INTERNATIONAL FINANCIAL REPORTING STANDARDS

IAS 38

Intangible Assets

Recognition, R&D, amortization and disclosure — updated for cloud computing and digital assets

BD

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ROADMAP

What We Will Cover

Foundations & Recognition
What makes an asset “intangible,” and the tests it must pass to be recognized

Measurement at Recognition
Separate acquisition, business combinations, internally generated assets, and goodwill

Research & Development
Why research is always expensed, and the six-point test development must pass

Costs Always Expensed
Start-up, training, advertising and relocation costs that never become an asset

Amortization, Impairment & Derecognition
Finite vs indefinite useful life, the link to IAS 36, and disposal accounting

Disclosure Requirements
What every class of intangible asset must show in the notes

Worked Illustrations
Three institutional-grade examples covering development costs, goodwill and amortization

Amendments, IFRS 18 & IFRIC/SIC Guidance
Revenue-based amortization, IFRS 18 presentation, and cloud computing and crypto interpretations

PART I — FOUNDATIONS

What Is an Intangible Asset?

IAS 38 sets out the recognition and measurement principles for identifiable, non-monetary assets without physical substance.

FOUNDATIONS

The Definition, Deconstructed

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

1

Identifiable

Separable (can be sold, transferred or licensed on its own), OR arises from contractual or other legal rights — regardless of whether those rights are separable.

2

Control

The entity has the power to obtain future economic benefits from the resource, and to restrict others' access to those benefits — usually, but not always, via legal rights.

3

Future economic benefits

Revenue from sale of products/services, cost savings, or other benefits from use of the asset by the entity.

FOUNDATIONS

Categories of Intangible Assets

Computer Software

Purchased or internally developed application and system software

Brand Names & Trademarks

Registered marks, logos, and brand identity assets

Copyrights & Patents

Legal rights over creative works, inventions, and industrial processes

Licenses & Franchises

Rights granted under license, franchise, and operating agreements

Customer-Related Assets

Customer lists, relationships, and order backlogs acquired in a business combination

Recipes, Formulae & Designs

Models, designs, prototypes, and proprietary formulae

FOUNDATIONS

Recognition Criteria

An item is recognised as an intangible asset only if it meets the definition AND both of the following recognition criteria:

Probable future economic benefits

It is probable that the expected future economic benefits attributable to the asset will flow to the entity.

Cost measured reliably

The cost of the asset can be measured reliably.

If an item does not meet the definition of, or the recognition criteria for, an intangible asset, expenditure on it is recognised as an expense when incurred — unless it forms part of the cost of an asset that does meet the recognition criteria (e.g. as part of goodwill in a business combination).

PART II — MEASUREMENT AT RECOGNITION

Acquisition, Internal Generation & Goodwill

How the cost of an intangible asset is built up depends on how it was obtained — bought separately, acquired in a business combination, or generated internally.

Initial Measurement — Acquisition Routes

Separate Acquisition

Cost comprises the purchase price (including import duties and non-refundable taxes, less trade discounts and rebates) plus any directly attributable cost of preparing the asset for its intended use — e.g. professional fees and testing costs.

The price paid ordinarily reflects expectations about the probability that economic benefits will flow to the entity — so the probability recognition criterion is always considered satisfied for separately acquired intangible assets.

Acquired in a Business Combination

Cost is the asset's fair value at the acquisition date, in accordance with IFRS 3. The acquirer recognises an intangible asset separately from goodwill if it meets the definition of an intangible asset, even if the acquiree had not recognised it as an asset.

Fair value reflects market expectations about the probability of future benefits — so, again, the probability criterion is always considered met.

Deferred payment terms

If payment is deferred beyond normal credit terms, the cost is the cash price equivalent; the difference between this and total payments is recognised as interest expense over the credit period, unless capitalized under IAS 23.

MEASUREMENT AT RECOGNITION

Internally Generated Assets — Costs Included

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 as intended by management.

