INTANGIBLE ASSETS CAPITALISATION AND AMORTISATION POLICY AND PROCEDURE (FMPM)

CONTENTS

1 PURPOSE

1.1 This policy and procedure provides guidance on the capitalisation and amortisation of intangible assets at CQUniversity.

2 SCOPE

2.1 This policy and procedure applies to CQUniversity staff, controlled entities of the University, Committees and the Council of CQUniversity.

3 POLICY STATEMENT

3.1 Australian Accounting Standards Board (AASB) 138 Intangible Assets defines an intangible asset as an identifiable non-monetary asset without physical substance.

3.2 An intangible asset is identifiable when it:

- is separable (i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged wither individually or together with a relate contract, asset or liability), or

- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

3.3 Professional judgement is required to determine which element is more significant when determining whether an asset should be accounted for under AASB 116 Property, Plant and Equipment or AASB 138. An example is that a computer's operating system software should be treated as property, plant and equipment because the software is integral and the computer cannot operate without it. However, when the software is not an integral part of the related hardware, it is treated as an intangible asset. Internally generated goodwill, brands, mastheads, publishing titles, customer lists and items similar in substance must not be recognised as intangible assets.

4 PROCEDURE

Recognition criteria

4.1 An intangible asset is only recognised if:

- it is probable that the future economic benefits associated with the item will flow to the entity, with the probability of future economic benefits representing management's best estimates of the economic conditions that will exist over the useful life of the asset using reasonable and supportable assumptions, and
- the cost of the asset can be measured reliably.

Initial recognition

4.2 An intangible asset must be measured initially at cost. This comprises its purchase price and any directly attributable costs of preparing the asset for its intended use.

4.3 Direct attributable costs include:

- costs of materials and services used or consumed in generating the intangible asset
- costs of employee benefits (as defined in AASB 119 Employee Benefits) arising from the generation of the intangible asset
- fees to register a legal right, and
- amortisation of patents and licences that are used to generate the intangible asset.

4.4 All training costs must be expensed.

Recognition threshold

4.5 The asset recognition threshold for intangible assets is $100,000.

No or nominal cost

4.6 Assets acquired at no cost or for a nominal consideration, other than those acquired through restructuring, must be recognised initially at fair value as at the date of acquisition. Where there is no active market, and a fair value is not available, the cost of the item at the date it is acquired becomes its fair value.

4.7 When an intangible asset is acquired free of charge, or for nominal consideration, by way of a government grant, CQUniversity will recognise both the asset and the grant at fair value, in accordance with AASB 1004 Contributions until 31 December 2018. From 1 January 2019, AASB 1058 Income of Not-for-Profit Entities will need to be applied.

Internally generated intangible assets

4.8 To assess whether an internally generated intangible asset meets the criteria for recognition, the generation of the asset will be classified into either:

- a research phase, or

- a development phase.

4.9 “Research” is defined as the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

4.10 “Development” 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 commercial production or use.

4.11 If the University cannot distinguish the research from the development phase, the expenditure will be treated as if it were incurred in the research phase only.

4.12 The cost of an internally generated intangible asset comprises all directly attributable costs, other than training costs, necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

Research phase

4.13 No intangible asset arising from research can be recognised as it cannot be demonstrated that an intangible asset exists that will generate probable future economic benefits.

4.14 Any expenditure on research must be recognised as an expense. Expenditure on an intangible item that was initially recognised as an expense cannot be recognised as part of the capitalised cost of an intangible asset at a later date.

4.15 Examples of research activities include:

- activities aimed at obtaining new knowledge
- the search for, evaluation and final selection of, applications of research findings or other knowledge
- the search for alternatives for materials, devices, products, processes, systems or services, and
- the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development phase

4.16 An intangible asset arising from development can only be recognised if the University can demonstrate all of the following:

- the technical feasibility completing the intangible asset so that it will be available for use or sale
- the intention to complete the intangible asset and use or sell it
- the ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits (including demonstration of 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)
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

4.17 Examples of development activities include:

- the design, construction and testing of pre-production or pre-use prototypes and models
- the design of tools, jigs, moulds and dies involving new technology
- the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production, and
- the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

4.18 Any revenues generated during the development phase are deducted from the value of the asset.

Measurement after recognition

4.19 Where there is an active and liquid market, intangible assets will be carried at fair value; otherwise they must be carried at cost, in accordance with AASB 138 (paragraph 72).

4.20 Intangible assets, both at cost and fair value, are subject to amortisation and impairment testing.

Fair value model

4.21 Fair value will be determined by reference to an active market. Revaluations must be performed with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

4.22 Any accumulated amortisation will be restated on a gross basis on revaluation.

4.23 With regard to revaluation, the same rules apply as to those for property, plant and equipment.

Websites

4.24 A website developed by the University for its own use is an internally generated intangible asset, and therefore subject to the same recognition and measurement requirements.

4.25 All expenditure on developing a website solely or primarily for promoting and advertising the University's own services is required to be recognised as an expense when incurred (e.g. pro-student prospective). Should the expenditure cover both an advertising service and also generate probable future economic benefits (e.g. a website is capable of generating revenues including direct revenues from enabling student enrolments), it is unlikely that the component relating to revenue generation is separable, hence the full cost will need to be expensed.

4.26 Expenditure on websites in existence (which were previously expensed in prior financial statements) cannot be later recognised as part of the cost of an intangible asset at a later date.

