Compiled AASB Standard **AASB 138**

Intangible Assets

FOR NOT-FOR-PROFIT (NFP) ENTITIES ONLY

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2013 but before 1 January 2014. Early application is permitted. It incorporates relevant amendments made up to and including 18 December 2012.

Prepared on 3 October 2013 by the staff of the Australian Accounting Standards Board.

Australian Government
Australian Accounting Standards Board

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BASIS FOR CONCLUSIONS ON IAS 38
(available on the AASB website)

Australian Accounting Standard AASB 138 *Intangible Assets* (as amended) is set out in paragraphs 1 – 130G. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 138 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

COMPILATION DETAILS

Accounting Standard AASB 138 *Intangible Assets* as amended

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2013 but before 1 January 2014 for not-for-profit entities. It takes into account amendments up to and including 18 December 2012 (amendments to AASB 2011-7) and was prepared on 3 October 2013 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 138 (July 2004) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	**Date made**	**Application date** ***(annual reporting periods ... on or after ...)***	**Application, saving or transitional provisions**
AASB 138	15 Jul 2004	*(beginning)* 1 Jan 2005	
AASB 2004-1	9 Dec 2004	*(beginning)* 1 Jan 2005	–
AASB 2007-4	30 Apr 2007	*(beginning)* 1 Jul 2007	see (a) below
AASB 2007-6	14 Jun 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2007-8	24 Sep 2007	*(beginning)* 1 Jan 2009	see (c) below
AASB 2007-10	13 Dec 2007	*(beginning)* 1 Jan 2009	see (c) below
AASB 2008-3	6 Mar 2008	*(beginning)* 1 Jul 2009	see (d) below
AASB 2008-5	24 Jul 2008	*(beginning)* 1 Jan 2009	see (e) below
AASB 2009-4	21 May 2009	*(beginning)* 1 Jul 2009	see (f) below
AASB 2009-6	25 Jun 2009	*(beginning)* 1 Jan 2009 and *(ending)* 30 Jun 2009	see (g) below
AASB 2010-2	30 Jun 2010	*(beginning)* 1 Jul 2013	see (h) below
AASB 2011-7	29 Aug 2011	*(beginning)* 1 Jan 2014	not compiled*
AASB 2011-8	2 Sep 2011	*(beginning)* 1 Jan 2013	see (i) below

* The amendments made by this Standard are not included in this compilation, which presents the principal Standard as applicable to annual reporting periods beginning on or after 1 July 2013 but before 1 January 2014 for not-for-profit entities.

(a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 123 *Borrowing Costs* (June 2007) is also applied to such periods.

(c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

(d) Entities may elect to apply this Standard to annual reporting periods beginning on or after 30 June 2007 but before 1 July 2009, provided that AASB 3 *Business Combinations* (March 2008) and AASB 127 *Consolidated and Separate Financial Statements* (March 2008) are also applied to such periods.

(e) Entities may elect to apply this Standard, or its amendments to individual Standards, to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

(f) Entities may elect to apply this Standard, or its amendments to individual pronouncements, to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2009.

(g) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods, and to annual reporting periods beginning on or after 1 January 2009 that end before 30 June 2009.

(h) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013, provided that AASB 1053 *Application of Tiers of Australian Accounting Standards* is also applied to such periods.

(i) AASB 2011-8 has been amended by AASB 2011-10 (made 5 September 2011) and AASB 2012-6 (made 10 September 2012).

Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013, provided that AASB 13 *Fair Value Measurement* is also applied to such periods.

Table of Amendments to Standard

Paragraph affected	How affected	By … [paragraph]
Aus1.1	amended	AASB 2007-8 [7, 8]
Aus1.4	amended	AASB 2007-8 [8]
Aus1.8-Aus1.10 (and preceding heading)	added	AASB 2010-2 [44]
2	amended amended	AASB 2004-1 [8] AASB 2007-4 [99]
3	amended	AASB 2007-4 [99]
8	amended amended amended	AASB 2007-8 [6] AASB 2008-3 [70] AASB 2011-8 [76]
11	amended amended	AASB 2007-10 [89] AASB 2008-3 [71]

