MFRS 138
INTANGIBLE ASSETS

Sharifah Milda Amirul (PhD)
Faculty of Business, Economics & Accountancy
Universiti Malaysia Sabah

What are Intangible Assets?

Intangible assets represent non-physical resources that possess value and contribute to a company's future economic benefits.

They are not physically tangible, meaning you can't touch or see them, unlike buildings or equipment.

These assets are usually recognized on a company's balance sheet and are essential for generating revenue, achieving competitive advantage, and enhancing long-term value.

Characteristics of Intangible Assets

Lack of Physical Substance

Intangible assets are not physical. They cannot be touched or seen. For example, a patent, a trademark, or a copyright are all intangible assets.

Identifiable

An intangible asset must be separable, meaning it can be separated from the entity and sold, transferred, licensed, rented, or exchanged. It must also be identifiable, meaning it can be distinguished from other assets of the entity.

Control

The entity must control the asset, meaning it has the power to obtain the benefits from the asset and restrict others from accessing those benefits.

Future Economic Benefits

Intangible assets are expected to generate future economic benefits for the entity. This could include increased revenue, reduced costs, or improved efficiency.

Recognition Criteria for Intangible Assets

Control

The entity must control the future economic benefits that are expected to arise from the intangible asset.

Measurable

The cost of the intangible asset can be reliably measured.

Probable Future Economic Benefits

The future economic benefits are probable, meaning it is likely that the entity will be able to use the intangible asset to generate revenue or reduce costs.

Examples of Intangible Assets

Brand Names

A brand name represents a company's reputation and is a valuable asset for attracting customers and differentiating itself from competitors.

Patents

Patents grant exclusive rights to inventors for their inventions, allowing them to control the manufacture, use, and sale of their products for a certain period.

