Intangible Assets Policy

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1 Policy Statement

1.1 Objectives

To ensure the correct accounting treatment and to establish the conditions under which intangible assets are recognised, in which:

a) intangible assets are recognised only in cases where business units receive economic benefit from the asset and costs can be reliably measured;

b) capitalisation thresholds are observed; and

c) intangible assets are accurately amortised.

1.2 Definitions

The following are key definitions relating to this policy.

Capitalisation	Transfer of the asset value from Asset Under Construction (“AUC”) and recognised as an intangible asset in the balance sheet
Amortisation	Systematic allocation of the depreciable amount of an intangible asset over its useful life
Fair Value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
Intangible Asset	An identifiable non-monetary asset without physical substance. This definition includes computer software
Recoverable Amount	The higher of fair value less costs to sell and its value in use (present value of the future cash flows expected to be derived from an asset).
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.

2 Policy

2.1 Recognition of costs

The Department of Finance, Services and Innovation ("DFSI" or "Department") will recognise an intangible asset only if it is probable that future economic benefits will flow to the business unit and the cost of the asset can be measured reliably.

The future economic benefits flowing from an intangible asset may include revenue from the sale of product or services, cost savings, or other benefits resulting from the use of the asset by the Department.

Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the value is its fair value as at the date of acquisition.

Intangible assets for the Department are primarily computer software systems that have been purchased outright or developed in-house. For software systems that are developed in-house, the recognition of costs and capitalisation of software will occur in 2 separate stages.

2.2 Internally Developed Software

These are usually software systems that are developed within the Department over a period of time.

Costs are classified under non-current asset in the balance sheet as Assets Under Construction ("AUC") until completion. These will not be capitalised as an Intangible asset until the completion of the asset.

2.2.1 Capitalisation of asset

The threshold for capitalisation of internally generated software is $50,000.

If on completion of a project where the asset is ready to be used and the combined cost is greater than the $50,000 threshold, the costs can be transferred from AUC and capitalised as an Intangible Asset. The fixed assets register should be updated at this point and to commence depreciation/amortisation regardless of whether usage of the asset has commenced. If total costs are under $50,000, the cost should not be capitalised and expensed in the P&L.

2.2.2 Allowable Costs for Capitalisation

Intangible assets must be identified as either internally or externally generated.

For externally generated intangibles – refer to section 2.3 in this policy document.

For internally generated intangible assets, the project must be split into 2 phases: the Research Phase and the Development Phase. If the project cannot be split, then all the costs incurred are considered part of the Research Phase and therefore must all be expensed as incurred (in accordance to AASB 138.54).

If the Development Phase can be distinguished in the project, and the criteria in AASB 138.57 can be met, then certain costs can be capitalised.

The **Research Phase** would include costs for activities aimed at obtaining knowledge, evaluating alternatives and selection decisions. All these costs are expensed as incurred.

The **Development Phase** would include activities relating to design, construction and testing prior to the software being available for use, which are allowable for capitalisation if certain criteria are met. The criteria for capitalisation are as follows:

(a) It is technically feasible that the software will be completed and available for use

(b) It is the intention to complete the software

(c) The business unit has the ability to use the software

(d) It can be demonstrated that the software will generate probable future economic benefits

(e) There is adequate resources to complete the development

(f) The expenditure to be capitalised can be reliably measured.

Only directly attributable costs necessary to create the software can be capitalised, for example staff time, contractor and supplier expense, licenses and data migration.

Costs which should be expensed include staff time not directly related to the project, training, developing user manuals, post implementation reviews, administration costs not directly related to development.

Business units must have sufficiently robust costing systems to ensure costs are reliably measured.

Refer to the Appendix to this policy for a summary of treatment of costs.

2.3 Software Purchases (externally acquired)

Usually, off-the-shelf software is acquired by way of licence and as such the Department has no ownership other than the rights to use a product. Often the Department will tailor the software to suit its particular requirements and incur substantial costs doing so, but this still does not usually confer ownership or proprietary rights.

