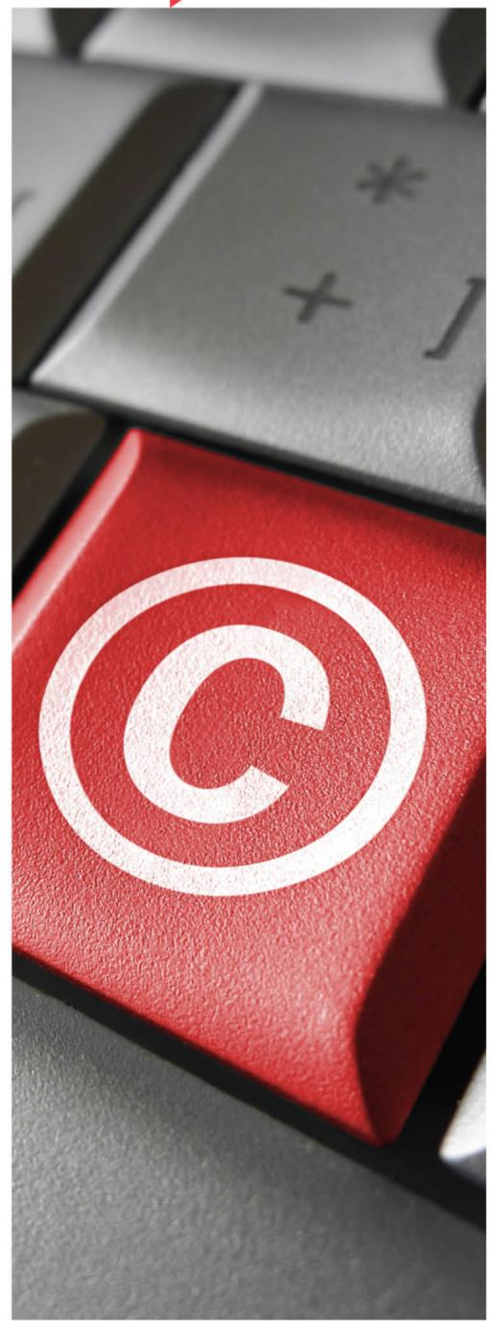
ASSURANCE AND ACCOUNTING

ASPE - IFRS: A Comparison

Intangible Assets



In this publication we will examine the key differences between Accounting Standards for Private Enterprises (ASPE) and International Financial Reporting Standards (IFRS) related to intangible assets with a focus on:

- The initial and subsequent recognition and measurement differences of intangible assets; and
- Useful life and amortization of intangible assets.

References

ASPE	IFRS
• Section 3061 – *Property, Plant and Equipment* • Section 3064 – *Goodwill and Intangible Assets*	• IAS 38 – *Intangible Assets*

Overview of Major Differences

IFRS and ASPE are similar in the treatment of intangible assets. Generally speaking, the scope, recognition and measurement criteria are consistent between IFRS and ASPE relating to intangible assets, as Section 3064 is based on IAS 38 in several sections. However, due to differences in inter-related sections (e.g. impairment) as well as more or less specific guidance, differences arise between the two frameworks.

Additionally, ASPE provides the ability to make an accounting policy choice to either expense or capitalize development costs that meet the recognition criteria. While IAS 38's recognition criteria for development costs are consistent with ASPE, IFRS does not allow such an accounting policy choice. Instead, if development costs meet the recognition criteria, they must be capitalized.

Initial Recognition and Measurement

Both ASPE and IFRS are very similar in relation to recognition and measurement of intangible assets. However, a difference exists for income and related expenses arising from incidental operations and additional guidance is provided directly in IAS 38 for the treatment of specific transactions.

ASPE	IFRS
The criteria for development activities of internally generated intangible assets is consistent between ASPE and IFRS, except that ASPE allows an accounting policy choice to either: • Expense such expenditures as incurred; or • Capitalize such expenditures as an intangible asset, provided the recognition criteria are met. The same accounting policy must be applied consistently to all development phase expenditures.	All development phase expenditures must be capitalized if they meet the recognition criteria.
Section 3064 does not include any reference to income and related expenses arising from incidental operations. It is suggested that an entity look to Section 3061 - *Property, Plant and Equipment* for guidance (see our IFRS-ASPE Comparison series publication on *Property, Plant and Equipment)*. That section requires capitalization of these revenues for tangible capital assets.	IAS 38 requires immediate recognition in profit or loss of income and related expenses arising from incidental operations that are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management.
Section 3064 does not provide specific guidance on how to account for subsequent expenditure on an acquired in-process research and development project.	Subsequent expenditure on an in-process research or development project acquired separately or in a business combination, and recognized as an intangible asset is: • Recognized as an expense when incurred if it is a research expenditure; • Recognized as an expense when incurred if it is a development expenditure that does not satisfy the criteria for recognition as an intangible asset using the development phase recognition criteria; and • Added to the carrying amount of the acquired in-process research or development project if it is a development expenditure that satisfies the development phase recognition criteria.
Section 3064 does not provide specific guidance on how to account for the acquisition of intangible assets by way of an exchange. Instead, an entity would look to Section 3831 - *Non-Monetary Transactions* for guidance. That Section generally requires an asset exchanged or transferred in a non-monetary transaction to be measured at the more reliably measurable of the fair value of the asset given up and the fair value of the asset received, unless: • Neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; • The transaction lacks commercial substance;	The cost of an intangible asset acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up unless the fair value of the asset received is more clearly evident. The transaction is not measured at fair value when the fair value of neither the asset received nor the asset given up is reliably measurable or when the exchange transaction lacks commercial substance. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

• The transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange; and • The transaction is a non-monetary non-reciprocal transfer to owners. This is measured at the carrying amount of the non-monetary assets or liabilities transferred. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up, adjusted by the fair value of any monetary consideration received or given.	

