

MPSAS 31: Intangible Assets

Sarawak State Government



Agenda



Day 1

Introduction

Accounting Principles

First Time Adoption of
MPSAS

Presentation of Financial
Statements

Day 2

Property, Plant and
Equipment

Intangible Assets

Day 3

Inventories

Agriculture

Investment Properties

Other Receivables

Impairment of Asset

Day 4

Public Private Partnership

Lease Accounting

Day 5

Investments

Grants

Provisions, Contingencies
and Commitments

Day 6

Revenue

Construction Contract

Employee Benefits

Borrowing Cost

Day 7

Financial Instrument

Day 8

Policies, Estimates &
Errors

Events After Reporting

Related Party Disclosures

General Government
Sector

Trust Account and Trust
Fund



Components & elements of financial statements

COMPONENTS		MPSAS	
1	Statement of Financial Position		MPSAS 1
2	Statement of Financial Performance		MPSAS 1
3	Statement of Changes in Net Assets/Equity		MPSAS 1
4	Cash Flow Statement		MPSAS 2
5	Statement of Budget Performance		MPSAS 24
6	Notes to the Financial Statements		Various MPSAS

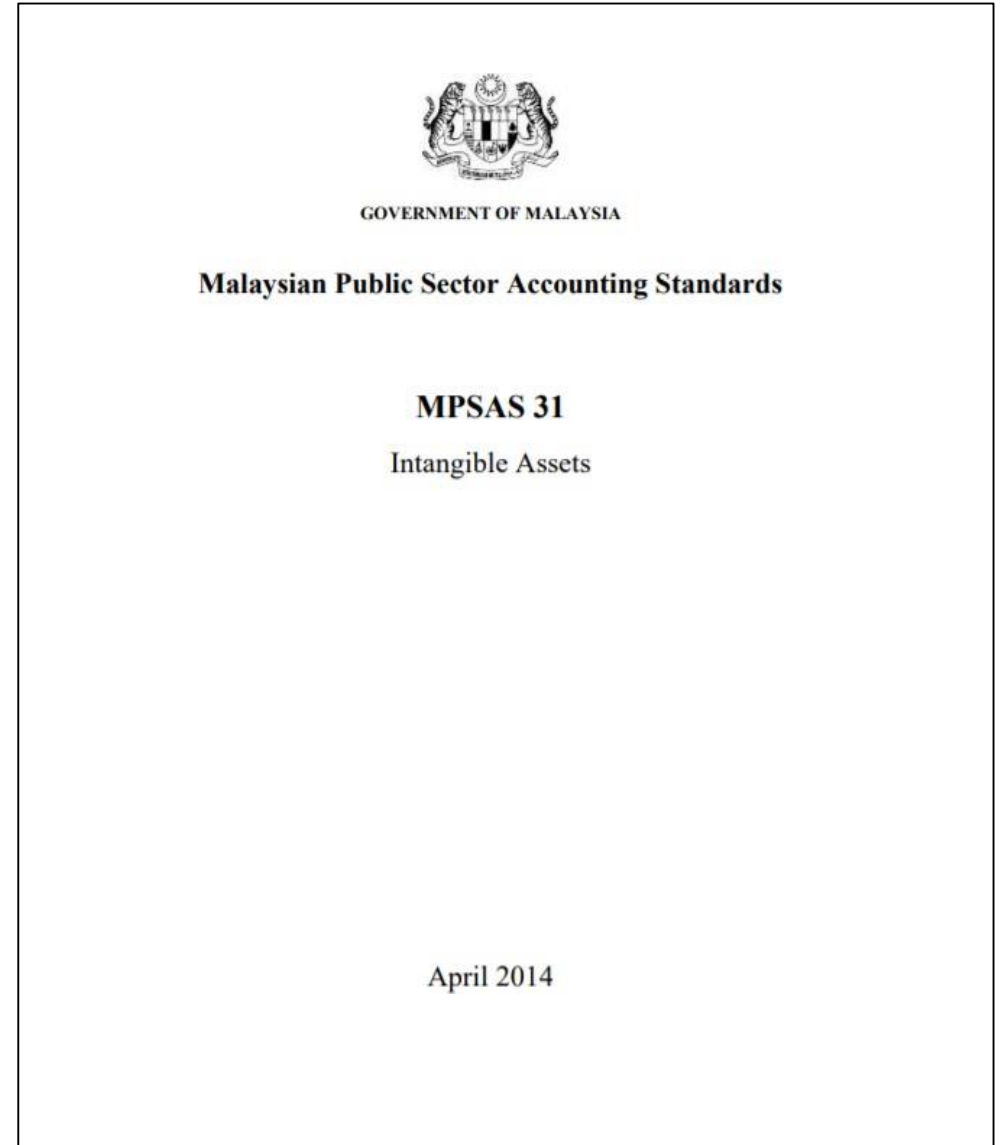
- Financial statement is to be prepared in accordance with the accounting principles

