



Intangible Assets

LKAS 38

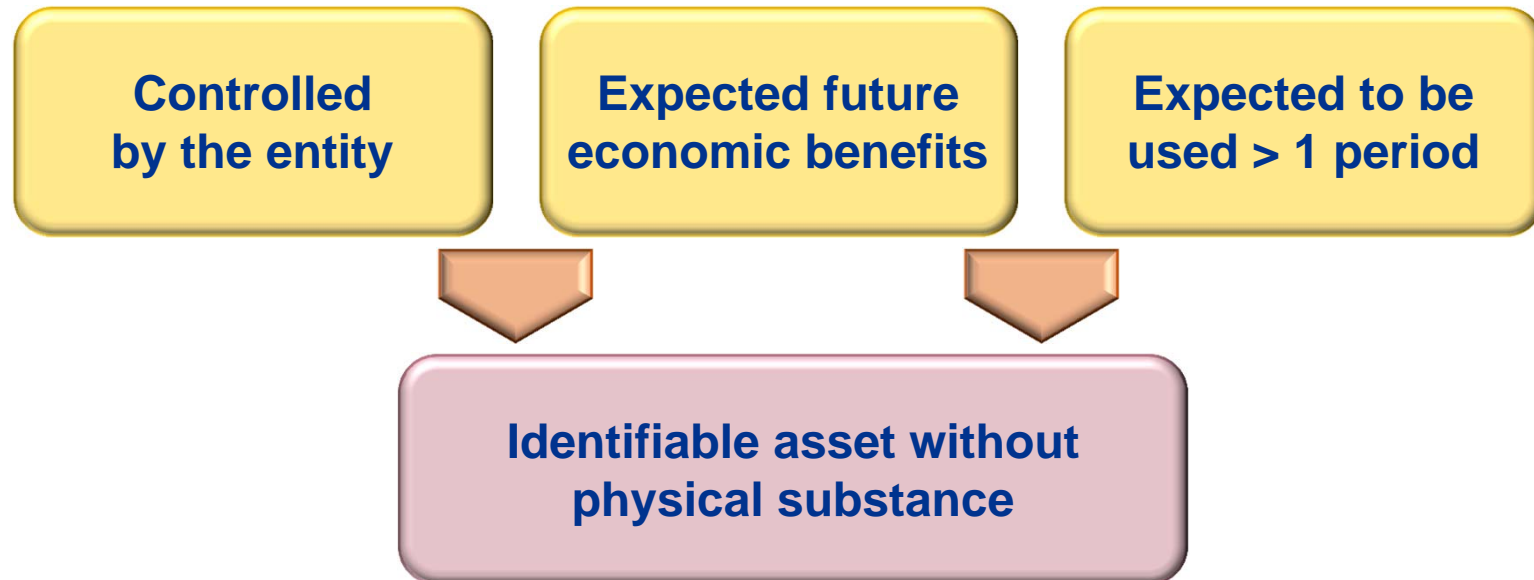
Presenter: **Shirley Pakianathan**
Senior Manager, KPMG in Sri Lanka

Agenda

1. Definition
2. Initial recognition and measurement
3. Internally generated intangible assets
4. Subsequent measurement
5. Derecognition & compensation
6. Know your journals
7. Disclosure
8. The closing

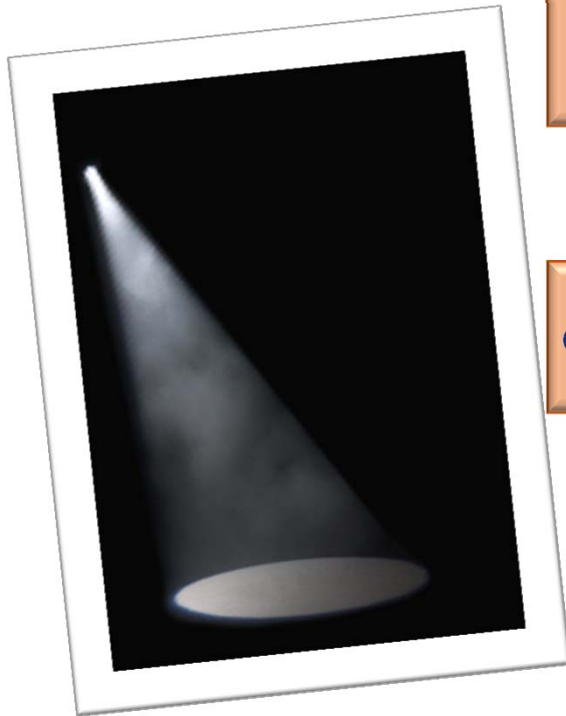


Definitions





What is identifiable?