Paragraph affected	How affected	By … [paragraph]
12	amended	AASB 2008-3 [71]
25	amended	AASB 2008-3 [71]
28	amended	AASB 2007-4 [99]
32	amended	AASB 2007-6 [15]
33	amended amended amended	AASB 2007-4 [99] AASB 2008-3 [71] AASB 2011-8 [77]
34	amended	AASB 2008-3 [71]
35 (preceding heading)	amended	AASB 2011-8 [78]
35	amended	AASB 2008-3 [71]
36-37	amended	AASB 2009-4 [10]
38	deleted	AASB 2008-3 [72]
39	deleted	AASB 2011-8 [79]
40-41	amended deleted	AASB 2009-4 [10] AASB 2011-8 [79]
44	amended	AASB 2007-4 [98]
47	amended	AASB 2011-8 [80]
50	amended	AASB 2011-8 [80]
66	amended	AASB 2007-4 [99]
67 (Example)	amended	AASB 2007-8 [6]
68	amended amended	AASB 2007-4 [99] AASB 2008-3 [73]
69	amended amended amended	AASB 2007-4 [99] AASB 2008-5 [60] AASB 2008-3 [73]
69A	added	AASB 2008-5 [61]
70	amended	AASB 2008-5 [60]
73	amended	AASB 2007-10 [89]
75	amended amended	AASB 2007-8 [6] AASB 2011-8 [80]
78	amended	AASB 2011-8 [80]
82	amended	AASB 2011-8 [80]
83	amended	AASB 2007-4 [99]
84	amended	AASB 2011-8 [80]
85	amended	AASB 2007-8 [123]
Aus85.1	amended	AASB 2009-6 [85]
86	amended	AASB 2007-8 [123]
Aus86.1	amended	AASB 2009-6 [86]
87	amended amended	AASB 2007-8 [124] AASB 2009-6 [87]
94	amended	AASB 2008-3 [74]
97	amended	AASB 2007-4 [99]
98	amended	AASB 2008-5 [60]

Paragraph affected	How affected	By … [paragraph]
100	amended	AASB 2011-8 [80]
108	amended	AASB 2007-4 [99]
109	amended	AASB 2007-4 [99]
113	amended	AASB 2007-4 [99]
115A	added	AASB 2008-3 [75]
118	amended	AASB 2007-8 [6, 125]
RDR118.1	added	AASB 2010-2 [44]
119	amended	AASB 2007-10 [89]
122	amended	AASB 2007-10 [89]
124	amended amended	AASB 2009-6 [87] AASB 2011-8 [81]
129 (and preceding heading)	amended note amended	AASB 2008-5 [62] AASB 2008-3 [76]
130A	note added	AASB 2009-6 [88]
130B	note added	AASB 2007-8 [126]
130C	note added added	AASB 2008-3 [77] AASB 2009-4 [11]
130D	added	AASB 2008-5 [63]
130E	added deleted	AASB 2009-4 [11] AASB 2011-8 [82]
130G	added	AASB 2011-8 [83]
131 (preceding heading)	added	AASB 2009-6 [89]
132 (preceding heading)	added	AASB 2009-6 [90]

Table of Amendments to Illustrative Examples

Paragraph affected	How affected	By … [paragraph]
Examples 1-3	amended	AASB 2007-8 [6]

COMPARISON WITH IAS 38

AASB 138 and IAS 38

AASB 138 *Intangible Assets* as amended incorporates IAS 38 *Intangible Assets* as issued and amended by the International Accounting Standards Board (IASB). Paragraphs that have been added to this Standard (and do not appear in the text of IAS 38) are identified with the prefix "Aus" or "RDR", followed by the number of the preceding IASB paragraph and decimal numbering. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Compliance with IAS 38

For-profit entities that comply with AASB 138 as amended will simultaneously be in compliance with IAS 38 as amended.

Not-for-profit entities using the added "Aus" paragraphs in the Standard that specifically apply to not-for-profit entities may not be simultaneously complying with IAS 38. Whether a not-for-profit entity will be in compliance with IAS 38 will depend on whether the "Aus" paragraphs provide additional guidance for not-for-profit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the not-for-profit entity.

Entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements will not be in compliance with IAS 38.

ACCOUNTING STANDARD AASB 138

The Australian Accounting Standards Board made Accounting Standard AASB 138 *Intangible Assets* under section 334 of the *Corporations Act 2001* on 15 July 2004.

This compiled version of AASB 138 applies to annual reporting periods beginning on or after 1 July 2013 but before 1 January 2014 for not-for-profit entities. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 18 December 2012 (see Compilation Details).

