

*Proposed International Public Sector Accounting
Standard*

Intangible Assets



REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, “Intangible Assets,” for publication in May 2009. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by August 15, 2009. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2 CANADA

Email responses should be sent to: edcomments@ifac.org and stepheniefox@ifac.org

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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ACKNOWLEDGMENT

This Exposure Draft of an International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard IAS 38, “Intangible Assets” published by the International Accounting Standards Board (IASB). It also contains extracts from the Standing Interpretations Committee Interpretation 32 (SIC 32), “Intangible Assets — Web Site Costs.” Extracts from IAS 38 and SIC 32 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

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Objective

The objective of this Exposure Draft is to propose the accounting treatment for intangible assets of public sector entities. The Exposure Draft is converged with IAS 38 “Intangible Assets” and adapted for public sector entities, where appropriate.

Request for Comments

The IPSASB invites comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Specific Matter for Comment

Do you agree that the changes made to IAS 38, in particular the scope exclusions set out in paragraphs 2 and 4, and the additional public sector guidance are:

- Necessary in the circumstances?
- Appropriately reflected in the revised wording?

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD XX (ED 40)

INTANGIBLE ASSETS

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International Public Sector Accounting Standard XX (ED 40), “Intangible Assets” is set out in paragraphs 1–150 and Appendices A and B. All the paragraphs have equal authority. IPSAS XX (ED 40) should be read in the context of its objective, the Basis for Conclusions, and the “Preface to International Public Sector Accounting Standards.” IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

- IN1. IPSAS XX (ED 40) prescribes the accounting treatment for intangible assets . It is adapted for public sector entities from IAS 38, “Intangible Assets.”
- IN2. The IPSASB is currently developing a Conceptual Framework that will define an asset in the public sector. The specific public sector issues which arise from the power to grant rights and the power to tax need to be examined in detail in order to determine the appropriate accounting treatment. The IPSASB will reconsider the applicability of IPSAS XX (ED 40) to the power to grant rights and the power to tax when its Conceptual Framework is issued.

Scope

- IN3. The IPSASB has concluded that the power to grant rights and the power to tax do not satisfy the specified criteria for recognition as an intangible asset. Accordingly, IPSAS XX (ED 40) does not apply to such powers.
- IN4. IPSAS XX (ED 40) incorporates, as Application Guidance, the guidance on accounting for web site costs from the IASB’s Standing Interpretation Committee’s Interpretation 32, “Intangible Assets – Web Site Costs,” including illustrations of the relevant accounting principles.
- IN5. IPSAS XX (ED 40) includes intangible assets acquired in an entity combination arising from an exchange transaction. However, this Standard specifically excludes intangible assets acquired in an entity combination from a non-exchange transaction because the Board has not yet considered entity combinations arising from non-exchange transactions.

Definition of an intangible asset

- IN6. IPSAS XX (ED 40) states that an asset meets the “identifiable” criterion in the definition of an intangible asset when it:
- (a) Is separable, i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
 - (b) Arises from rights from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- IN7. IAS 38 indicates that an asset meets the identifiable criterion when it arises from contractual or other legal rights. In the public sector, the “identifiable” criterion has been expanded to include rights arising from binding arrangements (including rights from contracts or other legal rights).

Public sector issues

- IN8. IPSAS XX (ED 40) incorporates guidance on certain public sector issues that are not addressed in IAS 38, including intangible heritage assets.

- IN9. IAS 38 addresses intangible assets acquired by way of a government grant. IPSAS 23, “Revenue from Non-exchange Transactions (Taxes and Transfers)” deals with this issue as it applies in the public sector. Accordingly, this Standard states that, where an intangible asset is acquired through a non-exchange transaction, its cost is its fair value as at the date it is acquired in accordance with IPSAS 23.
- IN10. IPSAS XX (ED 40) also replaces certain of the IAS 38 examples with examples relevant to the public sector. Public sector terminology also replaces certain IAS 38 wording, as required.

Criteria for initial recognition

- IN11. IPSAS XX (ED 40) requires an intangible asset to be recognized if, and only if, it is probable that the expected future economic benefits or service potential attributable to the asset would flow to the entity, and its cost can be measured reliably. These recognition criteria have been included in the Standard. However, additional guidance has been included to clarify that:
- (a) The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in an entity combination from an exchange transaction.
 - (b) The fair value of an intangible asset acquired in an entity combination from an exchange transaction can be measured with sufficient reliability to be recognized separately from goodwill. If an intangible asset acquired in an entity combination from an exchange transaction has a finite useful life, there is a rebuttable presumption that its fair value can be measured reliably.

Subsequent expenditure

- IN12. IPSAS XX (ED 40) requires subsequent expenditure on an acquired in-process research and development project to be:
- (a) Recognized as an expense when incurred if it is research expenditure;
 - (b) Recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognizing such expenditure as an intangible asset; and
 - (c) Recognized as an intangible asset if it is development expenditure that satisfies the criteria for recognizing such expenditure as an intangible asset.

Useful life

- IN13. IPSAS XX (ED 40) requires an intangible asset to be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the entity.
- IN14. IPSAS XX (ED 40) requires that:
- (a) The useful life of an intangible asset arising from binding arrangements (including rights from contracts or other legal rights) should not exceed the period of those

rights, but may be shorter depending on the period over which the asset is expected to be used by the entity; and

- (b) If the rights are conveyed for a limited term that can be renewed, the useful life should include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

Intangible assets with indefinite useful lives

IN15. The Standard requires that:

- (a) An intangible asset with an indefinite useful life should not be amortized; and
- (b) The useful life of such an asset should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

Impairment testing of intangible assets with finite useful lives

IN16. An entity needs to assess at each reporting date whether there is any indication that a non-cash-generating intangible asset may be impaired in accordance with IPSAS 21. An entity needs to determine the recoverable amount of a cash-generating intangible asset in accordance with IPSAS 26, when there is an indication that the asset may be impaired. Irrespective of whether there is any indication of impairment, an entity is also required, under IPSAS 26, to annually test an intangible asset with an indefinite useful life.

Disclosure

IN17. If an intangible asset is assessed as having an indefinite useful life, IPSAS XX (ED 40) requires an entity to disclose the carrying amount of that asset and the reasons supporting the indefinite useful life assessment.

IN18. This Standard also contains a requirement to disclose for each revalued class of intangible asset, the carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model.

Transitional Provisions and Effective Date

IN19. IPSAS XX (ED 40) requires an entity applying the Standard for the first time to reconsider whether intangible assets previously recognized and intangible items previously expensed or not recorded meet the criteria for recognition under the Standard. Adjustments for previously recognized assets that do not meet the criteria and previously expensed intangible items that do meet the criteria are treated as changes in an accounting policy in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.”

IN20. IPSAS XX (ED 40) also contains certain exemptions for recognition of intangible assets by entities adopting the accrual basis of accounting for the first time.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognize an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.
2. The power to grant rights and the power to tax do not satisfy the specified criteria for recognition as an intangible asset. Accordingly, they are excluded from the scope of this Standard in paragraph 4(f).

