This accounting policy paper is based on IPSAS 31 Intangible Assets and IPSAS 5 Borrowing Costs, as adopted by the Treasury of the Republic of Cyprus.

Intangible Assets

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1. INTRODUCTION

1.1 PREAMBLE

IPSAS 31 Intangible Assets, defines intangible assets as:

An identifiable non-monetary asset without physical substance.

Even though intangible assets have no physical characteristics, they have value because of the advantages or exclusive privileges and rights they provide to an entity. Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance, or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licences, intellectual property and trademarks. The most common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, list of users of a service, acquired fishing licences, acquired import quotas and relationships with users of a service.

1.2 OBJECTIVES

The objective of this accounting policy is to prescribe the appropriate accounting treatment and disclosures for intangible assets that are not dealt with specifically in any other accounting policy. The aim of this policy is to provide technical accounting guidance for the preparation of financial statements, so as to enable them to give a true and fair view. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

This accounting policy applies to the accounting treatment of all intangible assets in the financial statements of the Republic of Cyprus and its consolidated entities, as these are defined in the relevant accounting policy, except:

a) Intangible assets that are within the scope of another accounting policy;
b) Financial assets, as defined in the Accounting Policy on Financial Instruments;
c) The recognition and measurement of exploration and evaluation assets (i.e. mineral resources);
d) Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;
e) Powers and rights conferred by legislation, a constitution, or by equivalent means;
f) Deferred tax assets (see Accounting Policy on Revenue from non-Exchange Transactions, Taxes and Transfers);

If another accounting policy prescribes the accounting treatment for a specific type of intangible asset, an entity applies that accounting policy instead of this policy. For instance this accounting policy does not apply to:

a) Intangible assets held by an entity for sale in the ordinary course of operations (Accounting Policies on Construction Contracts and Inventories shall be applied);
b) Leases that are within the scope of the Accounting Policy on Leases;
c) Assets arising from employee benefits (Accounting Policy on Employee Benefits applies);
d) Financial assets as defined in the Accounting Policies on Financial Instruments and financial assets' recognition and measurement as described in Accounting Policies on Separate Financial Statements, Consolidated Financial Statements and Investments in Associates and Joint Ventures;
e) Recognition and initial measurement of service concession assets that are within the scope of the Accounting Policy on Service Concession Assets: Grantor. However, this Accounting Policy applies to the subsequent measurement and disclosure of such assets; and
f) Goodwill (see Accounting Policy on Public Sector Combinations).

1.4 DEFINITIONS

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful economic life.

Asset is a resource presently controlled by an entity as a result of a past event. A resource is an item with service potential or the ability to generate economic benefits.

Carrying amount is the amount at which an asset is recognised after deducting any accumulated amortisation and accumulated impairment losses.

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.

Intangible asset is an identifiable non-monetary asset without physical substance.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Non-monetary items are items that are not monetary items.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Useful life of an intangible asset is either:

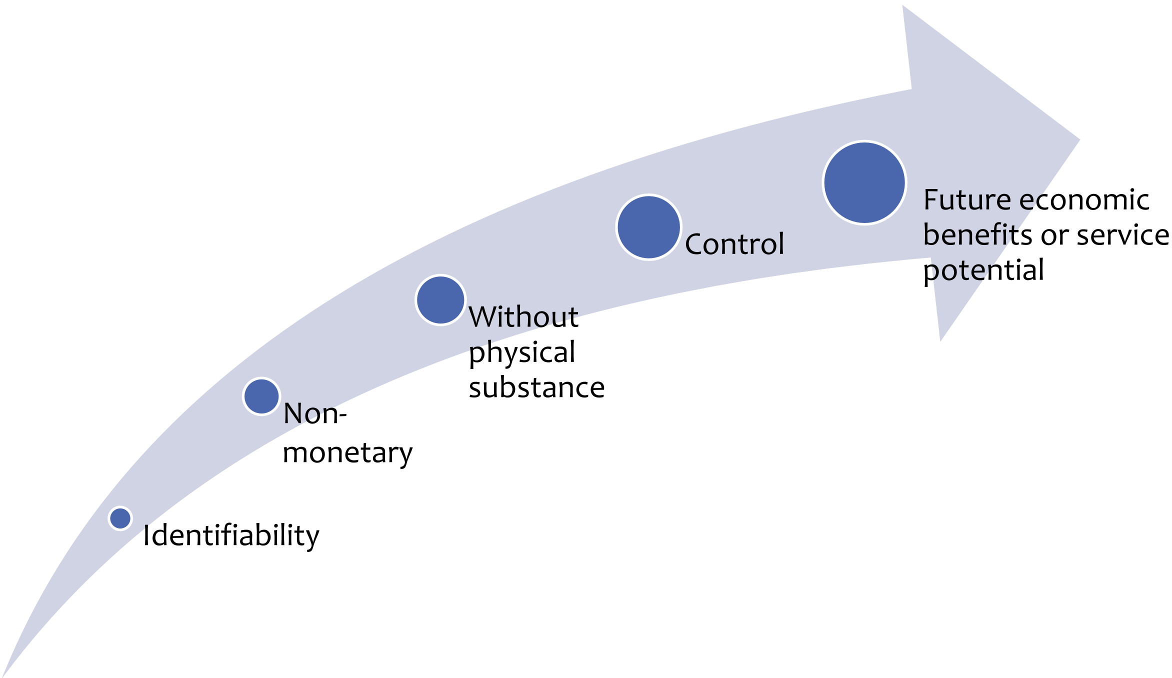
a) The period over which an asset is expected to be available for use by an entity; or
b) The number of production or similar units expected to be obtained from the asset by an entity.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in these accounting policies.

