ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

INTANGIBLE ASSETS

(GRAP 31)

Issued by the
Accounting Standards Board

March 2012

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Intangible Assets* is based on the International Public Sector Accounting Standard (IPSAS) 31 on *Intangible Assets* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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Standard of Generally Recognised Accounting Practice

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INTANGIBLE ASSETS

This Standard was originally issued by the Accounting Standards Board (the Board) in December 2006. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 21 *Impairment of Non-cash-generating Assets*
  - GRAP 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*
  - GRAP 26 *Impairment of Cash-generating Assets*
  - GRAP 103 *Heritage Assets*
- Improvements to the Standards of GRAP, issued by the Board in March 2012.
- Consequential amendments following the revisions to GRAP 5 *Borrowing Costs* and GRAP 100 *Discontinued Operations* in 2013.
- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfers of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfers of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*
- Consequential amendments following the amendments to the Standards of GRAP on *Investment Property* and *Property, Plant and Equipment* (2014) issued on 26 May 2015.
- Improvements to the Standards of GRAP, issued by the Board in April 2017.
- Consequential amendments when the following Standard of GRAP became effective:
  - GRAP 32 *Service Concession Arrangements: Grantor*
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 37 *Joint Arrangements*
- Improvements to the Standards of GRAP, issued by the Board in March 2020.

Introduction

This pronouncement is set out in paragraphs .01 to .135. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

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

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for intangible assets.

.03 This Standard shall be applied in accounting for intangible assets, except:

(a) intangible assets that are within the scope of another Standard of GRAP;

(b) financial assets, as defined in the Standard of GRAP on Financial Instruments (GRAP 104);

(c) the recognition and measurement of exploration and evaluation assets (see the IFRS Accounting Standard on Exploration for and Evaluation of Mineral Resources);

(d) expenditure on the development and extraction of, minerals, oil, natural gas and similar non-regenerative resources;

(e) powers and rights conferred to an entity by legislation, a constitution or by equivalent means;

(f) deferred tax assets (see the IAS Standard on Income Taxes (IAS 12));

(g) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the IFRS Accounting Standard(s) on insurance. In cases where the IFRS Standard(s) on insurance does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets;

(h) heritage assets as defined in the Standard of GRAP on Heritage Assets (GRAP 103); and

(i) the initial recognition and initial measurement of intangible assets acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP

on Mergers).

.04 If another Standard of GRAP prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

(a) intangible assets held by an entity for sale in the ordinary course of operations (see the Standard of GRAP on *Inventories* (GRAP 12) and the Standard of GRAP on *Construction Contracts*);

(b) leases that are within the scope of the Standard of GRAP on *Leases* (GRAP 13);

(c) assets arising from employee benefits (see the Standard of GRAP on *Employee Benefits* (GRAP 25));

(d) financial assets as defined in GRAP 104. The recognition and measurement of some financial assets are covered by the Standards of GRAP on *Consolidated Financial Statements* (GRAP 35), and *Investments in Associates and Joint Ventures*;

(e) heritage assets as defined in GRAP 103; and

(f) intangible assets after its initial recognition and measurement in accordance with the *Standard of GRAP on Service Concession Arrangements: Grantor* (GRAP 32).

.05 Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent) or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17) or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, the software of a navigation system in a fighter aircraft is integral to the aircraft and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset. If however the hardware cannot operate without specific software because it is an integral part of the related hardware, both should be treated as property, plant and equipment.

.06 This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (e.g. a prototype), the physical element of the asset is secondary to its intangible component, i.e. the knowledge embodied in it.

.07 In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licencing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of GRAP 13 and are within the scope of this Standard.

.08 Exclusions from the scope of a Standard of GRAP may occur if activities or transactions are so specialised that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits in extractive industries and in the case of insurance contracts. Therefore, this Standard does not apply to expenditure on such activities and contracts. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

.09 Entities may execute a regulatory right over certain activities, for example, fishing, mining or industries such as telecommunications and energy. These regulatory rights and the power to transfer, licence, rent or execute such rights are excluded from the scope of this Standard as these powers and rights are conferred to the entity by legislation, a constitution or by equivalent means. These rights, once issued, are usually an intangible asset of those individuals or entities that acquired each right, provided that the acquirer can demonstrate that the definition and recognition criteria of an intangible asset are met.