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for intangible assets.**
4. **This Standard shall be applied in accounting for intangible assets, except:**
 - (a) **Intangible assets that are within the scope of another Standard;**
 - (b) **Financial assets, as defined in IPSAS XX (ED 37), “Financial Instruments: Presentation;”**
 - (c) **The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with exploration for and evaluation of mineral resources);**
 - (d) **Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;**
 - (e) **Intangible assets acquired in an entity combination from a non-exchange transaction; and**
 - (f) **The power to grant rights and the power to tax.**
5. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this IPSAS. In cases when there is no IPSAS, an entity applies the relevant international or national accounting standard instead of this IPSAS. For example, this IPSAS does not apply to:
 - (a) Intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 11, “Construction Contracts,” and IPSAS 12, “Inventories”);
 - (b) Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes);
 - (c) Leases that are within the scope of IPSAS13, “Leases;”
 - (d) Assets arising from employee benefits (see IPSAS 25, “Employee Benefits”);
 - (e) Financial assets as defined in IPSAS XX (ED 37). The recognition and measurement of some financial assets are covered by IPSAS 6, “Consolidated and

Separate Financial Statements, ”IPSAS 7, “Investments in Associates” and IPSAS 8, “Interests in Joint Ventures;”

- (f) Goodwill acquired in an entity combination from an exchange transaction (see IPSAS XX (ED 41), “Entity Combinations from Exchange Transactions”);
 - (g) Deferred acquisition costs, and intangible assets, arising from an insurer’s contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts. In cases when the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets.
 - (h) Non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations.
6. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent) or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under IPSAS 17, “Property, Plant and Equipment” or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.
 7. This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (e.g., a prototype), the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.
 8. In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of IPSAS 13 and are within the scope of this Standard.
 9. Exclusions from the scope of a Standard may occur if activities or transactions are so specialized that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of insurance contracts. Therefore, this Standard does not apply to expenditure on such activities and contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

Intangible Heritage Assets

10. This Standard does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.
11. Some intangible assets are described as intangible heritage assets because of their cultural, environmental or historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person in, for example, postage stamps or collectible coins. Certain characteristics, including the following, are often displayed by intangible heritage assets (although these characteristics are not exclusive to such assets):
 - (a) Their value in cultural, environmental and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
 - (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
 - (c) Their value may increase over time; and
 - (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.
12. Public sector entities may have large holdings of intangible heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.
13. Some intangible heritage assets have future economic benefits or service potential other than their heritage value, for example, royalties paid to the entity for use of an historical recording. In these cases, an intangible heritage asset may be recognized and measured on the same basis as other items of cash-generating intangible assets. For other intangible heritage assets, their future economic benefit or service potential is limited to their heritage characteristics. The existence of both future economic benefits and service potential can affect the choice of measurement base.
14. The disclosure requirements in paragraphs 129-139 require entities to make disclosures about recognized intangible assets. Therefore, entities that recognize intangible heritage assets are required to disclose in respect of those assets such matters as, for example:
 - (a) The measurement basis used;
 - (b) The amortization method used, if any;
 - (c) The gross carrying amount;
 - (d) The accumulated amortization at the end of the period, if any; and
 - (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Government Business Enterprises

15. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
16. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that GBEs apply International Financial Reporting Standards (IFRSs), which are issued by the International Accounting Standards Board (IASB).

Definitions

17. **The following terms are used in this Standard with the meanings specified:**

An active market is a market in which all the following conditions exist:

- (a) **The items traded in the market are homogeneous;**
- (b) **Willing buyers and sellers can normally be found at any time; and**
- (c) **Prices are available to the public.**

Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

An asset is a resource:

- (a) **Controlled by an entity as a result of past events; and**
- (b) **From which future economic benefits are expected to flow to the entity.**

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated amortization and accumulated impairment losses thereon.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IFRSs, e.g., IFRS 2, “Share-based Payment.”

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Fair value of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An intangible asset is an identifiable non-monetary asset without physical substance.

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

The residual value of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

- (a) **The period over which an asset is expected to be available for use by an entity; or**
- (b) **The number of production or similar units expected to be obtained from the asset by an entity.**

Intangible Assets

18. Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, lists of customers or users of a service, acquired fishing licenses, acquired import quotas, franchises and relationships with customers, users of a service or suppliers.
19. Not all the items described in paragraph 18 meet the definition of an intangible asset, i.e., identifiability, control over a resource and existence of future economic benefits or service potential. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred. However, if the item is acquired in an entity combination from an exchange transaction, it forms part of the goodwill recognized at the acquisition date (see Paragraph 77).

Identifiability

20. The definition of an intangible asset require an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognized in an entity combination from an exchange transaction is an asset representing the future economic benefits or service potential arising from other assets acquired in that entity combination which are not individually identified and separately recognized. The future economic benefits or service

potential may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

21. **An asset is identifiable if it either:**

- (a) **Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or**
- (b) **Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.**

Control

- 22. An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an entity to control the future economic benefits or service potential from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits or service potential in some other way.
- 23. Market and technical knowledge may give rise to future economic benefits or service potential. An entity controls those benefits or that service potential if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality.
- 24. An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits or service potential arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits or service potential expected from it, and it also meets the other parts of the definition.
- 25. An entity may have a portfolio of customers or users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with customers or users of its services, the customers or users of its services will continue to trade with the entity or use its services. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or users of a service or the loyalty of the customers or users of a service to the entity, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with customers or users of a service and loyalty for such items (e.g., portfolio of customers or users of a service, market share or success rates of a service,

relationships with customers or users of a service and loyalty of customers or users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of an entity combination from an exchange transaction) provide evidence that the entity is nonetheless able to control the expected future economic benefits or service potential flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

Future Economic Benefits or Service Potential

26. The future economic benefits or service potential flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production or service process may reduce future production or service costs rather than increase future revenues (e.g., an on-line system that allows citizens to renew driving licenses more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).

Recognition and Measurement at Recognition

27. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:
- (a) The definition of an intangible asset (see paragraphs 19-26); and
 - (b) The recognition criteria (see paragraphs 30–32).

This requirement applies to the cost measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, or the fair value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.

28. Paragraphs 34-41 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 42-51 deal with their application to intangible assets acquired in an entity combination from an exchange transaction. Paragraphs 52-53 deal with the measurement at recognition of intangible assets acquired through non-exchange transactions, paragraphs 54-56 with exchanges of intangible assets, and paragraphs 57–59 with the treatment of internally generated goodwill. Paragraphs 60-76 deal with the recognition, and measurement at recognition, of internally generated intangible assets.
29. The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's operations as a whole. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of

an internally generated intangible asset—be recognized in the carrying amount of an asset. Consistent with paragraph 72, subsequent expenditure on brands, mastheads, publishing titles, lists of customers or users of an entity’s services and items similar in substance (whether externally acquired or internally generated) is always recognized in surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure on behalf of the entity’s operations as a whole.

30. **An intangible asset shall be recognized if, and only if:**
 - (a) **It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and**
 - (b) **The cost or fair value of the asset, as appropriate, can be measured reliably.**
31. **An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.**
32. An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.
33. **An intangible asset shall be measured initially at cost, except when it is acquired through a non-exchange transaction, when it is measured initially at fair value, in accordance with paragraphs 34-53.**

Separate Acquisition

34. Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 30(a) is always considered to be satisfied for separately acquired intangible assets.
35. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.
36. The cost of a separately acquired intangible asset comprises:
 - (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
 - (b) Any directly attributable cost of preparing the asset for its intended use.
37. Examples of directly attributable costs are:
 - (a) Costs of employee benefits (as defined in IPSAS 25) arising directly from bringing the asset to its working condition;

- (b) Professional fees arising directly from bringing the asset to its working condition; and
 - (c) Costs of testing whether the asset is functioning properly.
38. Examples of expenditures that are not part of the cost of an intangible asset are:
- (a) Costs of introducing a new product or service (including costs of advertising and promotional activities);
 - (b) Costs of conducting operations in a new location or with a new class of customer or user of a service (including costs of staff training); and
 - (c) Administration and other general overhead costs.
39. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:
- (a) Costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and
 - (b) Initial operating losses, such as those incurred while demand for the asset's output builds up.
40. Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized immediately in surplus or deficit, and included in their respective classifications of revenue and expense.
41. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in IPSAS 5, "Borrowing Costs."

