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Professional Accounting Education

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ACCA Research Institute

ACCA F7

Financial Reporting(INT.)

Chapter 3 Intangible asset

ACCA Lecturer: Roy Wang

Intangible assets

1. **IAS 38 Intangible asset**
2. **R & D**
3. **Example**

IAS 38 Intangible assets

Definition

An **intangible asset** is an identifiable non-monetary asset without **physical substance** The asset must be:

- (a) Controlled by the entity as a result of events in the past
- (b) Something from which the entity expects future economic benefits to flow

IAS 38 Intangible assets

Eg.

- computer software,
- patents
- franchises

IAS 38 Intangible assets

R & D

Research cost:as expense.

Development:

P robable future economic benefits

I ntention to complete and use/sell asset

R esources adequate and available to complete and use/sell asset

A bility to use/sell the asset

T echnical feasibility of completing asset for use/sale

E xpenditure can be measured reliably.

IAS 38 Intangible assets

Measurement

Initial: cost

Subsequent:

1、Cost model：amortisation

2、Revaluation model：revaluation amount -accu. amor – impairment loss.

IAS 38 Intangible assets

Geek is developing a new product and expects to be able to capitalise the costs. Which one of the following would preclude capitalisation of the costs?

A Development of the product is not yet complete.

B No patent has yet been registered in respect of the product.

C No sales contracts have yet been signed in relation to the product.

D It has not been possible to reliably allocate costs to development of the product.

IAS 38 Intangible assets

A company had $20 million of capitalised development expenditure at cost brought forward at 1 October 20X7 in respect of products currently in production and a new project began on the same date.

The research stage of the new project lasted until 31 December 20X7 and incurred $1.4 million of costs. From that date the project incurred development costs of $800,000 per month. On 1 April 20X8 the directors became confident that the project would be successful and yield a profit well in excess of costs. The project was still in development at 30 September 20X8. Capitalised development expenditure is amortised at 20% per annum using the straight line method.

What amount will be charged to profit or loss for the year ended 30 September 20X8 in respect of research and development costs?

A $8,280,000

B $6,880,000

C $7,800,000

D $3,800,000 **(2 marks)**

IAS 38 Intangible assets

Dempsey's year end is 30 September 20X4. Dempsey commenced the development stage of a project to produce a new pharmaceutical drug on 1 January 20X4. Expenditure of $40,000 per month was incurred until the project was completed on 30 June 20X4 when the drug went into immediate production. The directors became confident of the project's success on 1 March 20X4. The drug has an estimated life span of five years; time apportionment is used by Dempsey where applicable.

What amount will Dempsey charge to profit or loss for development costs, including any amortisation, for the year ended 30 September 20X4?

A $12,000
B $98,667
C $48,000
D $88,000

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Thank You!