- ✓ Expenditure on materials and services used or consumed in generating the intangible asset
- ✓ Salaries, wages, and other employment-related costs of personnel directly engaged in generating the asset
- ✓ Fees to register a legal right, and amortization of patents and licenses used to generate the asset
- ✓ Overheads that are necessary to generate the asset and can be allocated on a reasonable and consistent basis (allocated using bases similar to IAS 2 and IAS 23)

MEASUREMENT AT RECOGNITION

Internally Generated Assets — Costs Excluded

The following are NOT components of the cost of an internally generated intangible asset, and must be expensed as incurred:

General overhead

Selling, administrative and other general overhead expenditure, unless directly attributable to making the asset ready for use

Inefficiencies & initial losses

Clearly identified inefficiencies and initial operating losses incurred before the asset achieves planned performance

Staff training

Expenditure on training staff to operate the asset

MEASUREMENT AT RECOGNITION

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

Purchased Goodwill

Recognized and measured on the acquisition date, as the excess of consideration transferred over the net identifiable assets acquired.

Not amortized — tested for impairment at least annually under IAS 36.

Internally Generated Goodwill

NEVER recognized as an asset, because it is not an identifiable resource controlled by the entity that can be measured reliably at cost.

Calculation of purchased goodwill: Consideration paid + fair value of non-controlling interest – (fair value of identifiable assets – liabilities acquired)

PART III — RESEARCH & DEVELOPMENT

Two Very Different Tests

Research is always expensed. Development can only be capitalized once an entity clears a demanding six-point test.

Research Phase — Always Expensed

No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research is recognised as an expense when it is incurred.

Why? At the research stage, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

Examples of research activities: activities aimed at obtaining new knowledge; the search for, evaluation and final selection of applications of research findings or other knowledge; the search for alternatives for materials, devices, products, processes, systems or services; and the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development Phase — The Six-Point Test

An intangible asset arising from development shall be recognised if, and only if, an entity can demonstrate ALL SIX of the following:

a Technical feasibility of completing the asset so it will be available for use or sale

b Intention to complete the intangible asset and use or sell it

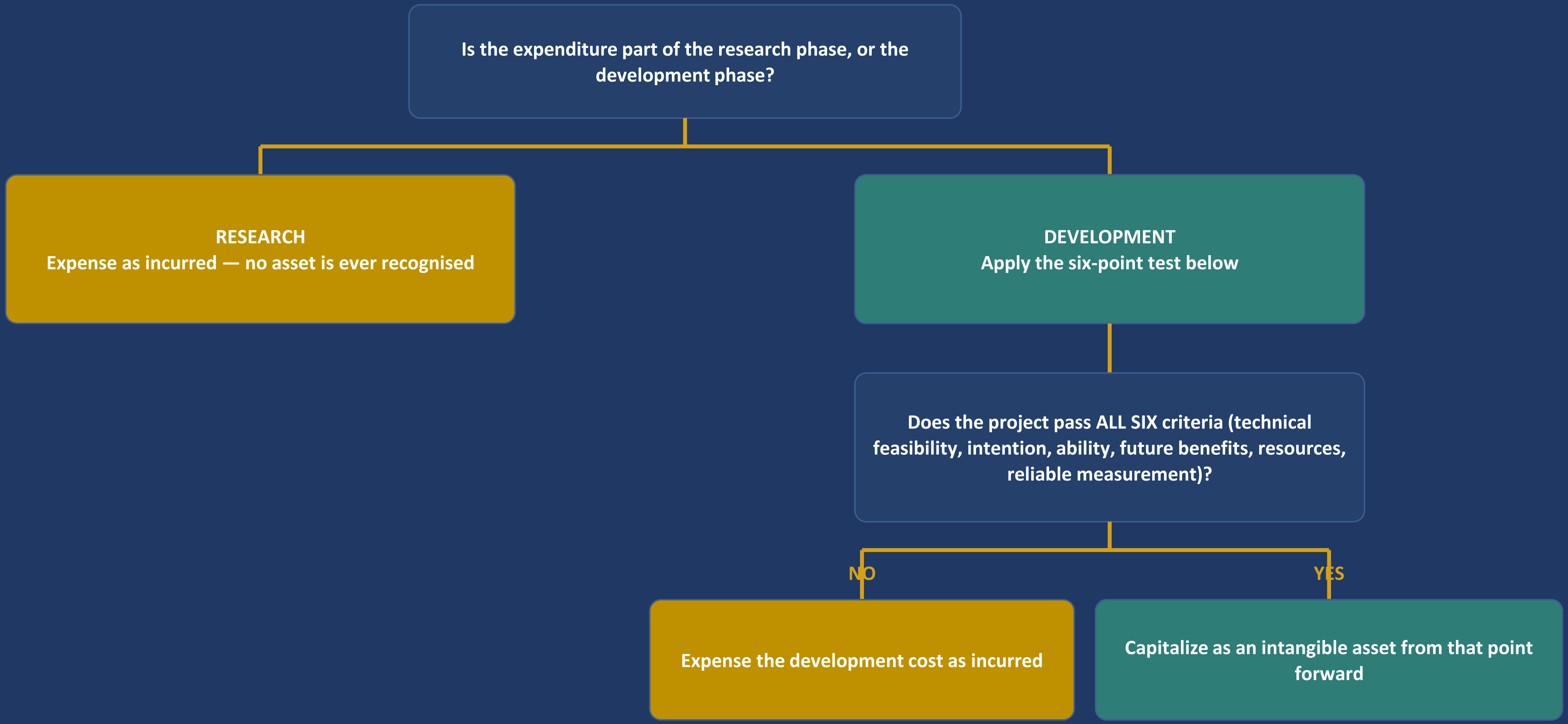
c Ability to use or sell the intangible asset