Acquisition as part of an entity combination from an exchange transaction

42. In accordance with IPSAS XX (ED 41), if an intangible asset is acquired in an entity combination from an exchange transaction, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the effect of probability is reflected in the fair value measurement of the intangible asset. Therefore, the probability recognition criterion in paragraph 30(a) is always considered to be satisfied for intangible assets acquired in entity combinations from exchange transactions.

43. In accordance with this Standard and IPSAS XX (ED 41), an acquirer recognizes at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognized by the acquiree before the entity combination from an exchange transaction. This means that the acquirer recognizes as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset. An acquiree's in-process research and development project meets the definition of an intangible asset when it:
- (a) Meets the definition of an asset; and
 - (b) Is identifiable, i.e., is separable or arises from contractual or other legal rights.

Measuring the Fair Value of an Intangible Asset Acquired in an Entity Combination from an Exchange Transaction

44. If an intangible asset acquired in an entity combination from an exchange transaction is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities, that uncertainty enters into the measurement of the asset's fair value.
45. An intangible asset acquired in an entity combination from an exchange transaction might be separable, but only together with a related tangible or intangible asset. For example, a magazine's publishing title might not be able to be sold separately from a related subscriber database, or a trademark for natural spring water might relate to a particular spring and could not be sold separately from the spring. In such cases, the acquirer recognizes the group of assets as a single asset separately from goodwill if the individual fair values of the assets in the group are not reliably measurable.
46. Similarly, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. The acquirer recognizes as a single asset a group of complementary intangible assets comprising a brand if the individual fair values of the complementary assets are not reliably measurable. If the individual fair values of the complementary assets are reliably measurable, an acquirer may recognize them as a single asset provided the individual assets have similar useful lives.
47. Quoted market prices in an active market provide the most reliable estimate of the fair value of an intangible asset (see also paragraph 88). The appropriate market price is usually the current bid price. If current bid prices are unavailable, the price of the most recent similar transaction may provide a basis from which to estimate fair value, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the asset's fair value is estimated.
48. If no active market exists for an intangible asset, its fair value is the amount that the entity would have paid for the asset, at the acquisition date, in an arm's length transaction

between knowledgeable and willing parties, on the basis of the best information available. In determining this amount, an entity considers the outcome of recent transactions for similar assets.

49. Entities that are regularly involved in the purchase and sale of unique intangible assets may have developed techniques for estimating their fair values indirectly. These techniques may be used for initial measurement of an intangible asset acquired in an entity combination from an exchange transaction if their objective is to estimate fair value and if they reflect current transactions and practices in the industry to which the asset belongs. These techniques include, when appropriate:
- (a) Applying multiples reflecting current market transactions to indicators that drive the profitability of the asset (such as revenue, market shares and operating profit) or to the royalty stream that could be obtained from licensing the intangible asset to another party in an arm's length transaction (as in the "relief from royalty" approach); or
 - (b) Discounting estimated future net cash flows from the asset.

Subsequent Expenditure on an Acquired in-process Research and Development Project

50. **Research or development expenditure that:**
- (a) **Relates to an in-process research or development project acquired separately or in an entity combination from an exchange transaction and recognized as an intangible asset; and**
 - (b) **Is incurred after the acquisition of that project**
- shall be accounted for in accordance with paragraphs 63-71 .**
51. Applying the requirements in paragraphs 63-71 means that subsequent expenditure on an in-process research or development project acquired separately or in an entity combination from an exchange transaction and recognized as an intangible asset is:
- (a) Recognized as an expense when incurred if it is research expenditure;
 - (b) Recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 66; and
 - (c) Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 66.

Intangible Assets Acquired through Non-Exchange Transactions other than Non-Exchange Entity Combinations

52. In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, intangible assets such as airport landing rights, licenses to operate radio or television stations, import licenses or quotas or rights to access other restricted resources. A private citizen, for example a

Nobel prize winner may also bequeath his or her personal papers, including the copyright to his or her publications to the national archives (a public sector entity) in a non-exchange transaction.

53. Under these circumstances the cost of the item is its fair value at the date it is acquired. For the purposes of this Standard, the measurement at recognition of an intangible asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph 85, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 85, and the supporting commentary in paragraphs 86-97 only apply when an entity elects to revalue an intangible item in subsequent reporting periods.

Exchanges of Assets in Exchange Transactions

54. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
55. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) The configuration (i.e., risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset sold; or
 - (b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

56. Paragraph 30(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of

either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Internally Generated Goodwill

57. **Internally generated goodwill shall not be recognized as an asset.**
58. In some cases, expenditure is incurred to generate future economic benefits or service potential, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource (i.e., it is not separable nor does it arise from binding arrangements (including rights from contracts or other legal rights) controlled by the entity that can be measured reliably at cost.
59. Differences between the market value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally Generated Intangible Assets

60. It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:
- (a) Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and
 - (b) Determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs 61-76 to all internally generated intangible assets.

61. To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:
- (a) A research phase; and
 - (b) A development phase.

Although the terms "research" and "development" are defined, the terms "research phase" and "development phase" have a broader meaning for the purpose of this Standard.

62. If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

Research Phase

63. **No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred.**
64. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential. Therefore, this expenditure is recognized as an expense when it is incurred.
65. Examples of research activities are:
- (a) Activities aimed at obtaining new knowledge;
 - (b) The search for, evaluation and final selection of, applications of research findings or other knowledge;
 - (c) The search for alternatives for materials, devices, products, processes, systems or services; and
 - (d) The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development Phase

66. **An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:**
- (a) **The technical feasibility of completing the intangible asset so that it will be available for use or sale;**
 - (b) **Its intention to complete the intangible asset and use or sell it;**
 - (c) **Its ability to use or sell the intangible asset;**
 - (d) **How the intangible asset will generate probable future economic benefits or service potential. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;**
 - (e) **The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and**
 - (f) **Its ability to measure reliably the expenditure attributable to the intangible asset during its development.**
67. In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits or service potential. This is because the development phase of a project is further advanced than the research phase.

68. Examples of development activities are:
- (a) The design, construction and testing of pre-production or pre-use prototypes and models;
 - (b) The design of tools, jigs, moulds and dies involving new technology;
 - (c) The design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
 - (d) The design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.
69. To demonstrate how an intangible asset will generate probable future economic benefits or service potential, an entity assesses the future economic benefits or service potential to be received from the asset using the principles in either IPSAS 21, “Impairment of Non-Cash-Generating Assets” or IPSAS 26, “Impairment of Cash-Generating Assets,” as appropriate. If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of cash-generating units in IPSAS 26, as appropriate.
70. Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, an operating plan showing the technical, financial and other resources needed and the entity’s ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender’s or funder’s indication of its willingness to fund the plan.
71. An entity’s costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing logos, copyrights or licenses or developing computer software.
72. **Internally generated brands, mastheads, publishing titles, lists of customers or users of an entity’s services and items similar in substance shall not be recognized as intangible assets.**
73. Expenditure on internally generated brands, mastheads, publishing titles, lists of customers or users of an entity’s services and items similar in substance cannot be distinguished from the cost of developing the entity’s operations as a whole. Therefore, such items are not recognized as intangible assets.

