Intangible assets other than Goodwill

1. What are the recognition criteria for intangible assets?
   a) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity.
   b) Cost or value of an asset can be measured reliably.
   c) An asset is the result of internal activity of the entity.

2. Which of the following items can be recognized as intangible assets?
   a) internally generated brands and publishing titles
   b) acquired logos and customer lists
   c) start-up activities (i.e. start-up costs)
   d) training activities
   e) purchased software
   f) advertising and promotional activities
   g) relocating or reorganizing part or all of an entity
   h) internally generated goodwill
   i) acquired in a business combination goodwill

3. An intangible asset, which was acquired in a business combination, is not recognized when:
   a) Its fair value cannot be separated from goodwill.
   b) It is part of cash-generating unit.
   c) It is always recognized as an asset.

4. At initial measurement the cost of an item of intangible asset comprises all of the following:
   a) purchase price
   b) legal and brokerage fees
   c) non-refundable purchase taxes
   d) trade discounts and rebates
   e) initial installation costs
   f) costs of advertising and promotional activities
   g) borrowing costs.

5. After initial measurement the cost of an item of intangible is estimated in the following way:
   a) initially recognized cost minus accumulated amortization and minus impairment loss (if any).
   b) initially recognized cost plus accumulated amortization and minus impairment loss (of any).
   c) initially recognized cost minus accumulated amortization, plus impairment loss (if any) and minus impairment loss reversal (if any).
   d) initially recognized cost minus accumulated amortization, minus impairment loss (if any) and plus impairment loss reversal (if any).

6. Decide which statements are true:
   a) All intangible assets shall be considered to have a finite useful life.

b) The useful life of an intangible asset that arises from contractual or other legal rights can exceed the period of the contractual or other legal rights.
c) The residual value of an intangible asset is always zero.
d) 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 10 years.

<u>Exercise 1: Preform initial measurement of software</u>

On 1 January 20X1 an entity purchased a new software package to operate its production equipment for CU 600 000, including CU 50 000 refundable purchase taxes. The purchase price was funded by incurring a loan of CU 605 000 (including CU 5 000 loan origination fees). The loan is secured against the software licenses. In January 20X1 the entity incurred the following costs in customizing the software so that it is more suited to the systems used by the entity:

Item	Value
Labor	100 000
Depreciation of plant and equipment used to perform the modifications	10 000

In January 20X1 the entity's production staff were trained in how to operate the new software. Training costs included:

Item	Value
Cost of an expert external instructor	5 000
Labor	3 000

In February 20X1 the entity's production team tested the software and the information technology team made further modifications necessary to get the new software to function as intended by management. The following costs were incurred in the testing phase:

Item	Value
Material, net of CU3,000 recovered from the sale of the scrapped output	11 000
Labor	9 000
Depreciation of plant and equipment while it was used to perform the modifications	3 000

The new software was ready for use on 1 March 20X1. However, because of low initial order levels, the entity incurred a loss of CU 13 000 on operating the software during March.

What is the cost of the software at initial recognition?

<u>Exercise 2: Preform subsequent measurement of software</u>

On 1 January 20X1 an entity acquired a franchise licence for CU 250 000. Management measured the amortization of the licence at CU 50 000 per year. At 31 December 20X3 in response to the

entry into the market of a competing franchisor the entity assessed the recoverable amount of the franchise licence at CU 80 000.

What is the recognized carrying amount of franchise licence at 31 December 20X3?

Business combinations

1. Decide in which order individual procedures which are presented below should take place while accounting for a business combination ("purchase method" under IFRS for SMEs and "acquisition method" under full IFRS):

   (i) identifying an acquirer and acquisition date;

   (ii) recognizing the assets acquired and liabilities assumed at fair value;

   (iii) recognizing any difference between the cost of the business combination and the fair value of assets acquired and liabilities assumed;

   (iv) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed;

   (v) measuring the cost of the business combination as aggregate of the fair value of assets given, liabilities assumed and equity issued including transaction costs.