Subsequent Measurement

Both ASPE and IFRS require an intangible asset with a finite useful life to be carried at cost, less any accumulated amortization and any accumulated impairment losses. However, a difference exists in that IFRS allows an entity to choose the measurement: the cost method or the revaluation method.

ASPE	IFRS
Section 3064 requires an entity to follow a cost model for measurement of intangible assets. An entity is generally not permitted to use a revaluation model.	IAS 38 provides for an accounting policy choice; the cost model or a revaluation model if an active market exists. The revalued amount is the intangible asset's fair value at the date of the revaluation (determined by reference to an active market), less any subsequent accumulated amortization and any subsequent accumulated impairment losses. A consistent model must be selected for classes of intangible assets that are similar in nature.

Under both ASPE requirements and the IFRS cost model, an intangible asset should be carried at its cost less any accumulated depreciation and any accumulated impairment losses. Under the IFRS revaluation method, an intangible asset should be carried at fair value at the date of revaluation less any subsequent accumulated depreciation and any accumulated impairment losses.

Where an entity adopts the revaluation method, all items in a class of assets should be revalued simultaneously and the revaluation should be performed with enough regularity to ensure that at the balance sheet date the carrying amount is not materially different from the fair value amount. The revaluation model may be applied to all components of an asset, even if portions of the asset were required to be expensed previously as they did not meet recognition criteria until part of the way through the process (e.g. research costs relating to a patent that was eventually capitalized once it reached the development stage).

Whether the revaluation results in a revaluation surplus or deficit determines the accounting treatment. Any revaluation surplus for an intangible asset is recognized separately in equity unless the revaluation surplus is reversing a revaluation deficit previously recognized in profit and loss for the same intangible asset. Any revaluation deficit should first be offset against any revaluation surplus for the same intangible asset previously recognized in equity and any excess should be recorded in profit and loss. Therefore, an entity can only offset revaluation surpluses and deficits for the same intangible asset. Revaluation surplus and deficits of an entire class of intangible assets cannot be offset.

Useful Life and Amortization

Both ASPE and IFRS require accounting for intangible assets based on the useful life of the asset and intangible assets with indefinite lives are not amortized under either standard. However, how each standard determines the useful life is different.

ASPE	IFRS
An intangible asset is considered to be of an indefinite useful life when no legal, regulatory, contractual, competitive, economic or other factors limit the useful life of an intangible asset to the enterprise.	An intangible asset is regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.
Under ASPE, amortization is charged on the greater of: i. Cost less residual value over its estimated useful life; and ii. Cost less salvage value (estimated net realizable value at the end of its life) over its estimated life.	Under IFRS, amortization is charged on the depreciable amount, the cost of an asset, or other amount substituted for cost, less its residual value over its estimated useful life.
An annual review of the amortization method and the estimate of the useful life of an intangible asset is required.	The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.
The standard provides specific guidance on how to account for a change in the useful life of an intangible asset from a finite useful life to an indefinite useful life and vice versa. The change in useful life also triggers an impairment test under Section 3063 – *Impairment of Long-Lived Assets*.	Guidance is provided on how to account for a change in the useful life of an intangible asset from an indefinite useful life to a finite useful life only.

Recoverability of the Carrying Amount - Impairment

Generally, both ASPE and IFRS require a review of the carrying values of intangible assets for impairment. However, IFRS has fundamentally different impairment guidance than ASPE, such as how impairment is measured, the frequency of impairment testing and whether losses can be reversed. For more detail, please see our IFRS-ASPE Comparison series publication on Asset Impairment.

Retirements and Disposals

IFRS includes specific derecognition of intangible assets requirements. No such guidance is provided in Section 3064.

In general, an intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss, being the difference between the net disposal proceeds, if any, and the carrying amount of the asset, is recognized in profit or loss when the asset is derecognized (unless IFRS 16 - *Leases* requires otherwise on a sale and leaseback). Gains cannot be classified as revenue.

Conclusion

In general the principles related to intangible assets under ASPE and IFRS are similar. However, significant differences do exist between the two standards including IFRS allowing the revaluation of intangibles assets and ASPE allowing development phase expenditures to be expensed. If you require further guidance on accounting for intangible assets under ASPE or IFRS please contact your local BDO Canada LLP office. If you are considering the adoption of a new standard, learn how our BDO Accounting Advisory Services Team can help you with the transition.

To learn more about the differences between standards, view our ASPE-IFRS: A Comparison Series.