Cost of an Internally Generated Intangible Asset

74. The cost of an internally generated intangible asset for the purpose of paragraph 33 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 30, 31 and 66. Paragraph 81 prohibits reinstatement of expenditure previously recognized as an expense.
75. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:
- (a) Costs of materials and services used or consumed in generating the intangible asset;

- (b) Costs of employee benefits (as defined in IPSAS 25) arising from the generation of the intangible asset;
- (c) Fees to register a legal right; and
- (d) Amortization of patents and licenses that are used to generate the intangible asset.

IPSAS 5, "Borrowing Costs" specifies criteria for the recognition of interest as an element of the cost of asset that is a qualifying asset.

76. The following are not components of the cost of an internally generated intangible asset:
- (a) Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
 - (b) Identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
 - (c) Expenditure on training staff to operate the asset.

Recognition of an Expense

77. **Expenditure on an intangible item shall be recognized as an expense when it is incurred unless:**
- (a) **It forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 27-76); or**
 - (b) **The item is acquired in an entity combination from an exchange transaction and cannot be recognized as an intangible asset (e.g. the power to grant rights or the power to tax). If this is the case, it forms part of the amount recognized as goodwill at the acquisition date (see IPSAS XX (ED 41)).**
78. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 63), except when it was acquired as part of the cost of an entity combination from an exchange transaction. Other examples of expenditure that is recognized as an expense when it is incurred include:
- (a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with IPSAS 17. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);
 - (b) Expenditure on training activities;

- (c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and
 - (d) Expenditure on relocating or reorganizing part or all of an entity.
79. An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver information about a service to users of that service.
80. Paragraph 77 does not preclude an entity from recognizing a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 77 does not preclude an entity from recognizing a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Past Expenses not to be Recognized as an Asset

81. **Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.**

Measurement after Recognition

82. **An entity shall choose either the cost model in paragraph 84 or the revaluation model in paragraph 85 as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.**
83. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. The items within a class of intangible assets are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements representing a mixture of costs and values as at different dates.

Cost Model

84. **After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.**

Revaluation Model

85. **After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.**

86. The revaluation model does not allow:
- (a) The revaluation of intangible assets that have not previously been recognized as assets; or
 - (b) The initial recognition of intangible assets at amounts other than cost.
87. The revaluation model is applied after an asset has been initially recognized at cost. However, if only part of the cost of an intangible asset is recognized as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph 74), the revaluation model may be applied to the whole of that asset. Also, the revaluation model may be applied to an intangible asset that was received through a non-exchange transaction (see paragraphs 52-53).
88. It is uncommon for an active market with the characteristics described in paragraph 17 to exist for an intangible asset, although this may happen. For example, in some jurisdictions, an active market may exist for freely transferable homogeneous classes of licenses or production quotas the entity has acquired from another entity. However, an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents or trademarks, because each such asset is unique. Also, although intangible assets are bought and sold, contracts are negotiated between individual buyers and sellers, and transactions are relatively infrequent. For these reasons, the price paid for one asset may not provide sufficient evidence of the fair value of another. Moreover, prices are often not available to the public.
89. The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revalued. If the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in fair value.
90. If an intangible asset is revalued, any accumulated amortization at the date of the revaluation is either:
- (a) Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
 - (b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.
91. **If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortization and impairment losses.**
92. **If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.**

93. The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with IPSAS 21 or IPSAS 26.
94. If the fair value of the asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.
95. **If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognized in surplus or deficit.**
96. **If the carrying amount of an intangible asset is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance in the revaluation surplus in respect of that asset.**
97. The decrease recognized in revaluation surplus included in net assets/equity may be transferred directly to accumulated surpluses or deficits when the surplus is realized. The whole surplus may be realized on the retirement or disposal of the asset. However, some of the surplus may be realized as the asset is used by the entity; in such a case, the amount of the surplus realized is the difference between amortization based on the revalued carrying amount of the asset and amortization that would have been recognized based on the asset's historical cost. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

Useful Life

98. **An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provide service potential to, the entity.**
99. The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized (see paragraphs 107-116), and an intangible asset with an indefinite useful life is not (see paragraphs 117-120). The Implementation Guidance accompanying this Standard illustrates the determination of useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations
100. Many factors are considered in determining the useful life of an intangible asset, including:
- (a) The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
 - (b) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

- (c) Technical, technological, commercial or other types of obsolescence;
 - (d) The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
 - (e) Expected actions by competitors or potential competitors;
 - (f) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;
 - (g) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
 - (h) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.
101. The term "indefinite" does not mean "infinite." The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the entity's ability and intention to reach such a level. A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.
102. Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short.
103. The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.
104. **The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or other legal rights) shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts or other legal rights) are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a reacquired right recognized as an intangible asset in an entity combination from an exchange transaction is the remaining period of the binding arrangement in which the right was granted and shall not include renewal periods.**
105. There may be economic, political, social and legal factors influencing the useful life of an intangible asset. Economic, political or social factors determine the period over which future economic benefits or service potential will be received by the entity. Legal factors may restrict the period over which the entity controls access to such economic benefits or service potential. The useful life is the shorter of the periods determined by these factors.

106. Existence of the following factors, among others, indicates that an entity would be able to renew the binding arrangements (including rights from contracts or other legal rights) without significant cost:
- (a) There is evidence, possibly based on experience, that the binding arrangements (including rights from contracts or other legal rights) will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;
 - (b) There is evidence that any conditions necessary to obtain renewal will be satisfied; and
 - (c) The cost to the entity of renewal is not significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal, the “renewal cost” represents, in substance, the cost to acquire a new intangible asset at the renewal date.

Intangible Assets with Finite Useful Lives

Amortization Period and Amortization Method

107. **The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations and the date that the asset is derecognized. The amortization method used shall reflect the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortization charge for each period shall be recognized in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.**
108. A variety of amortization methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the unit of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits or service potential embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
109. Amortization is usually recognized in surplus or deficit. However, sometimes the future economic benefits or service potential embodied in an asset are absorbed in producing other assets. In this case, the amortization charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortization of intangible

assets used in a production process is included in the carrying amount of inventories (see IPSAS 12).

Residual Value

110. **The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:**
- (a) **There is a commitment by a third party to purchase the asset at the end of its useful life; or**
 - (b) **There is an active market for the asset and:**
 - (i) **Residual value can be determined by reference to that market; and**
 - (ii) **It is probable that such a market will exist at the end of the asset's useful life.**
111. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.
112. An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each reporting date. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with IPSAS 3."
113. The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortization charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Review of Amortization Period and Amortization Method

114. **The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IPSAS 3.**
115. During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortization period needs to be changed.
116. Over time, the pattern of future economic benefits or service potential expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortization is appropriate rather than a straight-line

method. Another example is if use of the rights represented by a license is deferred pending action on other components of the entity's strategic plan. In this case, economic benefits or service potential that flow from the asset may not be received until later periods.

Intangible Assets with Indefinite Useful Lives

117. **An intangible asset with an indefinite useful life shall not be amortized.**
118. In accordance with IPSAS 21 and IPSAS 26, an entity is required to test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment by comparing its recoverable service amount or its recoverable amount, as appropriate, with its carrying amount
- (a) Annually, and
 - (b) Whenever there is an indication that the intangible asset may be impaired.

Review of Useful Life Assessment

119. **The useful life of an intangible asset that is not being amortized shall be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.**
120. In accordance with IPSAS 21 and IPSAS 26, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable service amount or its recoverable amount, determined in accordance with either IPSAS 21 or IPSAS 26 as appropriate, with its carrying amount, and recognizing any excess of the carrying amount over the recoverable service amount or recoverable amount as appropriate, as an impairment loss.