.10 Similarly, a municipality's right to levy taxes is granted in terms of a statute. The right arising from the statute is excluded from the scope of this Standard. There might be a cost associated with exercising the right granted in terms of the statute, for example the preparation of a valuation roll to levy property rates. The principles in, amongst others, the *Framework for the Preparation and Presentation of Financial Statements*[2], and other applicable Standards of GRAP, should be applied to account for costs incurred to exercise the right granted in terms of legislation.

Definitions

.11 The following terms are used in this Standard with the meanings specified:

An <u>active market</u> is a market in which all the following conditions exist:

(a) the items traded in the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

<u>Amortisation</u> is the systematic allocation of the depreciable amount of an

[2] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

intangible asset over its useful life.

A <u>binding arrangement</u> is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

<u>Development</u> is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of production or use.

An <u>intangible asset</u> is an identifiable non-monetary asset without physical substance.

<u>Research</u> is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Binding arrangements

.11A Binding arrangements can be evidenced in several ways:

(a) a contract concluded between the parties;

(b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or

(c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Intangible assets

.12 Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, acquired fishing licences, acquired import quotas, and relationships with customers.

.13 Not all the items described in paragraph .12 meet the definition of an intangible asset, i.e. identifiability, control over a resource and existence of future economic benefits or service potential. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.

Identifiability

.14 ***An asset is identifiable if it either:***

(a) ***is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licenced, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or***

(b) ***arises from binding arrangements regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.***

.15 [Deleted].

Control of an asset

.16 An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or service potential. The capacity of an entity to control the future economic benefits or service potential from an intangible asset would normally stem from legal rights that are enforceable in a court of law, or rights under binding arrangements enforceable by entities that are a party to the arrangement. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits or service potential in some other way.

.17 Scientific and technical knowledge may give rise to future economic benefits or service potential. An entity controls those benefits or that service potential if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality.

.18 An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits or service potential arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits or service potential expected from it, and it also meets the other parts of the definition.

.19 An entity may have a portfolio of customers and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to engage with the entity. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits or service potential from customer relationships and loyalty for such items (e.g. portfolio of customers, customer relationships and customer loyalty) to meet the definition of intangible assets. In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of a transfer of functions or a merger) provide evidence that the entity is nonetheless able to control the expected future economic benefits or service potential flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

Future economic benefits or service potential

.20 The future economic benefits or service potential flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production or service process may reduce future production or service costs or improve service delivery rather than increase future revenues (e.g. an on-line system that allows citizens to renew driving licences faster, resulting in a reduction in office staff to perform this function while increasing the processing speed).

Recognition and measurement

.21 The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

(a) the definition of an intangible asset (see paragraphs .12 to .20); and

(b) the recognition criteria (see paragraphs .23 to .26).

This requirement applies to costs measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, or the fair value of an intangible assets acquired through a non-exchange transaction), and those incurred subsequently to add to, replace part of, or service it.

.22 The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's operations as a whole. Therefore, only rarely will subsequent expenditure — expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset — be recognised in the carrying amount of an asset. Consistent with paragraph .59 subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally acquired or internally generated) is always recognised in surplus or deficit as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the operation as a whole.

.23 An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and

(b) the cost or fair value of the asset can be measured reliably.

.24 An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

.25 An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

.26 A distinction between the costs incurred in the acquisition, development and construction of an item of property, plant and equipment, and the intangible asset associated with the item of property, plant and equipment needs to be made when both the tangible and the intangible asset are recognised and measured. An intangible asset should only be recognised when the requirements in paragraph .23 have been met. For example, an airport is generally separable from the landing rights associated with the airport. If the landing rights meet the criteria specified in paragraph .23, the landing rights should be recognised as an intangible asset. The recognition criteria in GRAP 17 should be applied to the recognition of the airport building and other infrastructure assets.

.27 An intangible asset shall be measured initially at cost in accordance with paragraphs .28 to .39. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.

Separate acquisition

.28 Normally, the price an entity pays to acquire an intangible asset separately will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or amount of the inflow.