d How the asset will generate probable future economic benefits (existence of a market, or usefulness if used internally)

e Availability of adequate technical, financial and other resources to complete development and to use or sell the asset

f Ability to measure reliably the expenditure attributable to the asset during its development

R&D Decision Tree



PART IV — COSTS ALWAYS EXPENSED

Items That Never Become an Asset

Certain categories of expenditure fail the recognition test almost by definition, regardless of how they are labelled internally.

COSTS ALWAYS EXPENSED

Expenditure Recognized as an Expense

Recognized as an expense unless the expenditure forms part of the cost of an asset that meets IAS 38's recognition criteria.

Research costs

All expenditure in the research phase of a project, without exception

Start-up costs

Preliminary expenses forming a legal entity, and pre-opening or pre-operating costs of a new facility — unless included in the cost of PP&E under IAS 16

Training costs

Expenditure on training activities for staff, however specialized

Advertising & promotion

Expenditure on advertising and promotional activities, including catalogues and mail-order media

Relocation & reorganisation

Expenditure on relocating or reorganising part or all of an enterprise

Internally generated brands

Internally generated brands, mastheads, publishing titles, customer lists and similar items are never recognized as intangible assets

PART V — SUBSEQUENT MEASUREMENT

Amortization, Impairment & Derecognition

How the carrying amount of an intangible asset moves after initial recognition, and what happens when it is finally disposed of.

Measurement Models & Amortization Method

Cost Model

Carried at cost less accumulated amortization and accumulated impairment losses. The default, and by far the most common, treatment for intangible assets.

Revaluation Model

Carried at fair value less subsequent amortization and impairment — but only permitted where fair value can be determined by reference to an ACTIVE MARKET, which is rare for intangibles (e.g. certain taxi licenses, fishing quotas).

Amortization Method

The depreciable amount is allocated on a systematic basis over the best estimate of useful life. Amortization commences when the asset is available for use, and the method used should reflect the pattern in which the asset's economic benefits are consumed. If that pattern cannot be determined reliably, the straight-line method is used. The amortization charge is recognised as an expense, unless another Standard requires it to be included in the carrying amount of another asset.

Finite vs Indefinite Useful Life

Finite Useful Life

Amortized on a systematic basis over the period of finite useful life.

The useful life and amortization method are reviewed at least at each financial year-end, with changes accounted for as a change in accounting estimate under IAS 8.

The asset is also assessed for impairment indicators under IAS 36 whenever there is an indication of impairment.

Indefinite Useful Life

NOT amortized. “Indefinite” does not mean “infinite” — it means no foreseeable limit to the period over which the asset is expected to generate net cash inflows.

Instead, tested for impairment annually, and whenever there is an indication that it may be impaired, by comparing carrying amount to recoverable amount under IAS 36.

SUBSEQUENT MEASUREMENT

Impairment Principles

To determine whether an intangible asset is impaired, an entity applies IAS 36 Impairment of Assets. The recoverable amount — the higher of fair value less costs to sell and value in use — is compared against the carrying amount, and any shortfall is recognised as an impairment loss.

Assets requiring an ANNUAL test

Intangible assets with an indefinite useful life, intangible assets not yet available for use, and goodwill must be tested for impairment at least annually, regardless of whether there is any indication of impairment.

