

Chapter 6

Answer to example 1 – Intangibles (1)

A

- A Incorrect – Development expenditure is amortised over its useful economic life, if it has a finite life, otherwise annual impairments are required.
- B Correct – Development costs are recognised on the statement of financial position as an intangible non-current asset.
- C Incorrect – Research expenditure cannot be capitalised, and is expensed through profit or loss.

Answer to example 2 – Intangibles (2)

The purchase of the patent should be capitalised at \$15 million and amortised over its useful life.

The \$6 million spent on the investigative phase is essentially research and should be expensed through profit or loss as incurred.

The \$8 million subsequently spent after completion of the research phase is development expenditure and is capitalised as an intangible non-current asset on the statement of financial position.

It is not yet amortised as the project is not yet complete but an impairment review should be carried out to see if the asset has lost value.

The \$1.5 million spent on marketing and training should both be expensed through profit or loss immediately.

Answer to example 3 – Intangibles (3)

The initial investigation into the viability of the new drug is research and is expensed through profit or loss at \$40,000 per month. A total of \$240,000 (\$40,000 x 6 months) will be expensed from 1 February 20X5 to 1 August 20X5 (6 months).

The commercial viability of the new drug and subsequent costs constitute as development costs as probable future economic benefits can be identified and there is a market for the drug. The costs are capitalised as an intangible non-current asset on the statement of financial position. A total of \$200,000 (\$40,000 x 5 months) is capitalised from 1 August 20X5 to 31 December 20X5 (5 months).

The intangible is not amortised as it would have an indefinite life, so annual impairment reviews are performed instead, to see if the asset has fallen in value.

The finance director cannot revalue the intangible as there is no active market, however the discounted future cash flows would indicate that the intangible is not impaired.