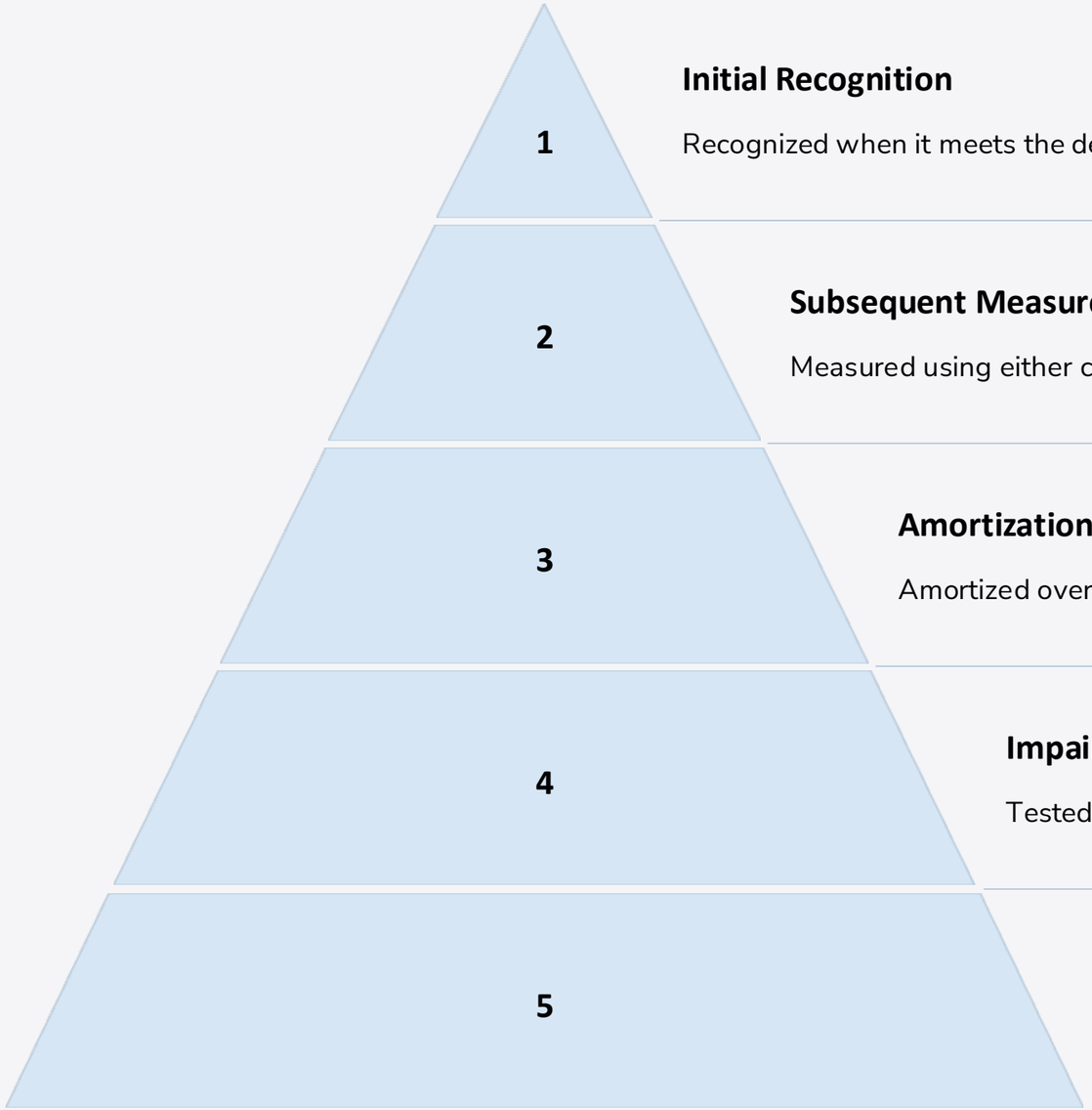
Copyrights

Copyrights protect original works of authorship, such as literary, dramatic, musical, and artistic works, giving the creator exclusive rights to reproduce and distribute their work.

Trademarks

Trademarks are symbols, designs, or phrases that identify a company's products or services and differentiate them from those of others.

Accounting for Intangible Assets



Initial Recognition

Recognized when it meets the definition and recognition criteria

Subsequent Measurement

Measured using either cost model or revaluation model

Amortization

Amortized over its useful life if it has a finite life

Impairment

Tested for impairment if there is an indication that it might be impaired

Derecognition

Derecognized when it is disposed of or when it no longer meets the definition of an intangible asset

Initial Recognition and Measurement

1

Identification

An intangible asset is recognized if it meets the definition of an asset and meets the recognition criteria.

2

Measurement

An intangible asset is measured at cost, which includes all directly attributable costs to bring the asset to the condition and location necessary for it to be used as intended.

3

Cost Components

This includes purchase price, directly attributable costs (legal fees, registration fees, etc.) and development costs (if internally generated).

Subsequent Measurement - Revaluation Model

1

Revaluation Model

Under this model, intangible assets are revalued to fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2

Revaluation Gains and Losses

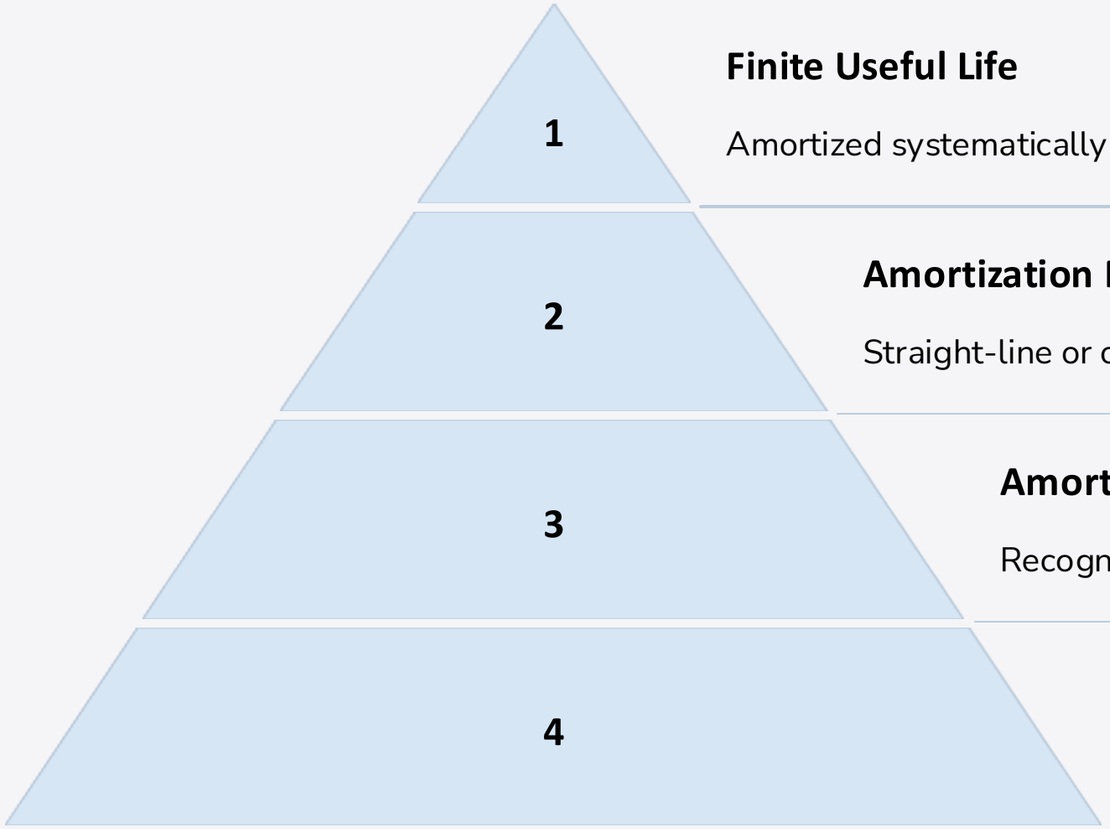
Revaluation gains are recognized in other comprehensive income, while revaluation losses are recognized in profit or loss. If the asset was previously revalued, any gain or loss is recognized in profit or loss.