Therefore, the probability recognition criterion in paragraph .23(a) is always considered to be satisfied for separately acquired intangible assets.

.29 In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

.30 The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any directly attributable costs of preparing the asset for its intended use.

.31 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in GRAP 25) arising directly from bringing the asset to its working condition;

(b) professional fees arising directly from bringing the asset to its working condition; and

(c) costs of testing whether the asset is functioning properly.

.32 Examples of expenditures that are not part of the cost of an intangible asset are:

(a) costs of introducing a new product or service (including costs of advertising and promotional activities);

(b) costs of conducting operations in a new location or with a new class customer (including costs of staff training); and

(c) administration and other general overhead costs.

.33 Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:

(a) costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and

(b) initial operating losses, such as those incurred while demand for the asset's output builds up.

.34 Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognised immediately in surplus or deficit, and included in their respective classifications of revenue and expense.

.35 If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with the Standard of GRAP on *Borrowing Costs* (GRAP 5).

Subsequent expenditure on an acquired in-process research and development project

.36 Research or development expenditure that:

(a) relates to an in-process research or development project acquired separately and recognised as an intangible asset; and

(b) is incurred after the acquisition of that project

shall be accounted for in accordance with paragraphs .49 to .58.

.37 Applying the requirements in paragraphs .49 to .58 means that subsequent expenditure on an in-process research or development project acquired separately and recognised as an intangible asset is:

(a) recognised as an expense when incurred if it is research expenditure;

(b) recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph .52; and

(c) added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph .52.

Intangible assets acquired through non-exchange transactions

.38 In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when another public sector entity transfers, to an entity in a non-exchange transaction, intangible assets such as airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access restricted resources. A private citizen, for example, a Nobel Prize winner, may bequeath his or her personal papers, including copyright to his or her publications to the national archives in a non-exchange transaction.

.38A Under these circumstances the cost of the item is its fair value at the date it is acquired. Any transaction costs incurred are recognised in accordance with the requirements of paragraphs .30 to .34. For purposes of this Standard, the measurement at recognition of an intangible asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph .74, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph .74, and the supporting commentary in paragraphs .75 to .87 only apply when an entity elects to revalue an intangible item in subsequent reporting periods. Any transaction costs incurred are recognised in accordance with the requirements of paragraphs .30 to .34.

.39 If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with the allowed alternative treatment in GRAP 5.

Acquisition as part of a transfer of functions

.40 In accordance with the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106), if an intangible asset is acquired in a transfer of functions, the cost of that intangible asset is its fair value at the acquisition date. The fair value of the intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph .23(a) is always considered to be satisfied for intangible asset acquired in a transfer of functions. If an asset acquired in a transfer of functions is separable or arises from binding arrangements, excluding rights granted by statute, sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph .23(b) is always considered to be satisfied for intangible assets acquired in a transfer of functions.

Exchanges of assets

.41 One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the transaction is in substance a non-exchange transaction, then it should be recognised in accordance with the Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers).*

.42 Paragraph .23(b) specifies that a condition for the recognition of an intangible asset is that the cost or fair value of the asset can be measured reliably. The fair value of an intangible asset for which comparable market transactions do not exist is reliably measurable if:

(a) the variability in the range of reasonable fair value estimates is not significant for that asset; or

(b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Internally generated goodwill

.43 Internally generated goodwill shall not be recognised as an asset.

.44 In some cases, expenditure is incurred to generate future economic benefits or service potential, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (i.e. it is not separable nor does it arise from binding arrangements controlled by the entity that can be measured reliably at cost.

.45 Differences between the market value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally generated intangible assets

.46 It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:

(a) identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and

(b) determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs .47 to .65 to all internally generated intangible assets.

.47 To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

(a) a research phase; and

(b) a development phase.

Although the terms "research" and "development" are defined, the terms "research phase" and "development phase" have a broader meaning for the purpose of this Standard.

.48 If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it was incurred in the research phase only.

Research phase

.49 No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

.50 In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential. Therefore, this expenditure is recognised as an expense when it is incurred.

