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[1] All IPSAS forms are on the share: V:\IPSAS\Project_Mgmt\Forms
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Related Documents

Document	Location
1. IPSAS 1: Presentation of Financial Statements 2. IPSAS 21: Impairment of Non-Cash Generating Assets 3. IPSAS 31: Intangible Assets 4. POPPs: Financial Resources Management – Accounting for Capital and Non-Capital Assets 10. Financial Regulations and Rules 11. Guidance Note 1: First Time recognition of Intangibles 12. IAS 38 : Intangible Assets Guidance & Accounting Practices	

1. Purpose:

The policy provides the authoritative rules and methods of accounting treatment and financial reporting to be applied in the capitalization of intangible assets and their subsequent amortization and, if applicable, impairment in compliance IPSAS 1, 21 and 31.

2. Scope:

The Intangible Assets policy will apply to all of UNDP's operations namely 'management assets' and 'project assets'.

Similar to the criteria to be applied for Fixed Assets, Intangible Assets to be capitalised exclude those procured for the purpose of distribution to third parties and that are not intended to be utilised for the administration of UNDP or for undertaking UNDP funded projects. See Fixed Asset Policy for additional clarification.

Based on a survey performed in 2010, it is not expected that the level of intangibles will be significant. The survey revealed that the following exist:

(A) Software licenses purchased;
(B) Internally Developed Software: ranging in cost from US$4,000 to $50,000 with expected period of use mainly 5 or 10 years. A typical example of internally developed software is a customized website or database program to track certain projects;
(C) Copyrights, Patent, Trademarks.

This policy is effective on 1 January 2012 and will be applied <u>prospectively</u>. Accordingly, no amounts will be recorded on the opening IPSAS balance sheet but all intangibles purchased or developed after that will be capitalised if they meet the relevant capitalisation criteria.

3. Definitions:

3.1. Expenses - decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

3.2. Assets - resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

3.3. Control of an asset - Arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.[3] ...Only when a claim is enforceable, and the entity assesses that it is probable that the inflow of resources will occur will assets ... be recognised.[4] (*Emphasis added).*

3.4. Cost - the amount of cash or cash equivalents paid and the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

3.5. Amortization - the systematic allocation of the depreciable amount of an intangible asset over its useful life.

3.6. Depreciable amount - the cost of an asset, or other amount substituted for cost, less its residual value.

3.7. Fair value - the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

3.17. Useful life :

(a) The period over which an asset is expected to be available for use by an entity; or

(b) The number of production or similar units expected to be obtained from the asset by an entity.

3.18. An impairment - a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

3.19. Non-cash-generating assets - assets other than cash-generating assets.

3.20. An active market - 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.

3.21. Development - 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 commercial production or use.

3.22. An intangible asset - an identifiable non-monetary asset without physical substance.

[3] IPSAS 23.7

[4] IPSAS 23.79

4. Background

4.1 UNSAS

Under the current UNSAS accounting system UNDP is not required to capitalise intangible assets or to keep records of intangible asset items. Accordingly, expenditures on intangible asset-type items are expensed immediately upon purchase.

4.2 IPSAS Requirements

IPSAS requirements with respect to intangibles are set out, primarily, in IPSAS 31 – *Intangible Assets*.

Additional guidance on specific issues is contained in the following standards:
IPSAS 1 - *Presentation of Financial Statements;*
IPSAS 21 - *Impairment of Non-Cash Generating Assets*

A summary of the IPSAS requirements, principally derived from IPSAS 31, is as follows:

4.2.1 Definition of Intangible Asset

The definition of an intangible asset is somewhat complicated and includes criteria in addition to those required for the definition of a fixed asset. The paragraphs from IPSAS 31 (paras. 17- 25) set out that the definition of an asset includes the following criteria:

1) Identifiability;
    a. Requires that the intangibles be separable such as one arising from a contract or license or other binding arrangement.
2) Control over a resource;
    a. The entity controls the use of the asset; and
3) Existence of future economic benefits or service potential.

As it is not expected that there will be significant intangibles assets, the policy below will relate to specific items that are relevant to UNDP.

See Annex for paras. 17 -25.

4.2.2 Recognition

An intangible asset that meets the above definition shall be capitalised when:
1) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
2) The cost or fair value of the asset to the entity can be measured reliably.

Initially, an intangible asset which qualifies for recognition as an asset should be measured at its cost. Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Normally, the price an entity pays to acquire separately an 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 28(a) is always considered to be satisfied for separately acquired intangible assets.

