Intangible Assets (Effective January 1, 2011)

Definition

An identifiable non-monetary asset without physical substance. Examples of intangible assets for a municipality include water rights, easements, brand reputation, permits and licenses, intellectual property like patents and trademarks, tourism appeal, established community relationships, and goodwill associated with a municipality's image. Intangible assets are assets that contribute value to the municipality but cannot be physically touched.

Eligibility Criteria

When the asset is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged individually or together with a related contract, asset, or liability.

Recognition and Measurement

An intangible asset is measured initially at cost and is only recognized if:
- The expected future economic benefits attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

Internally Generated Intangible Assets

Costs of an internally generated intangible asset are:
- The sum of expenditures from the date when the intangible asset first meets the specified recognition criteria; and
- Comprised of all direct costs necessary to create, produce, and prepare the asset to operate in its intended use.

No intangible assets arising from research can be recognized. Instead, the expenditures from research are expensed as incurred. An accounting policy choice must be made for expenditures on internally generated intangible assets incurred during the *development phase* to either:
- Expense as incurred; or
- Capitalize as an intangible asset if all the following criteria can be demonstrated:
  - Technical feasibility with intention to complete the intangible asset and use/sell it;
  - Ability to reliably measure the expenditure related to the intangible asset during development; and
  - How the intangible asset will generate probable future economic benefits.

Recognition of an Expense

If an expenditure on an intangible item does not satisfy the recognition criteria it must be expensed when incurred. For supply of goods, an entity recognizes the expense when it has a right to access the goods. Generally, this is when the entity owns the goods. In the case where goods have been constructed by a supplier in accordance with the terms of a supply contract and an entity could demand delivery of them in return for payment, an entity has the right to access the goods.

For supply of services, the entity recognizes the expenses when it receives the services. Generally, this is when the service has been performed by a supplier in accordance with a contract to deliver the services to the entity. It is not when the entity then uses these services to deliver another service, such as delivering an advertisement to its own customers.

Subsequent Measurement

- A recognized intangible asset with a *finite* useful life must be amortized over its useful life.
- A recognized intangible asset with an *indefinite* useful life must not be amortized until its life is determined to no longer be indefinite.
- The amortization method and estimate of the useful life of an intangible asset must be reviewed annually.

Presentation

A separate line on the entity's balance sheet must present the aggregate amount of intangible assets.
Source: Intangible Assets - BDO - January 2013

PSG-8 Purchased Intangibles (Effective April 1, 2023)

Definition

Purchased intangibles are identifiable non-monetary economic resources without physical substance acquired through an arms-length exchange transaction between knowledgeable, willing parties who are under no compulsion to act.

Some purchased intangible assets include: licenses and permits, such as those for hunting and fishing; intellectual property including patents, trademarks, copyrights, plant-breeding rights, broadcasting rights or licenses; import quotas; airway routes or landing rights; acquired lists of contacts, users, or customers; scientific or technical knowledge; and processes.

Scope

This public sector guideline applies to purchased intangibles, except for the following:
- software is accounted for in accordance with section PS 3150, Tangible Capital Assets; and
- intangibles acquired as part of a public private partnership agreement are purchased intangibles and are accounted for in accordance with section PS 3160, Public Private Partnerships.

Purchase premiums arising on acquisition of a government organization are accounted for in accordance with:
- section PS 2510, Additional Areas of Consolidation, when entry acquired is a government unit: and
- section PS 3070, Investment in Government Business Enterprise, when the entry acquired is a government business enterprise.

Government not-for-profit organizations using the PS 4200 series of standards account for purchased intangibles in accordance with section PS 4230, Capital Assets Held by Not-for-profit Organizations.

Recognition

Purchased intangibles are recognized as assets in the financial statements when they meet the definition of an asset and the general recognition criteria in section PS 1000, Financial Statement Concepts. Section PS 3210, Assets, provides guidance on applying the asset definition.

Accounting for the asset

PSG-8 is not a full handbook section that provides in-depth guidance on the accounting for purchased intangibles. As a result, purchased intangibles are accounted for in a similar manner as other items not specifically addressed in the Public Sector Accountings Standards (PSAS) Handbook.

An entry would consider the following guidance when determining how to account for purchased intangibles:
- The definition of an asset in section PS 1000;
- The guidance elaborating on the asset definition in section PS 3210, Assets;
- The recognition, measurement, and disclosure concepts in section PS 1000; and
- The GAAP hierarchy in section PS 1150, Generally Accepted Accounting Principles.

Classification

Purchased intangibles are classified as non-financial assets.
Source: PSG-8 Purchased Intangibles – BDO – December 2021