MPSAS 31

Intangible Assets

- An intangible asset is an identifiable non-monetary asset without physical substance.
- It shall be initially recognised as an asset if:
 - a) It meets the definition of an intangible asset;
 - b) It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
 - c) Cost or fair value of the asset can be measured reliably

Effective Date : 1 January 2017



Where is Intangible Assets on the statement of financial position?



Statement of financial position As at 31 December, 20X2	Notes	20X2 RM'000	20X1 RM'000
Assets			
Current assets			
Cash and cash equivalents		XX	XX
Recoverable from taxes and transfers		XX	XX
Receivables		XX	XX
Inventories		XX	XX
Other receivables		XX	XX
Other current assets		XX	XX
Total current assets		XX	XX
Non-current assets			
Recoverable from taxes and transfers		XX	XX
Receivables		XX	XX
Investments in controlled entities		XX	XX
Property, plant and equipment		XX	XX
Intangible assets		XX	XX
Other receivables		XX	XX
Total non-current assets		XX	XX
Total assets		XX	XX



Specific Types of Intangible Assets

License fee for software

- Cost incurred to acquire license to allow for usage of software

Types of software	Initial recognition and measurement
Software integrated with hardware	Recognized as part of property, plant and equipment.
Standalone software	Recognized as intangible asset.

- The license fee for software may include the initial acquisition cost and any maintenance or betterment cost.
- License fee for software shall be capitalized as intangible asset and yearly maintenance fee shall be expensed off. Enhancement (upgrade) of the system shall be capitalized.



Should internally generated goodwill be recognised as asset?

Internally generated goodwill, internally generated brands, mastheads, publishing titles, lists of users of a service

Yes

No

No

Internally generated goodwill is not recognised 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.



Specific Types of Intangible Assets

Internally generated intangible assets – R&D

Research phase

Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding

- 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

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

- 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 or operation that is not of a scale economically feasible for commercial production or use in providing services;
- d) The design, construction, and testing of a chosen alternative for new or improved materials, devices, products, processes, systems, or services; and
- e) Website costs and software development costs.



Specific Types of Intangible Assets

Internally generated intangible assets – R&D

Research phase

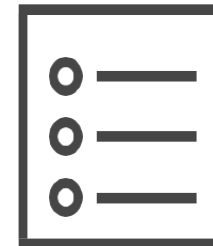
Expenditure on research recognised as expense when incurred

No intangible asset

Cannot demonstrate that IA exist and will generate probable future economic benefits or service potential

Development phase

Intangible asset arising from development (or from the development phase of an internal project) shall be recognised if able to demonstrate specific criterias





Specific Types of Intangible Assets

Development Phase

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:

- ✓ The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ✓ Its intention to complete the intangible asset and use or sell it;
- ✓ Its ability to use or sell the intangible asset;
- ✓ 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;
- ✓ The availability of adequate technical, financial and other resources to complete
- ✓ the development and to use or sell the intangible asset; and
- ✓ Its ability to measure reliably the expenditure attributable to the intangible asset during its development



Specific Types of Intangible Assets

Patent



- A set of exclusive rights granted to an inventor or their assignee in exchange for the public disclosure of the invention
- An invention is a solution to a specific technological problem, and may be a product or a process
- Patents are a form of intellectual property

Patents with finite useful will be amortised over its useful life excluding its residual value