.51 Examples of research activities are:

(a) activities aimed at obtaining new knowledge;

(b) the search for, evaluation and final selection of, applications or research findings or other knowledge;

(c) the search for alternatives for materials, devices, products, processes, systems or services; and

(d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development phase

.52 An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits or service potential. Among other things, the entity can demonstrate the

existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

.53 In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits or service potential. This is because the development phase of a project is further advanced than the research phase.

.54 Examples of development activities are:

(a) the design, construction and testing of pre-production or pre-use prototypes and models;

(b) the design of tools, jigs, moulds and dies involving new technology;

(c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for production or use in providing services;

(d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services; and

(e) certain website and software costs.

.55 An example of research and development costs is where the Department of Defence conducts research into, and subsequently develops, a weapon system. Research costs include costs incurred to evaluate alternative systems, the formulation of a proposed system, the design and finalisation of a possible system. Development costs include the actual design, testing and development of a particular weapon system. Costs are recognised from the point that it is concluded that the development will be successful.

.56 To demonstrate how an intangible asset will generate probable future economic benefits or service potential, an entity assesses the future economic benefits or service potential to be received from the asset using the principles in the Standards of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) or *Impairment of Cash-generating Assets* (GRAP 26), as appropriate. If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of cash-generating units in GRAP 26.

.57 Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, an operating plan showing the technical, financial and other resources needed and the entity's ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender's or funder's indication of its willingness to fund the plan.

.58 An entity's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing logos, copyrights or licences or developing computer software.

.59 Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.

.60 Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the entity's operation as a whole. Therefore, such items are not recognised as intangible assets.

.61 For example, a municipality develops a database of property owners that will be used to determine who owns the property within the municipality's jurisdiction. The database will assist the municipality to identify specific areas where services are required or can be improved. The expenditure incurred during the development of the database cannot be distinguished from the cost incurred by the municipality to meet its statutory obligations to provide services to the community. The development of the database of property owners complies with the requirement of the statute. Such costs should be recognised as an expense rather than an intangible asset in accordance with paragraph .59.

.62 Another example will be where the Department of Defence maps the coastline and ocean beds surrounding the South African coast. The information obtained will be used by the department to deliver a better and more effective service. The costs to develop and prepare these maps should be recognised as an expense rather than as an intangible asset. However, copies of these maps can also be held for sale by the department, in which case GRAP 12 should be applied.

Cost of an internally generated intangible asset

.63 The cost of an internally generated intangible asset for the purpose of paragraph .27 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs .23, .24 and .52. Paragraph .70 prohibits reinstatement of expenditure previously recognised as an expense.

.64 The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

(a) costs of materials and services used or consumed in generating the intangible asset;

(b) costs of employee benefits (as defined in GRAP 25) arising from the generation of the intangible asset;

(c) fees to register a legal right; and

(d) amortisation of patents and licences that are used to generate the intangible asset.

GRAP 5 specifies criteria for the recognition of interest as an element of the cost of an asset that is a qualifying asset.

.65 The following are not components of the cost of an internally generated intangible asset:

(a) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;

(b) identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and

(c) expenditure on training staff to operate the asset.

Example illustrating paragraph .63

An entity developed a new system to schedule court cases more effectively that will result in increased service delivery. During the financial year ending March 20X6, expenditure incurred for the development of the system was R1 000, of which R900 was incurred before 1 March 20X6 and R100 was incurred between 1 March 20X6 and 31 March 20X6. The entity is able to demonstrate that, as at 1 March 20X6, the newly developed system met the criteria for recognition as an intangible asset. The recoverable service amount of the system (including future cash outflows to complete the development before it is available for use) is estimated to be R500.

At the end of the financial year, the developed system is recognised as an intangible asset at a cost of R100 (expenditure incurred since the date when the recognition criteria were met, i.e. 1 March 20X6). The R900 expenditure incurred before 1 March 20X6 is recognised as an expense because the recognition criteria were not met until 1 March 20X6. This expenditure does not form part of the cost of the system recognised in the statement of financial position.

During the financial year ending 31 March 20X7, expenditure incurred is R2 000. At the end of this financial year, the recoverable service amount of the system (including future cash outflows to complete the system before it is available for use) is estimated to be R1 900.