2.3.1 Capitalisation rules for externally acquired software

Such expenditures are only capitalised if they pass two tests:

1) Their term and benefit is longer than one year

2) The cost is greater than the threshold of $50,000.

The threshold in (2) is applicable for expenditure which can be separately identifiable as an intangible asset.

If the expenditure is considered to be a <u>component</u> of another asset item already in the *Fixed Asset Register*, then this threshold does not apply and should be capitalised together as a <u>component</u> of that asset item.

AASB 138.20 addresses the unlikely nature of additions to an existing intangible asset. However, if the enhancement can satisfy the requirements of AASB 138.21 where it is probably that future benefits will arise from this expenditure and the cost of which can be measured reliably, we will be in compliance with the AASB 138 to recognise this as component of the intangible asset. A good indication of determining if these costs can be capitalised is whether it enhances the existing asset rather than maintaining the expected future economic benefits of the asset.

If either of the tests fail, the cost is expensed. If both tests pass, the costs are capitalised as Intangible Assets and written off over their remaining useful life of the original asset in the FAR.

2.3.2 Allowable Costs for Capitalisation of externally acquired software

Allowable costs include:

a) purchase price (including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates)

b) directly attributable cost of preparing the intangible asset for its intended use.

Directly attributable costs include front end costs such as consultant fees, external labour, testing, internal labour (as long as it is directly attributable to the acquisition or installation of the software) and other project specific costs.

Non-allowable costs must be expensed immediately, for example apportionment of any internal overheads, staff training, advertising and promotional activities.

2.4 Other Intangible assets

DFSI may recognise other intangible assets where it satisfies the criteria of *AASB 138 Intangible Assets* or any other relevant applicable accounting standard. Examples of other intangible assets may include Service Concession Arrangements which should be recognised in accordance to *AASB 1059 Service Concession Arrangements – Grantors* effective 1 July 2019; and licensing expenses for Cloud or software applications with an underlying asset which satisfies the requirements of *AASB 16 Leases*.

2.5 Ongoing Upgrades and Enhancements

Ongoing upgrades and enhancements usually applies to major computer systems after they have been in operation for a number of years. The costs are to be expensed in the period in which they are incurred, unless there is significant additional functionality, or increased useful life of the intangible in which case the costs are to be treated as component assets and therefore capitalised.

The costs of “patches” are to be expensed, that is, when they are repairs as opposed to enhancements.

The cost of maintenance and training should always be expensed.

2.6 Accounting for Intangible Assets

2.6.1 Measurement

After initial recognition, an intangible asset shall be carried at its cost less accumulated amortisation and impairment losses.

2.6.2 Amortisation period and amortisation method

When the project is complete and the intangible asset is available for use (regardless of whether the commencement of use actually occurs).

Software

Given the history of rapid changes in technology, computer softwares are susceptible to technological obsolescence. The useful life for software for the Department is currently determined to be a maximum of 4 years (amortised at 25% per annum) with effect from 1 July 2018.

Other intangible assets

To determine the useful lives of other intangible assets, DFSI will need to consider the expected usage of these assets recognisable in accordance to the relevant accounting standards such as AASB 16 Leases, AASB 1059 Service Concession Assets – Grantors and other practical factors affecting the intangible asset such as the licensing agreements and expected obsolescence.

2.6.3 Impairment

To determine whether an intangible asset is impaired, an entity applies *AASB 136 Impairment of Assets*. That Standard explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

Indicators of impairment may include external sources of information such as an unexpected significant decline in the asset's market value; internal sources of information such as obsolescence or physical damage to the asset; assets becoming idle, plans to discontinue or restructure operations; and evidence from internal reporting that an asset's economic performance may be worse than expected.

If the recoverable amount is assessed to be less than the carrying amount of the intangible asset, the carrying amount should be reduced to the recoverable amount and the reduction recognised as an impairment loss.

