NZ IAS 38: INTANGIBLE ASSETS

Version 1: 2020

Effective Periods Beginning
1 January 2007

See also: NZ SIC 32: *Intangible Assets - Website Costs*

RECOGNITION AND MEASUREMENT

SEPARATE ACQUISITION

1. Probable - expected future economic benefits will flow to the entity; and
2. Cost can be reliably measured.

Initial recognition **at cost.**

ACQUIRED IN BUSINESS COMBINATIONS

1. Probable - always met if fair value (FV) can be determined; FV reflects expectation of future economic benefits.
2. Cost - FV at acquisition date.
   - Acquirer recognises it separately from goodwill.
   - Irrespective of whether acquiree had recognised it before acquisition.

INTERNALLY GENERATED

Research Phase - expense costs as incurred.

Development Phase - Capitalise if **all** criteria are met:

- Technical feasibility of completion of intangible asset;
- Intention to complete;
- Ability to use or sell the intangible asset;
- Adequate technical, financial and other resources to complete;
- Probable future economic benefits; and
- Expenditure measured reliably.

EXCHANGE OF ASSETS

- Measure acquired asset at its fair value.
- If not possible, at book value of asset given up.

INTERNALLY GENERATED GOODWILL

Internally generated goodwill is never recognised as it is not an identifiable resource that can be measured reliably.

Examples include:

- Internally generated brands
- Customer lists.

GOVERNMENT GRANT

- Initially recognised at FV; or
- Nominal value plus direct expenses to prepare for use.

Examples include:

- License to operate national lottery
- Radio station.

DEFINITION

Intangible assets - identifiable, non-monetary assets, without physical substance.

Assets - resources, controlled from past events and with future economic benefits expected.

Identifiable if either:

- Capable of being separated and sold, licensed, rented, transferred, exchanged or rented separately; or
- Arise from contractual or other legal rights.

SCOPE

Scope exclusions: financial assets and intangible assets covered by other NZ IFRS's (NZ IAS 2, NZ IAS 12, NZ IAS 17, NZ IAS 19, NZ IAS 32, NZ IFRS 4 and NZ IFRS 5).

SUBSEQUENT ACCOUNTING

Finite Useful Life - Choose either amortised cost or revaluation model:

Cost model:

- Determine useful life.
- Residual value - assumed zero unless active market exists or a commitment by 3rd party to purchase the intangible asset exists.
- Determine amortisation method.
- Review above annually.
- Rebuttable presumption that revenue based amortisation is inappropriate
- Amortisation method reflects the pattern in which future economic benefits are expected to be consumed.
- Amortisation begins when available for use.

Revaluation model:

- Fair value at revaluation date.
- Fair value determined by referring to active market.
- If no active market, use cost model;
- Revaluation done regularly.
- The net carrying amount of the asset is adjusted to the revalued amount and
  - The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated amortisation at the date of the revaluation is adjusted to equal **the difference between the gross** carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
  - Accumulated amortisation is eliminated against the gross carrying amount.
- Credit to revaluation surplus net of Deferred Tax.
- Transfer to or from retained earnings on realisation.

Indefinite Useful Lives:

No foreseeable limit to future expected economic benefits.

- Not amortised.
- Test for impairment annually or when an indication exists.
- Review annually if events and circumstances still support indefinite useful life; and
- If no longer indefinite change to finite useful life.

OTHER

Past expenses cannot be capitalised in a later period.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters must comply fully with the recognition and measurement principles of NZ IAS 38. However, there are certain disclosure exemptions available.

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