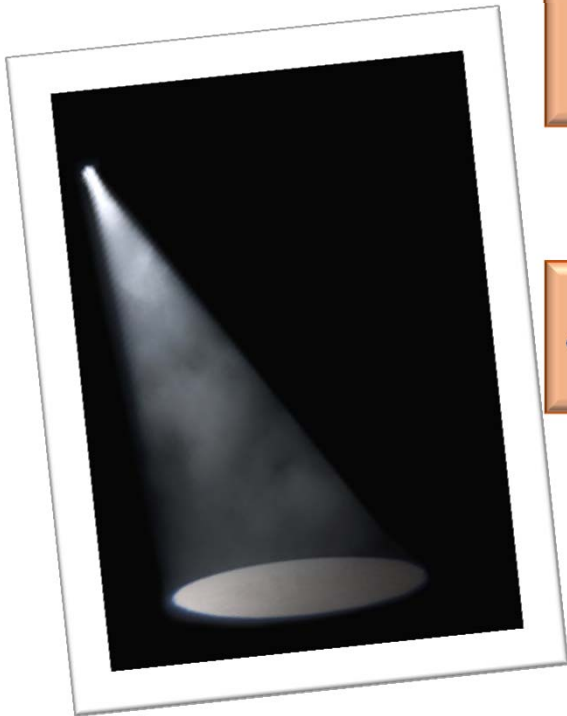
Arises from contractual / other legal rights

or

Is separable



What is control?



Power to obtain future economic benefits

&

Restrict access of others to benefits

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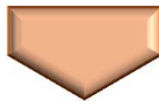
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Recognition

