

Intangible assets other than Goodwill, Business combinations and Goodwill

1.1. Recognition

An entity shall apply the recognition criteria stated in Section “Concepts and Principles” of IFRS for SMEs for determining whether to recognize an intangible asset. **Therefore, the entity shall recognize an intangible asset as an asset if, and only if:**

- (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;**
- (b) the cost or value of the asset can be measured reliably; and**
- (c) the asset does not result from expenditure incurred internally on an intangible item.**

An entity shall **assess the probability of expected future economic benefits using reasonable and supportable assumptions** that represent management’s **best estimate of the economic conditions that will exist over the useful life of the asset**. An entity uses judgement **to assess the degree of certainty attached to the flow of future economic benefits** 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.

The probability recognition criterion is always considered satisfied for intangible assets that are separately acquired.

When an intangible asset is acquired in a business combination, it is normally recognized as an asset because its fair value can be measured with sufficient reliability. However, an intangible asset acquired in a business combination is not recognized when it arises from legal or other contractual rights and its fair value cannot be measured reliably because the asset either

- (a) is not separable from goodwill, or
- (b) is separable from goodwill but there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables.

1.2. Initial measurement and subsequent measurement

An entity shall measure an intangible asset initially at cost. 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.**

If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

If an intangible asset is acquired by way of a government grant, the cost of that intangible asset is its fair value at the date the grant is received or receivable in accordance with Section “Government Grants” of IFRS for SMEs.

If an intangible asset is acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, the cost of that intangible asset is its 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**. In that case, the asset’s cost is measured at the **carrying amount of the asset given up**.

If an intangible asset is internally generated, the cost of that intangible asset is not recognized, but there are recognized all expenditures incurred internally for creation of that intangible item, including all expenditure for both research and development activities, unless it forms part of the cost of another asset that meets the recognition criteria in these IFRS. For example, an entity shall recognize expenditure on the following items as an expense and shall not recognize such expenditure as intangible assets:

- (a) internally generated brands, logos, publishing titles, customer lists and items similar in substance.
- (b) start-up activities (i.e. start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (i.e. pre-opening costs) and expenditure for starting new operations or launching new products or processes (i.e. pre-operating costs).
- (c) training activities.
- (d) advertising and promotional activities.
- (e) relocating or reorganizing part or all of an entity.
- (f) internally generated goodwill.

However, the stated above does not preclude recognizing a **prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services**.

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

Subsequently an entity shall **measure intangible assets at cost less any accumulated amortization and any accumulated impairment losses**. The requirements for amortization are set out in this section. The requirements for recognition of impairment are set out in Section “Impairment of Assets”.

1.3. Amortization over useful life

Under IFRS for SMEs all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual 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 contractual 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.

If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be **ten years**.

An entity shall allocate the depreciable amount of an intangible asset on a systematic basis over its useful life. The amortization charge for each period shall be recognized as an expense, unless another section of these IFRS requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

Amortization begins when the intangible asset is available for use, i.e. when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortization ceases when the asset is derecognized. **The entity shall choose an amortization method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine that pattern reliably, it shall use the straight-line method.**

An entity shall assume that the residual value of an intangible asset is 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.

Factors such as a change in how an intangible asset is used, technological advancement, and changes in market prices **may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual reporting date. If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, amortization method or useful life.** The entity shall account for the change in residual value, amortization method or useful life as a **change in an accounting estimate**.

1.4. Recoverability of the carrying amount – impairment losses

To determine whether an intangible asset is impaired, an entity shall apply Section "Impairment of Assets". That section explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognizes or reverses an impairment loss.

1.5. Derecognition

An entity shall derecognize an intangible asset, and shall recognize a gain or loss in profit or loss:

- (a) on disposal, or
- (b) when no future economic benefits are expected from its use or disposal.

1.6. Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase by an entity of the equity of another entity, the purchase of all the net assets of another entity, the assumption of the liabilities of another entity, or the purchase of some of the net assets of another entity that together form one or more businesses.

A business combination may be effected by the issue of equity instruments, the transfer of cash, cash equivalents or other assets, or a mixture of these.