Patents with infinite useful life will be recognised at cost at acquisition and is not amortised
Tested for impairment yearly



Initial Measurement

Depending on the acquisition method

Acquisition method	Initial recognition and measurement	Examples
Exchange transaction	Measured at transacted amount, which would be the cost of acquisition	<ul style="list-style-type: none">• License fee for software• Patents
Non exchange transaction	Measured at fair value	Patents
Internally generated	Measured at cost	Research and development



Initial Measurement

Illustrative Example (Scenario 1)

- A health agency exchanged a drug patent it owns (Patent A) with an outside party for another drug patent (Patent B).
- Patent A's carrying amount as at the date of transaction was RM100,000 and its fair value was RM1,000,000.
- Fair value of Patent B not determinable at the date of the exchange.
- The transaction is assumed to have commercial substance.

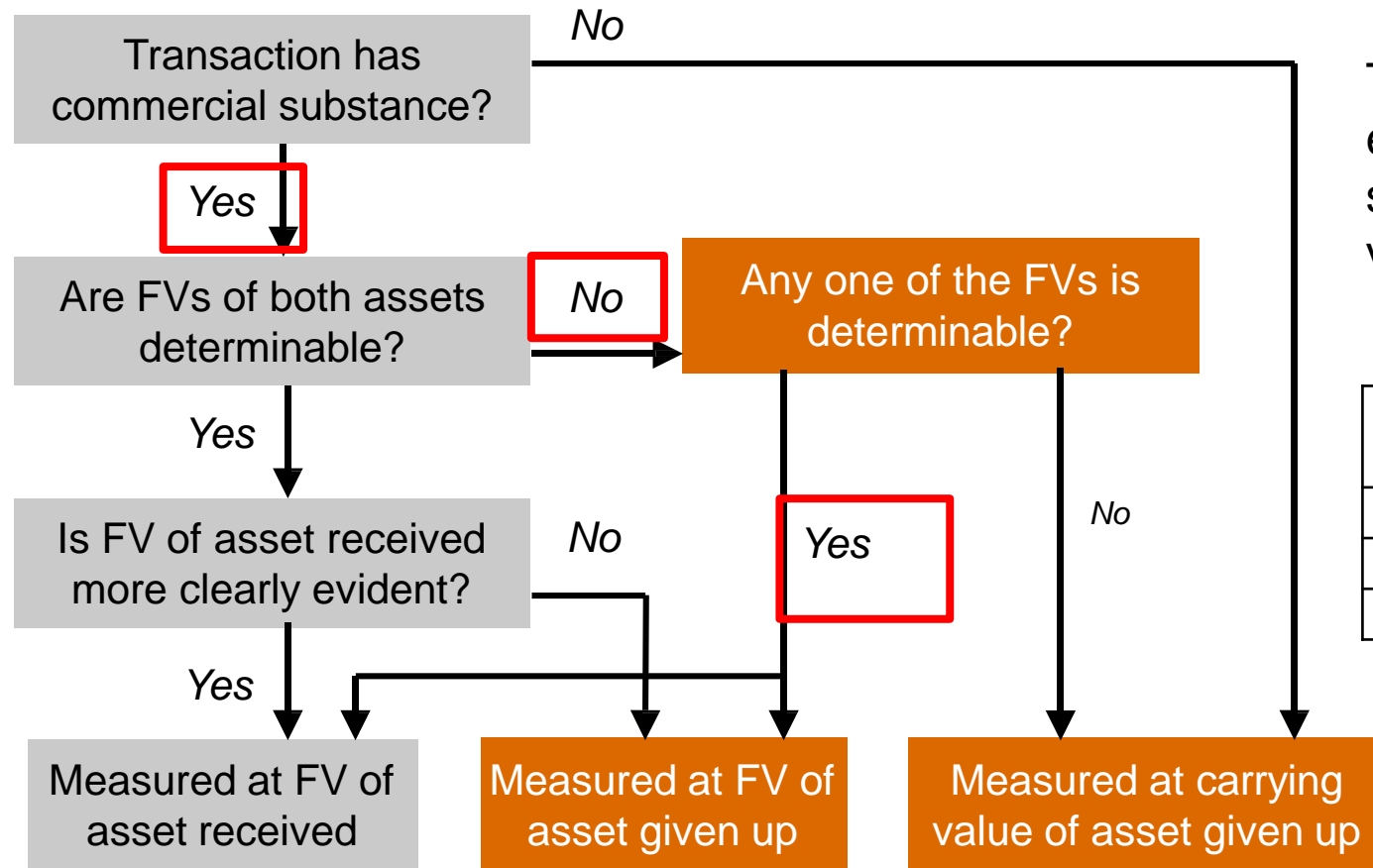
How shall the entity record the journal entries on initial recognition of Patent B and the derecognition of Patent A?