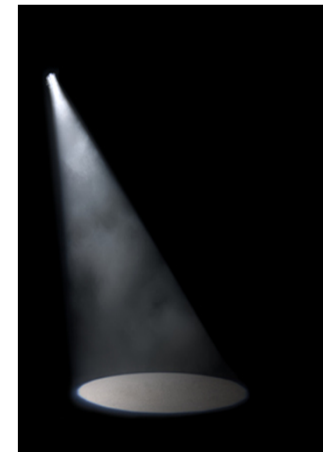
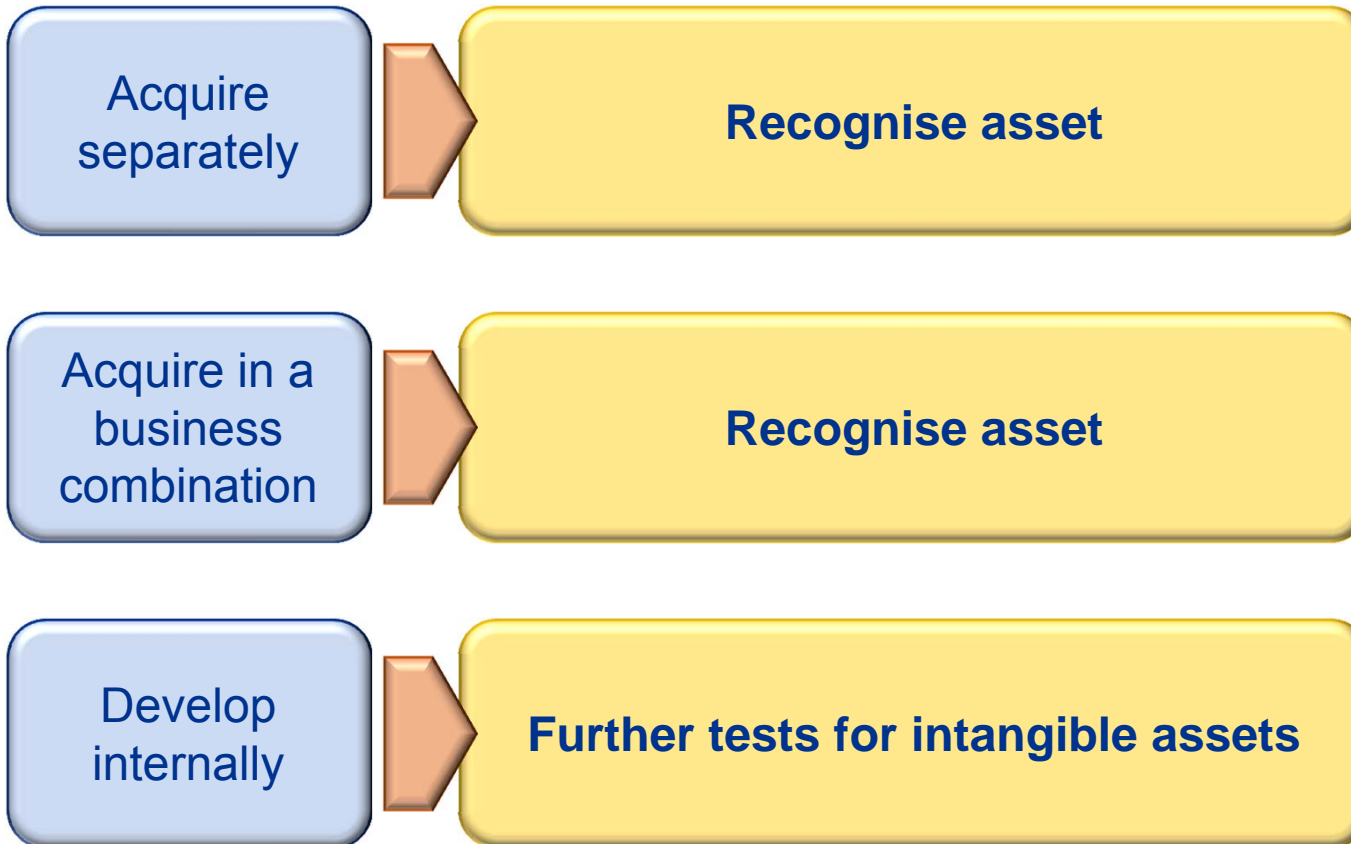
**Probable future
economic benefits**

**Cost can be
measured reliably**





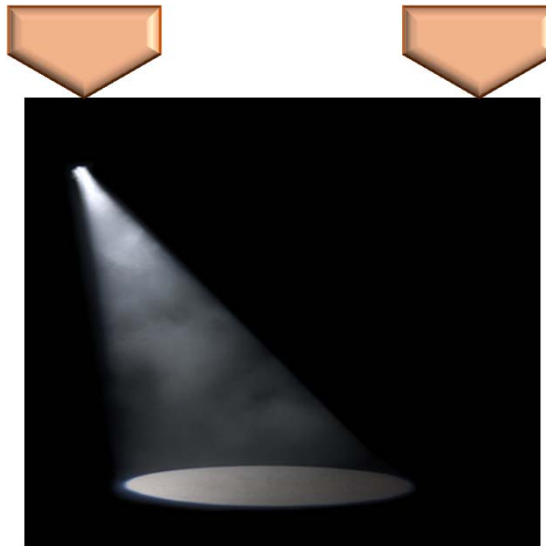
Three ways to acquire





Measurement at cost

Expenditure directly attributable to bringing asset to location and condition necessary for intended use