4.27 The stages of a website's development and treatment of these expenditures is as follows:

- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Accounting treatment – recognise as an expense when incurred.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.
- Accounting treatment - providing for purposes other than to advertise and promote the University's services (e.g. digital photographs of products) and not previously recognised as an expense, then to capitalise.
- Operating stage – follows completion of development, when the University is maintaining and enhancing the applications, infrastructure, graphical design and content of the website.
- Accounting treatment – recognise as an expense when incurred unless the definition and recognition criteria still apply and these costs have been subsequently incurred in order to add to, replace part of or service the existing intangible asset.

4.28 This does not apply to expenditure on purchasing, developing, and operating hardware (e.g. web servers, staging servers, production servers and Internet connections) of a website. This expenditure will be accounted for in line with the Financial Management Practice Manual (FMPM). Also where an Internet service provider hosts the University's website, the expenditure will be recognised as an expense.

4.29 Should the University develop or operate a website (or website software) for sale to another entity, the above does not apply.

4.30 Guidance given in relation to amortisation of websites is that the best estimate of a website's useful life shall be short.

Amortisation

Useful life

4.31 The University will assess whether the useful life of an intangible asset is finite or indefinite. An intangible asset has an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows.

Intangible assets with finite useful lives

4.32 An intangible asset with a finite useful life will be amortised over its useful life. The amortisation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed. If that pattern cannot be determined reliably, the straight-line method is to be used.

4.33 Amortisation will be charged in relation to the asset from the first day it is put into use and to cease at the earlier of the date that the asset is classified as held for sale in accordance with AASB 5 Non-Current Assets held for Sale and Discontinued Operations and the date that the asset is derecognised.

4.34 The residual value of an intangible asset with a finite useful life will be zero unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life to the University, or
- there is an active market for the asset, residual value can be determined by reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

4.35 The amortisation period and method for an intangible asset with a finite useful life will be reviewed at least at the end of each annual reporting period. If the expected useful life or expected pattern of consumption of the future economic benefits is different from previous estimates, the amortisation period or the method will be changed accordingly. Such changes shall be accounted for as changes in accounting estimates in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

Intangible assets with indefinite useful lives

4.36 Intangible assets with an indefinite useful life will not be amortised.

4.37 The University is required to test an intangible asset with an indefinite useful life for impairment annually, and whenever there is an indication that the intangible asset may be impaired.

4.38 At each period, the University will assess whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change to a finite useful life shall be accounted for as a change in accounting estimate in accordance with AASB 108.

De-recognition

4.39 An intangible asset shall be derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Any gain or loss arising is to be recognised in profit or loss when the asset is derecognised. Gains must not be classified as revenue, but shown as a gain in profit or loss.

4.40 If the University recognises in the carrying amount of an asset the cost of a replacement for part of the asset, then it derecognises the carrying amount of the replaced part. If this is not practicable, the University 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.

4.41 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 amortised or is classified as held for sale.

Disclosure

4.42 Required disclosures for each class of internally generated intangible assets and other intangible assets include:

- whether the useful lives are finite or indefinite
- if a finite useful life, the useful life or amortisation rate and the amortisation method
- line item/s in statement of comprehensive income including any amortisation of intangible assets
- a detailed reconciliation of the carrying amount at the start and end of the period.

4.43 Other required disclosures include:

- the carrying amount of intangible assets assessed as having an indefinite life, with reasons supporting an indefinite life assessment
- a description, the carrying amount, and remaining amortisation period of any material individual intangible asset
- details of intangible assets acquired by way of a government grant and initially recognised at fair value
- carrying amounts of intangible assets with a restricted title or pledged as security for liabilities
- amount of contractual commitments for the acquisition of intangible assets
- details of intangible assets measured using the revaluation model
- the aggregate amount of research and development expenditure recognised as an expense during the period.

4.44 The University is also required to disclose information regarding:

- any fully amortised intangible assets still in use, and
- any significant intangible assets controlled by the University that did not meet the recognition criteria.

5 RESPONSIBILITIES

Compliance, monitoring and review

5.1 The University will comply with all relevant State Government Treasury Guidelines, the Financial and Performance Management Standard, Department of Education and Training Guidelines for reporting and relevant Australian Accounting Standards in determining the value to capitalise and subsequently amortise in relation to intangible assets.

5.2 The Vice-President (Student and Corporate Services) and Deputy Director Financial Accounting and Operations are responsible for monitoring, reviewing and ensuring compliance with this policy and procedure.

5.3 The Finance Directorate is responsible for ensuring compliance with accounting standards and will maintain centralised control and keep up to date procedures to address capitalisation and amortisation of intangible assets.

Reporting

5.4 No additional reporting is required.

Records management

5.5 Staff must maintain all records relevant to administering this policy and procedure in a recognised University recordkeeping system.

6 DEFINITIONS

6.1 Terms not defined in this document may be in the University glossary.

7 RELATED LEGISLATION AND DOCUMENTS

Australian Accounting Standards Board (AASB):

- 5 – Non-current Assets Held for Sake and Discontinued Operations
- 108 – Accounting Policies, Changes in Accounting Estimates and Errors
- 116 – Property, Plant and Equipment
- 119 – Employee Benefits
- 138 – Intangible Assets
- 1004 – Contributions
- 1058 – Income of Not-for-Profit Entities

Financial Accountability Act 2009 (Qld)

Financial Performance and Management Standard 2019 (Qld)

Non-Current Asset Policies for the Queensland Public Sector

8 FEEDBACK

8.1 Feedback about this document can be emailed to policy@cqu.edu.au.

9 APPROVAL AND REVIEW DETAILS

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Notes	