Business combination timing

If an impairment loss occurs before the end of the first annual period after an acquisition, the loss is recognised as an adjustment to both the intangible asset and the goodwill recognised at the acquisition date.

Derecognition — Retirement & Disposal

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use and subsequent disposal.

Gain or loss on retirement or disposal = Net disposal proceeds − Carrying amount of the asset — recognised in profit or loss.

Note on subsequent expenditure

Subsequent expenditure on an already-recognised intangible asset is recognised in the carrying amount only rarely — most subsequent expenditure maintains the expected future economic benefits of an existing asset rather than meeting the definition of a separate intangible asset and the recognition criteria. Subsequent expenditure on brands, mastheads, publishing titles, customer lists and similar items is always recognised as an expense.

PART VI — DISCLOSURE

Telling the Full Story in the Notes

Disclosure requirements ensure users can see how each class of intangible asset moved during the period, and why.

Disclosure Requirements — Per Class of Asset

For each class of intangible assets, distinguishing internally generated assets from other intangible assets, an entity discloses:

1. Useful lives or the amortization rates used
2. Amortization methods used
3. Gross carrying amount and accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period
4. The line item(s) of the statement of comprehensive income in which amortization is included

Disclosure — Reconciliation & Classes

Reconciliation of carrying amount, beginning to end of period, showing:

- Additions — separately showing internal development and acquisition through business combination
- Retirements and disposals
- Impairment losses recognised, and impairment losses reversed, in profit or loss during the period
- Amortization recognised during the period
- Other changes in the carrying amount during the period

A class of intangible assets is a grouping of assets of similar nature and use. Separate classes may include:

Brand names · Mastheads and publishing titles · Computer software · Licenses and franchises · Copyrights, patents and other industrial property rights · Recipes, formulae, models, designs and prototypes · Intangible assets under development

Classes are disaggregated or aggregated further if that results in more relevant information for users.

Master Decision Tree — Recognize as an Intangible Asset?

Is the item identifiable, controlled by the entity, and does it lack physical substance?

- NO → **Not in IAS 38 scope — consider other Standards**
- YES → **Continue to the recognition test**
  - **Probable future benefits AND cost measured reliably?**
    - NO → **Expense as incurred**
    - YES → **Recognize as an intangible asset at cost**

Special case: development costs

For internally generated development costs specifically, substitute the six-point development test (technical feasibility, intention, ability, future benefits, resources, reliable measurement) for the general two-part recognition test.

PART VII — APPLICATION

Worked Illustrations

Three institutional-grade examples covering development cost capitalization, goodwill calculation, and amortization with impairment.

Illustration I — Development Cost Capitalization

Fact pattern

A technology company spends $2,000,000 over 18 months developing a new software product. The first 6 months ($600,000) were spent on research into feasible approaches. From month 7, the entity's steering committee approved the business case, secured project financing, and technical prototypes confirmed feasibility; the remaining $1,400,000 was spent completing the product for sale, with reliable cost tracking throughout.

Solution

Months 1–6 ($600,000): Research phase — expensed to profit or loss in full, regardless of outcome.

From month 7: All six development criteria are met from this point — technical feasibility confirmed, intention and ability to complete evidenced by the approved business case, a market exists for the software, resources are secured through financing, and costs are reliably tracked.

Result: $1,400,000 is capitalized as an internally generated intangible asset. Amortization begins only once the software is available for use, not from the point capitalization began.

Illustration II — Fair Value of Identifiable Net Assets

Fact pattern

Before goodwill can be calculated, Acquirer Co must first identify and fair-value every asset and liability of Target Ltd at the acquisition date — including intangible assets that Target itself never recognized on its own balance sheet.

Identifiable Assets

Property, plant & equipment	**$6,500,000**
Customer relationships & trademark *	**$2,000,000**
Inventory	**$1,800,000**
Trade receivables	**$1,200,000**
Cash and cash equivalents	**$500,000**
Total identifiable assets	**$12,000,000**

Identifiable Liabilities

Trade payables	**$900,000**
Borrowings	**$1,100,000**
Total liabilities assumed	**$2,000,000**

** Customer relationships and the Target trademark meet the IAS 38 identifiability test (separable / arise from legal rights) and so are recognized separately from goodwill, at fair value, even though Target never carried them on its own books.*

Net identifiable assets = $12,000,000 – $2,000,000 = $10,000,000 — carried forward to the goodwill calculation on the next slide

WORKED ILLUSTRATIONS

Illustration II (continued) — Goodwill Calculation

Fact pattern

Acquirer Co pays $12 million cash for 80% of Target Ltd. The fair value of the 20% non-controlling interest is $2.8 million. The fair value of Target's identifiable net assets — built up on the previous slide — is $10 million.