Recoverability of the Carrying Amount—Impairment Losses

121. To determine whether an intangible asset is impaired, an entity applies IPSAS 21 or IPSAS 26, as appropriate. Those Standards explain when and how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, as appropriate, and when it recognizes or reverses an impairment loss.

Retirements and Disposals

122. **An intangible asset shall be derecognized:**
- (a) **On disposal (including disposal through a non-exchange transaction); or**
 - (b) **When no future economic benefits or service potential are expected from its use or disposal.**
123. **The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the**

carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized (unless IPSAS 13 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

124. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). In determining the date of disposal of such an asset, an entity applies the criteria in IPSAS 9, “Revenue from Exchange Transactions” for recognizing revenue from the sale of goods IPSAS 13 applies to disposal by a sale and leaseback.
125. If, in accordance with the recognition principle in paragraph 30, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognizes the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.
126. In the case of a reacquired right in an entity combination from an exchange transaction, if the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, shall be used in determining the gain or loss on reissue.
127. The consideration receivable on disposal of an intangible asset is recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable.
128. Amortization of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations.

Disclosure

General

129. **An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:**
 - (a) **Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;**
 - (b) **The amortization methods used for intangible assets with finite useful lives;**
 - (c) **The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;**
 - (d) **The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;**

- (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**
- (i) **Additions, indicating separately those from internal development, those acquired separately, and those acquired through entity combinations from exchange transactions;**
 - (ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations and other disposals;**
 - (iii) **Increases or decreases during the period resulting from revaluations under paragraphs 85, 95 and 96 and from impairment losses recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26 (if any);**
 - (iv) **Impairment losses recognized in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**
 - (v) **Impairment losses reversed in surplus or deficit during the period in accordance with IPSAS 21 or IPSAS 26 (if any);**
 - (vi) **Any amortization recognized during the period;**
 - (vii) **Net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and**
 - (viii) **Other changes in the carrying amount during the period.**
130. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:
- (a) Brand names;
 - (b) Mastheads and publishing titles;
 - (c) Computer software;
 - (d) Licenses and franchises;
 - (e) Copyrights, patents and other industrial property rights, service and operating rights;
 - (f) Recipes, formulae, models, designs and prototypes; and
 - (g) Intangible assets under development.
- The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.
131. An entity discloses information on impaired intangible assets in accordance with IPSAS 21 or IPSAS 26 in addition to the information required by paragraph 129(e)(iii)-(v).

132. IPSAS 3 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:
- (a) The assessment of an intangible asset's useful life;
 - (b) The amortization method; or
 - (c) Residual values.
133. **An entity shall also disclose:**
- (a) **For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.**
 - (b) **A description, the carrying amount and remaining amortization period of any individual intangible asset that is material to the entity's financial statements.**
 - (c) **For intangible assets acquired through a non-exchange transaction and initially recognized at fair value (see paragraphs 52-53):**
 - (i) **The fair value initially recognized for these assets;**
 - (ii) **Their carrying amount; and**
 - (iii) **Whether they are measured after recognition under the cost model or the revaluation model.**
 - (d) **The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.**
 - (e) **The amount of contractual commitments for the acquisition of intangible assets.**
134. When an entity describes the factor(s) that played a significant role in determining that the useful life of an intangible asset is indefinite, the entity considers the list of factors in paragraph 100.

Intangible Assets Measured after Recognition using the Revaluation Model

135. **If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:**
- (a) **By class of intangible assets:**
 - (i) **The effective date of the revaluation; and**
 - (ii) **The carrying amount of revalued intangible assets;**

- (iii) **The carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model in 84;**
 - (b) **The amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the reporting period and any restrictions on the distribution of the balance to shareholders or other equity holders; and**
 - (c) **The methods and significant assumptions applied in estimating the assets' fair values.**
136. It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the combination of a class of intangible assets that includes amounts measured under both the cost and revaluation models.

Research and Development Expenditure

137. **An entity shall disclose the aggregate amount of research and development expenditure recognized as an expense during the period.**
138. Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 75 and 76 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 137).

Other Information

139. An entity is encouraged, but not required, to disclose the following information:
- (a) A description of any fully amortized intangible asset that is still in use; and
 - (b) A brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria in this Standard.

Transitional Provisions and Effective Date

First-time Adoption of this Standard by an Entity that Applies the Accrual Basis of Accounting

140. **An entity that follows the accrual basis of accounting as set out in the IPSASs shall apply this Standard:**
- (a) **To the accounting for intangible assets acquired in entity combinations from exchange transactions for which the agreement date is on or after MM DD, YYYY; and**
 - (b) **To the accounting for all other intangible assets prospectively from the beginning of the first annual period beginning on or after MM DD, YYYY.**

Thus, the entity shall not adjust the carrying amount of intangible assets recognized at that date. However, the entity shall, at that date, apply this Standard to reassess the useful lives of such intangible assets. If, as a result of that reassessment, the entity changes its assessment of the useful life of an asset, that change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.

- (c) **The entity shall apply this Standard to reassess previously recorded and unrecorded intangible items as follows:**
- (i) **The entity shall assess whether previously recognized intangible assets meet the recognition criteria set out in paragraph 30.**
 - (ii) **The entity shall assess whether intangible items previously expensed meet the recognition criteria set out in paragraph 30.**

If, as a result of such reassessment, the entity changes its assessment of the existence of an asset, that change shall be accounted for as a change in an accounting policy in accordance with IPSAS 3.

Exchanges of Assets in an Exchange Transaction

141. The requirement in paragraph 140(b) to apply this Standard prospectively means that if an exchange of assets in an exchange transaction was measured before the effective date of this Standard on the basis of the carrying amount of the asset given up, the entity does not restate the carrying amount of the asset acquired to reflect its fair value at the acquisition date.

Early Application

142. Entities to which paragraph 140 applies are encouraged to apply the requirements of this Standard before the effective dates specified in paragraph 140. However, if an entity applies this Standard before those effective dates, it also shall apply IPSAS XX (ED 41), IPSAS 21 and IPSAS 26 at the same time.
143. Prior to first application of this Standard, an entity may recognize its intangible assets on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not recognized. This Standard requires entities to initially recognize intangible assets at cost or, fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the asset's fair value as at the date of acquisition. Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.
144. IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an item of property, plant and equipment at cost in accordance with this Standard, it shall also recognize any accumulated depreciation and any accumulated impairment losses that relate to that item, as if it had always applied those accounting policies.

First-time Adoption of the Accrual Basis of Accounting

145. **Entities are not required to recognize intangible assets for reporting periods beginning on a date within five years following the date of first adoption of the accrual basis of accounting in accordance with International Public Sector Accounting Standards.**
146. **An entity that adopts the accrual basis of accounting for the first time in accordance with International Public Sector Accounting Standards shall initially recognize intangible assets at either cost or fair value, as required under this Standard. For intangible assets that were acquired through non-exchange transactions, cost is the item's fair value as at the date of acquisition (see paragraphs 52-53).**
147. **The entity shall recognize the effect of the initial recognition of intangible assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the intangible asset is initially recognized.**
148. The transitional provisions in paragraphs 145 and 146 are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with International Public Sector Accounting Standards, with effect from the effective date of this Standard or subsequently. When entities adopt the accrual basis of accounting in accordance with International Public Sector Accounting Standards for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of intangible assets. For this reason, for a five-year period following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards, entities are not required to comply fully with the requirements of paragraph 30.
149. Notwithstanding the transitional provisions in paragraphs 145 and 146, entities that are in the process of adopting the accrual basis of accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.
150. **When an entity takes advantage of the transitional provisions in paragraphs 145 and 146 that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 145 shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but that are now recognized shall be disclosed.**

Application Guidance — Web Site Costs

This Application Guidance is an integral part of IPSAS XX (ED 40).

