

7 Intangible non-current assets

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7.1 Introduction

7.1.1 This chapter deals with accounting for intangible non-current assets.

7.2 Accounting standards

7.2.1 The following accounting standards and Interpretations deal with accounting for intangible non-current assets:

IAS 38 *Intangible Assets*

SIC 32 *Intangible Assets – Web Site Costs*

IFRS 6 *Exploration for and Evaluation of Mineral Resources* is not likely to be relevant and is not discussed further in this Manual. However, if it is applicable, it should be applied in full.

IAS 38 Intangible Assets and SIC 32 Intangible Assets – Web Site Costs

Applicability

7.2.2 IAS 38 and SIC 32 apply in full, as interpreted, to all reporting entities covered by this Manual.

Objectives of IAS 38

7.2.3 The objective of IAS 38 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another standard. This standard requires an entity to recognise an intangible asset if, and only if, specific criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets. When capitalising internally generated intangible assets, such as software, only directly attributable costs, including staff costs and staff-related costs, should be capitalised.

Interpretations of IAS 38 for the public sector context

7.2.4 On first time adoption of IAS 38, entities should refer to IFRS 1.18 and IFRS 1.IG 50. IFRS 1.18 allows an entity, on first time adoption, to elect to use deemed cost for initial recognition of the intangible asset where that asset meets the recognition criteria in IAS 38 and the revaluation criteria. That deemed cost might be fair value or cost or DRC. However, IFRS 1.IG 50 makes it clear that an entity can only elect to use one of these routes if the intangible asset meets both recognition criteria in IAS 38, including reliable measurement of original cost. Thus, an entity adopting the requirements of this Manual for the first time can only use retrospective capitalisation where it holds reliable original cost information in relation to the internally generated asset.

7.2.5 Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible asset. Where an active (homogeneous) market exists, intangible assets

should be carried at fair value at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn. Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost. These measures are a proxy for fair value.

Other requirements

7.2.6 Entities should analyse their intangible assets in accordance with 5.4.43.

SIC 32 consensus

7.2.7 The consensus in SIC 32 is that an entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of IAS 38.

EU Greenhouse Gas Emission Allowance Trading Directive

7.2.8 A cap and trade scheme gives rise to an asset for allowances held, a government grant and a liability for the obligation to deliver allowances equal to emission that have been made. Allowances, whether allocated by government or purchased, should be recognised as assets. Allowances intended to be held for use on a continuing basis should be classified as intangible assets. If not, they should be classified as current assets, within current asset investments. Whether or not the asset is classified as intangible or current, the same measurement requirements apply. Allowances that are issued for less than their fair value shall be measured initially at their fair value.

7.2.9 Allowances, whether issued by government or purchased, are intangible assets if they are held for use on a continuing basis. Allowances that are issued for less than their fair value shall be measured initially at their fair value.

7.2.10 When allowances are issued for less than their fair value, the difference between the amount paid and fair value is a government grant. The government grant reserve should be credited with the same proportion of the amount of the revaluation, which the amount of the grant bears to the acquisition cost of the asset. The remainder of the revaluation is credited to the revaluation reserve.

7.2.11 As emissions are made a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability is a provision. It shall be measured at the best estimate of the expenditure required to settle the present obligation at the reporting period date. This will usually be the present market price of the number of allowances required to cover emissions made up to the reporting period date.