

POLICY



Date adopted: 30/05/2017
File no: 491575-1
Minute number: 148/2017

Policy title: **RECOGNITION AND MEASUREMENT OF INTANGIBLE ASSETS**

Directorate: ORGANISATIONAL SERVICES

Branch: FINANCE

Policy objective: To outline recognition and measurement criteria and accounting processes for intangible assets in compliance with the Local Government Regulation 2012 and the Australian Accounting Standards.

Policy scope:

This policy establishes criteria for the identification, recognition, record-keeping and measurement of intangible assets by setting asset acquisition thresholds and preferred accounting practices in Council. The relevant accounting standard is Australian Accounting Standards Board Standard AASB138 "Intangible Assets".

This policy is to be read in conjunction with Council's policies on "Acquisition of Non Current Assets" and "Impairment".

Definitions:

TERM	DEFINITION
Active market	Means a market in which all the following conditions exist: (i) the items traded in the market are homogeneous (ii) willing buyers and sellers can normally be found at any time (iii) prices are available to the public.
Amortisation	Means the systematic allocation of the depreciable amount of an intangible asset over its useful life.
Asset	Means a resource: (i) controlled by an entity as a result of past events (ii) from which future economic benefits are expected to flow to the entity.
Carrying amount	Means the amount at which an asset is recognised in the balance sheet after deducting any accumulated amortisation and accumulated impairment losses thereon.
Cost	Means the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.
Depreciable amount	Means the cost of an asset, or other amount substituted for cost, less its residual value.

TERM	DEFINITION
Fair value of an asset	Means the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
Impairment loss	Means the amount by which the carrying amount of an asset exceeds its recoverable amount.
Intangible asset	Means an identifiable non-monetary asset without physical substance.
Residual value	Means the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Useful life	Means the period over which an asset is expected to be available for use by an entity.

Policy statement:

The following procedure is to be undertaken for this policy:

1. Preamble

AASB138 is the new Australian standard for Intangible Assets.

The objective of AASB138 is to prescribe the accounting treatment for *intangible assets* that are not dealt with specifically in another standard. This standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The standard also specifies how to measure the *carrying amount* of intangible assets and requires specified disclosures about intangible assets.

2. Criteria for identification

(a) Intangible assets must:

- (i) comply with the requirements of the definition of an asset
- (ii) be identifiable as separate assets or capable of being separated or divided from the entity or arise from contractual or other legal rights.

(b) Where an asset has an intangible and tangible component (e.g. software included in computer hardware):

- (i) management will assess which component is more significant to determine whether separate recognition of an intangible asset is required
- (ii) where the intangible component is not an integral part of the tangible component, the intangible component is recognised as a separate intangible asset
- (iii) where the intangible component is an integral part of the related tangible component (e.g. Windows operating system software in a computer), a single tangible Property, Plant and Equipment (PPE) asset (e.g. computer hardware) is recognised.

3. Criteria for recognition

(a) An intangible asset shall be recognised if, and only if:

- (i) it is probable that the expected future economic benefits that are attributable to the asset will flow to Council
- (ii) the *cost* of the asset can be measured reliably.

(b) Council will recognise a separate intangible asset where:

- (i) Council has control over the asset which means that Council has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits

- (ii) Council expects to obtain future economic benefits from the asset through use or sale. Future economic benefits include monetary and non-monetary benefits (e.g. use of the asset in the achievement of Council objectives).
 - (iii) Asset value is material or separate recognition is an operational requirement:
 - Material means in excess of asset recognition threshold per Council's policy "Acquisition of Non-Current Assets".
 - Operational requirement means that management has determined that the asset should be valued and separately recognised from related assets.
 - (c) Council will not recognise a separate intangible asset where:
 - (i) criteria for recognition are not met
 - (ii) management has determined that the intangible asset is an integral part of a larger asset and should be included in the value of the larger asset (e.g. access restriction strip purchased or donated as part of the construction of infrastructure assets)
 - (iii) management has determined that the costs exceed benefits associated with the separate recognition of a class of intangible asset.
 - (d) Expenditure on an intangible item shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the criteria for recognition encompassed in this policy.
4. Criteria for measurement
- (a) Measurement at initial recognition:
 - (i) where a separate intangible asset is to be recognised, it shall be measured initially at cost, or where an asset is acquired at no cost or for a nominal cost, at *fair value* as at the date of acquisition (e.g. if the asset were donated)
 - (ii) costs include:
 - its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
 - any directly attributable cost of preparing the asset for its intended use (eg employee time, professional fees and testing).
 - (iii) administration and other general overhead costs are excluded from the cost of an intangible asset (e.g. software).
 - (b) Measurement subsequent to initial measurement:
 - (i) intangible assets are to be measured at cost less any accumulated amortisation and any accumulated impairment losses and will not be subject to revaluation.
5. Useful life and amortisation
- (a) Management will determine whether a finite or indefinite useful life applies to Council intangible assets.
 - (b) Finite useful life:
 - (i) The *depreciable amount* of an intangible asset with a finite useful life shall be allocated (amortised) on a systematic basis over its useful life using a depreciation methodology that reflects the consumption of the asset by Council.
 - (ii) The residual value of an intangible asset shall be set at zero unless there is a commitment by a third party to purchase the asset at the end of its useful life or there is an active market for the asset and residual value can be determined by reference to that market.

- (iii) The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed by management at least at the end of each annual reporting period.
 - (c) Indefinite useful life:
 - (i) An intangible asset with an indefinite useful life shall not be amortised.
 - (ii) The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.
 - (d) Carbon tax permits
 - (i) Carbon tax permits are measured at fair value initially based on original fixed purchase price and subsequently based on market price as determined by legislation.
 - (ii) Carbon tax permits are not amortised.
6. Impairment and record keeping
- (a) Intangible assets are to be subject to review and adjustment per Council Impairment policy.
 - (b) Separate registers are to be maintained by departments where intangible assets fail recognition criteria specified in this policy.
 - (c) Separate disclosure is to be undertaken of intangible assets carrying values, movements and policy in annual financial statements.

Related policies/legislation/other documents:

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
-	Legislation	Local Government Regulation 2012
-	Standards	Australian Accounting Standards
5968731	Policy	Asset Management - Impairment
4941482	Policy	Acquisition of Non- Current Assets