ACCOUNTING STANDARD AASB 138

INTANGIBLE ASSETS

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 recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the *carrying amount* of intangible assets and requires specified disclosures about intangible assets.

Application

Aus1.1 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005.

[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

Aus1.3 **This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.**

Aus1.4 **The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

Aus1.5 **When applicable, this Standard supersedes the following, to the extent that they relate to the accounting for intangible assets:**

(a) **AASB 1010 *Recoverable Amount of Non-Current Assets* as notified in the *Commonwealth of Australia Gazette* No S 657, 24 December 1999;**

(b) **AASB 1011 *Accounting for Research and Development Costs* as notified in the *Commonwealth of Australia Gazette* No S 99, 29 May 1987;**

(c) **AASB 1013 *Accounting for Goodwill* as notified in the *Commonwealth of Australia Gazette* No S 206, 14 June 1996;**

(d) **AASB 1015 *Acquisitions of Assets* as notified in the *Commonwealth of Australia Gazette* No S 527, 5 November 1999;**

(e) **AASB 1021 *Depreciation* as notified in the *Commonwealth of Australia Gazette* No S 341, 29 August 1997;**

(f) **AASB 1041 *Revaluation of Non-Current Assets* as notified in the *Commonwealth of Australia Gazette* No S 294, 19 July 2001;**

(g) **AAS 4 *Depreciation* as issued in August 1997;**

(h) **AAS 10 *Recoverable Amount of Non-Current Assets* as issued in December 1999;**

(i) **AAS 13 *Accounting for Research and Development Costs* as issued in March 1983;**

(j) **AAS 18 *Accounting for Goodwill* as issued in June 1996; and**

(k) AAS 21 *Acquisitions of Assets* as issued in November 1999.

Aus1.6 Each of the Standards identified in Aus1.5(a)-(k) remain applicable until superseded by this Standard.

Aus1.7 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

Reduced Disclosure Requirements

Aus1.8 Paragraphs 118(e)(vii), 120, 124(a)(iii), Aus124.1 and 128 of this Standard do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements. Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of these excluded requirements.

Aus1.9 The requirements that do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements are identified in this Standard by shading of the relevant text, except for comparative disclosures subject to RDR paragraphs.

Aus1.10 The RDR paragraph in this Standard applies only to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.

Scope

2 This Standard shall be applied in accounting for intangible assets, except:

(a) intangible assets that are within the scope of another Australian Accounting Standard;

(b) financial assets, as defined in AASB 132 *Financial Instruments: Presentation*;

(c) the recognition and measurement of exploration and evaluation assets (see AASB 6 *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.

3 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 business (see AASB 102 *Inventories* and AASB 111 *Construction Contracts*);

(b) deferred tax assets (see AASB 112 *Income Taxes*);

(c) leases that are within the scope of AASB 117 *Leases*;

(d) *assets* arising from employee benefits (see AASB 119 *Employee Benefits*);

(e) financial assets as defined in AASB 132. The recognition and measurement of some financial assets are covered by AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*;

(f) goodwill acquired in a business combination (see AASB 3 *Business Combinations*);

(g) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of AASB 4 *Insurance Contracts*. AASB 4 sets out specific disclosure requirements for those deferred acquisition costs but not for those intangible assets. Therefore, the disclosure requirements in this Standard apply to those intangible assets; and

(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 AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

4 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 AASB 116 *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.

5 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, that is, the knowledge embodied in it.

6 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 AASB 117 and are within the scope of this Standard.

7 Exclusions from the scope of a Standard may occur if activities or transactions are so specialised 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.

Definitions

8 The following terms are used in this Standard with the meanings specified.

***Amortisation* 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 are expected to flow to the entity.

Carrying amount **is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses thereon.**

Cost **is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards, for example AASB 2 *Share-based Payment.***

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 commercial 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 **is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See AASB 13 *Fair Value Measurement.*)**

An *impairment loss* is the amount by which the carrying amount of an asset exceeds its recoverable 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.**

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.

Intangible Assets

9 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 lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

10 Not all the items described in paragraph 9 meet the definition of an intangible asset, that is, identifiability, control over a resource and existence of future economic benefits. 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 recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date (see paragraph 68).

