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IAS-38 (INTANGIBLE ASSETS)

Brief Overview

In modern business era, Services Industry has rapidly increased as compared to manufacturing Industry on account of an entity's Intangible assets like Patents, Copyrights, Formulas, Training Programs, Brand name etc.

IAS 38 defines Intangible Assets and their Accounting Treatment. According to IAS 38, Intangible Assets are Non-Monetary Assets without physical substance that are separable from the entity or arise as a result of some contractual or legal rights.

Examples:

- **Marketing Based Intangible Assets:** Trade Marks, Internet Domain Names, and Newspapers Mastheads.
- **Customer Related Intangible Assets:** Customer Lists (Acquired by entity), Production/ Order Backlogs
- **Technology Based Intangibles:** Patents, Computer Software, Trade Secrets Databases etc .
- **Contract Based Intangibles:** Licenses, Royalty, Advertising or Construction Contracts, Lease Agreements, Permits, Franchises, Broadcasting Rights etc
- **Artistic Based Intangible Assets:** Plays, Magazine, Books and other Literary Works, Musical Works etc.

Recognition Criteria:
IAS 38 requires an entity to recognize an Intangible Asset whether acquired or self-constructed only if it is certain that:

- Future economic benefits will flow for an entity.
- Cost of the asset can be measured reliably.

If such criteria are not met entire expenditure will be expensed out.

Intangibles can be acquired by:

- Separate purchase
- Business Combination
- Government grant
- Exchange of assets
- Self-construction or Internal generation

Internally Generated Intangible Assets:
Self-constructed or Internally generated Intangible includes two types of costs incurred:

- **Research Costs:** They include cost incurred on planned investigation and formulation of designs. Such costs are recognized as Expense and are not capitalized.

- **Development Costs:** They include costs incurred in application of research findings and all costs during development prior to Commercial production or use.

At Development stage, Entity has to demonstrate and meet following criteria as laid down in IAS 38, for recognition in the books as Intangible Assets.

- It is Technically Feasible to complete the development of Intangible Asset, so that it will be available for use.
- Management intends to complete the project to be able to use or sell the Intangible.
- Entity has ability to use or sell the product.
- Entity is able to demonstrate that future economic benefits will arise by the use or selling of internally generated intangible.
- Entity has sufficient Technical, Financial and other resources to complete development
- And lastly entire expenditure during the development phase can be measured reliably.

Since the day entity fulfills the above criteria, it can capitalize its costs during the rest of development phase.

However, IAS 38 specifically disallows certain assets to be capitalized which includes Internally Generated Goodwill, Brands, Mastheads, Publishing Titles and Customers List due to the reason that their cost cannot be measured reliably, although, they are able to generate future economic benefits.

Amortization and Impairment:

In case of acquired goodwill, or an Asset is not yet complete but meets the criteria as narrated above, or Such assets whose period of future benefits is not known, then in all these cases no amortization will be charged and Impairment will be mandatory. All other Intangible assets other than the above will be amortized on the basis of useful life or contractual /legal life whichever is shorter. Impairment will only be performed, if entity assesses external indications of impairment.

Subsequent Expenditure:

When Intangible assets is in use or ready to use, then all subsequent expenditures will be expensed out except in certain cases where the subsequent expenditure enhances the value of asset.

Conclusion:

In the age of Knowledge economy, Intangibles assets are extremely important to gain competitive advantage for any Business. In the near future, Intangibles will be the major attraction for Investors just as they have in investment of financial Assets. Being an accountant we have to equip us with reasonable knowledge for Accounting Treatment of Intangibles.

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