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.

The cost of a separately acquired intangible asset comprises:

1) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
2) Any directly attributable cost of preparing the asset for its intended use.

Examples of directly attributable costs are:

1) Costs of employee benefits (as defined in IPSAS 25) arising directly from bringing the asset to its working condition;
2) Professional fees arising directly from bringing the asset to its working condition; and
3) Costs of testing whether the asset is functioning properly.

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

1) Costs of introducing a new product or service (including costs of advertising and promotional activities);
2) Costs of conducting operations in a new location or with a new class of users of a service (including costs of staff training); and
3) Administration and other general overhead costs.
4) Administration and other general overhead costs are not components of the cost of PP&E.

4.2.3 Internally Generated Intangible Assets

In addition to intangible assets that may be purchased, UNDP may generate intangible assets internally, especially software. Additional guidance under IPSAS applies when intangible assets are generated internally.

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

1) A research phase; and
2) A development phase.

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

1) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
2) Its intention to complete the intangible asset and use or sell it.
3) Its ability to use or sell the intangible asset;
4) 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;
5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
6) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

See Annex for paras. 45-65.

The determination as to whether the above criteria have been satisfied is a judgmental one that will require review and consultation.

4.2.4 Subsequent Expenditure

- Subsequent expenditure relating to an intangible asset that has already been recognised should be added to the carrying amount of the asset when it is probable that future economic benefits will flow to the entity.
- All other subsequent expenditures should be recognised as expenses in the period in which they are incurred unless the expenses relate to development costs that may be capitailised.
- Given the complexity of the determination of what is and is not development, please refer to the UNDP Chief of Accounts for clarification.

4.2.5 Revaluations

- An entity may elect to adopt a policy to periodically revalue, subsequent to initial measurement, intangible assets on a class by class basis. Such an election would replace the cost method for subsequent measurement.

4.2.6 Amortization

- 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.
- The amortisable amount of an intangible asset should be allocated on a systematic basis over its useful life.
- The amortisation method used should reflect the pattern in which the asset's economic benefits or service potential is consumed by the entity.
- The amortisation charge for each period should be recognised as an expense.
- The following factors need to be considered in determining the useful life of an asset:
  1) The expected usage of the asset by the entity;
  2) The expected physical wear and tear on the asset;
  3) Technical obsolescence;
  4) Legal or similar limits on the use of the asset, such as the expiry of related leases.
- A variety of amortization 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 sum-of-the-units method. Straight-line depreciation results in a constant charge over the useful life of the asset.
- The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
  1) There is a commitment by a third party to acquire the asset at the end of its useful life; or
  2) 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.
- An intangible asset with an indefinite useful life shall not be amortized.
- In accordance with IPSAS 21 and IPSAS 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 service amount or its recoverable amount, as appropriate, with its carrying amount:
  (a) Annually; and
  (b) Whenever there is an indication that the intangible asset may be impaired

4.2.7 Review of Useful Life

- The useful life of an intangible asset should be reviewed periodically and, if expectations are significantly different from previous estimates, the amortisation charge for current and future periods should be adjusted.
- Where an asset has been determined to have an indefinite useful life and is not being amortized, a periodic review should also be performed and, if expectations are significantly different from previous expectations, a change should be made to assign the appropriate useful life.

4.2.8 Review of Amortization Method

- The amortization method applied to intangible assets with a finite useful life should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits or service potential from those assets, the method should be changed to reflect the changed pattern.

4.2.9 Impairment Losses

- An assessment of recoverability is required to be performed and an impairment charge recognised where the carrying value exceeds the recoverable amount. Further detail is included in IPSAS 21 - *Impairment of Non-Cash Generating Assets*.

4.2.10 Transition Period

- An entity may elect to apply the provisions of IPSAS 31, prospectively. Such an election is intended to be used by entities that are experiencing difficulties in gathering the requisite data for accrual accounting.

5. Detail Policy

5.1. Policy Statement

All intangible assets shall be capitalised when the item (on an individual, non-grouped, basis) acquired is intended to be used for more than one year, and costs total amount of more than US$1,000. The capitalized item must be subsequently amortized over useful life from start of usage, and to be subjected to impairment where and when applicable. Proper data management of capitalized assets must be maintained using the fixed assets register in ATLAS.