2. GENERAL RULES

2.1 MEETING THE DEFINITION OF AN INTANGIBLE ASSET

According to the definition provided in paragraph 1.1. Preamble, an item meets the definition of an intangible asset, is identified based on all of the following:



Identifiability

An asset is identifiable if it either:

a) 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

b) 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.

Note: Even though the definition given requires an intangible asset to be identifiable to distinguish it from goodwill, any goodwill recognised in an acquisition is an asset.

Control of an Asset

An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an entity to control would normally stem from legal rights that are enforceable in a court of law.

Future Economic Benefits or Service Potential

The future economic benefits or service potential flowing from an asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.

2.2 CLASSIFICATION OF SOFTWARE COST

Computer software can be classified as either a tangible asset, i.e. property, plant and equipment or an intangible asset, **depending on the level of integration** with the related hardware.

In cases where software is an integral part of the related hardware, i.e. the hardware cannot operate without the software, the software will be treated as property, plant and equipment together with the related hardware already recognised, which will normally be computer equipment, a laboratory computer equipment (e.g. computer hardware and related operating systems are recognised under PPE). In such a case, the Accounting Policy on Property, Plant and Equipment shall apply.

In cases where the software is not an integral part of the related hardware, i.e. the hardware can operate without the software, an entity determines whether the asset meets the definition and recognition criteria of an intangible asset, and if met, capitalise the cost as an intangible asset (e.g. computer hardware and the FIMAS software, or other software such as Microsoft Office, Excel etc.).

Table 1: Software Classification

Types of Software	Initial Recognition
Software integrated with Hardware	Recognised as part of Property, Plant and Equipment
Standalone software	Recognised as intangible asset

3. RECOGNITION AND INITIAL MEASUREMENT

3.1 GENERAL RECOGNITION CRITERIA

An item that meets the definition of an intangible asset (as demonstrated in paragraph 2.1: General Identification Rules) shall be recognised and reported in the Financial Statement of the entity **if, and only if**, the following two recognition criteria are met:

> *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.*

An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

3.2 INITIAL MEASUREMENT

An intangible asset shall be measured initially at cost. 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 on that date.

3.3 APPLICATION OF RECOGNITION CRITERIA AND INITIAL MEASUREMENT

3.3.1 SEPARATE ACQUISITION OF AN INTANGIBLE ASSET

Separately acquired intangible assets (e.g. a licence agreement etc.) shall be recognised at cost, provided that the recognition criteria in paragraph 3.1 are fulfilled.

The cost of the separately acquired intangible assets comprises of:

a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
b) Any directly attributable cost of preparing the asset for its intended use (e.g. cost of employee benefits and professional fees arising directly from bringing the asset to its working condition and cost of testing whether the asset is functioning properly).

When an intangible asset is in the condition necessary for it to be capable of operating in the manner intended by management, then the recognition of any direct costs ceases.

In addition, the following costs are excluded:

a) Advertising and promotion costs, relocation expenses, administration and other general overhead costs are excluded from the cost of the intangible asset and are treated as expenses when they are incurred.
b) Borrowing costs are expensed off when they are incurred.

The future economic benefits or service potential are assumed in the case of separately acquired intangible assets (while for internally generated intangible assets this should be actively demonstrated, please see 3.3.6 below).

3.3.2 Acquisition of An Intangible Asset As Part Of An Acquisition

According to the provisions of the Accounting Policy on Public Sector Combinations, the cost of the intangible asset acquired in an acquisition is its fair value at the acquisition date, provided that the recognition criteria in paragraph 3.1 above are fulfilled.

