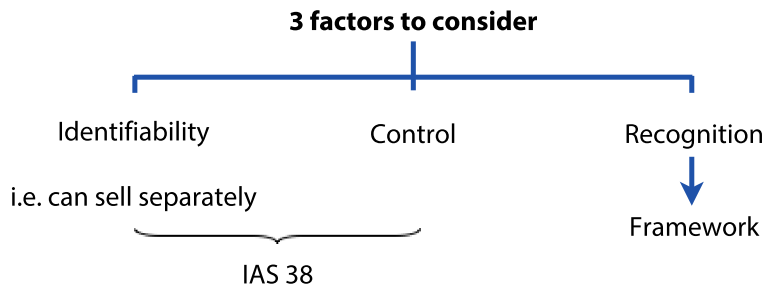


Chapter 6

INTANGIBLE ASSETS (IAS 38)

No physical substance but has value to the business.

- patents
- brand names
- licences



1. Separate acquisition

Capitalise at cost plus any directly attributable costs (e.g. legal fees, testing costs). Amortisation is charged over the useful life of the asset, starting when it is available for use.

2. Research and development

2.1. Research

Research expenditure is charged immediately to profit or loss in the year in which it is incurred.

2.2. Development

Development expenditure must be capitalised when it meets all the criteria.

- Sell/use
- Commercially viable
- Technically feasible
- Resources to complete
- Measure cost reliably (expense)
- Probable future economic benefits (overall)



3. Internally generated

Internally generated brands, mastheads cannot be capitalised as their cost cannot be separated from the overall cost of developing the business.

Example 1 – Intangibles (1)

Which of the following statements are correct?

1. Capitalised development expenditure must be amortised over a period not exceeding five years.
 2. Capitalised development costs are shown in the statement of financial position under the heading of non-current assets
 3. If certain criteria are met, research expenditure must be recognised as an intangible asset.
- A** 2 only
B 2 and 3 only
C 1 only
D 1 and 3 only

Example 2 – Intangibles (2)

Booker is involved in developing new products and has spent \$15 million on acquiring a patent to aid in this development. The initial investigative phase of the project cost an additional \$6 million, whereby it was determined that the future feasibility of the product was guaranteed.

Subsequent expenditure incurred on the product was \$8 million, of which \$5 million was spent on the functioning prototype and the remainder on getting the product into a safe and saleable condition.

A further \$1 million was spent on marketing and \$0.5 million on training sales staff on how to demonstrate the use of the product.

At the reporting date the product had not yet been completed.

Explain how Booker should account for the expenditure in its financial statements.

Example 3 – Intangibles (3)

GSK is a large pharmaceutical business involved in the research and development of viable new drugs. It commenced initial investigation into the viability of a new drug on 1 February 20X5 at a cost of \$40,000 per month. On 1 August 20X5 GSK were able to demonstrate the commercial viability of the new drug and intend to sell it on the open market once fully complete.

Costs subsequent to 1 August 20X5 remained at \$40,000 per month. At 31 December 20X5, GSK's reporting date, the drug was not yet complete but it is believed that by mid-20X6 the drug will be available for sale.

The finance director is confident of the success of the drug's sales that he wishes to revalue the intangible at the reporting date, using a discounted future cash flow model to establish the fair value.

Explain the treatment of the above costs in GSK's financial statements for the year-ended 31 December 20X5.