   Answers:

   a) (i), (ii), (iii), (iv), (v).
   b) (ii), (i), (iv), (iii), (v).
   c) (iii), (ii), (i), (v), (iv).
   d) (i), (ii), (v), (iv), (iii).

2. Decide which statements are true:
   a) An acquirer shall be identified for all business combinations.
   b) An acquiree shall be identified for all business combinations.
   c) The acquisition date is the date on which the acquirer effectively obtains control of the acquire.
   d) The acquisition date is the date on which the acquiree effectively obtains control of the acquirer.

3. Which indicators are used for identification an acquirer:
   a) comparison of fair value of net assets of combining entities.
   b) identification of transfer of cash or cash equivalents from one combining entity to another one.
   c) comparison of net annual turnovers of combining entities.
   d) comparison of combining entities' powers to select management team of the resulting combined entity.
   e) comparison of average number of employers average during the financial year.

4. The cost of a business combination as the aggregate of:

a) 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 acquire, minus any costs directly attributable to the business combination
b) 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 any costs directly attributable to the business combination
c) carrying amounts 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 acquire, minus any costs directly attributable to the business combination
d) carrying amounts 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 any costs directly attributable to the business combination.

5. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer:
   a) 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.
   b) shall not include the estimated amount of that adjustment in the cost of the combination at the acquisition date even though if the adjustment is probable and can be measured reliably.
   c) shall include the estimated amount of that adjustment in the cost of the combination at the acquisition date even though if the adjustment is not highly probable and can be measured only approximately.

6. Goodwill is recognized and measured as:
   a) any difference between the cost of the business combination and the acquirer's interest in the total fair value of the identifiable assets, liabilities and provisions for contingent liabilities so recognized.
   b) 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.
   c) any difference between the cost of the business combination and the acquirer's interest in the carrying amounts of the identifiable assets, liabilities and provisions for contingent liabilities so recognized.

<u>Exercise 1: Estimate cost of a business combination</u>

On 1 January 20X6 SME A acquired 100 per cent of the equity interests in SME B in exchange for cash of CU 230 000. In addition, SME A paid the following costs that are related directly to the business combination:

Item	Value (CU)
Advisory services	70 000
Legal assistance	25 000
Accounting services	15 000
Valuation services	5 000

What is the cost of a business combination?

Exercise 2: Estimate the recognized amount of goodwill

At 1 January 20X6 SME A acquired 100 per cent of the equity interests in SME B in exchange for cash of CU 230 000. The fair value of SME B's identifiable assets acquired and liabilities assumed are as follows (no contingent liabilities exist):

Item	Value (CU)
Equipment	35 000
Inventory	10 000
Accounts receivable	17 000
Patents	28 000
Accounts payable	10 000

What is the value of goodwill that the entity should recognize?

Exercise 3: Compile the consolidated statement of financial position

SME A purchased a competitor's (SME B) taxi business for CU 42 000, which was paid in cash on the date of acquisition. The business combination was effected by the assets, obligations and operations of the taxi business being transferred to SME A. Information about the assets, liabilities and contingent liabilities of the acquired business at the acquisition date:

Item	Carrying amount in SME B's financial statements (CU)	Fair value (CU)
Taxis	15 000	20 000
Taxi licenses	5 000	15 000
Brand (registered trade name)	-	6 000
Possible obligation for a court case	-	(1 000)
Total	20 000	40 000

Item	SME A Carrying amount (CU)
Assets	
Non-current assets	

Property, plant and equipment - taxis	35 000
Intangible asset - taxi licenses	10 000
Current assets	
Cash	60 000
Total assets	105 000
Equity	
Share capital	5 000
Reserves	100 000
Total equity	105 000

Therefore, immediately after the acquisition, SME A's statement of financial position was as follows:

Item	**Before acquisition (CU)**	**Effect of acquisition (CU)**	**After acquisition (CU)**
Assets			
Non-current assets			
Property, plant and equipment - taxis			
Intangible asset - goodwill			
Intangible asset - taxi licenses			
Intangible asset - brand			
Current assets			
Cash			
Total assets			
Current liabilities			
Liability - court case			
Equity			
Share capital			
Reserves			
Total equity			