Identifiability

11 The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

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

Control

13 An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits 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 in some other way.

14 Market and technical knowledge may give rise to future economic benefits. An entity controls those benefits 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.

15 An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits 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 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 expected from it, and it also meets the other parts of the definition.

16 An entity may have a portfolio of customers or a market share and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to trade with the entity. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the

customers to the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (e.g. portfolio of customers, market shares, customer relationships and customer loyalty) 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 a business combination) 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

17 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. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

Recognition and Measurement

18 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 8-17); and

(b) the recognition criteria (see paragraphs 21-23).

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

19 Paragraphs 25-32 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 33-43 deal with their application to intangible assets acquired in a business combination. Paragraph 44 deals with the initial measurement of intangible assets acquired by way of a government grant, paragraphs 45-47 with exchanges of intangible assets, and paragraphs 48-50 with the treatment of internally generated goodwill. Paragraphs 51-67 deal with the initial recognition and measurement of internally generated intangible assets.

20 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 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 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 recognised in the carrying amount of an asset. Consistently with paragraph 63, subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally acquired or internally generated) is always recognised in profit or loss as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the business as a whole.

21 An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the *cost* of the asset can be measured reliably.

22 An entity shall assess the probability of expected future economic benefits 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.

23 An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits 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.

24 An intangible asset shall be measured initially at cost.

Aus24.1 Notwithstanding paragraph 24, in respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, the cost is its *fair value* as at the date of acquisition.

Separate Acquisition

25 Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of

the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for separately acquired intangible assets.

26 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*.

27 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.

28 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in AASB 119) 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.

29 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 business in a new location or with a new class of customer (including costs of staff training); and

(c) administration and other general overhead costs.

30 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.

31 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 income and related expenses of incidental operations are recognised immediately in profit or loss, and included in their respective classifications of income and expense.

32 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 recognised as interest expense over the period of credit unless it is capitalised in accordance with AASB 123 *Borrowing Costs*.

Acquisition as Part of a Business Combination

33 In accordance with AASB 3 *Business Combinations* (as revised in March 2008), if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for intangible assets acquired in business combinations. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 21(b) is always considered to be satisfied for intangible assets acquired in business combinations.

34 In accordance with this Standard and AASB 3 (as revised in March 2008), an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an

intangible asset. An acquiree's in-process research and development project meets the definition of an intangible asset when it:

(a) meets the definition of an asset; and

(b) is identifiable, i.e. is separable or arises from contractual or other legal rights.

Intangible Asset Acquired in a Business Combination

35 If an intangible asset acquired in a business combination 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, that uncertainty enters into the measurement of the asset's fair value.

36 An intangible asset acquired in a business combination might be separable, but only together with a related contract, identifiable asset or liability. In such cases, the acquirer recognises the intangible asset separately from goodwill, but together with the related item.

37 The acquirer may recognise a group of complementary intangible assets as a single asset provided the individual assets in the group have similar useful lives. For example, 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.

38-41 [Deleted by the IASB]

Subsequent Expenditure on an Acquired In-process Research and Development Project

42 Research or development expenditure that:

(a) relates to an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset; and

(b) is incurred after the acquisition of that project,

shall be accounted for in accordance with paragraphs 54-62.

43 Applying the requirements in paragraphs 54-62 means that subsequent expenditure on an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset is:

(a) recognised as an expense when incurred if it is research expenditure;

(b) recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in 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 57.

Acquisition by way of a Government Grant

44 In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, by way of a government grant. This may happen when a government 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. In accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, an entity may choose to recognise both the intangible asset and the grant initially at fair value.[1] If an entity chooses not to recognise the asset initially at fair value, the entity recognises the asset initially at a nominal amount (the other treatment permitted by AASB 120) plus any expenditure that is directly attributable to preparing the asset for its intended use.

Exchanges of Assets

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

1 AASB 120 only applies to for-profit entities. Not-for-profit entities are required to recognise the intangible asset and the grant initially at fair value in accordance with AASB 1004 *Contributions.*

immediately derecognise 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.

46 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows 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 of the asset received differs from the configuration of the cash flows 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. The result of these analyses may be clear without an entity having to perform detailed calculations.

