

Treasurer's Instruction No	306
Title	Intangible Assets
Effective date	1 July 2005
Objective and Background	Provides guidance in respect of accounting for intangible assets
Last Reviewed Date	1 July 2005

This Instruction was previously known as Treasurer's Instruction No 914 – Intangible Assets

Black letter (or bold) items within these Instructions are mandatory and other plain font items are instructional or for the purpose of providing guidance only.

BACKGROUND

AASB 138 *Intangible Assets* prescribes the accounting treatment for intangible assets. An intangible asset is a non-monetary asset without physical substance that is:

- capable of being separated from the entity and sold, transferred, rented or exchanged with a related contract, asset or liability; or
- arise from a contractual or other legal right.

Computer software is a common intangible asset. Other potential intangible assets include patents, copyrights, and franchising and marketing rights.

Under AASB 138, internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets. These items cannot be distinguished from the cost of developing a business as a whole.

(1) An agency shall determine a capitalisation threshold for its intangible assets.

Computer software will be the most common and material intangible asset held within the public sector. Computer software may be purchased off-the-shelf, or internally developed by an Agency.

The capitalisation threshold for intangible assets will vary with the size of the agency and the category of intangible asset. As a rule of thumb, \$50 000 is a reasonable threshold for computer software.

Bulk purchases of the same or similar computer software meeting the recognition criteria, and in total exceeding the capitalisation threshold, should be capitalised.

(2) After initial recognition, each class of intangible asset shall be accounted for using:

- (a) The revaluation model where there is an active market for that class of asset; or**
- (b) The cost model in the absence of an active market.**

Where possible, assets and liabilities should be accounted for on a fair value basis.

AASB 138 requires an entity to choose either the cost model or revaluation model in accounting for intangible assets after initial recognition. Under the revaluation model, after initial recognition, an intangible asset is carried at fair value at the date of the revaluation, less any subsequent accumulated amortisation and any accumulated impairment losses. Fair value is determined by reference to an active market.

Where there is no active market for the particular class of intangible asset, the cost model will be used. Under the cost model, after initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

(3) The maximum useful life of computer software is five years.

The standard requires that an entity estimates the useful life of an intangible asset.

The useful life over which intangible assets are amortised should reflect the estimated length of time over which benefits will be obtained from use of the asset. For computer software, given the high rate of obsolescence, the maximum useful life is five years.

(4) An Agency shall record all intangible assets, including computer software, on its asset register.