Additionally, an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquired operation, irrespective of whether the asset had been recognised by the acquired operation before the acquisition. In such a case the acquirer recognises an in-process research and development project of the acquired operation if the project meets the definition of an intangible asset.

Subsequent expenditure on an acquired in-process research and development project which has been recognised as an intangible asset and incurred after the acquisition date, shall be accounted for in accordance with the provisions in paragraph 3.3.6 below, concerning internally generated intangible assets.

3.3.3 Intangible Assets Acquired Through Non-Exchange Transactions

An intangible asset which has been acquired through a non-exchange transaction shall be recorded at its fair value at the date it is acquired. Such items include transfers between entities like airport landing rights, licenses to operate radio or television stations, import licenses or quotas or rights to access other restricted resources.

3.3.4 Exchanges Of Assets

In cases where an intangible asset is acquired in exchange for a non-monetary asset(s) or a combination of a non-monetary and monetary asset(s), then the acquired intangible asset is measured at its fair value or at the given up asset’s fair value; unless the fair value of neither the asset received nor the asset given up is reliably measurable. In such a case it must be measured at the carrying amount of the given up asset(s).

3.3.5 *INTERNALLY GENERATED GOODWILL*

An internally generated goodwill shall not be recognised as an intangible asset because it is not an identifiable resource controlled by an entity that can be measured reliably, and it does not arise from a binding arrangement.

3.3.6 *INTERNALLY GENERATED INTANGIBLE ASSETS*

Sometimes it is difficult to assess whether an internally generated intangible asset qualifies for recognition due to problems in:

a) Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and

b) Determining the cost of the asset reliably.

Nevertheless, in order to assess whether an internally intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into two phases:

a) Research phase

During the research phase an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential. Consequently, this **expenditure is recognised as an expense** when it is incurred.

b) Development phase.

An entity shall recognise an internally generated intangible asset arising from the development phase **if, and only if all** of the following criteria are demonstrated:

i) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

ii) Its intention to complete the intangible asset and use or sell it;

iii) Its ability to use or sell the intangible asset;

iv) How the intangible asset will generate probable future economic benefits or service potential;

v) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

vi) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

In order to demonstrate how an intangible asset will generate probable future economic benefits or service potential, an entity assesses the future economic benefit or service potential to be received from the asset utilising the principles in the Accounting Policy on Impairment of Cash and Non-Cash Generating Assets.

Internally generated brands, mastheads, publishing titles, lists of users of a service, and items similar in substance shall not be recognised as intangible assets, because such expenditure cannot be distinguished from expenditure to develop the entity's operations as a whole.

If an entity **cannot distinguish the research phase from the development phase** of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only (i.e. as an expense).

Cost of an Internally Generated Intangible Asset

The cost of an internally generated intangible asset will be recognised from the day it meets the specific recognition criteria. Any expenditure previously expensed cannot be capitalised subsequently.

The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. It comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management, such as:

a) Costs of materials and services used or consumed in generating the intangible asset;
b) Costs of employee benefits (as defined in Accounting Policy on Employee Benefits) arising from the generation of the intangible asset;
c) Fees to register a legal right; and
d) Amortisation of patents and licenses that are used to generate the intangible asset.

The following costs are excluded:

a) Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
b) Identified inefficiencies and initial operating deficits incurred before the asset achieves planned performance;
c) Expenditure on training staff to operate the asset; and
d) Borrowing costs that are expensed off when they are incurred.

3.4 ACCOUNTING TREATMENT WHEN RECOGNITION CRITERIA ARE NOT MET

If an item within the scope of this accounting policy does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.

Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:

a) It forms part of the cost of an intangible asset that meets the recognition criteria, as illustrated in paragraphs 3.1 General Recognition Criteria and 3.3 Application of Recognition Criteria and Initial Measurement; or
b) The item is acquired in an acquisition and cannot be recognised as an intangible asset. If this is the case, it forms part of the amount recognised as goodwill at the acquisition date (see Accounting Policy on Public Sector Combinations).

Additionally, any expenditure on an intangible item that was initially recognised as an expense under this Accounting Policy shall not be recognised as part of the cost of an intangible asset at a later date.