- AG1. An entity may incur internal expenditure on the development and operation of its own web site for internal or external access. A web site designed for external access may be used for various purposes such as to disseminate information, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, provide electronic services, and sell services and products and services. A web site designed for internal access may be used to store entity policies and details of customers or users of a service, and search relevant information.
- AG2. The stages of a web site's development can be described as follows:
- (a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences;
 - (b) Application and Infrastructure Development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing;
 - (c) Graphical Design Development – includes designing the appearance of web pages; and
 - (d) Content Development – includes creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. This information may either be stored in separate databases that are integrated into (or accessed from) the web site or coded directly into the web pages.
- AG3. Once development of a web site has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.
- AG4. When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:
- (a) Whether the web site is an internally generated intangible asset that is subject to the requirements of this Standard; and
 - (b) The appropriate accounting treatment of such expenditure.
- AG5. This Application Guidance does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under IPSAS 17. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognized as an expense when the services are received.

- AG6. IPSAS XX (ED 40) does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see IPSAS 12 and IPSAS 11) or leases that fall within the scope of IPSAS 13. Accordingly, this Application Guidance does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity. When a web site is leased under an operating lease, the lessor applies this Application Guidance. When a web site is leased under a finance lease, the lessee applies this Application Guidance after initial recognition of the leased asset.
- AG7. 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 this Standard.
- AG8. A web site arising from development is recognized as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph 30 of this Standard for recognition and initial measurement, an entity can satisfy the requirements in paragraph 64 of this Standard. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits or serviced potential in accordance with paragraph 63(d) of this Standard when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed, or providing services using the web site, rather than at a physical location using civil servants. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own services and products will generate probable future economic benefits or service potential, and consequently all expenditure on developing such a web site is recognized as an expense when incurred.
- AG9. Any internal expenditure on the development and operation of an entity's own web site is accounted for in accordance with this Standard. The nature of each activity for which expenditure is incurred (e.g., training employees and maintaining the web site) and the web site's stage of development or post-development are evaluated to determine the appropriate accounting treatment (additional guidance is provided in the table included at the end of this Application Guidance). For example:
- (a) The Planning stage is similar in nature to the research phase in paragraphs 63-65 of this Standard. Expenditure incurred in this stage is recognized as an expense when it is incurred;
 - (b) The Application and Infrastructure Development stage, the Graphical Design stage and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own services and products, are similar in nature to the development phase in paragraphs 66-73 of this Standard. Expenditure incurred in these stages shall be included in the cost of a web site recognized as an intangible asset in accordance with paragraph AG8 of this Application Guidance when the expenditure can be directly attributed and is necessary to creating, producing or preparing the web site for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own services and products) specifically for a web site, or expenditure to

enable use of the content (e.g., a fee for acquiring a license to reproduce) on the web site, is included in the cost of development when this condition is met. However, in accordance with paragraph 81 of this Standard, expenditure on an intangible item that was initially recognized as an expense in previous financial statements is not recognized as part of the cost of an intangible asset at a later date (e.g., if the costs of a copyright have been fully amortized, and the content is subsequently provided on a web site);

- (c) Expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own services and products (e.g., digital photographs of products), is recognized as an expense when incurred in accordance with paragraph 78(c) of this Standard. For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure is recognized as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site; and
- (d) The Operating stage begins once development of a web site is complete. Expenditure incurred in this stage is recognized as an expense when it is incurred unless it meets the recognition criteria in paragraph 30 of this Standard.

AG10. A web site that is recognized as an intangible asset under paragraph AG8 of this Application Guidance is measured after initial recognition by applying the requirements of paragraphs 82-97 of this Standard. The best estimate of a web site's useful life should be short, as described in paragraph 102.

Appendix B

Amendments to Other IPSASs

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after Month Day, Year. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period (deleted text is struck through and new text is underlined).

IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” is amended as follows:

Paragraph 22 is amended:

22. The initial application of a policy to revalue assets in accordance with IPSAS 17, “Property, Plant and Equipment” or ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS XX, “Intangible Assets” is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or ~~that relevant Standard~~ IPSAS XX, rather than in accordance with this Standard.

IPSAS 13, “Leases” is amended as follows:

Paragraph 36 is amended:

36. A finance lease gives rise to a depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with International Public Sector Accounting Standard (IPSAS 17), “Property, Plant and Equipment” or ~~any international and/or national accounting standard on intangible assets which has been adopted by the entity~~ IPSAS XX “Intangible Assets,” as appropriate. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.”

Paragraph 41 is amended:

41. In addition, the requirements for disclosure in accordance with IPSAS 16, IPSAS 17, IPSAS 21 and ~~any international and/or national accounting standard on intangible assets~~ IPSAS XX “Intangible Assets” and on impairment of cash-generating assets which have been adopted by the entity are applied to the amounts of leased assets under finance leases that are accounted for by the lessee as acquisition of assets.”

Paragraph 66 is amended:

66. The depreciation policy for depreciable leased assets shall be consistent with the lessor’s normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with IPSAS 17 or IPSAS XX, “Intangible Assets,” as appropriate ~~and any international and/or national accounting standard on intangible assets that has been adopted by the entity.~~

IPSAS 17, “Property, Plant and Equipment” is amended as follows:**Paragraph 65 is amended:**

65. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS XX, “Intangible Assets.”

IPSAS 21, “Impairment of Non-Cash Generating Assets,” as follows:**Paragraph 2 is amended:****Scope**

2. An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non cash-generating assets, except:
- (a) Inventories (see IPSAS 12, “Inventories”);
 - (b) Assets arising from construction contracts (see IPSAS 11, “Construction Contracts”);
 - (c) Financial assets that are included in the scope of IPSAS 15, “Financial Instruments: Disclosure and Presentation”;
 - (d) Investment property that is measured using the fair value model (see IPSAS 16, “Investment Property”);
 - (e) Non-cash-generating property, plant and equipment that is measured at revalued amounts (see IPSAS 17, “Property, Plant and Equipment”);
 - (f) Non-cash-generating intangible assets that are measured at revalued amounts (see IPSAS XX, “Intangible Assets”); and
 - (~~g~~) Other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.

Paragraph 6 is amended:

6. This Standard excludes non-cash-generating intangible assets that are regularly revalued to fair value from its scope. This Standard includes all other non-cash-generating intangible assets (e.g., those that are carried at cost less any accumulated amortization) within its scope. Entities apply the requirements of this Standard to recognizing and measuring impairment losses, and reversals of impairment losses, related to such non-cash-generating intangible assets.

Additional paragraphs are inserted after paragraph 26:

- 26A. Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.
- 26B. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

An additional heading and a new paragraph are inserted after paragraph 39:

Measuring the Recoverable Service Amount of an Intangible Asset with an Indefinite Useful Life

- 39A. Paragraph 26A requires an intangible asset with an indefinite useful life to be tested for impairment annually by comparing its carrying amount with its recoverable service amount, irrespective of whether there is any indication that it may be impaired. However, the most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:
- (a) If the intangible asset does not service potential from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;
 - (b) The most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
 - (c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.