At the end of the 20X7 financial year, the cost of the developed system is R2 100 (R100 expenditure recognised at the end of 20X6 plus R2 000 expenditure recognised in the 20X6 financial year). The entity recognises an impairment loss of R200 to adjust the carrying amount of the developed system before impairment loss (R2 100) to its recoverable service amount (R1 900). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in GRAP 21 are met.

Recognition of an expense

.66 ***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 recognition criteria (see paragraphs .21 to .65).***

.67 In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, that entity recognises such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognises the expenditure as an expense when it receives the services. For example, expenditure on research is recognised as an expense when it is incurred (see paragraph .49). Other examples of expenditure that are recognised as an expense when they are incurred include expenditure on:

(a) start-up activities (i.e. start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with GRAP 17. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e. pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e. pre-operating costs);

(b) training activities;

(c) advertising and promotional activities (including folders, mugs, t-shirts or caps and information pamphlets; and

(d) relocating or reorganising part or all of an entity.

.68 An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity demands delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service; for example, to deliver information about a service to users of that service.

.69 Paragraph .66 does not preclude an entity from recognising a prepayment as an asset when payment for the goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph .66 does not preclude an entity from recognising a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Past expenses not to be recognised as an asset

.70 ***Expenditure on an intangible item that was initially recognised as an expense under this Standard shall not be recognised as part of the cost of an intangible asset at a later date.***

Subsequent measurement

.71 ***An entity shall choose either the cost model in paragraph .73 or the revaluation model in paragraph .74 as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.***

.72 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. The items within a class of intangible assets are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements representing a mixture of costs and values as at different dates.

Cost model

.73 ***After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.***

Revaluation model

.74 ***After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value. The accounting treatment for revaluations is set out in paragraphs .84 to .87.***

.75 The revaluation model does not allow:

(a) the revaluation of intangible assets that have not previously been recognised as assets; or

(b) the initial recognition of intangible assets at amounts other than cost.

.76 The revaluation model is applied after an asset has been initially recognised at cost. However, if only part of the cost of an intangible asset is recognised as an asset because the asset did not meet the criteria for recognition until part of the way through the process (see paragraph .63), the revaluation model may be applied to the whole of that asset. In addition, the revaluation model may be applied to an intangible asset that was received through a non-exchange transaction (see paragraphs .38, .38A and .39).

.77 It is uncommon for an active market to exist for an intangible asset, although this may happen. For example, an active market may exist for freely transferable homogeneous classes of licences or production quotas the entity has acquired from another entity. However, an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents or trademarks, because each such asset is unique. Also, although intangible assets are bought and sold, contracts are negotiated between individual buyers and sellers, and transactions are relatively infrequent. For these reasons, the price paid for one asset may not provide sufficient evidence of the fair value of another. Moreover, prices are often not available to the public.

.78 The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revalued. If the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in fair value.

.79 When an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated amortisation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

(b) the accumulated amortisation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated amortisation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs .84 and .85.

.80 If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortisation and impairment losses.

.81 If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

.82 The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with GRAP 21 or GRAP 26, as appropriate.

.83 If the fair value of the asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

.84 If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

.85 If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly in net assets to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

.86 Some or all of the cumulative revaluation surplus included in net assets may be transferred directly to accumulated surpluses or deficits when the intangible asset is derecognised. This may involve transferring some or all of the surplus when the assets to which the surplus relates are retired or disposed. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between amortisation based on the revalued carrying amount of the asset and amortisation that would have been recognised based on the asset's historical cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

.87 Guidance on the effects of taxes on revenue, if any, resulting from the revaluation of intangible assets are recognised and disclosed in accordance with IAS 12.

Useful life

.88 An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity 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, or provide service potential to, the entity.

.89 The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised (see paragraphs .97 to .106), and an intangible asset with an indefinite useful life is not (see paragraphs .107 to .110).

The illustrative examples accompanying this Standard illustrate the determination of useful life for different intangible assets, and the subsequent accounting for those assets based on the useful life determinations.