4. SUBSEQUENT MEASUREMENT

4.1 COST MODEL

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

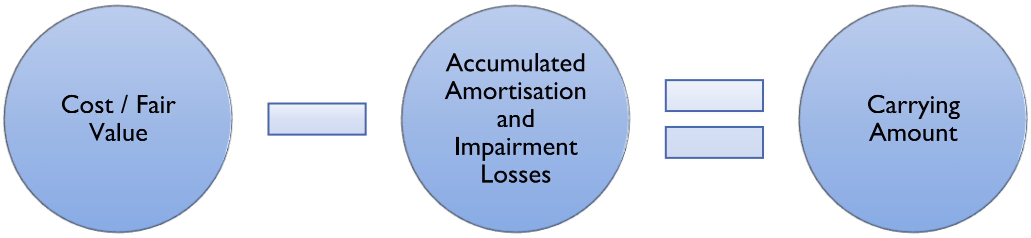


Figure 1: Cost Model Equation

4.2 REVALUATION MODEL

After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation. For revaluation purposes under this Accounting Policy, fair value shall be determined by reference to an active market. Revaluations shall then be made with sufficient regularity, within a period of maximum three to five years ensuring that at the reporting date the carrying amount of the asset does not differ materially from its fair value. If the fair value of a revalued asset differs materially from its carrying amount, further revaluation is necessary.

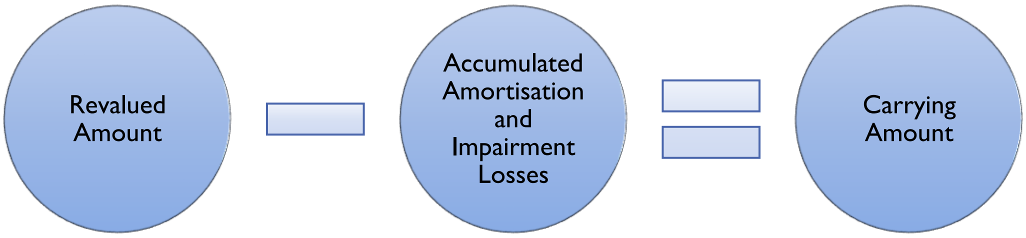


Figure 2: Revaluation Model Equation

When an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortisation and impairment losses. In case where an active market no longer exists for a revalued asset this may indicate that the intangible asset may be impaired.

If an intangible asset’s carrying amount is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be recognised directly in net assets/equity to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognised directly in net assets/equity reduces the amount accumulated in net assets/equity under the heading of revaluation surplus.

The provisions of paragraph 4.2 of this accounting policy, will remain inactive, until further notification.

4.3 USEFUL LIFE

An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provide service potential to, the entity.

The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or other legal rights) shall not exceed the period of the binding arrangement (including rights from contracts or other legal rights), but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts or other legal rights) are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

The useful life of:

a) A license or similar right previously granted by one combining operation to another combining operation that is recognised by the resulting entity in an amalgamation; or
b) A reacquired right recognised as an intangible asset in an acquisition,

is the remaining period of the binding arrangement (including rights from contracts or other legal rights) in which the right was granted and shall not include renewal periods.

4.3.1 INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

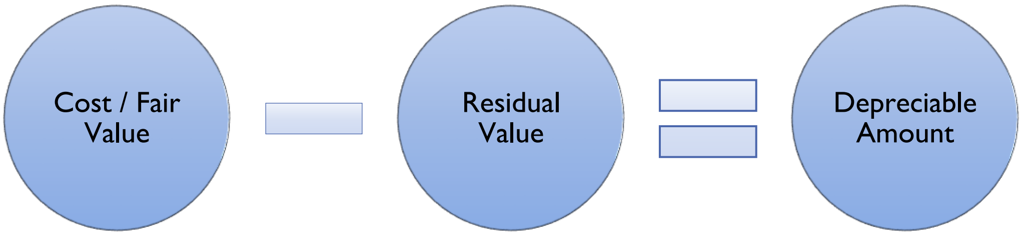


Figure 3: Depreciable Amount Equation

a) Amortisation and Amortisation Method

1) The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.
2) Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
3) Amortisation shall cease at the date the asset is derecognised.
4) The amortisation method to be used is the straight-line method.
5) The amortisation charge for each period shall be recognised in surplus or deficit unless this or another Accounting Policy permits or requires it to be included in the carrying amount of another asset.

b) Residual value

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

1) There is a commitment by a third party to acquire the asset at the end of its useful life; or
2) There is an active market for the asset, and:
   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.

c) Review of Amortisation, Amortisation Method and Residual Value

The residual value, the amortisation period and the amortisation method of an intangible asset shall be reviewed at least at each reporting date.

Any changes shall be accounted for as changes in accounting estimates in accordance with the Accounting Policy on Accounting Policies, Changes in Accounting Estimates and Errors.

