IAS 38
Intangible assets

1. Objective

This standard prescribes the accounting treatment for intangible assets that are not dealt with specifically in another standard.

2. Scope

2.1 Intangible assets

The Standard defines an intangible asset as an identifiable, non-monetary asset without physical substance.
The identifiable nature of an intangible asset is recognized when it can be separated from the entity and sold, transferred, licensed, rented or exchanged or when it arises from contractual or other legal rights (which distinguish it from goodwill).

The following are excluded from the scope of IAS 38:

- financial assets (IAS39 and IFRS 9);
- mining rights and expenses related to exploration assets (IFRS 6);
- intangible assets that fall within the scope of application of another standard.

2.2 Research and development expenditure

IAS 38 also defines research and development expenditure.
Research is original and planned investigation designed to gain new scientific or technical knowledge. Development is the application of research findings and consists of applying these findings to the production of new or substantially improved materials, processes, or services.

2.3 Active market

A market is considered to be active when:

- the items traded in the market are similar; and

- it is possible to find willing buyers and sellers at any time; and
- prices are available to the public.

3. Accounting impact

3.1 Recognition of an intangible asset

An intangible asset shall be recognized if:

- it is probable that the expected **future economic benefits** attributable to the asset will flow to the entity;
- the cost of the asset can be measured **reliably**.

The cost of a separately acquired intangible asset comprises:

- its **purchase price**, including import duties and non-refundable taxes;
- any **directly attributable** costs of preparing the asset for its intended use (professional fees, personnel costs, etc.);
- **less any trade discount or rebate.**

Internally-generated intangible assets can only be recognized as assets by referring both to the general requirements of the standard, as well as the specific rules below regarding development costs.

It should be noted that **expenditure on research** may not be recognized as an intangible asset and must be recognized as an expense as soon as it is incurred. If an entity cannot distinguish the research phase from the development phase of a project, all costs should be recognized as expenses when incurred.

Development costs are recognized as an intangible asset when all the conditions below are met:

- the technical feasibility of the project can be demonstrated;
- the entity intends and is able to complete the intangible asset in order to use or sell it;
- the entity has the technical, financial and other resources to complete the project;
- the project will generate probable future economic benefits for the entity;
- the entity is able to measure the development expenditure with sufficient reliability.

All other development costs are recognized as expenses.
When an intangible asset meets the recognition criteria, the entity may not re-

cognize retrospectively as an intangible asset, any expenditure that was recognized as an expense in a previous reporting period.

Example 1: Company X decided to launch a new drug. Fundamental research operations were completed on 30 November N-1 and the applied research phase was subsequently launched. The applied research phase ended on 28 February N after the molecule had been finalized, tested and patented. The company then went on to develop the packaging formats for the future drug, i.e. the development phase.
Given the new nature of the drug, authorization was granted in principle on 1 July N and marketing authorization on 31 December N.
Expenses related to this new product would be treated as shown in the summary table below:

01.01 N-1	**30.11 N-1**	**28.02 N**	**30.06 N**	**01.07 N**	**31.12 N**
Phase of project X	**Fundamental research**	**Applied research**	**Development expenditure**		
Recognition conditions	N/A	N/A	NOT MET	MET	MET
Accounting treatment	Expense	Expense	Expense	Intangible asset	Intangible asset

Internally-generated goodwill must not be recognized as an asset.
Similarly, internally-generated brands, customer lists, publishing titles (as well as internal or external expenses related to catalogues) cannot be recognized as intangible assets.

Goodwill generated in a business combination must be determined according to IFRS 3.

Finally, while **"key money"** paid to a lessor is not recognized as an intangible asset (but rather, as additional rent to be treated as a prepaid expense), payment for the **"right to lease"** to the former lessee may meet the recognition criteria of IAS 38.

3.2 Measurement after recognition of an intangible asset

Measurement after recognition of an intangible asset must be made using:

- either the cost model (acquisition cost less any accumulated amortization and any accumulated impairment losses);
- or the revaluation model: in this case, an intangible asset is carried at a revalued amount based on its fair value (determined by reference to an active market), less any subsequent accumulated amortization or any subsequent accumulated impairment losses.

Exemple 2: Cost model
On 1 July N, company Y acquired a license for 50,000. The useful life of the process acquired is 20 years, after which time the process will no longer be protected by the terms of the license. The company has chosen the cost model as its accounting policy for intangible assets. At the end of year N+1, company Y identified a decrease in its share of the market to which the license relates. As a result, management re-appraised the market value of the license at 15,000.

The following entries would be made on 31 December N+1:

- Recognition of normal depreciation

Depreciation expense (P&L)	2,500	
Amortization provision of license (B/S)		2,500
(50,000/20)		
Recognition of license impairment loss		
Provisions (P&L)	31,250	
Provision for impairment loss, license (B/S)		31,250
(50,000 – 1,250 – 2,500) – 15,000		

Example 3: Revaluation model
On 1 January N, company Z acquired a fishing quota for 10 years starting from 1 January N for consideration of 60,000. Company Z has chosen the revaluation model and carries its intangible assets at fair value determined by reference to an active market.
On 31 December N+1, the fair value of the fishing quota was measured at 70,000.
The following entries would be made on 31 December N+1:

Depreciation of quota for year N [60’000/10] (P&L)	6,000	
Fishing quota (B/S)	10,000	
Revaluation reserve (B/S)		16,000

➢ *For the purposes of simplification, the impact of deferred tax is not taken into account in the example above.*

The depreciable amount of an intangible asset must be allocated on a systematic basis over the best estimate of its useful life. Useful life must be reviewed each year. An intangible asset with an indefinite useful life is not amortized. However, an impairment test must be performed once a year in accordance with IAS 36.

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4. Disclosure

For each class of intangible assets, an entity must disclose the following information, distinguishing between internally-generated intangible assets and other intangible assets:

- the gross carrying amount and any accumulated amortization at the beginning and end of the period;
- the amortization method used;
- the useful life or amortization rate used;
- the reasons supporting the assessment of an indefinite useful life of an intangible asset and the carrying amount of that asset;
- the depreciable amounts of each class of intangible assets, with an indication of the line item of the profit or loss statement in which they are included;
- a reconciliation of the carrying amount at the beginning and end of the period, showing the information required under the standard;
- the carrying amount of research and development expenditure recognized as an expense in the reporting period;
- the existence and carrying amounts of intangible assets whose title is restricted or the carrying amounts of intangible assets pledged as security for liabilities.