.90 Many factors are considered in determining the useful life of an intangible asset, including:

(a) the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;

(b) typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

(c) technical, technological, commercial or other types of obsolescence;

(d) the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;

(e) expected actions by competitors or potential competitors;

(f) the level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;

(g) the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and

(h) whether the useful life of the asset is dependent on the useful life of other assets of the entity.

.91 The term "indefinite" does not mean "infinite". The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the entity's ability and intention to reach such a level. A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.

.92 Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.

.93 The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.

.94 The useful life of an intangible asset that arises from binding arrangements

shall not exceed the period of the binding arrangement, but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

.95 There may be economic, political, social and legal factors influencing the useful life of an intangible asset. Economic, political, or social factors determine the period over which future economic benefits or service potential will be received by the entity. Legal factors may restrict the period over which the entity controls access to such economic benefits and service potential these benefits. The useful life is the shorter of the periods determined by these factors.

.96 Existence of the following factors, among others, indicates that an entity would be able to renew the binding arrangements without significant cost:

(a) there is evidence, possibly based on experience, that the binding arrangements will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;

(b) there is evidence that any conditions necessary to obtain renewal will be satisfied; and

(c) the cost to the entity of renewal is not significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal, the "renewal" cost represents, in substance, the cost to acquire a new intangible asset at the renewal date.

Intangible assets with finite useful lives

Amortisation period and amortisation method

.97 The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight line method shall be used. The amortisation charge for each period shall be recognised in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

.98 A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight line method, the diminishing balance method and the unit of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits or service potential embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

.98A There is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits or service potential embodied in the intangible asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. This presumption can be overcome only in the limited circumstances:

(a) in which the intangible asset is expressed as a measure of revenue, as described in paragraph .98C; or

(b) when it can be demonstrated that revenue and the consumption of the economic benefits or service potential of the intangible asset are highly correlated.

.98B In choosing an appropriate amortisation method in accordance with paragraph .97, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (i.e. time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortisation, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits or service potential.

.98C In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation. For example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged (for example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches R100 million). In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortising the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined.

.99 Amortisation is usually recognised in surplus or deficit. However, sometimes the future economic benefits or service potential embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see GRAP 12).

Residual value

.100 The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

(a) there is a commitment by a third party to acquire the asset at the end of its useful life; or

(b) there is an active market for the asset and:

(i) residual value can be determined by reference to that market; and

(ii) it is probable that such a market will exist at the end of the asset's useful life.

.101 The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

.102 An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each reporting date. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3).

.103 The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Review of amortisation period and amortisation method

.104 The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change

in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with GRAP 3.

.105 During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortisation period needs to be changed.

.106 Over time, the pattern of future economic benefits or service potential expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortisation is appropriate rather than a straight line method. Another example is if use of the rights represented by a licence is deferred pending action on other components of the entity's operating plan. In this case, economic benefits or service potential that flow from the asset may not be received until later periods.

Intangible assets with indefinite useful lives

.107 An intangible asset with an indefinite useful life shall not be amortised.

.108 In accordance with GRAP 21 and GRAP 26, an entity is required to test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment by comparing its recoverable amount and recoverable service amount, as appropriate, with its carrying amount:

(a) annually; and

(b) whenever there is an indication that the intangible asset may be impaired.

Review of useful life assessment

.109 The useful life of an intangible asset that is not being amortised shall be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with GRAP 3.

.110 In accordance with GRAP 21 or GRAP 26, as appropriate, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable amount or recoverable service amount, determined in accordance with GRAP 21 or GRAP 26, as appropriate, with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount or recoverable service amount, as appropriate, as an impairment loss

Recoverability of the carrying amount — impairment losses

.111 To determine whether an intangible asset is impaired, an entity applies GRAP 21 or GRAP 26, as appropriate. Those Standards explain when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount or recoverable service amount of an asset and when it recognises or reverses an impairment loss.

Retirements and disposals

.112 An intangible asset shall be derecognised:

(a) on disposal (including disposal through a non-exchange transaction); or

(b) when no future economic benefits or service potential are expected from its use or disposal.

.113 The gain or loss arising from the derecognition of an intangible asset shall be included in surplus or deficit when the asset is derecognised (unless GRAP 13 requires otherwise on a sale and leaseback).