47 Paragraph 21(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 is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If an entity is able to measure 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

48 Internally generated goodwill shall not be recognised as an asset.

49 In some cases, expenditure is incurred to generate future economic benefits, 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 recognised as an asset because it is not an identifiable resource (i.e. it is not separable nor does it arise

from contractual or other legal rights) controlled by the entity that can be measured reliably at cost.

50 Differences between the fair 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 fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally Generated Intangible Assets

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; 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 52-67 to all internally generated intangible assets.

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' and 'development' are defined, the terms 'research phase' and 'development phase' have a broader meaning for the purpose of this Standard.

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

54 No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

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. Therefore, this expenditure is recognised as an expense when it is incurred.

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

57 An intangible asset arising from development (or from the development phase of an internal project) shall be recognised 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 or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits. 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 or sell the intangible asset; and

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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. This is because the development phase of a project is further advanced than the research phase.

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 commercial production; and

(d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

60 To demonstrate how an intangible asset will generate probable future economic benefits, an entity assesses the future economic benefits to be received from the asset using the principles in AASB 136 *Impairment of Assets*. If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of cash-generating units in AASB 136.

61 Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a business 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 indication of its willingness to fund the plan.

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 copyrights or licences or developing computer software.

63 Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.

64 Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

Cost of an Internally Generated Intangible Asset

65 The cost of an internally generated intangible asset for the purpose of paragraph 24 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 21, 22 and 57. Paragraph 71 prohibits reinstatement of expenditure previously recognised as an expense.

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 AASB 119) arising from the generation of the intangible asset;

(c) fees to register a legal right; and

(d) *amortisation* of patents and licences that are used to generate the intangible asset.

AASB 123 specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset.

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 illustrating paragraph 65

An entity is developing a new production process. During 20X5, expenditure incurred was CU1,000,[2] of which CU900 was incurred before 1 December 20X5 and CU100 was incurred between 1 December 20X5 and 31 December 20X5. The entity is able to demonstrate that, at 1 December 20X5, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be CU500.

At the end of 20X5, the production process is recognised as an intangible asset at a cost of CU100 (expenditure incurred since the date when the recognition criteria were met, i.e. 1 December 20X5). The CU900 expenditure incurred before 1 December 20X5 is recognised as an expense because the recognition criteria were not met until 1 December 20X5. This expenditure does not form part of the cost of the production process recognised in the statement of financial position.

During 20X6, expenditure incurred is CU2,000. At the end of 20X6, the recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be CU1,900.

At the end of 20X6, the cost of the production process is CU2,100 (CU100 expenditure recognised at the end of 20X5 plus CU2,000 expenditure recognised in 20X6). The entity recognises an impairment loss of CU200 to adjust the carrying amount of the process before impairment loss (CU2,100) to its recoverable amount (CU1,900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in AASB 136 are met.

Recognition of an Expense

68 Expenditure on an intangible item shall be recognised 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 18-67); or

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

(b) the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, it forms part of the amount recognised as goodwill at the acquisition date (see AASB 3).

69 In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred. For example, expenditure on research is recognised as an expense when it is incurred (see paragraph 54), except when it forms part of a business combination. Other examples of expenditure that is recognised 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 AASB 116. 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 business (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);

(d) expenditure on relocating or reorganising part or all of an entity.

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 an advertisement to customers.

70 Paragraph 68 does not preclude an entity from recognising 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 68 does not preclude an entity from recognising 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 Recognised as an Asset

71 Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

Measurement after Recognition

72 An entity shall choose either the cost model in paragraph 74 or the revaluation model in paragraph 75 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.

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

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

Revaluation Model

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 amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

76 The revaluation model does not allow:

(a) the revaluation of intangible assets that have not previously been recognised as assets; or

(b) the initial recognition of intangible assets at amounts other than cost.

77 The revaluation model is applied after an asset has been initially recognised at cost. However, if only part of the cost of an intangible asset is recognised as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 65), the revaluation model may be applied to the whole of that asset.

78 It is uncommon for an active market to exist for an intangible asset, although this may happen. For example, in some jurisdictions, an active market may exist for freely transferable taxi licences, fishing licences or production quotas. 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.

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.

80 If an intangible asset is revalued, any accumulated amortisation 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.

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 amortisation and impairment losses.

82 If the fair value of a revalued intangible asset can no longer be measured 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 amortisation and any subsequent accumulated impairment losses.

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 AASB 136.