Consideration transferred (cash paid)	**$12,000,000**
Add: fair value of non-controlling interest	**$2,800,000**
Less: fair value of identifiable net assets acquired	**($10,000,000)**

Goodwill recognized on acquisition	**$4,800,000**

Illustration III — Amortization & Impairment

Fact pattern

A patent is acquired for $900,000 with a 10-year legal life, amortized straight-line. At the end of Year 4 (carrying amount $630,000), a competitor launches a superior alternative technology, and the patent's recoverable amount is estimated at $380,000.

Solution

Annual amortization = $900,000 ÷ 10 years = $90,000 per year.

Carrying amount at end of Year 4 = $900,000 − (4 × $90,000) = $630,000 — confirming the fact pattern.

The competitor launch is an impairment indicator under IAS 36, triggering an immediate impairment test. Recoverable amount ($380,000) is below carrying amount ($630,000), so an impairment loss of $250,000 is recognised in profit or loss.

Going forward, the new carrying amount of $380,000 is amortized over the patent's remaining useful life, which should also be reassessed given the change in circumstances.

PART VIII — RECENT DEVELOPMENTS

Amendments & IFRS 18 Impact

The amortization-method amendment shared with IAS 16, and how IFRS 18 reshapes the presentation of amortization and impairment from 2027.

RECENT DEVELOPMENTS

Method Not Permitted: Revenue-Based Amortization

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) — issued May 2014, effective for annual periods beginning on or after 1 January 2016.

1

The principle

A method of amortization based on revenue generated by an activity that includes the use of the asset is presumed to be inappropriate, because revenue reflects factors beyond the consumption of the asset's economic benefits.

2

Why revenue is the wrong driver

Revenue is affected by other inputs and processes, selling activities, and changes in sales volumes and prices — factors unrelated to how the intangible asset itself is being consumed.

3

The narrow exception

This presumption can only be rebutted in two limited circumstances: where the intangible asset is expressed as a measure of revenue, or where it can be shown that revenue and consumption of economic benefits are highly correlated.

RECENT DEVELOPMENTS

Impact of IFRS 18 on Intangible Asset Presentation

IFRS 18 Presentation and Disclosure in Financial Statements replaces IAS 1 and is effective for annual periods beginning on or after 1 January 2027 (early application permitted).

1

Amortization stays operating

Amortization and impairment of intangible assets used in the business are classified in the operating category, mirroring the treatment of PP&E depreciation under IFRS 18.

2

Disposal gains/losses, mostly operating too

Gains or losses on disposal of intangible assets are generally classified in the operating category, consistent with the treatment of PP&E disposals.

3

What does NOT change

IFRS 18 does not alter how intangible assets are recognized, measured, tested for impairment, or amortized under IAS 38 — the impact is presentation and structure, not measurement.

PART IX — RELATED GUIDANCE

IFRIC & SIC Interpretations

From website costs to cloud computing and cryptocurrency, these interpretations answer the questions IAS 38 itself does not spell out.

RELATED GUIDANCE

SIC-32 — Website Costs

Issued March 2002, still active. Clarifies that an entity's own website, developed using internal expenditure for internal or external access, is an internally generated intangible asset subject to IAS 38.

Planning stage

Costs such as feasibility studies and defining objectives are expensed as incurred — they are research-like in nature

Application & infrastructure development

Costs of obtaining a domain name, hardware, and operating software are capitalized if the general IAS 38 and SIC-32 criteria are met

Graphical design & content development

Content created to advertise or promote the entity's own products is expensed; other content may be capitalized if it meets recognition criteria

Operating stage

Once the website is complete, maintenance, updates and running costs are expensed as incurred

RELATED GUIDANCE

IFRIC Agenda Decisions — Cloud Computing & SaaS

Access Rights (March 2019)

Fact pattern: a customer pays a SaaS supplier for the right to access application software hosted and controlled entirely on the supplier's cloud infrastructure.