2.6.4 Retirements and Disposals

An intangible asset shall be derecognised:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised. The disposal of an intangible asset may occur in a variety of ways (eg by sale, by entering into a finance lease, or by donation). The date of disposal of an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a performance obligation is satisfied.

2.7 Disclosures

According to AASB 138, all intangible assets acquired during a financial reporting year must be split into the following 3 categories and disclosed in the notes to the financial statements:

- Internally developed
- Acquired separately
- Business combinations

In addition, the total intangible balance must be disclosed into the following 2 categories:

- Internally generated
- Other intangible assets

And a full reconciliation of the opening to closing net book value of the intangibles balances must be disclosed, this includes disclosing the opening balance, additions, disposals, revaluation amounts, impairment amounts, and closing balance. Refer further to *AASB 138 Financial Instruments: Disclosure* for full disclosure requirements.

3 Policy Components

3.1 Scope

This DFSI policy is effective from the financial year beginning 1 July 2018 and applies to all officers, consultants, contractors and outsourced service providers performing work for the Department of Finance, Services and Innovation (DFSI or "Department").

3.2 Not in Scope

Tangible fixed assets are not included in the scope of this policy. For further guidance, refer to Property, Plant and Equipment policy.

4 Related Policies & Documents

Issuer	Reference	Document Name
Department of Finance, Services and Innovation	2 Sep 2015	Code of Conduct
Department of Finance, Services and Innovation	BN12/86	Managing ICT Assets
The Treasury	TPP 15-04	Accounting Policy: Financial Reporting Code for NSW General Government Sector Entities
Department of Finance and Deregulation	AGN 2007/1	Accounting for Internally Developed Software
AASB	AASB 16	Leases
AASB	AASB 136	Impairment of Assets
AASB	AASB 138	Intangible Assets
AASB	AASB 1059	Service Concession Assets - Grantor

5 Document Control

5.1 Document Approval

Name & Position	Signature	Date
Clinton Gould Chief Financial Officer		3 JULY 2018
Zana Garevska Financial Accounting Manager		3/7/2018

5.2 Document Version Control

Version	Status	Date	Prepared By	Comments
DP0130	Last Final Version	Jun 2013	Melanie Lindsay	Now superseded by current version
2.0	Draft	October 2016	Jason Heng	Standardising capitalisation threshold to revised amount of $10,000 and inclusion of componentisation
2.1	Draft	December 2016	Jason Heng	Reverting back to original capitalisation threshold
2.2	Final	June 2018	Jason Heng	Inclusion of Appendix; split of recognition and capitalisation; and refine terms used in AASB's; include reference to Service Concession Assets and underlying assets implying Cloud services and other software licensing arrangements.

5.3 Review Date

This policy will be reviewed in October 2020.

It may be reviewed earlier in response to post-implementation feedback from business units.

Appendix 1

This appendix is not part of the policy document and is a form of guidance to interpret the Policy in relation to AASB 138 references and may be subject to change. This Policy should be applied in a manner that is consistent across the Cluster and applicable to the relevant business unit or division.

Firstly, we must distinguish between externally or internally generated intangible asset.

Internally generated intangibles must be split into 2 phases: research phase and development phase. If this cannot be done, then all the costs are to be considered as research (AASB 138.54) and to be expensed as incurred.

If the Development Phase can be distinguished in the project, and the criteria in AASB 138.57 can be met, then certain costs can be capitalised as follows:

Externally generated intangible asset		**To expense?**	**To capitalise?**	**DFSI policy clause**	**AASB 138 paragraph**
Purchase price	including import duties		Y	2.3.2	
Purchase price	including non-refundable purchase taxes, after deducting trade discounts and rebates		Y	2.3.2	
Costs directly attributable to preparing the asset for its intended use:	consultant fees		Y	2.3.2	
	external labour		Y	2.3.2	
	testing		Y	2.3.2	