3

Subsequent Measurement

After the revaluation, subsequent changes in fair value are recognized in other comprehensive income. Any impairment loss recognized is recognized in profit or loss.

Amortization of Intangible Assets



Finite Useful Life

Amortized systematically over useful life

Amortization Method

Straight-line or other systematic method

Amortization Expense

Recognized in profit or loss

Carrying Amount

Reduced by accumulated amortization

Intangible assets with finite useful lives are amortized systematically over their useful life. The amortization method should reflect the pattern of the asset's consumption of future economic benefits. The most common method is the straight-line method, which allocates an equal amount of expense each period. The amortization expense is recognized in the profit or loss statement. The carrying amount of the asset is reduced by the accumulated amortization, which represents the portion of the asset's cost that has been expensed to date.

Useful Life of Intangible Assets

1

Finite Useful Life

Intangible assets with a finite useful life are those that are expected to provide benefits to the company for a limited period. Examples include patents, copyrights, and customer relationships. Their useful life should be estimated and recorded in the financial statements.

2

Indefinite Useful Life

Intangible assets with an indefinite useful life are those that are expected to provide benefits to the company indefinitely. Examples include trademarks, brand names, and goodwill. These assets are not amortized, but they are subject to impairment testing to ensure their value is not overstated.

3

Factors Influencing Useful Life

The useful life of an intangible asset can be affected by various factors such as the legal, regulatory, or competitive environment, the asset's expected obsolescence, and the company's own plans for its use.

Impairment of Intangible Assets

Impairment Indicator

An impairment loss is recognized if the carrying amount of an intangible asset exceeds its recoverable amount. This occurs when there are indicators of impairment, such as:

- A significant decrease in the market value of the asset.
- An adverse change in the way the asset is used or in the way it is expected to be used.
- A significant adverse change in legal or regulatory environment.

Recoverable Amount

The recoverable amount is the higher of the fair value less costs to sell and the value in use. Fair value less costs to sell is the price that would be received for the asset if it were sold in an orderly transaction. Value in use is the present value of the future cash flows expected to be generated by the asset.

Derecognition of Intangible Assets

Disposal

Derecognition occurs when an intangible asset is sold, abandoned, or otherwise disposed of. This typically involves removing the asset from the balance sheet and recognizing any gain or loss on disposal in the income statement.

Impairment

If an intangible asset is impaired, it may be written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. If the impairment loss is significant, the asset is derecognized.

End of Useful Life

When an intangible asset reaches the end of its useful life, it is derecognized from the balance sheet. The asset's carrying amount is removed, and any remaining unamortized cost is recognized as an expense.

Disclosures related to intangible assets

1

Nature and amount

The entity must disclose the nature and amount of each class of intangible assets, including their carrying amount, useful lives, and amortization methods.

2

Impairment

The entity must disclose the amount of impairment losses recognized for intangible assets, and the factors that led to the impairment.

3

Research and development

The entity must disclose the amount of expenditure incurred on research and development activities, and the amount of expenditure recognized as an asset.

Research and Development: Cost and Recognition

Research Phase

Costs incurred during the research phase are generally expensed as incurred. This is because research activities are often exploratory and uncertain, making it difficult to determine if they will lead to a commercially viable product or process.

Capitalized Costs

Capitalized development costs are recognized as intangible assets and amortized over their useful life. This ensures that the costs are matched to the revenues generated by the product or process over time.

1

2

3

Development Phase

Costs incurred during the development phase can be capitalized if certain criteria are met. These criteria include the existence of a clear plan to complete the development, the ability to measure the costs reliably, and the intention to use or sell the product or process.