Examples of costs

Fees to register
legal right

Employee benefits

Borrowing costs on
qualifying asset

Part of cost

Feasibility
assessment costs

Costs of staff
training

Administration and
overhead costs

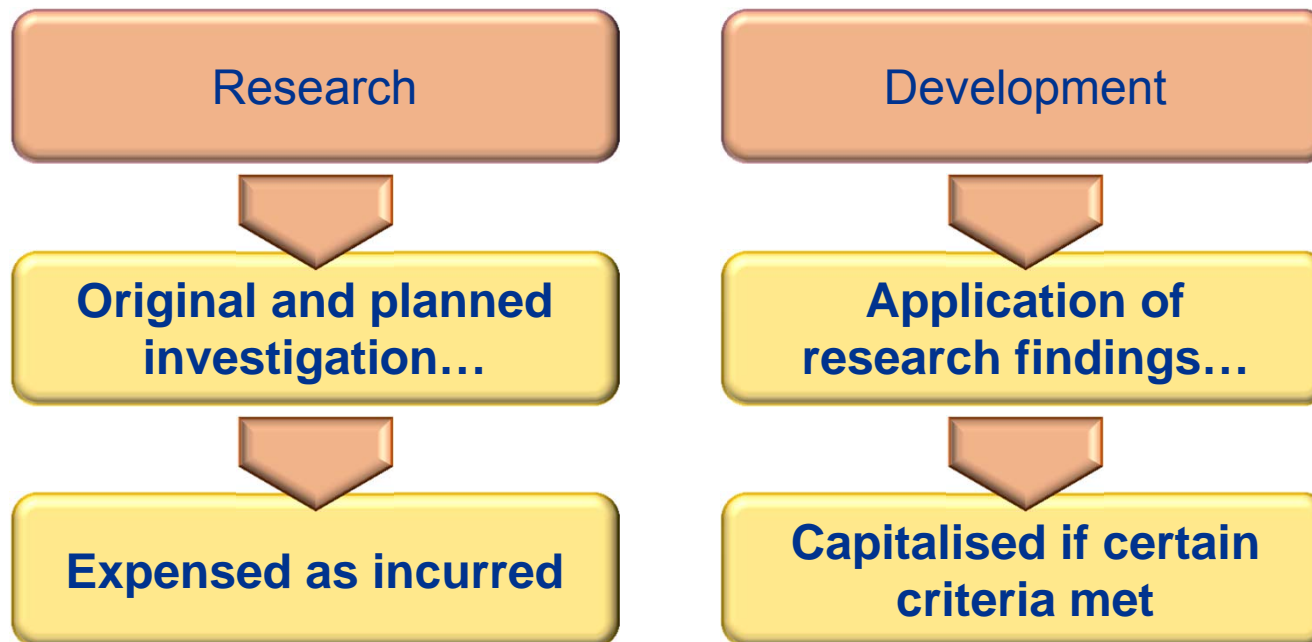
Not part of cost

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Research vs development



Development costs capitalised when

Technical feasibility established

Intention to complete and use or sell

Ability to use or sell

How economic benefits will be generated

Availability of adequate technical, financial, other resources

Ability to measure expenditure reliably





Additional restrictions

Internally generated
goodwill

Expenditure on
brands etc

Start-up costs

Not recognised as internally generated intangible assets

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Principles of amortisation

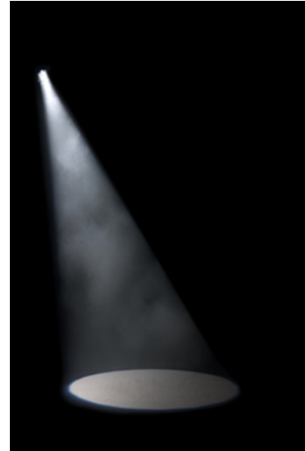
Systematic allocation of cost to profit or loss over useful life

