

MPSAS Insight 2021

Transformation from MFRS/MPERS to MPSAS and a Case Study on Accounting Standards Transition: Intangible Assets

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Definition

An intangible asset is an identifiable non-monetary asset without physical substance. An asset is identifiable when it:

Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations

Recognition

- The definition of an intangible asset; and
- The recognition criteria.

	MPSAS	MFRS	MPERS
Recognition as an intangible asset	<p>An intangible asset shall be recognised if, and only if:</p> <ul style="list-style-type: none">(a) It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and(b) The cost or fair value of the asset can be measured reliably.		<p>An intangible asset shall be recognised if, and only if:</p> <ul style="list-style-type: none">(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;(b) the cost or value of the asset can be measured reliably; and(c) the asset does not result from expenditure incurred internally on an intangible item.

Recognition

	MPSAS	MFRS	MPERS
Internally generated intangible assets	<p>Research phase Expenditure on research should be recognised as an expense when incurred.</p> <p>Development phase An intangible asset from development should only be recognised if, and only if, an entity can demonstrate the following:</p> <ul style="list-style-type: none"> (a) The technical feasibility of completing the intangible asset so that it will be available for use or sale; (b) Its intention to complete the intangible asset and use or sell it; (c) Its ability to use or sell the intangible asset; (d) How the intangible asset will generate probable future economic benefits or service potential. Among other things, the entity can demonstrate 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; (e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development. <p>Other internally generated assets Internally generated brands, mastheads, publishing titles, lists of users of a service (or customer lists) and items similar in substance should not be recognised as intangible assets.</p>		Expenditure incurred internally on an intangible item, including all expenditure for both research and development activities should be recognised as an expense when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in MPERS.

Recognition

	MPSAS	MFRS	MPERS
Internally generated goodwill	Shall not be recognised as an asset.		No specific guidance in MPERS.
Recognition as an expense	Expenditure on an intangible item shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria.	Expenditure on an intangible item shall be recognised as an expense when it is incurred unless: <ul style="list-style-type: none"> (a) it forms part of the cost of an intangible asset that meets the recognition criteria; or (b) the item is acquired in a business combination and cannot be recognised as an intangible asset. 	Expenditure incurred internally on an intangible item, including all expenditure for both research and development activities, shall be recognised as an expense when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this Standard.
Past expenses not to be recognised as an asset	Those expenditures that were initially recognised as an expense cannot be recognised as part of the cost of an intangible asset at a later date.		

Measurement

	MPSAS	MFRS	MPERS
Initial measurement	Measured at cost.		
Initial measurement (non-exchange transaction)	Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition shall be measured at its fair value as at that date.	Not applicable	
Subsequent measurement	<p>Either the cost model or the revaluation model as an accounting policy.</p> <p>If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.</p>	<p>Either the cost model or the revaluation model as an accounting policy.</p> <p>If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.</p>	Cost model.

Measurement

	MPSAS	MFRS	MPERS
Intangible assets with indefinite useful lives	<p>Should not be amortised.</p> <p>The useful life should be reviewed at each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with MPSAS 3.</p>		<p>All intangible assets should be considered to have a finite useful life. If the useful life cannot be established reliably, the life should be determined based on management's best estimate but shall not exceed ten years.</p>

Measurement

	MPSAS	MFRS	MPERS
Intangible assets with finite useful lives	<p><i>Amortisation period and method</i> The depreciable amount should be allocated on a systematic basis over its useful life.</p> <p>The amortisation method used should reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method should be used.</p> <p>The amortisation charge for each period should be recognised in surplus or deficit/profit or loss/expense unless it is required or permitted to be included in the carrying amount of another asset.</p> <p><i>Residual value</i> The residual value is assumed to be zero unless:</p> <ul style="list-style-type: none">(a) There is a commitment by a third party to acquire the asset at the end of its useful life; or(b) There is an active market for the asset, and:<ul style="list-style-type: none">(i) Residual value can be determined by reference to that market; and(ii) It is probable that such a market will exist at the end of the asset's useful life. <p><i>Review of amortisation period and method</i> The amortisation period and method should be reviewed at least at each reporting date.</p> <p>If the expected useful life of the asset is different from previous estimates, the amortisation period needs to change accordingly.</p> <p>If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method also should change to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates.</p>		