All business combinations shall be accounted for by applying the purchase method (in accordance with IFRS 3 (2004), but not in accordance with IFRS 3 (2008), whereby purchase method is renamed as acquisition method). Applying the purchase method involves the following steps:

- (a) identifying an acquirer and acquisition date;**
- (b) recognizing the assets acquired and liabilities assumed at fair value;**
- (c) measuring the cost of the business combination as aggregate of the fair value of assets given, liabilities assumed and equity issued including transaction costs;**
- (d) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed; and**
- (e) recognizing any difference between the cost of the business combination and the fair value of assets acquired and liabilities assumed. If the difference is negative (“negative goodwill”), it is a gain from bargain purchase.**

Application of the purchase method starts from identification of acquirer. An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities.

Although it may sometimes be difficult to identify an acquirer, there are usually indications that one exists. For example:

(a) if the fair value of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer.

(b) if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer.

(c) if the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able so to dominate is likely to be the acquirer.

After acquirer has been identified, there is identified the acquisition date, which is the date on which the acquirer obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalized at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.

Further the acquirer shall measure the cost of a business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree, plus

(b) any costs directly attributable to the business combination.

When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. However, if the potential adjustment is not recognized at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognizing the acquiree's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the recognition criteria at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognized shall be accounted as so-called 'negative goodwill' or gain from bargain purchase.

The acquirer shall recognize separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:

(a) In the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably.

(b) In the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably.

(c) In the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

Therefore:

(a) the acquirer shall recognize liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognized in accordance with Section 21 Provisions and Contingencies; and

(b) the acquirer, when allocating the cost of the combination, shall not recognize liabilities for future losses or other costs expected to be incurred as a result of the business combination.

The acquirer's statement of comprehensive income shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's income and expenses based on the cost of the business combination to the acquirer. For example, depreciation expense included after the acquisition date in the acquirer's statement of comprehensive income that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, i.e. their cost to the acquirer.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. Within twelve months after the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognized as assets and liabilities at the acquisition date (i.e. account for them as if they were made at the acquisition date) to reflect new information obtained. Beyond twelve months after the acquisition date, adjustments to the initial accounting for a business combination shall be recognized only to correct an error in accordance with Section "Accounting Policies, Estimates and Errors".

IFRS for SMEs specify that the acquirer recognizes separately a provision for a contingent liability of the acquiree only if its fair value can be measured reliably. If its fair value cannot be measured reliably:

(a) there is a resulting effect on the amount recognized as goodwill or accounted for; and

(b) the acquirer shall disclose the information about that contingent liability as required by Section "Provisions and Contingencies".

After their initial recognition, the acquirer shall measure contingent liabilities that are recognized separately at the higher of:

(a) the amount that would be recognized in accordance with Section “Provisions and Contingencies”, and

(b) the amount initially recognized less amounts previously recognized as revenue in accordance with Section “Revenue”.

The acquirer shall, at the acquisition date:

(a) **recognize goodwill acquired in a business combination as an asset**, and

(b) **initially measure that goodwill at its cost**, being the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortization and accumulated impairment losses:

(a) An entity shall follow the principles for amortization of goodwill as an intangible asset. If an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall be presumed to be ten years.

(b) An entity shall follow Section “Impairment of Assets” for recognizing and measuring the impairment of goodwill.

If the acquirer’s interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognized exceeds the cost of the business combination (sometimes referred to as ‘negative goodwill’), the acquirer shall:

(a) **reassess the identification and measurement of the acquiree’s assets, liabilities and provisions for contingent liabilities and the measurement of the cost of the combination**, and

(b) **recognize immediately in profit or loss any excess remaining after that reassessment.**

1.9. Disclosures

An entity shall disclose the following for each class of intangible assets:

(a) the useful lives or the amortization rates used.

(b) the amortization methods used.

(c) the gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the reporting period.

(d) the line item(s) in the statement of comprehensive income (and in the income statement, if presented) in which any amortization of intangible assets is included.

(e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:

- (i) additions.
- (ii) disposals.
- (iii) acquisitions through business combinations.
- (iv) amortization.
- (v) impairment losses.
- (vi) other changes.

This reconciliation need not be presented for prior periods.

For business combinations an acquirer shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately:

- (a) changes arising from new business combinations.
- (b) impairment losses.
- (c) disposals of previously acquired businesses.
- (d) other changes.

This reconciliation need not be presented for prior periods.