Amount determined after deducting residual value

Changes are changes in estimates

Review of key assumptions at least each reporting date

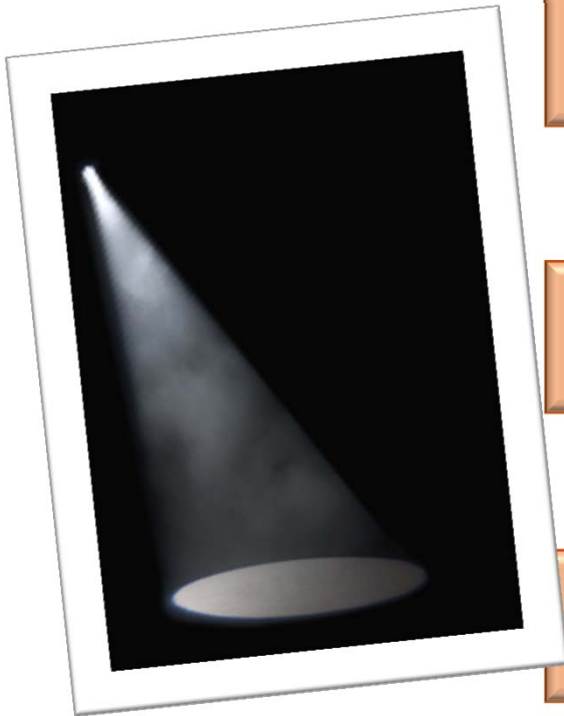
Useful lives



**Might be
indefinite**



Factors in assessing useful life



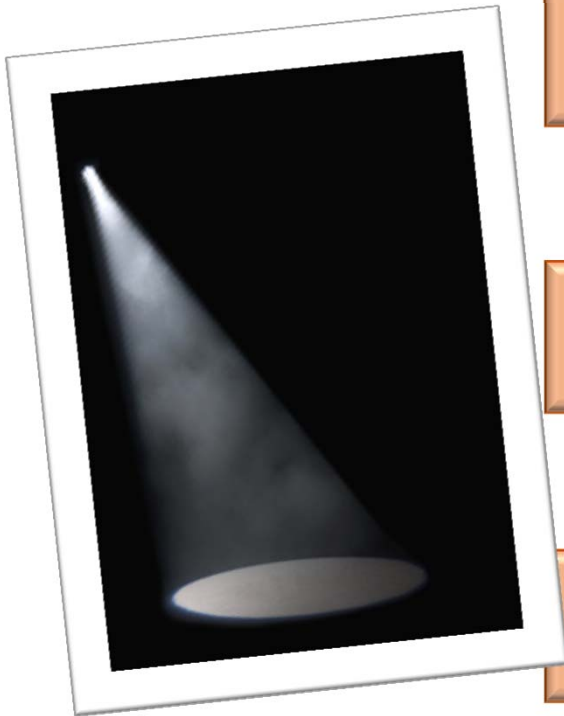
**Expected usage, life cycles,
obsolescence, industry**

Periods of control and legal limits

Contractual terms and renewal periods



Indefinite-lived intangible assets



**No foreseeable limit on
period of cash inflows**

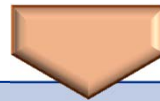
**Planned future expenditure other than to
maintain standard is not included**

Indefinite does not mean infinite



Methods of amortisation

Amortisation examples



Straight-line

Reducing balance

Unit-of-production

Revenue-based



Measurement model

Cost model or revaluation model





Cost vs revaluation model

Cost model



Cost less:

- ◆ Amortisation
- ◆ Impairment losses

Revaluation model

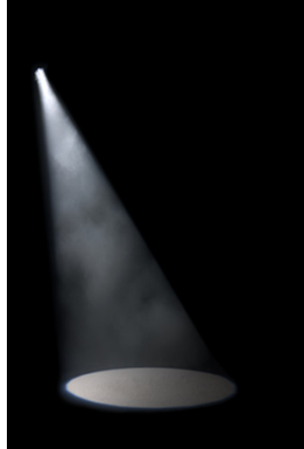


Revalued amount less:

- ◆ Amortisation
- ◆ Impairment losses



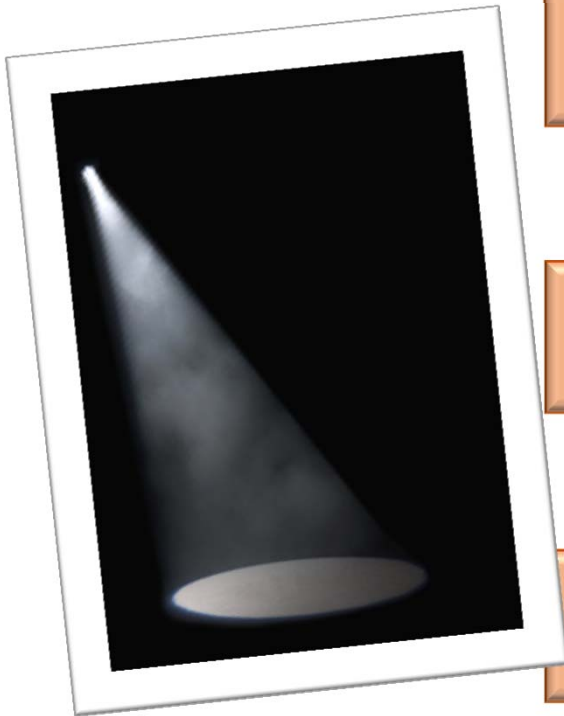
Revaluation model restrictions



- ◆ Revalue by class
- ◆ Need an active market



Active market



Items traded are homogenous

&

**Willing buyers / sellers normally
can be found at any time**

&

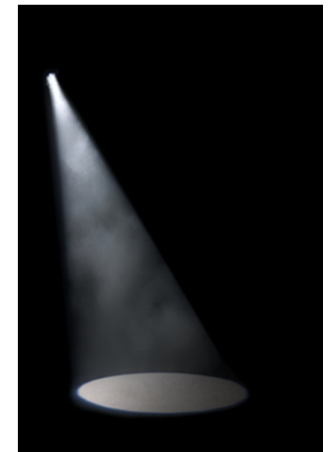
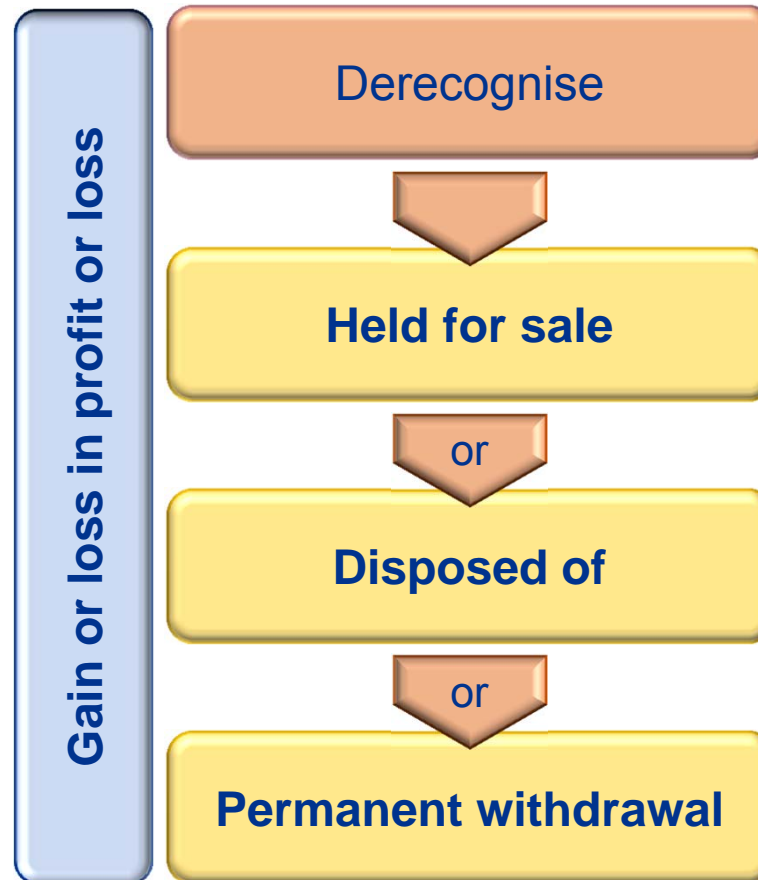
Prices available to the public