84 If the fair value of the asset can be measured by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

85 If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Aus85.1 Notwithstanding paragraph 85, in respect of not-for-profit entities, if the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the net revaluation increase shall be recognised in profit or loss to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in profit or loss.

86 If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Aus86.1 Notwithstanding paragraph 86, in respect of not-for-profit entities, if the carrying amount of a class of assets decreased as a result of a revaluation, the net revaluation decrease shall be recognised in profit or loss. However, the net revaluation decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in any revaluation surplus in respect of that same class of assets. The net revaluation decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Aus86.2 In respect of not-for-profit entities, revaluation increases and revaluation decreases relating to individual assets within a class of intangible assets shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

87 The cumulative revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realised. The whole surplus may be realised on the retirement or disposal of the asset. However, some of the surplus may be realised as the asset is used by the entity; in such a case, the amount of the surplus realised is the difference between amortisation based on the revalued carrying amount of the asset and amortisation that would have been recognised based on the asset's historical cost. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

Useful Life

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 for the entity.

89 The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised (see paragraphs 97-106), and an intangible asset with an indefinite useful life is not (see paragraphs 107-110). The Illustrative Examples accompanying this Standard illustrate the determination of useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations.

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 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.

91 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.

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.

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 The useful life of an intangible asset that arises from contractual 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 contractual 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 recognised as an intangible asset in a business combination is

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

95 There may be both economic and legal factors influencing the useful life of an intangible asset. Economic factors determine the period over which future economic benefits will be received by the entity. Legal factors may restrict the period over which the entity controls access to these benefits. The useful life is the shorter of the periods determined by these factors.

96 Existence of the following factors, among others, indicates that an entity would be able to renew the contractual or other legal rights without significant cost:

(a) there is evidence, possibly based on experience, that the contractual 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 expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits 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

Amortisation Period and Amortisation Method

97 The *depreciable amount* of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation 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 AASB 5 and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be

determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

98 A variety of amortisation 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 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.

99 Amortisation is usually recognised in profit or loss. However, sometimes the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see AASB 102 *Inventories*).

Residual Value

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 (as defined in AASB 13) 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 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 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 the end of each annual reporting period. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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 amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Review of Amortisation Period and Amortisation Method

104 The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at the end of each annual reporting period. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with AASB 108.

105 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 amortisation period needs to be changed.

106 Over time, the pattern of future economic benefits expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortisation 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 business plan. In this case, economic benefits that flow from the asset may not be received until later periods.

Intangible Assets with Indefinite Useful Lives

107 An intangible asset with an indefinite useful life shall not be amortised.

108 In accordance with AASB 136, 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.

Review of Useful Life Assessment

109 The useful life of an intangible asset that is not being amortised shall be reviewed each 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 AASB 108.

110 In accordance with AASB 136, 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 AASB 136, with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount as an impairment loss.

Recoverability of the Carrying Amount – Impairment Losses

111 To determine whether an intangible asset is impaired, an entity applies AASB 136. That Standard explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

Retirements and Disposals

112 An intangible asset shall be derecognised:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

113 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 recognised in profit or loss when the asset is derecognised (unless AASB 117 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

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 by donation). In determining the date of disposal of such an asset, an entity applies the criteria in AASB 118 *Revenue* for recognising revenue from the sale of goods. AASB 117 applies to disposal by a sale and leaseback.

115 If in accordance with the recognition principle in paragraph 21 an entity recognises in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognises 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.

115A In the case of a reacquired right in a business combination, 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.

116 The consideration receivable on disposal of an intangible asset is recognised initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with AASB 118 reflecting the effective yield on the receivable.

117 Amortisation 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 AASB 5.

Disclosure

General

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 amortisation rates used;**

(b) **the amortisation methods used for intangible assets with finite useful lives;**

(c) **the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;**

(d) **the line item(s) of the statement of comprehensive income in which any amortisation 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 business combinations;**

(ii) **assets classified as held for sale or included in a disposal group classified as held for sale in accordance with AASB 5 and other disposals;**

(iii) **increases or decreases during the period resulting from revaluations under paragraphs 75, 85 and 86 and from impairment losses recognised or reversed in other comprehensive income in accordance with AASB 136 (if any);**

(iv) **impairment losses recognised in profit or loss during the period in accordance with AASB 136 (if any);**

(v) **impairment losses reversed in profit or loss during the period in accordance with AASB 136 (if any);**

(vi) **any amortisation recognised 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.**

RDR118.1 An entity applying Australian Accounting Standards – Reduced Disclosure Requirements is not required to disclose the reconciliations specified in paragraph 118(e) for prior periods.

