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| FRD 109 |  |  | Intangible assets (April 2022) |
| Purpose |  |  | To prescribe the recognition and measurement basis of ‘intangible assets’. |
| Application |  | **2.1** | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act* *1994*. Application by State owned corporations is encouraged. |
| Operative date |  |  | Annual reporting periods commencing on or after 1 July 2015. |
|  |  | **3.2** | FRD 109A *Intangible assets* renamed to FRD 109 *Intangible assets* effective 1 April 2022. |
| Requirements |  |  | Recognition of an intangible asset:  Expenditure on a non-monetary item without physical substance can only be recognised as an intangible asset if:   1. **the item satisfies the recognition criteria contained within AASB 138 Intangible Assets; and** 2. **the expenditure meets the capitalisation threshold that is material to the entity.**   Otherwise, such expenditure shall be expensed as incurred. |
|  |  |  | Measurement after initial recognition  Subsequent to initial recognition, an entity shall measure its intangible assets at *cost* less any accumulated *amortisation* and accumulated *impairment losses*.[[1]](#footnote-1) |
| Definitions |  |  | Refer to paragraph 8 of AASB 138 for the following definitions:  Amortisation;  Asset;  Cost;  Intangible asset;  Impairment loss; and  Useful life. |
| Guidance |  |  | Capitalisation threshold  This FRD requires expenditure on a non-monetary item without physical substance to be recognised as an intangible asset only if the amount involved meets the capitalisation threshold that is material to the entity. In addition, an entity shall consider the following in determining the capitalisation threshold:   * + - 1. the impact of the capitalisation threshold on the operating statement and balance sheet, taking into consideration the pattern of investment and that an intangible asset may have a relatively short *useful life* (e.g. useful life of software is usually only 3-5 years); and       2. the administrative burden of conducting annual impairment tests of intangible assets. |
|  |  |  | Research activities (or research phase of internal projects)  AASB 138 specifically prohibits the recognition of research activities as an asset. |
|  |  |  | **Internal-use software**  Purchased internal-use software may comprise of components with differing accounting treatment (refer to Appendix 1). Where accounting treatment differs, the total purchase price shall be proportionately allocated to each component of the software based on its cost. |
|  |  |  | Internally developed internal‑use software usually involves three stages:   * + - 1. preliminary project stage – costs to be expensed;       2. application development stage – costs to be capitalised or expensed; and       3. post-implementation/operation stage – costs to be expensed.   (Refer to Appendix 1 below for additional guidance) |
|  |  |  | Internally developed internal-use software may comprise of more than one component, for example, the development of an accounting software system may consist of three components: general ledger, accounts payable sub‑ledger and an accounts receivable sub-ledger. Where this is the case, each component of the system shall be accounted for as a separate component and accounted for in accordance with this FRD. |
| Relevant pronouncements |  | 7.1 | AASB 101 *Presentation of Financial Statements*  AASB 136 *Impairment of Assets*  AASB 138 *Intangible Assets*  AASB 1059 *Service Concession Arrangements: Grantors* |
| Background |  | 8.1 | AASB 138 requires an entity to measure its intangible assets after initial recognition using either the cost model or the revaluation model.  This FRD limits the choice provided by the AASB in relation to the above two models. The cost model has been determined to be the most efficient and appropriate method of reporting across government, except for intangible assets that are recognised in accordance with AASB 1059 as service concession assets, which are required to be measured after initial recognition using the revaluation model.  This FRD requires that intangible items be capitalised where the amount meets the capitalisation threshold that is material to the entity and outlines factors to be considered in determining the capitalisation threshold. |
|  |  | 8.2 | This FRD was initially issued in December 2004 to provide guidance for the preparation of the *2005‑06 Budget*. It was revised in:  February 2005 to remove the recommended capitalisation threshold.  June 2016 to:  Remove first-time adoption requirements as they are no longer required;  Remove the ‘Model for Disclosure within Financial Report’ section as this disclosure has been included in the *Model Report for Victorian Government Departments*; and  Remove the reference to AASB 1031 as the standard has been withdrawn.  July 2019 to reflect that intangible assets recognised as service concession assets under AASB 1059, must be recognised using the revaluation model as opposed to the cost model after initial recognition, following the application of AASB 1059. |

# Appendix 1 – Guidance on type and accounting treatment for activities in each of the three stages of developing internal-use software

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| Stages of development | Related activities | Accounting treatment |
| Preliminary project stage | ***Conceptual formulation of alternatives*** – examples include considering whether:  to develop a new payroll system or direct efforts towards correcting existing problems  to run software on a mainframe or on a client serve system  **Determination of existence of the required technologies**  **Final selection of alternatives** – examples include selecting vendors or consultants | **Expense** all internal and external costs as incurred |
| Application development stage | ***Design of chosen path*** – examples include software configuration and interfaces  ***Coding***  ***Hardware installation***  ***Testing*** – example include parallel processing | **Capitalised** or **expensed** depending on the type of expenditure:  1. Examples of costs that should be **capitalised** as part of the asset value:  Employee benefit or costs directly attributable to developing the software;  External direct costs of materials and services consumed in developing or obtaining the software (e.g. fees paid to third parties);  Certain data conversion costs associated with software that permit access or conversion of old data by the new systems; and  Costs of specified upgrades and enhancements that increase the function and/or performance of the existing software. |
|  |  | 2. Examples of costs that should be **expensed** as incurred:  General, administrative and overhead costs;  Training costs (both internal and external);  Maintenance costs (both internal and external). (**Note**: Where external maintenance costs are combined with specified upgrades and enhancements in a single contract, costs relating to maintenance work should be separately identified and expensed as incurred);  Internal costs for minor upgrades and enhancements that are not material and cannot be distinguished on a cost-effective basis from internal maintenance costs;  External costs for unspecified upgrades and enhancements; and  Certain data conversion costs, such as purging or cleansing existing data, reconciliation or balancing and converting the old and new system’s data. |
| Post-implementation or operation stage | Post-implementation, training and application maintenance activities | **Expense** all internal and external costs as incurred. |

1. This does not apply to intangible assets recognised in accordance with AASB 1059 *Service Concession Arrangements: Grantors* (**AASB 1059***)* as service concession assets. Service concession assets that are intangible are initially recognised in accordance with AASB 1059 at current replacement cost and subsequently measured applying the revaluation model. [↑](#footnote-ref-1)