Internally generated intangible asset: a) Research phase costs		**To expense?**	**To capitalise?**	**DFSI policy clause**	**AASB 138 paragraph**
Costs incurred during the research stage are expensed as they are incurred.	ALL research phase costs are expensed as incurred.	Y	N	2.2.2	53 - 56
This includes:	activities aimed at obtaining knowledge, evaluating alternatives and selection decisions	Y	N	2.2.2	56(a)-(d)

Internally generated intangible asset: b) Development phase costs		**To expense?**	**To capitalise?**	**DFSI policy clause**	**AASB 138 paragraph**
If criteria of "Development phase" is met	Criteria listed at:			2.2.2	57
Development phase activities:	*Design, construction and testing of pre-production or pre-use prototypes and models*		*Y*		*59(a)*
	Design of tools, jigs, moulds and dies involving new technology		*Y*		*59(b)*

Internally generated intangible asset: b) Development phase costs		**To expense?**	**To capitalise?**	**DFSI policy clause**	**AASB 138 paragraph**
	Design, construction and operation of a pilot plant that is not of a scale		*Y*		*59(c)*
	Design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services		*Y*		*59(d)*
Costs directly attributable cost to preparing the asset for its intended use:	Consultant fees		Y	2.3.2	
	External labour		Y	2.3.2	
	Testing		Y	2.3.2	
	Staff time directly attributable		Y	2.3.2	
	Internal labour (as long as it is directly attributable to the acquisition or installation of the software)		Y	2.3.2	
	Other project specific costs		Y	2.3.2	
	Must be able to demonstrate that these costs generate probable future economic benefits		Y		55
	Apportionment of any internal overheads	Y	N	2.3.2	
	Staff training	Y	N	2.3.2	69(b)
	Advertising activities	Y	N	2.3.2	69(c)
	Promotional activities	Y	N	2.3.2	69(c)
	Staff time not directly related to the project	Y	N	2.2.2	
	Training	Y	N	2.2.2	67(c)
	Developing user manuals	Y	N	2.2.2	
	Post implementation reviews	Y	N	2.2.2	
	Administration costs not directly related to development	Y	N	2.2.2	
	Contractor and supplier expense		Y	2.2.2	
	Licenses		Y	2.2.2	
	Data migration		Y	2.2.2	
	Costs of materials & services used or consumed in generating the intangible asset		Y		66(a)
	Costs of employee benefits (as defined by AASB 119) arising from the generation of the intangible asset		Y		66(b)
	Fees to register a legal right		Y		66(c)
	Amortisation of patents and licences that are used to generate the intangible asset		Y		66(d)
	Selling, administrative and other general overhead expenditure	Y	N		67(a)

Internally generated intangible asset: b) Development phase costs		To expense?	To capitalise?	DFSI policy clause	AASB 138 paragraph
	Identified inefficiencies and initial operating losses incurred before the asset achieves planned performance	Y	N		67(b)
	Expenditure on training staff to operate the asset	Y	N		67(c)
Start up costs	Establishment costs such as legal and secretarial costs incurred in establishing a legal entity	Y	N		69(a)
Start up costs	pre-opening costs ie to open a new facility or business	Y	N		69(a)
	training activities	Y	N		69(b)
	Advertising and promotional activities (including mail order catalogues)	Y	N		69(c)
	Relocating or reorganising part or all of an entity	Y	N		69(d)
Past expenses	Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.	Y	N		71
Internally generated	Brands, mastheads, publishing titles, customer lists and other similar items – because cannot be distinguished from the cost of developing the business as a whole (BUT can capitalise as part of a business combination AASB 138.68(b))	Y	N		63, 64

Disclosures:		AASB 138 paragraph
Split intangible assets costs:	1. Internally generated 2. Other intangible assets	118(a)
Split intangible asset additions:	1. Internal development 2. Acquired separately 3. Business combinations	118(e)(i)
Costs & Accum amortisation	Opening net book value + additions - disposals +/- revaluation = Closing net book value	118