119 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 industrial 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 An entity discloses information on impaired intangible assets in accordance with AASB 136 in addition to the information required by paragraph 118(e)(iii)-(v).

121 AASB 108 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 amortisation method; or

(c) residual values.

122 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 amortisation period of any individual intangible asset that is material to the entity's financial statements;

(c) for intangible assets acquired by way of a government grant and initially recognised at fair value (see paragraph 44):

(i) the fair value initially recognised 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; and

(e) the amount of contractual commitments for the acquisition of intangible assets.

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 90.

Intangible Assets Measured after Recognition using the Revaluation Model

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;

(ii) the carrying amount of revalued intangible assets; and

(iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in paragraph 74; and

(b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders.

(c) [deleted by the IASB]

Aus124.1 Notwithstanding paragraph 124(a)(iii), in respect of not-for-profit entities, for each revalued class of intangible assets, the requirement to disclose the carrying amount that would have been recognised had the assets been carried under the cost model does not apply.

125 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

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

127 Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 66 and 67 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 126).

Other Information

128 An entity is encouraged, but not required, to disclose the following information:

(a) a description of any fully amortised intangible asset that is still in use; and

(b) a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard.

Transitional Provisions and Effective Date

129 [Deleted by the IASB]

130 [Deleted by the AASB]

130A [Deleted by the AASB]

130B [Deleted by the AASB]

130C AASB 2008-3 *Amendments to Australian Accounting Standards Arising from AASB 3 and AASB 127* amended paragraphs 12, 33-35, 68, 69 and 94, deleted paragraph 38 and added paragraph 115A. AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*, issued in May 2009, amended paragraphs 36 and 37. An entity shall apply those amendments prospectively for annual reporting periods beginning on or after 1 July 2009. Therefore, amounts recognised for intangible assets and goodwill in prior business combinations shall not be adjusted. If an entity applies AASB 3 (revised 2008) for an earlier period, it shall apply the amendments for that earlier period and disclose that fact.

130D Paragraphs 69, 70 and 98 were amended and paragraph 69A was added by AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* issued in July 2008. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

130E [Deleted by the IASB]

130G AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*, issued in September 2011, amended paragraphs 8, 33, 47, 50, 75, 78, 82, 84, 100 and 124 and deleted paragraphs 39-41 and 130E. An entity shall apply those amendments when it applies AASB 13.

Exchanges of Similar Assets

131 [Deleted by the AASB]

Early Application

132 [Deleted by the AASB]

Withdrawal of IAS 38 (Issued 1998)

133 [Deleted by the AASB]

ILLUSTRATIVE EXAMPLES

These examples accompany, but are not part of, AASB 138.

Assessing the Useful Lives of Intangible Assets

The following guidance provides examples on determining the useful life of an intangible asset in accordance with AASB 138.

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 customer list

A direct-mail marketing company acquires a customer list and expects that it will be able to derive benefit from the information on the list for at least one year, but no more than three years.

The customer list would be amortised over management's best estimate of its useful life, say 18 months. Although the direct-mail marketing company may intend to add customer names and other information to the list in the future, the expected benefits of the acquired customer list relate only to the customers on that list at the date it was acquired. The customer list also would be reviewed for impairment in accordance with AASB 136 *Impairment of Assets* by assessing at the end of each reporting period whether there is any indication that the customer list may be impaired.

Example 2 An acquired patent that expires in 15 years

The product protected by the patented technology is expected to be a source of net cash inflows 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 amortised 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 AASB 136 by assessing at the end of each reporting period whether there is any indication that it may be impaired.

Example 3 An acquired copyright that has a remaining legal life of 50 years

An analysis of consumer habits and market trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

The copyright would be amortised over its 30-year estimated useful life. The copyright also would be reviewed for impairment in accordance with AASB 136 by assessing at the end of each reporting period whether there is any indication that it may be impaired.

Example 4 An acquired broadcasting licence that expires in five years

The broadcasting licence is renewable every 10 years if the entity provides at least an average level of service to its customers 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 net cash inflows indefinitely.