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Derecognition



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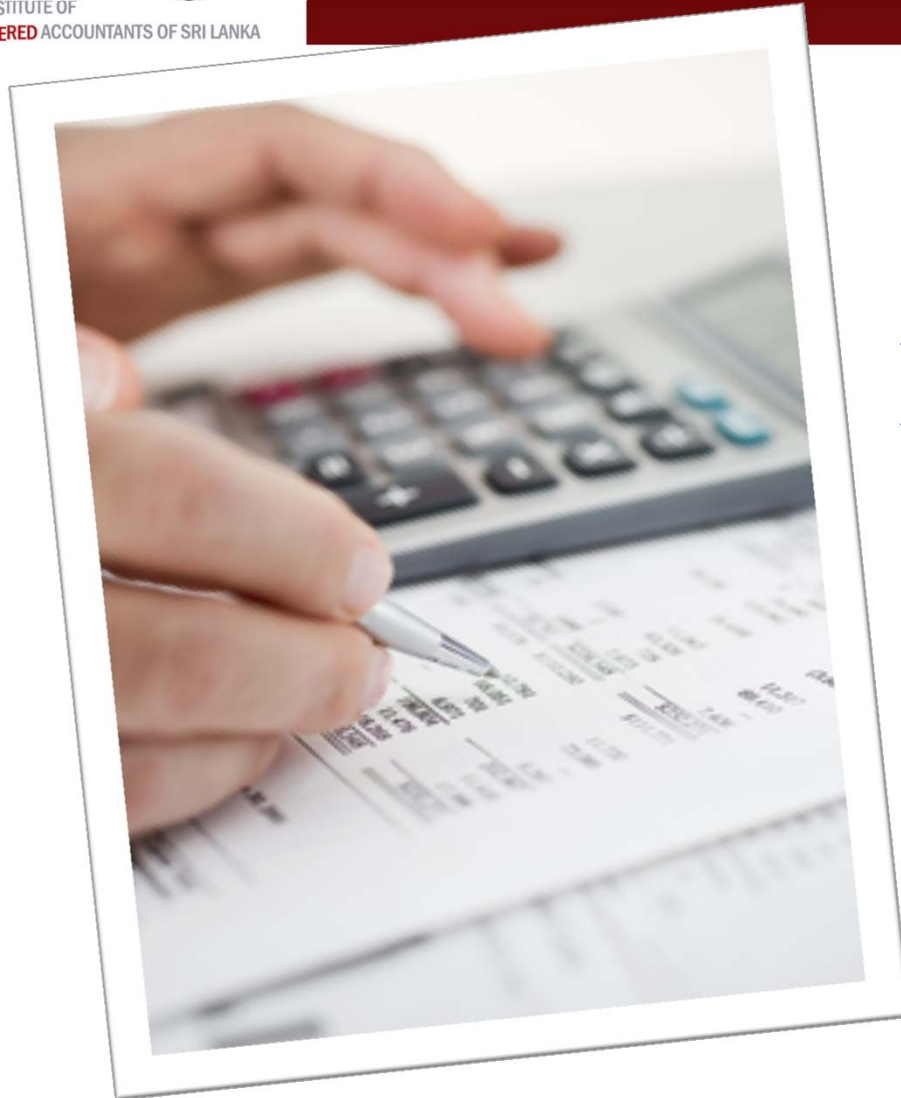
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Know your journals



- ◆ Revaluations
- ◆ Retirements and disposals

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Disclosure



- ◆ Accounting policies
- ◆ Note disclosures



Notes – Accounting policies – Example 1/2

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.



Notes – Accounting policies – Example 2/2

(e) Intangible assets (continued)

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation

Except for goodwill, intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative years are as follows:

- patents and trademarks 3–20 years
- capitalised development costs 2–5 years
- customer relationships 4–5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the financial statements

- ◆ **Cost**
- ◆ **Amortisation and impairment losses**
- ◆ **Carrying amounts**
- ◆ **Recoverability of development costs**
- ◆ **Impairment loss and subsequent reversal**
- ◆ **Development costs – details of borrowing costs included**

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Other standards to consider

- ◆ **LKAS 17 – Accounting for leases**
- ◆ **LKAS 36 – Impairment of assets**
- ◆ **LKAS 16 – Property, plant and equipment**
- ◆ **LKAS 8 – Accounting policies, changes in accounting estimates and errors**
- ◆ **LKAS 23 – Borrowing costs**
- ◆ **LKAS 20 – Accounting for government grants and disclosure of government assistance**
- ◆ **SIC 32 – Intangible assets – website costs**



- 1) Intangible assets are measured initially at cost
- 2) Development costs are capitalised when strict recognition criteria are met
- 3) Intangible assets are amortised over their useful lives
- 4) Some intangible assets may qualify as indefinite-lived and no amortisation is recognised
- 5) Intangible assets may be revalued only if there is an active market

Thank you

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