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Corporate Intangibles Research and Development Manual

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CIRD30530 - Intangible assets: notes on accounting practice: definition and when to capitalise: intangible assets other than goodwill

Definition

Intangible assets are defined in FRS102 s18 as 'identifiable non-monetary assets without physical substance'.

An intangible asset is identifiable when it is separable (that is, capable of being disposed of separate from the company) or when it arises from contractual or legal rights.

When intangible assets should be capitalised

FRS102 s18 requires an intangible asset to be capitalised when, and only when:

1. it is probable that the expected future economic benefits attributable to the asset will flow to the company, and
2. the cost or value of the asset can be measured reliably.

The general rule for an intangible asset purchased separately from the purchase of a business is that it should be capitalised at its cost. Cost includes both the purchase price of the asset and any costs that are directly attributable to preparing the asset for its intended use.

Where an intangible asset is acquired as part of the purchase of a business it should be capitalised at its fair value at the acquisition date. If its fair value cannot be measured reliably, the intangible asset should not be capitalised separately and should be subsumed within goodwill instead.

The recognition criteria of intangible assets acquired in a business combination was changed in the version of FRS 102 issued in 2018 following the triennial review, which is effective for accounting periods beginning on or after 1 January 2019. This review introduced three conditions which have to be met to recognise intangible assets separately from goodwill in a business combination. The conditions are as follows:

1. the recognition criteria are met (i.e. probable expected future benefits and the cost/value of the asset can be reliably measured);
2. the intangible asset arises from contractual or other legal rights; and

3. the intangible asset is separable (ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability).

However an entity may additionally choose to recognise intangible assets separately from goodwill for which condition 1) and only one of 2) or 3) above is met. When an entity chooses to recognise such additional intangible assets, this policy shall be applied to all intangible assets in the same class and must be applied consistently to all business combinations. FRS 102 now allows a choice in the recognition of intangible assets acquired as part of a business combination. They can either apply the rules similar to that under IAS 38 or those that applied under FRS 10.

IAS38

There are no significant differences between IAS38 and FRS102 s18 (before the triennial review referred to above) which have been identified as having an impact for Part 8 purposes.

FRS105 s13

The principle difference between FRS105 s13 and FRS102 s18 which may have an impact for Part 8 purposes is as follows:

- Under FRS105 s13, intangible assets acquired as part of the purchase of a business are not identified and recognised separately. In effect, such intangible assets will be subsumed within goodwill.

FRS10

The principle differences between FRS10 and FRS102 s18 which may have an impact for Part 8 purposes are as follows:

- The definition of an intangible asset under FRS10 requires the asset to be separable and be controlled through custody or legal rights. This means that fewer intangible assets would be recognised separately from goodwill under FRS10.
- FRS10 contains the same requirement as FRS102 s18 to recognise intangible assets acquired as part of the purchase of a business at fair value. However, under FRS10, unless the asset has a ‘readily ascertainable market value’ its fair value is restricted to an amount that does not result in the creation of negative goodwill. The ‘readily ascertainable market value’ condition will be met only when the asset belongs to a homogenous population of assets that are equivalent in all material respects, and there is an active market for that population of assets.

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