4.3.2 *Intangible Assets With Indefinite Useful Lives*

An intangible asset is recognised as having an indefinite useful life when there is no foreseeable limit to the period over which an asset is expected to generate net cash inflows or service potential for the entity. This type of asset is very rare to find in practice.

Intangible assets with an indefinite useful life shall not be amortised.

The useful life of an intangible asset that is not being amortised shall be reviewed 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 the Accounting Policy in Accounting Policies, Changes in Accounting Estimates and Errors.

Intangible assets with indefinite useful life are subject to impairment review annually and whenever there is an indication that the asset may be impaired.

5. IMPAIRMENT

To determine whether an intangible asset, either with finite or indefinite useful life, is impaired, an entity applies the rules described in Accounting Policy on Impairment on Cash Generating Assets and the Accounting Policy on Non-Cash Generating Assets. This Accounting Policy explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, as appropriate, and when it recognises or reverses an impairment loss.

6. RETIREMENTS AND DISPOSALS

An intangible asset shall be derecognised:

a) On disposal (including disposal through a non-exchange transaction); or

b) When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from 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. Any gain or loss arising from derecognition shall be recognised in surplus or deficit when the asset is derecognised (unless Accounting Policy on Leases requires otherwise on a sale and leaseback).

7. DISCLOSURES

General Disclosures

An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

a) Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;

b) The amortisation methods used for intangible assets with finite useful lives;

c) The gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

d) The line item(s) of the statement of financial performance in which any amortisation of intangible assets is included;

e) A reconciliation of the carrying amount at the beginning and end of the period showing (see Appendix 1):

   i) Additions, indicating separately those from internal development and those acquired separately;

   ii) Assets classified as held for sale or included in a disposal group classified as held for sale;

   iii) Increases or decreases during the period resulting from revaluations under paragraph 4.2 Revaluation Model (if any);

   iv) Impairment losses recognised (or reversed) in surplus or deficit during the period in accordance with Accounting Policy on Impairment of Cash and Non-Cash Generating Assets (if any);

   v) Any amortisation recognised during the period;

   vi) Net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

   vii) Other changes in the carrying amount during the period.

Additional Disclosures

An entity shall also disclose:

a) For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.

b) A description, the carrying amount, and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements.

c) For intangible assets acquired through a non-exchange transaction and initially recognised at fair value:
   i) The fair value initially recognised for these assets;
   ii) Their carrying amount; and
   iii) Whether they are measured after recognition under the cost model or the revaluation model.

d) The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.

e) The amount of contractual commitments for the acquisition of intangible assets.

Intangible Assets Measured after Recognition using the Revaluation Model

If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:

a) By class of intangible assets:
   i) The effective date of the revaluation;
   ii) The carrying amount of revalued intangible assets; and
   iii) The carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in 4.1 Cost Model;

b) The amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the reporting period and any restrictions on the distribution of the balance to owners; and

c) The methods and significant assumptions applied in estimating the asset’s fair values.

Research and Development Expenditure

An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

8. TRANSITIONAL PROVISIONS

On first-time adoption of Accrual Accounting, an entity will be required to recognise all intangible assets, except of internally generated intangible assets, at a deemed cost.

A first-time adopter shall measure the intangible assets at their fair value when reliable cost information about the assets is not available, and use that fair value as the deemed cost for intangible assets, other than internally generated intangible assets that meets the recognition criteria in this Accounting Policy (excluding the reliable measurement criterion).

An internally generated asset shall be recognised if it meets the definition of an intangible asset and the recognition criteria in this Accounting Policy, including the costs occurred for development of the specific asset previously written off.

9. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2023.

10. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 31 Intangible Assets

IPSAS 5 Borrowing Costs

IPSAS 33 First – Time Adoption of Accrual Basis IPSASs

11. APPENDICES

APPENDIX 1: INTANGIBLE ASSETS RECONCILIATION TABLE (INDICATIVE)

	Software Licences	Military Development Costs	Software and Bespoke Software	Licences Trademarks and Patents	Other	Under Construction	Total
Cost of Assets							
1 January 2020							
Additions							
Impairments / Revaluations*							
Disposals							
Transfers / Adjustments**							
31 December 2020							
Amortisation and Impairment							
1 January 2020							
Amortisation and Impairment							
Impairments / Revaluations*							
Disposals							
Reversals							
Transfers / Adjustments**							
31 December 2021							
Net Book Values							
At 01 January 2020							
At 31 December 2020							

* The revaluation model is inactive

Appendix 2: Flow Chart Of Intangible Assets