 marks)
Exhibit 2 – Patent	(3 marks)
Exhibit 3 – Production process	(5 marks)
Exhibit 4 – Advertising	(3 marks)

Note. The values given by Leadbrand can be taken as being reliable measurements. You are not required to consider depreciation aspects.



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