Initial Measurement

Illustrative Example (Scenario 1)

1) To record the exchange of Patent A for Patent B



The exchange of patents is a non-monetary exchange the entity has taken. The entity should recognise Patent B's value at the fair value of the patent given up.

DR/CR	Account description	Amount (RM)
DR	Intangible asset (Patent B)	1,000,000
CR	Intangible asset (Patent A)	100,000
CR	Gain on exchange	900,000



Initial Measurement

Illustrative Example (Scenario 2)

- An entity decides to acquire a software.
- The entity acquires the license to use the software which amounts to RM25,000.
- Subsequent to that, to enable continued usage of the software, the entity is required to pay a yearly maintenance fee amounting to RM3,000.
- After 3 years, the entity decides to upgrade the software to include more features which are necessary to the entity's operations. The entity is required to pay an one off payment of RM9,000 for the upgrade of the software.

How shall the entity record the journal entries on initial recognition of the software and subsequent cost?



Initial Measurement

Illustrative Example (Scenario 2)

1) To record the acquisition of software

The one off payment paid to acquire the software, is capitalised as an asset classified as intangible asset.

In addition, the obligation to pay that arises is credited as account payable.

DR/CR	Account description	Amount (RM)
DR	Intangible asset (Software)	25,000
CR	Account payable	25,000



Initial Measurement

Illustrative Example (Scenario 2)

2) To record the payment of yearly maintenance fee

The yearly maintenance fee paid to enable continued usage of the software, is expensed off and not capitalised as asset. In addition, the obligation to pay that arises is credited as account payable

DR/CR	Account description	Amount (RM)
DR	Operating expense	3,000
CR	Account payable	3,000



Initial Measurement

Illustrative Example (Scenario 2)

3) To record the upgrade of software

The one off payment paid to upgrade the software is capitalised as asset as the expense will bring about future benefits in the future. In addition, the obligation to pay is credited as account payable

DR/CR	Account description	Amount (RM)
DR	Intangible asset (Software)	9,000
CR	Account payable	9,000



Initial Measurement

Illustrative Example (Scenario 3)

- An entity developed a new system to schedule court cases more effectively that will result in increased service delivery.
- Prior to 1 March 20X3, the expenditure incurred for the research and development of the system was RM300.
- After 1 March 20X3, the expenditure incurred for the development of the system was RM700. The total expenditure for the year ended 20X3 is RM1,000.
- The entity is able to demonstrate that the newly developed system met the criteria for recognition as an intangible asset as at 1 March 20X3.

How shall the entity record the journal entries for payments made in 20X3?



Initial Measurement

Illustrative Example (Scenario 3)

Before
demonstrate
IA

- 1) To record the research and development costs incurred prior to the date where the criteria for recognition as an intangible asset is met at 1 March 20X3

Prior to 1 March 20X3, the research and development cost incurred is expensed off and is not capitalised as asset. The expense is recognised as operating expense and the offsetting credit entry is accounts payable.

