4.5 Intangible Assets

10.1.2.74 The Code (following IFRS 1) requires local authorities to recognise, in their opening IFRS balance sheet (1 April 2009), all intangible assets whose recognition is required by section 4.5 of the Code (see also IAS 38). Intangible assets shall not be recognised where section 4.5 of the Code does not permit such recognition. Authorities are also required to apply section 4.5 of the Code in measuring all recognised intangible assets.

10.1.2.75 Any intangible asset that has previously been recognised under the provisions of the SORP will meet the recognition criteria in paragraphs 4.5.2.3 - 4.5.2.4 of the Code. Authorities shall therefore continue to recognise all intangible assets that were previously recognised on their balance sheet. In local authorities, intangible assets will normally have been carried at depreciated historical cost, and the depreciated historical cost of an intangible asset on the opening IFRS balance sheet shall be the depreciated historical cost of that asset as at 31 March 2009.

For intangible assets that were previously recognised under the SORP, it is expected that no transition arrangement will arise. Assets recognised under the SORP will meet the Code recognition requirements for intangible assets, and the measurement basis under the Code is the same as under the SORP.

10.1.2.76 Because section 4.5 of the Code (following IAS 38) recognises a wider range of intangible assets than the 2009 SORP, it is possible that expenditure in previous years that could have been recognised as an intangible asset had the Code applied at the time was not so recognised under the SORP, but was charged to the Income and Expenditure Account (and therefore to the General Fund). Such expenditure may be recognised as an intangible asset in the opening IFRS balance sheet if, and only if, the recognition criteria in paragraphs 4.5.2.3 - 4.5.2.4 (and 4.5.2.7 for internally generated intangible assets) would have been met at the time the expenditure was incurred. For internally generated intangible assets, this means that an authority, at the time the expenditure was incurred, distinguished between the research and development phases of the generation of an intangible asset, and was able to reliably measure the costs of each phase.

Paragraph 3.60 of the SORP included the following statement:

> *Internally developed intangible assets should only be capitalised where there is a readily ascertainable market value, which is unlikely to occur in a local authority's single entity financial statements.*

The Code contains no such restriction. It is therefore possible that expenditure that was charged to the Income and Expenditure Account under the SORP should, under the Code, be recognised as an intangible asset.

It is anticipated that the most common type of internally generated intangible asset in local authorities will be computer software. In England and Wales, this expenditure may therefore have been treated as Revenue Expenditure Funded from Capital Under Statute. Where an intangible asset is recognised, the entries in respect of Revenue Expenditure Funded from Capital Under Statute will need to be reversed.

Before expenditure can be capitalised as an internally generated intangible asset under the Code, a series of criteria have to be met. These are set out in paragraph 4.5.2.7 of the Code:

4.5.2.7 *IAS 38 requires strict criteria to be met before an internally generated intangible asset may be recognised. These criteria are met where an authority can demonstrate:*

- *the technical feasibility of completing the asset so it will be available for use or sale;*
- *its intention to complete the asset;*
- *its ability to use or sell the asset;*
- *how the asset will generate future economic benefits or deliver service benefits (either by demonstrating a market for the asset or the usefulness of the asset);*
- *the availability of adequate resources to complete the asset; and*
- *its ability to measure reliably the expenditure attributable to the intangible asset during its development.*

Provided these criteria are met, an authority shall recognise an internally generated intangible asset. The generation of the asset is classified into a research phase and a development phase. The cost of an internally generated intangible asset is the sum of expenditure incurred in the development phase of the project, only after it has become probable that the expected future benefits attributable to the asset will flow to the authority. Further details can be found in IAS 38.

Module 4, Section I of the Code Guidance Notes contains further guidance on the recognition criteria.

Unless an authority was able to meet these criteria at the time the expenditure was incurred (including the identification of separate research and development phases), no restatement should take place. It is expected that in most cases, authorities would not have recorded information at the level of detail required to meet the criteria, and that no intangible asset should be recognised. However, some authorities may have such data (especially for 2009/10, when the requirements of the Code would have been known); in those circumstances the accounts should be restated.

Where an authority is required to restate their accounts, the following steps should be followed:

Step 1 – Restate the 1 April 2009 Balance Sheet (intangible assets recognised prior to 1 April 2009)

Under the SORP, expenditure would have been charged to the Service Revenue Account, and may then (in England and Wales) have been transferred to the Capital Adjustment Account as Revenue Expenditure Funded from Capital Under Statute. In this latter case, MRP would have been charged, unless the asset was funded from other capital resources.