Measurement

	MPSAS	MFRS	MPERS
Recoverability of the carrying amount	For impairment of an intangible asset measured under the cost model, an entity applies either MPSAS 21 or IPSAS 26 as appropriate.	For impairment of an intangible asset measured under the cost model, an entity applies MFRS 136.	For impairment of an intangible asset measured under the cost model, an entity applies Section 27.

Derecognition

The three frameworks stipulate that an intangible asset should be derecognised:

on disposal; or

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

The gain or loss arising from the derecognition should be recognised in profit or loss (surplus or deficit) when the asset is derecognised.

First-Time Adoption

General requirements in relation to first-time adoption in relation to intangible assets are as follow:

MPSAS	MFRS	MPERS
<p>A first-time adopter: may elect to measure the intangible asset (that meets certain criteria) at its fair value when reliable cost information about it is not available and use that fair value as the deemed cost; and</p> <p>i. should recognise and/or measure an internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria, even if the first-time adopter has, under its previous basis of accounting, expensed such costs. A deemed cost may not be determined for internally generated intangible assets.</p>	<p>A first-time adopter may elect to:</p> <p>i. measure the intangible asset on the date of transition at its fair value and use that fair value as its deemed cost at that date; or</p> <p>ii. use a previous GAAP revaluation of the intangible asset at, or before, the date of transition as its deemed cost</p>	<p>A first-time adopter may elect to use a previous GAAP revaluation of the intangible asset at, or before, the date of transition as its deemed cost at the revaluation date.</p>

Transitioning to MPSAS

Step-by-step application of MPSAS 33



Determine key dates



Determine whether to present comparative information

COMPARATIVE INFORMATION PRESENTED	NO COMPARATIVE INFORMATION PRESENTED
Opening statement of financial position as at 1 January 2020	Opening statement of financial position as at 1 January 2021
Statements of financial position as at 31 December 2021 and 31 December 2020	Statement of financial position as at 31 December 2021
Statements of financial performance for the period ending 31 December 2021 and 31 December 2020	Statement of financial performance for the period ending 31 December 2021
Statements of changes in net assets/equity as at 31 December 2021 and 31 December 2020	Statement of changes in net assets/equity as at 31 December 2021
Cash flow statements for period ending 31 December 2021 and 31 December 2020	Cash flow statement for period ending 31 December 2021
Statement of comparison of budget and actual information for the period ending 31 December 2021 (if the first-time adopter makes its approved budget publicly available)	Statement of comparison of budget and actual information for the period ending 31 December 2021 (if the first-time adopter makes its approved budget publicly available)
Notes to the financial statements including its comparative information	Notes to the financial statements

Review of accounting policies

**Apply
retrospectively**

**Select relevant
accounting
policies**

**Apply relevant
exemptions**

Gap analysis

Exemptions

64. **A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:**
- (d) **Intangible assets, other than internally generated intangible assets (see MPSAS 31) that meets:**
 - (i) **The recognition criteria in MPSAS 31 (excluding the reliable measurement criterion); and**
 - (ii) **The criteria in MPSAS 31 for revaluation (including the existence of an active market);**

Prepare an opening statement of financial position
The first-time adopter should:

Recognize all assets and liabilities whose recognition is required by MPSASs

Not recognize items as assets or liabilities if MPSASs do not permit such recognition