The intangible assets classes to be recognised are as follows:

(i) Externally developed Software
(ii) Internally developed Software
(iii) Trademarks

(iv) Patent Rights
(v) Copyrights
(vi) Licenses & others

5.2. Intangible Assets Measurement

An intangible asset shall be measured initially at cost in accordance with IPSAS 31 paragraph 32~43. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at fair value as at that date; otherwise, the cost is measured at the carrying amount of the asset given up.

Thresholds have been established as follows based on an analysis of already established thresholds by UN entities and an understanding of the business. Historic information is not available and the thresholds were primarily established benchmarking other UN organizations who have already implemented IPSAS:

Internally generated software: $50 000
Externally generated software: $5 000

5.3. Assets Measurement at Recognition – Externally purchased

Intangible assets are measured at initial recognition as follows:

(A) Separately acquired intangible asset is measured at cost comprising purchase price (including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates) and any directly attributable costs of preparing the asset for its intended use.
(B) Intangible asset acquired in an entity combination from exchange transaction is measured at its fair value at the acquisition date.
(C) Intangible asset acquired through non-exchange transaction *other than non-exchange entity combinations* is measured at the fair value at the acquisition date.

Refer to IPSAS 31 paragraphs 32 ~45 for the details of directly attributable costs and costs excluded at recognition.

5.4. Assets Measurement at Recognition – Internally generated

Internally generated intangible asset other than goodwill is measured at cost comprising all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management.

Only costs arising from and after the development phase of a project to develop intangibles internally shall be recognized if, and only if, an entity can demonstrate all of the following:

1) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
2) Its intention to complete the intangible asset and use or sell it.
3) How the intangible asset will generate probable future economic benefits or service potential;
4) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
5) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

5.5. Intangible Assets Subsequent Measurement

UNDP has selected to apply the Cost Model to measurement after recognition instead of the Revaluation Model. As such, under the cost model, after recognition as an asset, an item of intangible asset shall be measured at its cost less any *accumulated amortization* and any *accumulated impairment losses*.

5.5.1. Useful Life

UNDP shall assess whether the useful life of an intangible asset is finite or indefinite.

5.5.2. Amortization

Intangible assets with finite useful lives shall be amortized when the assets are available for use, using the straight-line method over their useful lives. The actual month convention shall be employed as in the case of depreciation of tangible assets above.

The following useful lives shall apply to the amortization of UNDP's finite intangible assets:

- Externally Developed Software→useful life specifically determined for each software*
- Internally generated software → useful life of three years
- Trademarks →useful life specifically determined for each item of trademark*
- Patent Rights →useful life specifically determined for each item of patent right*
- Copyrights →useful life specifically determined for each item of copyright*
- Licenses & others →useful life specifically determined for each item of license or other item*

*Where there is a binding arrangement different from the above stated useful lives, the asset shall be fully amortized over the contractual period of the asset if shorter than the useful life.

5.1. Impairment

The determination and recognition of impairment of UNDP intangible assets shall be undertaken centrally with support from the Country Offices, field offices and other locations.

Impairment Loss: UNDP shall assess at each reporting date whether there is any indication that an intangible asset may be impaired. Where it is established that there is an indication of potential impairment loss of an item of intangible assets UNDP shall calculate and record the impairment loss of the intangible asset.

Impairment Loss Reversal: UNDP shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an intangible asset may no longer exist, or may have decreased. Where any such indication exists, UNDP shall determine the recoverable service amount of the asset using the Amortized Replacement Cost, to ensure adherence to consistency of measure.

The resulting carrying amount of an asset due to impairment loss reversal shall not exceed the carrying amount that would have been determined assuming there was no earlier recognized impairment loss.

Refer to IPSAS21 for detail examples of indications of impairment loss and indications that impairment loss recognized in prior periods no longer exist or may have decreased.

5.7. Disposal (De-recognition)

An intangible asset shall be qualified as disposal when permanently withdrawn from use (retired), transferred to a UN Agency or NGO or programme Country Government, or sold to a third party entity. An asset of any category shall be derecognized from the Assets module of ATLAS and the General Ledger on disposal. The de-recognition process is deemed complete when and only when all the necessary documentation and approval have been complied with, the basis of which the proper entries have been made in ATLAS.

The gain or loss on disposal of an intangible asset (i.e. the difference between the net disposal proceeds and the carrying amount) shall be included in surplus or deficit and not classified as revenue in the period of disposal.