Under the Code, an asset would be recognised; the asset would be amortised, and the General Fund would be charged with MRP or Loans Fund charges (unless the asset was funded from other capital resources). Where Revenue Expenditure Funded from Capital Under Statute was previously recognised, it is anticipated that the intangible asset will be funded from the capital resources released by reversing the recognition of the Revenue Expenditure Funded from Capital Under Statute. The accounts will need to be restated to reflect this treatment. The entries required to restate the opening 1 April 2009 Balance Sheet are as follows:

Dr Intangible Assets
Cr General Fund

With the expenditure to be recognised as an intangible asset

Dr Capital Adjustment Account
Cr Intangible Assets

With amortisation due on the intangible asset up to 31 March 2009

Dr General Fund
Cr Capital Adjustment Account

With any expenditure previously recognised as Revenue Expenditure Funded from Capital Under Statute

Dr (/ Cr) General Fund
Cr (/ Dr) Capital Adjustment Account

With the MRP or Loan Fund Charges due up to 31 March 2009 in respect of the intangible asset. Note that where Revenue Expenditure Funded from Capital Under Statute has previously been recognised, this entry should be for any difference between the MRP previously charged in respect of the Revenue Expenditure Funded from Capital Under Statute, and the MRP now due in respect of the intangible asset (which may be an increase, decrease or nil)

Worked examples can be found in Examples 1 and 2 in the spreadsheet.

Where the intangible asset was funded from capital resources other than borrowing (and these had not already been applied to fund Revenue Expenditure Funded from Capital Under Statute), additional entries will also be required to recognise the application of the funding.

Step 2 – Restate the 2009/10 Accounts (intangible assets recognised prior to 1 April 2009)

Under the SORP, the only transaction that might appear in the 2009/10 accounts in respect of expenditure incurred in previous years would be MRP on any Revenue Expenditure Funded from Capital Under Statute.

Under the Code, amortisation would be recognised in the Service Revenue Account, and transferred to the Capital Adjustment Account. The General Fund would be charged with MRP or Loans Fund charges (unless other capital resources had been used in Step 1 to finance the intangible asset). The entries required to restate the 2009/10 accounts are as follows.

Dr General Fund (Service Revenue Accounts)
Cr Intangible Assets

With amortisation due in 2009/10 in respect of the intangible asset

Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)

With the reversal of the amortisation

Dr (/ Cr) General Fund
Cr (/ Dr) Capital Adjustment Account

With the MRP or Loan Fund Charges due in 2009/10 in respect of the intangible asset. Note that where Revenue Expenditure Funded from Capital Under Statute has previously been recognised, this entry should be for any difference between the MRP previously charged in respect of the Revenue Expenditure Funded from Capital Under Statute, and the MRP now due in respect of the intangible asset (which may be an increase, decrease or nil)

The worked examples found in Examples 1 and 2 in the spreadsheet include the 2009/10 transactions.

Step 3 – Restate the 2009/10 Accounts (intangible assets recognised during 2009/10)

Where an intangible asset is recognised in 2009/10 under the Code, the principles to be followed when restating the accounts will be the same as those under Step 1 above. However, the transactions required will be more detailed to ensure that the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the Balance Sheet, are correctly restated. The entries required are as follows:

Dr Intangible Assets
Cr General Fund (Service Revenue Account)

With the expenditure to be recognised as an intangible asset

Dr General Fund (Service Revenue Account)
Cr Intangible Assets

With any amortisation due on the intangible asset during 2009/10

Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)

With the reversal of the amortisation

Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Adjustment Account

With any expenditure previously recognised as Revenue Expenditure Funded from Capital Under Statute

Dr (/ Cr) General Fund
Cr (/ Dr) Capital Adjustment Account

With any MRP or Loan Fund Charges due during 2009/10 in respect of the intangible asset. Note that where Revenue Expenditure Funded from Capital Under Statute has previously been recognised, this entry should be for any difference between any MRP previously charged in respect of the Revenue Expenditure Funded from Capital Under Statute, and any MRP now due in respect of the intangible asset (which may be an increase, decrease or nil)

Worked examples can be found in Examples 3 and 4 in the spreadsheet.

Where the intangible asset was funded from capital resources other than borrowing (and these had not already been applied to fund Revenue Expenditure Funded from Capital Under Statute), additional entries will also be required to recognise the application of the funding.