Conclusion: this right to access does NOT give the customer control of a software asset — the supplier controls the software throughout. The arrangement is therefore a SERVICE CONTRACT, expensed over the contract term, not an intangible asset or a lease.

Configuration & Customisation Costs (April 2021)

Fact pattern: the customer separately incurs configuration and customisation costs to implement the SaaS software for its own use.

Conclusion: these costs typically do NOT create a separate intangible asset either, because the customer still does not control a resource separate from the supplier's software. Costs are generally expensed as the configuration/customisation services are received — unless the customer creates additional code it controls, e.g. a genuinely separable module.

RELATED GUIDANCE

IFRIC Agenda Decision — Holdings of Cryptocurrencies

Issued June 2019. Addresses how a holder accounts for cryptocurrencies (a digital or virtual currency recorded on a distributed ledger, not issued by a jurisdictional authority, and not creating a contract with another party).

1

Not cash, not a financial asset

A cryptocurrency does not give the holder a contractual right to receive cash or another financial asset, and is not used as legal tender or a pricing unit — so it fails the definitions in IAS 32 and IAS 7.

2

Meets the IAS 38 definition

A holding of cryptocurrency IS identifiable (separable, can be sold or transferred individually) and is a non-monetary asset without physical substance — so it meets the definition of an intangible asset.

3

Two possible homes

If held for sale in the ordinary course of business (e.g. by a broker-trader), IAS 2 Inventories applies instead. Otherwise, the holding is accounted for under IAS 38 — at cost, or revalued if an active market exists.

SUMMARY

Key Takeaways

Three-part definition

Identifiable, controlled, and expected to generate future economic benefits — all three must be present

Research is never an asset

Only development spend that clears all six criteria can be capitalized, and only from the point they are all met

Internally generated goodwill is banned

Only purchased goodwill from a business combination is ever recognized on the balance sheet

Finite life = amortize; indefinite = test

Indefinite-life intangibles and goodwill are never amortized, but face an annual impairment test

No revenue-based amortization

Since 2016, an amortization method driven by revenue is presumed inappropriate, with only narrow exceptions

Most SaaS spend stays a service

Cloud access and configuration costs are typically expensed, not capitalized, per the 2019 and 2021 IFRIC decisions

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- ✓ Published author of the Pocketbook of IFRS series
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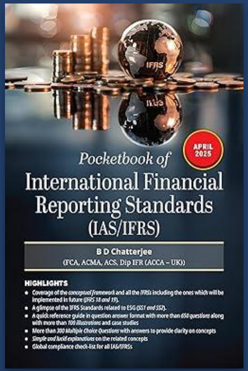
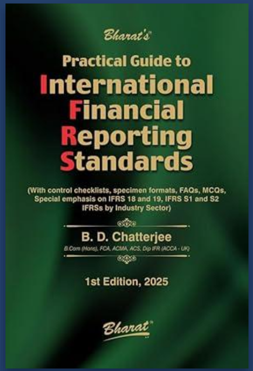
Books by B D Chatterjee — IFRS Library

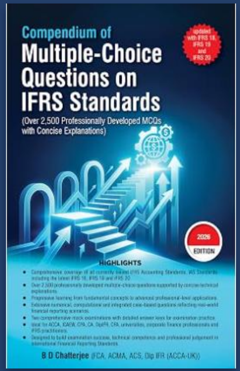


Pocketbook of International Financial Reporting Standards (IAS/IFRS)

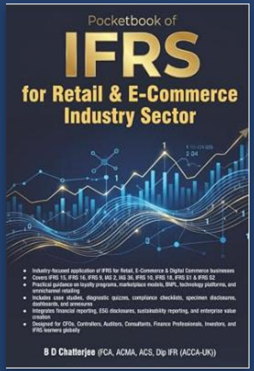


Practical Guide to International Financial Reporting Standards

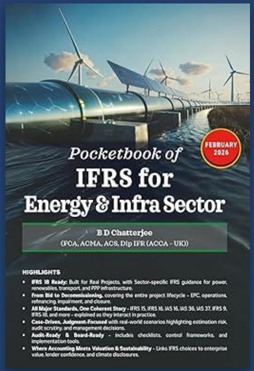
Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



Compendium of Multiple-Choice Questions on IFRS Standards



Pocketbook of IFRS for Retail & E-Commerce Industry Sector



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