Paragraph BC13 is amended:

BC13. ~~IAS 36~~ IPSAS 21 contains specific requirements for testing intangible assets for impairment, and for recognizing and measuring impairment losses related to intangible assets. These requirements complement the requirements of ~~IAS 38~~IPSAS XX, "Intangible Assets." ~~The IPSASB has not issued an IPSAS on intangible assets, so has not considered the applicability of the IAS 36 impairment requirements to non-cash-~~

~~generating intangible assets in the public sector. Non-cash-generating intangible assets measured at cost are not excluded from included in the scope of this Standard. Therefore this Standard applies to those assets. Public sector intangible assets measured at cost such as those reflecting the entity's ability to issue licenses may arise in a cash-generating context. Other intangible assets may arise in a non-cash-generating context and should be tested for impairment according to the requirements of this Standard.~~

Paragraphs BC16-BC19 are amended:

Property, Plant and Equipment and Intangible Assets

- BC16. The Standard does not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the allowed alternative treatment-revaluation model in IPSAS 17 and IPSAS XX, "Intangible Assets." The IPSASB is of the view that under the allowed alternative treatment-revaluation model in IPSAS 17 and IPSAS XX, assets will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date and any impairment will be taken into account in the valuation. Therefore any difference between the asset's carrying amount and its fair value less costs to sell will be the disposal costs. The IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset.
- BC17. In contrast to this Standard, IAS 36 requires entities to test revalued ~~property, plant and equipment~~ assets for impairment after they had been revalued. The rationale for this difference can be explained by reference to the factors set out in paragraphs BC18 and BC19 below.
- BC18. Firstly, there are different methods of determining recoverable service amount under this Standard and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Under this Standard, an entity determines an asset's value in use by determining the current cost to replace the asset's remaining service potential. The current cost to replace the asset's remaining service potential is determined using any of the depreciated replacement cost approach, approaches described as the restoration cost approach, and the service units approach. These approaches may also be adopted to measure fair value under IPSAS 17 and IPSAS XX – therefore the value in use is a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs to sell and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset.
- BC19. Secondly, the requirement under IAS 36 to combine non-cash-generating assets with cash-generating assets to form a cash-generating unit is not replicated in this Standard. Under IAS 36, where an asset does not produce cash inflows it is combined with other assets to form a cash-generating unit, the value in use of which is then measured. The

sum of the fair values of the assets that make up a cash-generating unit may be different to the value in use of the cash-generating unit.

IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers)” is amended as follows:

Paragraph IG27 is amended:

IG27. This is an exchange transaction. In return for the grant, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. IPSAS 9 and ~~the relevant international or national accounting standard dealing with intangible assets~~ IPSAS XX, “Intangible Assets” apply to this transaction.

IPSAS 26, “Impairment of Cash-generating Assets,” as follows:

Paragraph 2(h) is amended:

2. (h) Cash-generating ~~i~~ntangible assets that are ~~regularly~~ measured at ~~revalued to fair value~~ amounts (see IPSAS XX, “Intangible Assets”);

Basis For Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

- BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.
- BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'Comparison with IFRS' included in each IPSAS. The Comparison with IAS 38 references the December 31, 2008 version of IAS 38.

Scope

- BC3. The IPSASB has concluded that the power to grant rights and the power to tax do not satisfy the criteria for recognition as an asset. Therefore, such powers are outside the scope of IPSAS XX (ED 40). The IPSASB is currently undertaking to develop a conceptual framework, which may change the definition of an asset. Accordingly, the IPSASB will reconsider, if necessary, the applicability of this Standard to the power to grant rights and the power to tax, when the IPSASB conceptual framework standard that defines the financial statement elements is issued.
- BC4. The IASB has issued an Interpretation of IAS 38 dealing with accounting for web site costs. The IPSASB believes the guidance contained in the Standing Interpretations Committee's Interpretation 32 (SIC 32), "Intangible Assets — Web Site Costs," is relevant to the public sector. Accordingly, IPSAS XX includes as application guidance the definitions and guidance contained in SIC32. This application guidance is an integral part of IPSAS XX (ED 40). The appendix in SIC 32 that illustrates the relevant accounting principles and how they are linked to IPSAS XX (ED 40) is included in the illustrative examples.

Public Sector Issues

- BC5. IAS 38 indicates that an asset meets the identifiable criterion when it arises from contractual or other legal rights. In the public sector, the "identifiable" criterion has been expanded to include rights arising from binding arrangements (including rights from contracts or other legal rights) to better describe the types of arrangements in the public sector.

- BC6. The IPSASB incorporated in IPSAS XX (ED 40) guidance on certain public sector issues that are not addressed in IAS 38, notably intangible heritage assets and non-cash generating intangible assets.
- BC7. The Standard replaces or amends certain IAS 38 examples with examples relevant to the public sector.
- BC8. References to IFRS 3 for guidance dealing with business combinations have been changed to IPSAS XX (ED 41), “Entity Combinations from Exchange Transactions.” The Standard does not address entity combinations that result from non-exchange transactions. Such transactions have been excluded from the scope of IPSAS XX (ED 41) and will be dealt with in a separate public sector specific project.

Transitional Provisions and Effective Date

- BC9. Because some entities may have previously applied a standard for intangible assets that differs from IAS 38 in terms of recognition of intangible assets, IPSAS XX (ED 40) requires entities to reassess whether intangible items previously recorded, and whether intangible items not previously recognized as intangible assets meet the recognition criteria in IPSAS XX (ED 40). If any changes are required as a result of these reassessments, they are accounted for in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.”
- BC10. To facilitate the adoption of accrual-basis IPSASs, the Standard also provides transitional provisions for entities apply the accrual basis of accounting for the first time, consistent with those set out in IPSAS 17.

Implementation Guidance – Illustrative Examples

This Implementation Guidance accompanies, but is not part of, IPSAS XX (ED 40). The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS XX (ED40).

(a) Cost of an Internally Generated Intangible Asset

The following guidance provides examples on applying paragraph 71 of this Standard.

An entity developed a new system to schedule court cases more effectively that will result in increased service delivery. During the financial year ending March 31, 20X8, expenditure incurred for the development of the system was CU1,000,¹ of which CU900 was incurred before March 1, 20X8 and CU100 was incurred between March 1, 20X8 and March 31, 20X8. The entity is able to demonstrate that, at March 1, 20X8, the newly developed system met the criteria for recognition as an intangible asset. The recoverable service amount of the system (including future cash outflows to complete the development before it is available for use) is estimated to be CU500.

At the end of the financial year, the developed system is recognized as an intangible asset at a cost of CU100 (expenditure incurred since the date when the recognition criteria were met, i.e., March 1, 20X8). The CU900 expenditure incurred before March 1, 20X8 is recognized as an expense because the recognition criteria were not met until 1 March 20X8. This expenditure does not form part of the cost of the system recognized in the statement of financial position.

During the financial year ending March 31, 20X9, expenditure incurred is CU2,000. At the end of this financial year, the recoverable service amount of the system (including future cash outflows to complete the system before it is available for use) is estimated to be CU1,900.

As at March 31, 20X9, the cost of the developed system is CU2,100 (CU100 expenditure recognized at the end of 20X8 plus CU2,000 expenditure recognized in the 20X9 financial year). The entity recognizes an impairment loss of CU200 to adjust the carrying amount of the developed system before the impairment loss (CU2,100) to its recoverable service amount (CU1,900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in IPSAS 21 are met.

(b) Assessing the Useful Lives of Intangible Assets

The following guidance provides examples on determining the useful life of an intangible asset in accordance with this Standard.