.114 The disposal of an intangible asset may occur in a variety of ways (e.g. by sale, by entering into a finance lease, or through a non-exchange transaction). In determining the date of disposal of such an asset, an entity applies the criteria in the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9) for recognising revenue from the sale of goods. GRAP 13 applies to disposal by a sale and leaseback.

.115 If in accordance with the recognition principle in paragraph .23 an entity recognises in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognises the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.

.116 The consideration receivable on disposal of an intangible asset is recognised initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with GRAP 9 reflecting the effective yield on the receivable.

.117 Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated.

Disclosure

General

.118 ***An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:***

(a) ***whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;***

(b) ***the amortisation methods used for intangible assets with finite useful lives;***

(c) ***the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;***

(d) ***the line item(s) of the statement of financial performance in which any amortisation of intangible assets is included; and***

(e) ***a reconciliation of the carrying amount at the beginning and end of the period showing:***

(i) ***additions, indicating separately those from internal development and those acquired separately;***

(ii) ***acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;***

(iii) ***disposals;***

(iv) ***increases or decreases during the period resulting from revaluations under paragraphs .74, .84 and .85 (if any);***

(v) ***impairment losses recognised in surplus or deficit during the period in accordance with GRAP 21 or GRAP 26, as appropriate (if any);***

(vi) ***impairment losses reversed in surplus or deficit during the period in accordance with GRAP 21 or GRAP 26, as appropriate (if any);***

(vii) ***any amortisation recognised during the period;***

(viii) ***net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and***

(ix) ***other changes in the carrying amount during the period.***

.119 ***An entity shall disclose the following in the notes to the financial statements***

in relation to intangible assets which are in the process of being developed:

(a) The cumulative expenditure recognised in the carrying value of such intangible assets. These expenditures shall be disclosed in aggregate per class of intangible asset, distinguishing between internally generated and other intangible assets.

(b) The carrying value of intangible assets that are taking a significantly longer period of time to complete than expected, including reasons for any delays.

(c) The carrying value of intangible assets where development has been halted either during the current or previous reporting period(s). The entity shall also disclose reasons for halting the development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.

In providing the disclosures in paragraphs .119(b) and (c) an entity shall decide how to present the information required, i.e. individually or in aggregate, for example per project, per class or another relevant basis.

.120 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:

(a) brand names;

(b) mastheads and publishing titles;

(c) computer software;

(d) licences;

(e) copyrights, patents, or other property rights, service and operating rights;

(f) rights to use naturally occurring assets, for example the right to use water;

(g) formulae, models, designs and prototypes; and

(h) intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

.121 An entity discloses information on impaired intangible assets in accordance with GRAP 21 or GRAP 26, as appropriate, in addition to the information required by paragraphs .118(e)(v) to (vii).

.122 GRAP 3 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:

(a) the assessment of an intangible asset's useful life;

(b) the amortisation method; or

(c) residual values.

.123 ***An entity shall also disclose:***

(a) for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life;

(b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements;

(c) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and

(d) the amount of contractual commitments for the acquisition of intangible assets.

.124 When an entity describes the factor(s) that played a significant role in determining that the useful life of an intangible asset is indefinite, the entity considers the list of factors in paragraph .90.

Intangible assets measured after recognition using the revaluation model

.125 ***If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:***

(a) by class of intangible assets:

(i) the effective date of the revaluation;

(ii) the carrying amount of revalued intangible assets; and

(iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in paragraph .73;

(b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the reporting period and any restrictions on the distribution of the balance to the owners of the net assets; and

(c) the methods and significant assumptions applied in estimating the assets' fair values.

.126 It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the combination of a class of intangible assets that includes amounts measured under both the cost and revaluation models.

Research and development expenditure

.127 An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

.128 Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs .64 and .65 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph .127).

Other information

.129 An entity is encouraged, but not required, to disclose a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard.

Transitional provisions

Initial adoption of the Standards of GRAP

.130 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Amendments to Standards of GRAP

.131 Paragraph .87 was added and paragraphs .74, .79, .86 and .113 were amended by the Improvements to the Standards of GRAP issued on 1 April 2014. An entity shall apply these amendments retrospectively for annual periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.132 Paragraphs .119 and .129 were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on 26 May 2015. An entity shall apply these amendments prospectively in accordance with GRAP 3.