The broadcasting licence would be treated as having an indefinite useful life because it is expected to contribute to the entity's net cash inflows indefinitely. Therefore, the licence would not be amortised until its useful life is determined to be finite. The licence would be tested for impairment in accordance with AASB 136 annually and whenever 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 amortised over its remaining three-year useful life and immediately tested for impairment in accordance with AASB 136.

Example 6 An acquired airline route authority between two European cities that expires in three years

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 airline has complied with the applicable rules and regulations. The acquiring entity expects to provide service indefinitely between the two cities from its hub airports and expects that the related supporting infrastructure (airport gates, slots, and terminal facility leases) will remain in place at those airports for as long as it has the route authority. An analysis of demand and cash flows supports those assumptions.

Because the facts and circumstances support the acquiring entity's ability to continue providing air 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 amortised until its useful life is determined to be finite. It would be tested for impairment in accordance with AASB 136 annually and whenever there is an indication that it may be impaired.

Example 7 An acquired trademark used to identify and distinguish a leading consumer product that has been a market-share leader for the past eight years

The trademark has a remaining legal life of five years but is renewable every 10 years at little cost. The acquiring entity intends to renew the trademark continuously and evidence supports its ability to do so. An analysis of (1) product life cycle studies, (2) market, competitive and environmental trends, and (3) brand extension opportunities provides evidence that the trademarked product will generate net cash inflows for the acquiring entity for an indefinite period.

The trademark would be treated as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. Therefore, the trademark would not be amortised until its useful life is determined to be finite. It would be tested for impairment in accordance with AASB 136 annually and whenever there is an indication that it may be impaired.

Example 8 A trademark acquired 10 years ago that distinguishes a leading consumer product

The trademark was regarded as having an indefinite useful life when it was acquired because the trademarked product was expected to generate net cash

inflows indefinitely. However, unexpected competition has recently entered the market and will reduce future sales of the product. Management estimates that net cash inflows generated by the product will be 20% less for the foreseeable future. However, management expects that the product will continue to generate net cash inflows indefinitely at those reduced amounts.

As a result of the projected decrease in future net cash inflows, the entity determines that the estimated recoverable amount of the trademark is less than its carrying amount, and an impairment loss is recognised. Because it is still regarded as having an indefinite useful life, the trademark would continue not to be amortised but would be tested for impairment in accordance with AASB 136 annually and whenever there is an indication that it may be impaired.

Example 9 A trademark for a line of products that was acquired several years ago in a business combination

At the time of the business combination the acquiree had been producing the line of products for 35 years with many new models developed under the trademark. At the acquisition date the acquirer expected to continue producing the line, and an analysis of various economic factors indicated there was no limit to the period the trademark would contribute to net cash inflows. Consequently, the trademark was not amortised by the acquirer. However, management has recently decided that production of the product line will be discontinued over the next four years.

Because the useful life of the acquired trademark is no longer regarded as indefinite, the carrying amount of the trademark would be tested for impairment in accordance with AASB 136 and amortised over its remaining four-year useful life.

DELETED IAS 38 TEXT

Deleted IAS 38 text is not part of AASB 138.

Paragraph 130

An entity shall apply this Standard:

(a) to the accounting for intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004; and

(b) to the accounting for all other intangible assets prospectively from the beginning of the first annual period beginning on or after 31 March 2004. Thus, the entity shall not adjust the carrying amount of intangible assets recognised 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 IAS 8.

Paragraph 130A

An entity shall apply the amendments in paragraph 2 for annual periods beginning on or after 1 January 2006. If an entity applies IFRS 6 for an earlier period, those amendments shall be applied for that earlier period.

Paragraph 130B

IAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 85, 86 and 118(e)(iii). An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

Paragraph 131

The requirement in paragraphs 129 and 130(b) to apply this Standard prospectively means that if an exchange of assets was measured before the effective date of this Standard on the basis of the carrying amount of the asset given up, the entity does not restate the carrying amount of the asset acquired to reflect its fair value at the acquisition date.

Paragraph 132

Entities to which paragraph 130 applies are encouraged to apply the requirements of this Standard before the effective dates specified in paragraph 130. However, if an entity applies this Standard before those effective dates, it also shall apply IFRS 3 and IAS 36 (as revised in 2004) at the same time.

Paragraph 133

This Standard supersedes IAS 38 *Intangible Assets* (issued in 1998).