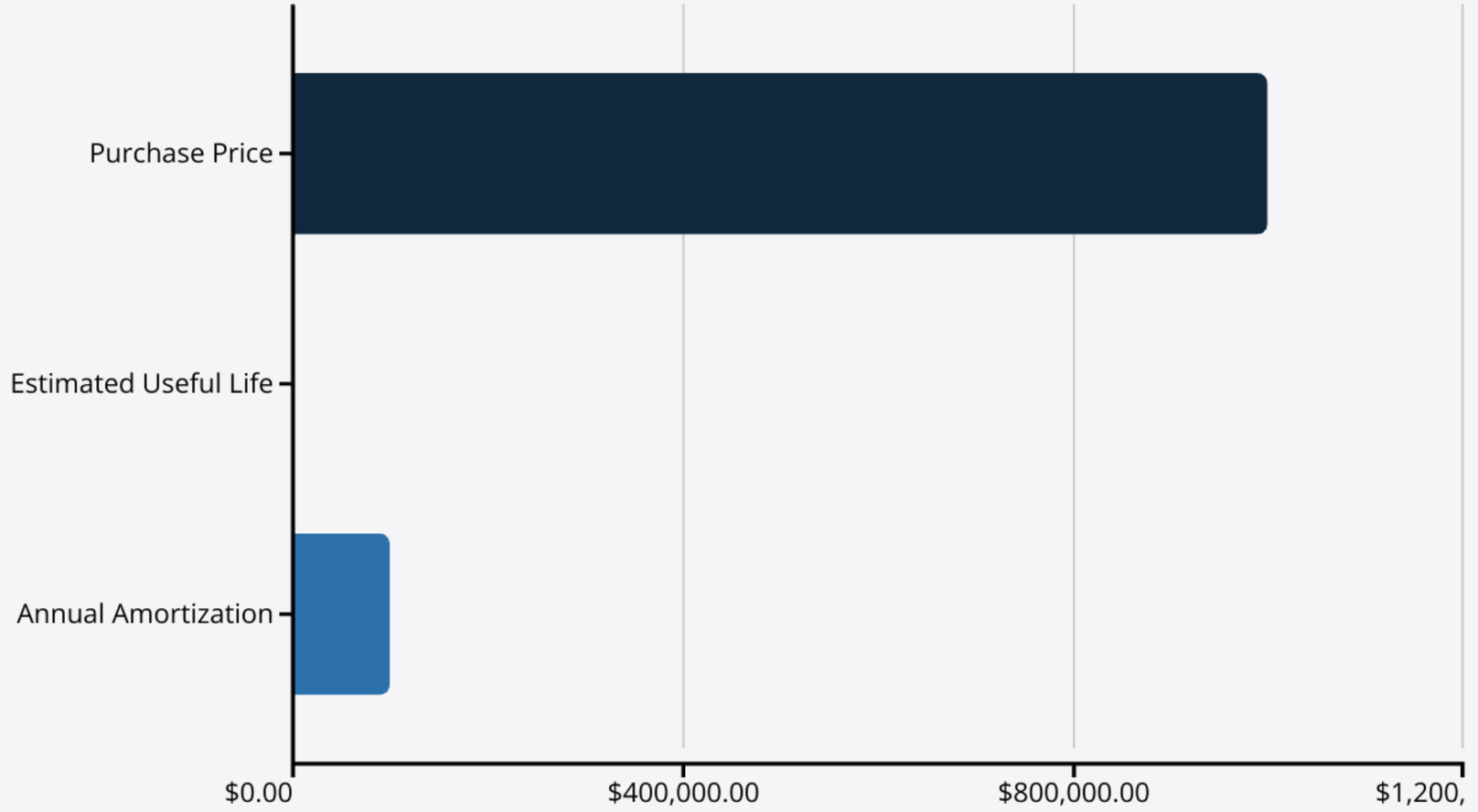
Case Study: Accounting for R&D

Imagine a pharmaceutical company developing a new drug for treating a rare disease. The company invests $10 million in research and development activities. The research phase lasts for 2 years and involves identifying potential drug candidates. The development phase then takes another 2 years, focusing on testing the drug's safety and efficacy.

Activity	Cost	Accounting Treatment
Research Phase	$5 million	Expensed as incurred
Development Phase	$5 million	Capitalized as an intangible asset

The research phase costs are expensed as incurred because they don't meet the criteria for capitalization under MFRS 138. The development phase costs are capitalized as an intangible asset because they meet the criteria for capitalization.

Case Study: Accounting for a Brand Name



A company acquires a well-established brand name for $1,000,000. The brand name is estimated to have a useful life of 10 years. The company would recognize the brand name as an intangible asset on its balance sheet at a cost of $1,000,000 and amortize it over its useful life.

The annual amortization expense would be $100,000 ($1,000,000 / 10 years). The amortization expense would be recorded on the income statement each year, reducing the company's net income.

Key Takeaways and Summary Summary

MFRS 138 provides a comprehensive framework for accounting for intangible assets, ensuring accurate and transparent financial reporting.

Understanding the recognition criteria, measurement methods, and impairment rules is crucial for proper accounting and valuation of intangible assets.

Properly accounting for intangible assets is vital for accurate financial statements and effective decision-making.