DR/CR	Account description	Amount (RM)
DR	Operating expense	300
CR	Account payable	300

Initial Measurement

Illustrative Example (Scenario 3)



After
demonstrate
IA

- 2) To record the development costs incurred after the date where the criteria for recognition as an intangible asset is met at 1 March 20X3

After 1 March 20X3, the development cost incurred is capitalised and is recognised as intangible asset

DR/CR	Account description	Amount (RM)
DR	Intangible assets (computer system)	700
CR	Account payable	700



Initial Measurement

Depending on the useful life

Types of intangible assets acquired	Subsequent measurement	Chapter reference
With finite useful lives	<u>Cost model</u> Cost less accumulated amortisation and any accumulated impairment losses	Similar to PPE
	<u>Revaluation model</u> Fair value at the date of revaluation less any subsequent accumulated amortisation	
With indefinite useful lives	Either measured at cost or fair value at the date of revaluation but shall not be amortised. Test for impairment annually and whenever there is an indication that the intangible asset may be impaired	Refer to Impairment of Assets



Initial Measurement

Illustrative Example (Scenario 4)

- 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 at a cost of RM250,000.
- 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 amortised 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.

How shall Entity A record the journal entries for initial recognition and amortisation of the patent?



Initial Measurement

Illustrative Example (Scenario 4)

1) To record the acquisition of patent

The total cost of acquiring the patent is capitalised as intangible asset and the offsetting credit entry is the account payable.

DR/CR	Account description	Amount (RM)
DR	Intangible asset (patent)	250,000
CR	Account payable	250,000



Initial Measurement

Illustrative Example (Scenario 4)

2) To record the amortisation of the patent

The amortisation expense is arrived at by dividing the amortisation amount by the finite useful life.

Cost of IA – Residual Value / Remaining Useful Life = Amortisation Charge

$(RM250,000 - (RM250,000 * 60\%)) / 5 \text{ years} = RM 20,000/\text{year}$

DR/CR	Account description	Amount (RM)
DR	Amortisation expense	20,000
CR	Accumulated amortisation	20,000



Initial Measurement

Illustrative Example (Scenario 5)

- 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 which amounts to RM250,000.
- 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.
- Entity 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.

How shall Entity A record the journal entries for the patent?



Initial Measurement

Illustrative Example (Scenario 5)

1) To record the renewal

The total cost of acquiring the patent is capitalised as intangible asset and the offsetting credit entry is the account payable. The accounting treatment for the acquisition of patent with finite useful life and indefinite useful life are same. However, patent with indefinite useful life need not be amortised.

DR/CR	Account description	Amount (RM)
DR	Intangible asset (patent)	250,000
CR	Account payable	250,000

The expenses incurred on the ongoing renewal of the patent is to be expensed off to the current year surplus or deficit.



Initial Measurement

Illustrative Example (Scenario 5)

2) To record the renewal cost

Entity B will slightly modified the formula every 10 years to maintain its efficacy. A renewal charge of RM 17,5000 will be charged to Entity A. What is recorded every 10 years?

- a) Capitalise RM 17,500 every time payment is made
- b) Expense off every RM 17,500 every time payment is made
- c) Policy choice to capitalise or expense off



Disclosure

Disclosure requirements of Intangible Assets

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;



Disclosure (cont'd)

Disclosure requirements of Intangible Assets

For each class of intangible assets, distinguishing between **internally generated intangible assets** and **other** intangible assets: (cont'd)

- e) A reconciliation of the carrying amount at the beginning and end of the period showing:
 - i. Additions, indicating separately those from internal development and those acquired separately;
 - ii. Assets classified as held for sale or included in a disposal group classified as held for sale;
 - iii. Increases or decreases during the period resulting from revaluations;
 - iv. Impairment losses recognized in surplus or deficit during the period;
 - v. Impairment losses reversed in surplus or deficit during the period;
 - 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.



Disclosure (cont'd)

Disclosure requirements of Intangible Assets

Entity should 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 amortisation 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 recognised at fair value:
 - i. The fair value initially recognised 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.



Disclosure (cont'd)

Additional disclosure for intangible assets measured after initial recognition using revaluation model

If Intangible Assets are revalued, disclosure are as follows:

- a) By class of intangible assets:
 - i. The effective date of revaluation;
 - ii. The carrying amount of revalued intangible assets; and
 - iii. The carrying amount that would have been recognized had the revalued class of intangible assets been measured after recognition using the cost model.
- 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 report reporting period and any restrictions on the distribution of the balance to owners; and
- c) The methods and significant assumptions applied in estimating the assets' fair values.