Each of the following examples describes an acquired intangible asset, the facts and circumstances surrounding the determination of its useful life, and the subsequent accounting based on that determination.

¹ In this Standard, monetary amounts are denominated in “currency units” (CU).

Example 1—An acquired patent with a finite useful life

Entity A acquires a patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. The vaccine protected by the **patent** is expected to be a source of service potential for at least 15 years. Entity A has a commitment from Entity C to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and Entity A intends to sell the patent in five years.

The patent would be amortized over its five-year useful life to Entity A, with a residual value equal to 60 per cent of the patent's fair value at the date it was acquired. The patent would also be reviewed for impairment in accordance with IPSAS 21.

Example 2—An acquired patent with an indefinite life

Entity A acquires an asset, the patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents. It is expected that the formula will need to be slightly modified every 10 years to maintain its efficacy. There is evidence to support ongoing renewal of the patent. A contract with Entity B stipulates that Entity B will maintain the efficacy of the formula continuously, and evidence supports its ability to do so. The costs to renew the patent and maintain the efficacy of the formula are expected to be insignificant and will be paid to the Entity B when the improvements are made.

An analysis of product lifecycle studies, and demographic and environmental trends, provides evidence that the patent will provide service potential to Entity A by enabling it to deliver its vaccination program for an indefinite period. Accordingly, the patent would be treated as having an indefinite useful life. Therefore, the patent would not be amortized unless its useful life is determined to be finite. The patent would be tested for impairment in accordance with IPSAS 21.

Example 3—An acquired copyright that has a remaining legal life of 50 years

Entity A acquires a copyright from Entity B to enable it to reproduce and sell the copyrighted material on a cost-recovery basis to its constituency. An analysis of the habits of the entity's constituency and other trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

The copyright would be amortized over its 30-year estimated useful life. The copyright also would be reviewed for impairment in accordance with IPSAS 21.

Example 4—An acquired broadcasting license that expires in five years

Entity A acquires a broadcasting license from Entity B. Entity A intends to provide free broadcasting services in the community. The broadcasting license is renewable every 10 years if Entity A provides at least an average level of service to its users of its service and complies with the relevant legislative requirements. The license may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition. Entity A intends to renew the license indefinitely and evidence supports its ability to do so. Historically, there has been no compelling challenge to the license renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future. Therefore, the license is expected to contribute to Entity A's ability to provide free broadcasting services indefinitely.

The broadcasting license would be treated as having an indefinite useful life because it is expected to contribute to the entity's ability to provide free broadcasting services indefinitely. Therefore, the license would not be amortized until its useful life is determined to be finite. The license would be tested for impairment in accordance with IPSAS 21.

Example 5—The broadcasting license in Example 4

The licensing authority subsequently decides that it will no longer renew broadcasting licenses, but rather will auction the licenses. At the time the licensing authority's decision is made, Entity A's broadcasting license has three years until it expires. Entity A expects that the license will continue to provide service potential until the license expires.

Because the broadcasting license can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired license would be amortized over its remaining three-year useful life and immediately tested for impairment in accordance with IPSAS 21.

Example 6—An acquired public transit route between two cities that expires in three years

Entity A acquires from Entity B a public transit route between two cities, which generates revenues. The transit route may be renewed every five years, and Entity A intends to comply with the applicable rules and regulations surrounding renewal. Transit route renewals are routinely granted at a minimal cost and historically have been renewed when the entity that holds the rights to the route (Entity A) has complied with the applicable rules and regulations. Entity A expects to provide transit services on the route indefinitely. An analysis of demand and cash flows supports those assumptions.

Because the facts and circumstances support the public transit route providing cash flows to Entity A for an indefinite period of time, the intangible asset related to the transit route is treated as having an indefinite useful life. Therefore, the route authority would not be amortized until its useful life is determined to be finite. It would be tested for impairment in accordance with IPSAS 26 annually and whenever there is an indication that it may be impaired.

Example 7—An acquired list of property owners

A local authority (Entity A) acquires a list of property owners from another public sector entity which is responsible for registering property deeds (Entity B). Entity B is at another level of government, and is not part of Entity A's reporting entity. Entity A intends to use the list to generate tax revenues and Entity A expects that it will be able to derive benefit from the information on the acquired list² for at least one year, but no more than three years.

The list of property owners would be amortized over Entity A's best estimate of its useful life, say 18 months. Although Entity B may intend to add property owner names and other information to the list in the future, the expected benefits to Entity A of the acquired list relate only to the property owners on that list at the date Entity A acquired the list. The list of property

² Although the local authority may intend to add property owners and other information to the database in the future, the expected benefits of the acquired database relate only to the property owners on that database at the date it was acquired. Subsequent additions would be considered to be internally-developed intangible assets, and accounted for in accordance with this Standard.

owners also would be reviewed for impairment in accordance with IPSAS 21 by assessing annually and whenever there is any indication that it may be impaired.

(c) Examples Illustrating the Application Guidance

The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2-AG3 and to illustrate application of paragraphs AG4-AG10 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
<p>Planning</p> <ul style="list-style-type: none"> • Undertaking feasibility studies; • Defining hardware and software specifications; • Evaluating alternative products and suppliers; and • Selecting preferences. 	<p>Recognize as an expense when incurred in accordance with paragraph 63 of this Standard.</p>
<p>Application and Infrastructure Development</p> <ul style="list-style-type: none"> • Purchasing or developing hardware. • Obtaining a domain name; • Developing operating software (e.g., operating system and server software); • Developing code for the application; • Installing developed applications on the web server; and • Stress testing. 	<p>Apply the requirements of the IPSAS 17.</p> <p>Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in paragraphs 30 and 66³ of this Standard.</p>

³ All expenditure on developing a web site solely or primarily for promoting, advertising or providing information to the public at large regarding the entity’s own products and services is recognized an expense when incurred in accordance with paragraph 77 of this Standard.

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
<p>Graphical Design Development</p> <ul style="list-style-type: none"> • Designing the appearance (e.g., layout and color) of web pages. 	<p>Recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in paragraphs 30 and 66¹ of this Standard.</p>
<p>Content Development</p> <ul style="list-style-type: none"> • Creating, purchasing, preparing (e.g., creating links and identifying tags), and uploading information, either textual or graphic in nature, on the web site before the completion of the web site’s development. Examples of content include information about an entity, services or products, and topics that subscribers access. 	<p>Recognize as an expense when incurred in accordance with paragraph 78(c) of this Standard to the extent that content is developed to advertise and promote an entity’s own services and products (e.g., digital photographs of products). Otherwise, recognize as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in paragraphs 30 and 66¹ of this Standard.</p>
<p>Operating</p> <ul style="list-style-type: none"> • Updating graphics and revising content; • Adding new functions, features and content; • Registering the web site with search engines; • Backing up data; • Reviewing security access; and • Analyzing usage of the web site. 	<p>Assess whether it meets the definition of an intangible asset and the recognition criteria set out in paragraph 30 of this Standard, in which case the expenditure is recognized in the carrying amount of the web site asset.</p>

STAGE/NATURE OF EXPENDITURE	ACCOUNTING TREATMENT
<p>Other</p> <ul style="list-style-type: none"> • Selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use to operate in the manner intended by management; • Clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (e.g., false-start testing); and • Training employees to operate the web site. 	<p>Recognize as an expense when incurred in accordance with paragraphs 74-80 of this Standard.</p>

entities to not recognize intangible assets for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. The transitional provisions also allow entities to recognize intangible assets at fair value on first time adoption.



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1(212) 286-9570 www.ifac.org