IAS 38

INTANGIBLE ASSETS

CONTENTS

1 OVERVIEW

- IAS 38 sets out requirements for intangible assets that are not covered by another standard.
- This standard stipulates that assets are recognized when they meet appropriate recognition requirements.
- IAS 38 was revised in March 2004.

2 SCOPE

Applies to all intangible assets, except in the following cases:

- Financial Instruments;
- Exploration for and Evaluation of Mineral Assets;
- Expenditures for the development and exploitation of minerals, oil, natural gas, and similar resources;
- Intangible assets arise from insurance contracts issued by insurance companies;
- Intangible assets are covered by some other IFRS.

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3 DEFINITIONS

- ❑ An Intangible fixed asset is an identifiable non-monetary asset without physical substance.

- ❑ **Recognition criteria intangible fixed assets:**

- Indentifiable;
- Controlled intangible asset by an entity ;
- From which future economic benefits are expected to flow to the entity;
- Cost can be measured reliably.

3 DEFINITIONS (cont.)

Recognition criteria intangible fixed assets:

1. Assets are determine when:

- ✓ Arising from contractual or legal rights, regardless of whether separate from the entities;
- ✓ Separable, meaning assets can be separated from the business to sell, exchange, transfer, license or lease.

3 DEFINITION (cont.)

2. Control an asset:

- ✓ Restrict the access of other entities to those benefits;
- ✓ Obtain the future economic benefits.
- ✓ Legally rights that are enforceable in a court of law.

3. Future economic benefits:

- ✓ The future economic benefits 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.

4 RECOGNITION

- ❑ Intangible fixed assets are recognized when they satisfy the definition and recognition conditions of intangible assets.

1. Asset incurred from purchase

- ✓ Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- ✓ Any directly attributable cost of preparing the asset for its intended use.

2. Research and development expenditures

- ✓ All research and development costs are expensed as incurred.

4 RECOGNITION (cont.)

3. Expenditure during research and development stage in business combination

✓ Research and development projects in business combinations are recorded as assets at cost. The costs incurred are then accounted for as other research and development costs (recorded as expenses).

4. Intangible fixed assets are internally generated

✓ Costs of materials and services used or consumed in generating the intangible asset;

✓ Costs of employee benefits arising from the generation of the intangible asset;

✓ Fees to register a legal right;

✓ Amortisation of patents and licences that are used to generate the intangible asset.

4 RECOGNITION (cont.)

Measurement after recognition

❑ There are 2 method of measurement after recognition:

✓ Cost model

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

✓ Revaluation model

- 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..
- Goodwill does not apply the revaluation model.

4 RECOGNITION (cont.)

Revaluation model

- ❖ Intangible fixed assets need to be revalued at fair value if an active market exists.
- ✓ Intangible fixed assets of the same type;
- ✓ There are always buyers/sellers available;
- ✓ Listed price available.
- ❖ Uncommon for an active market to exist for an intangible asset.
- ✓ An active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents or trademarks, because each such asset is unique

4 RECOGNITION (cont.)

Amortisation of intangible fixed assets

- The amortization period is the shorter of the legal period and the contractual period.
- Depreciation of intangible fixed assets uses the straight-line method, but typically assumes an estimated residual value of zero.

Notice: Goodwill and brand will not be depreciated, but instead will be tested for impairment annually

5 PRESENTATION

- ❑ An entity shall disclose the following for each class of intangible assets:
- The useful lives;
- The amortization rates used;
- The amortization method;
- Original cost, accumulated depreciation at the beginning and end of the period;
- The line item(s) of the statement of comprehensive income in which any amortisation of intangible assets is included;
- A reconciliation of the carrying amount at the beginning and end of the period showing.

5 PRESENTATION (cont.)

- An entity shall also disclose:
- Describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life;
- The amotization rates;
- A description, the carrying amount and remaining amortisation period of any individual intangible asset;
- For intangible assets acquired by way of a government grant and initially recognised at fair value: the fair value initially recognised for these assets, their carrying amount, whether they are measured after recognition under the cost model or the revaluation model;
- The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities;
- The amount of contractual commitments for the acquisition of intangible asset

4 COMPARE IAS 38 AND VAS 04

❑ Common point between IAS 38 and VAS 04:

➢ Recognition criteria

- Certainty of future economic benefits brought by that asset;
- The Original cost of the asset must be determined reliably.

➢ Initial recognition

- Both IAS 38 and VAS 04 measured initially at cost.

❑ Different between IAS 38 and VAS 04:

Content	**IAS 38**	**VAS 04**
Recognition criteria	- Certainty of future economic benefits brought by that asset; - The original cost of the asset must be determined reliably.	- Certainty of future economic benefits brought by that asset; - The original cost of the asset must be determined reliably; - Estimate useful lives is over 1 year; - Have a qualified value according to current regulations of 30,000,000 or more.

6 COMPARE IAS 38 AND VAS 04 (cont.)

Content	IAS 38	VAS 04
The cost of a separately acquired intangible asset	- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; - Any directly attributable cost of preparing the asset for its intended use;	- Purchase price (excluding trade discounts or rebates), non-refundable taxes and costs directly attributable to bringing the asset to its intended use.
An intangible asset is acquired in a business combination	- The fair market value is usually the current purchase price. If no purchase price is available, reference the price to the most recent similar transaction, provided there has not been a material change in economic nature between the transaction date and the date on which the asset is estimated at reasonable value. - If there is no market for that intangible fixed asset, based on the technique of estimating the fair value of the asset.	- Listed price in active market; - Price of similar intangible fixed asset trading operations.

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4 COMPARE IAS 38 AND VAS 04 (cont.)

Content	IAS 38	VAS 04
Internally generated intangible assets	- The technical feasibility of completing the intangible asset so that it will be available for use or sale; - Its intention to complete the intangible asset and use or sell it; - its ability to use or sell the intangible asset; - How the intangible asset will generate probable future economic benefits;	- The technical feasibility of completing the intangible asset so that it will be available for use or sale; - Its intention to complete the intangible asset and use or sell it; - its ability to use or sell the intangible asset; - How the intangible asset will generate probable future economic benefits; - Have adequate technical, financial and other resources to complete the implementation, sale or use stages of that intangible asset; - Be able to reliably determine the entire cost during the implementation phase to create that intangible asset; - Estimated to meet the standards for use time and value according to regulations for intangible fixed assets.

4 COMPARE IAS 38 AND VAS 04 (cont.)

Contents	IAS 38	VAS 04
Subsequent measurement	- Cost model. - Revaluation model.	- Cost model.
Recoverable amount	- An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired: ✓ An intangible asset not yet available for use ✓ Intangible fixed assets have been depreciated for more than 20 years from the date they are ready for use	- Not mention.

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reanda-icla.com

028 224 587 87

info@reanda-icla.com

No. 06 - 07 Phan Ton street, Da Kao Ward, District 1, HCM City