.132A The following paragraphs were amended by the Improvements to the Standards of GRAP issued in April 2017. These amendments are effective for annual periods beginning on or after 1 April 2018. An entity shall apply these amendments as follows:

(a) paragraphs .38A, .92, .98A, .98B and .98C shall be applied prospectively in accordance with GRAP 3;

(b) paragraph .41 shall be applied retrospectively in accordance with GRAP 3; and

(c) paragraph .79 shall be applied to all revaluations recognised in annual periods beginning on or after the date of initial application of the amendment and in the immediately preceding annual period.

Earlier application is encouraged. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Effective date

Initial adoption of the Standards of GRAP

.133 An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Entities already applying Standards of GRAP

.134 [Deleted].

.134A Paragraph .04 was amended by GRAP 32 issued in August 2013. An entity shall apply this amendment for annual financial statements covering periods beginning on or after 1 April 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before 1 April 2019, it shall disclose that fact.

.134B Paragraph .04 was amended by GRAP 35 and the Standard of GRAP on Joint Arrangements issued March 2017. Paragraphs .11, .14, .40, .44, .94 and .96 were amended, paragraph .11A added and paragraph .15 deleted by GRAP 35 issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.134C Paragraph .110 was amended by the Improvements to the Standards of GRAP (2020) issued March 2020. These amendments are effective for annual periods beginning on or after 1 April 2023. An entity shall apply these amendments prospectively in accordance with GRAP 3. Earlier application is permitted. If an entity elects to apply this amendment earlier, it shall disclose this fact.

Withdrawal of the Standard of GRAP on Intangible Assets (2006)

.135 This Standard supersedes the Standard of GRAP on *Intangible Assets* issued in 2006.

Comparison with International Public Sector Accounting Standard on *Intangible Assets* (January 2010)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Intangible Assets* (IPSAS 31). The main differences between this Standard and IPSAS 31 are:

- The scope of this Standard is different to IPSAS 31 in that government business enterprises are defined differently.
- IPSAS 31 describes the residual value of total assets after deducting total liabilities as "net assets/equity" whereas this Standard refers to "net assets".
- This Standard uses different terminology in certain instances, for example IPSAS 31 refers to "strategic plan" and "users of a service", whereas this Standard refers to "operating plan" and "customers".
- The scope exclusion in this Standard is different to that in IPSAS 31 as the Board has issued Standards of GRAP dealing with transfer of functions that requires a different treatment for goodwill.
- Guidance on the treatment of goodwill in this Standard has been aligned with the requirements in GRAP 106.
- A definition for "active market" is included in this Standard, based on the equivalent IAS Standard on *Intangible Assets*. IPSAS 31 does not have such a definition.
- The identifiability criterion in this Standard is different to that in IPSAS 31. This Standard has excluded the reference to "or other legal rights" due to the scope exclusion of powers and rights conferred to an entity by legislation, a constitution, or by equivalent means.
- Guidance on intangible heritage assets as included in IPSAS 31 has not been included in this Standard as the Board has issued a separate Standard of GRAP dealing with heritage assets.
- Additional public sector examples have been included in this Standard to explain the application of intangible assets to the South African public sector.
- The application guidance in IPSAS 31 on website costs is not included in this Standard as the Board has issued the guidance as an Interpretation of the Standards of GRAP on *Intangible Assets – Web Site Costs*.
- This Standard requires the disclosure of the cumulative expenditure recognised in the carrying value of intangible assets in aggregate or per class of intangible asset, distinguishing between internally generated and other intangible assets. It also requires disclosure of the carrying value of intangible assets that are taking a significantly longer period of time to complete than expected, including reasons for

any delays. Disclosure is also required on the carrying value of intangible assets where development has been halted either during the current or previous reporting period(s), including reasons for halting as well as whether any impairment losses that have been recognised in relation to these assets.

- This Standard does not encourage the disclosure of fully amortised intangible assets that are still in use.
- Transitional provisions applicable to this Standard are dealt with differently than in IPSAS 31.