6. Disclosure Requirements

6.1. UNDP shall disclose on the face of its financial statements as follows:

(a) STATEMENT OF FINANCIAL POSITION
The aggregate of the net carrying amount of Intangible Assets at the reporting date shall be stated separately on the face of the Statement of Financial Position.

(b) STATEMENT OF FINANCIAL PERFORMANCE

The aggregate of Depreciation and Amortization for the reporting period shall be stated on the face of the Statement of Financial Performance.

(c) STATEMENT OF CASH FLOW
The receipts of net Proceeds from the Sale of Intangible Assets for the reporting period shall be stated separately under *Cash Receipts* of *Net Cash Flows from Investing Activities*.

The payments for the Purchases of Intangible Assets for the reporting period shall be stated separately under *Cash Payments* of *Net Cash Flows from Investing Activities*.

6.2. UNDP shall disclose in the notes to its financial statements as follows:
For each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

I. The Cost model is used for determining the gross carrying amount after recognition.

II. The straight-line method is used for amortization expense.

III. The useful lives are used.

IV. A reconciliation statement in the following format including Construction-in-progress and Acquisition-in-progress.

V. Any existing restrictions on title and any intangible assets pledged as securities for liabilities and amounts involved.

VI. The amount of contractual commitments for the acquisition of any intangible assets.

VII. Any intangible assets acquired through a *non-exchange transaction* is recognized initially at fair value and thereafter measured using the Cost Model listing:
  i. The fair value initially recognized
  ii. Carrying Amount

VIII. The carrying amount of intangible assets is having an indefinite useful life and the reasons supporting the assessment of indefinite useful life listing the determining factors.

IX. The description, carrying amount and remaining amortization period of any intangible asset that is material to UNDP's financial statements.

7. Transition

Under the current UNSAS accounting system, UNDP has not previously recognized intangible assets. On the date of transition, UNDP shall apply accrual basis accounting to the capitalization, amortization, disposal and, if applicable, impairment, of intangible assets prospectively, as stated in IPSAS 31 paragraph 129. Accordingly, intangible assets will only be recognized prospectively for items purchased or internally developed after that date.

Annex

IPSAS 31, Intangible Assets – paras. 17 -25

Intangible Assets

17. 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, licenses, 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, lists of users of a service, acquired fishing licenses, acquired import quotas, and relationships with users of a service.

18. Not all the items described in paragraph 17 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 recognized as an expense when it is incurred.

19. **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, licensed, 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 (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.**

20. For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Control of an Asset

21. 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 that 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. 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.

22. Scientific or 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.

23. 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.

24. An entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to use its services. However, in the absence of legal rights to protect, or other ways to control the relationships with users of a service or the loyalty of those users, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with users of a service and loyalty for such items (e.g., portfolio of users of a service, market shares or success rates of a service, relationships with, and loyalty of, users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect such relationships, exchange transactions for the same or similar non-contractual customer relationships provide evidence that the entity is nonetheless able to control the expected future economic benefits or service potential flowing from the relationships with the users of a service. Because such exchange transactions also provide evidence that the relationships with users of a service are separable, those relationships meet the definition of an intangible asset.

Future Economic Benefits or Service Potential

25. 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 licenses more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed.

IPSAS 31, Intangible Assets – paras. 49 -65

Internally Generated Intangible Assets

49. 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 50–65 to all internally generated intangible assets.

50. 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.

51. 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 were incurred in the research phase only.

Research Phase

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

53. 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 recognized as an expense when it is incurred.

54. Examples of research activities are:

(a) Activities aimed at obtaining new knowledge;

(b) The search for, evaluation and final selection of, applications of 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

55. **An intangible asset arising from development (or from the development phase of an internal project) shall be recognized 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.**

56. 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.

57. 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 or operation that is not of a scale economically feasible for commercial 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) Website costs and software development costs.

58. 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 either IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. If the asset will generate economic benefits or service potential only in combination with other assets, the entity applies the concept of cash-generating units in IPSAS 26.

59. 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.

60. 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.

61. **Internally generated brands, mastheads, publishing titles, lists of users of a service, and items similar in substance shall not be recognized as intangible assets.**

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

Cost of an Internally Generated Intangible Asset

63. The cost of an internally generated intangible asset for the purpose of paragraph 31 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 28, 29, and 55. Paragraph 70 prohibits reinstatement of expenditure previously recognized
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 IPSAS 25) arising from the generation of the intangible asset;

(c) Fees to register a legal right; and

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

IPSAS 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 deficits incurred before the asset achieves planned performance; and

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