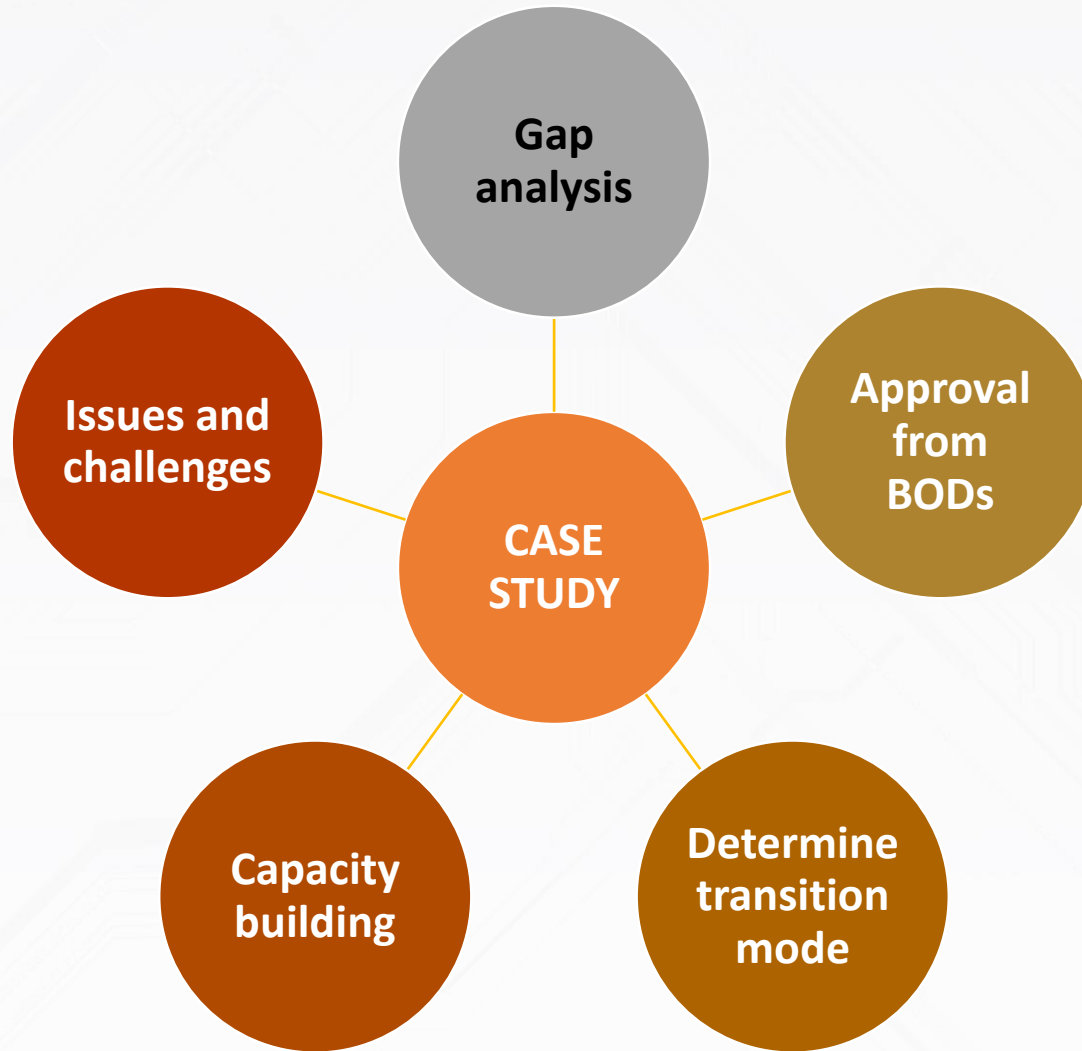
Reclassify items that it recognized in accordance with its previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with MPSASs;

Apply MPSASs in measuring all recognized assets and liabilities

Identify disclosures required

Among others, a first-time adopter is required to provide reconciliations between amounts reported under its previous accounting policies and the equivalent measures under MPSASs

Case Study



Thank You