APPROVED

by Resolution No. 1 of 18 December 2003 of the Standards Board of the Public Establishment the Institute of Accounting of the Republic of Lithuania
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13 BUSINESS ACCOUNTING STANDARD “INTANGIBLE ASSETS”

(“Valstybės žinios” (Official Gazette), 2004, No. 20-616; 2007, No. 1-51; No. 121-4994).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how intangible assets shall be recognised, measured, recorded in accounting and presented in financial statements.

2. The Standard is applied in accounting for intangible assets.

3. The Standard shall not be applied in accounting for:

3.1. mineral rights and costs of exploration for, development and extraction of the entrails of the earth and other natural resources;

3.2. intangible assets held by an entity with intention to dispose or use within one reporting period. Accounting requirements for such assets are established by 9 Business Accounting Standard “Inventories”;

3.3. deferred tax assets. Accounting requirements for such assets are established by 24 Business Accounting Standard "Income Tax";

3.4. goodwill. Accounting requirements for goodwill are established by 14 Business Accounting Standard “Business Combinations”;

3.5. financial assets. Accounting requirements for such assets are established by 18 Business Accounting Standard “Financial Assets and Financial Liabilities” and 26 Business Accounting Standard “Derivative Financial Instruments”;

3.6. intangible assets the accounting whereof is regulated by other Business Accounting Standards.

4. Intangible assets acquired under finance lease agreements shall be registered in accounting at the time of acquisition in the manner established by 21 Business Accounting Standard “Operating Lease, Finance Lease and Loan-for-Use”, and subsequently accounted for in accordance with the provisions of this Standard.

II. KEY DEFINITIONS

Active market – a market in which items traded are homogeneous, willing buyers and sellers can normally be found at any time and prices are available to the public.

Amortisation – a systematic allocation of the depreciable amount to expenses or cost of other assets over the expected useful life of an asset taking in consideration the actual changes in the economic value of such asset.

Depreciable amount – the amount equal to the difference between the acquisition (production) cost of an asset and its estimated residual value.

Carrying amount – the amount at which an asset is presented in the balance sheet. The carrying amount of an intangible asset is equal to its book value.

Acquisition (production) cost – the amount of cash or cash equivalents paid or payable, or the value of other assets given in exchange or consumed to acquire an asset at the time of its acquisition or production.

Book value – the amount of acquisition (production) cost of an intangible asset less amortisation accumulated during its useful life, plus any increases in the value of the asset and less any accumulated impairment losses.

Residual value – the amount that an entity expects to obtain from an asset at the end of its useful life, after deducting the estimated costs of future liquidation or disposal.

Useful life – the period of time over which an entity expects to use an asset of a finite useful life or the number of production or similar units to be produced (obtained) from the asset by the entity.

Intangible asset – an identifiable non-monetary asset without physical substance which is controlled by an entity expecting to obtain direct and (or) indirect economic benefits from the use of such asset and the cost of which is equal to at least the minimum cost of intangible assets set by the entity.

Impairment (loss due to decrease in value) – the amount by which the carrying amount of an asset exceeds its recoverable amount.

Development – an application of research findings or other knowledge to a plan or design for the production of new or substantially improved products (materials, devices, goods, processes, systems or services) before the start of their commercial production or use.

Goodwill – the amount by which the price paid by the acquirer exceeds the value of the acquired interest in net assets of the acquired entity or the value of net assets of the acquired business, and from which the acquirer expects to obtain future economic benefits.

Fair value – the amount for which an asset or a service could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Research – planned investigation undertaken with the prospect of gaining new scientific or technical knowledge.

III. RECOGNITION OF INTANGIBLE ASSETS

5. Intangible assets shall be recognised if the incurred costs meet the definition of intangible assets and the following recognition criteria:

5.1. The entity can reasonably expect to obtain direct and (or) indirect economic benefits from the assets;

5.2. The acquisition (production) cost of the assets can be reliably measured and separated from the cost of other assets;

5.3. The entity can manage such assets, control them or restrict the right of others to use them.

6. The possibility to obtain future economic benefits shall be determined on the basis of reliable information available at the time of initial recognition of intangible assets and following not only the formal requirements but also the principle of substance over form.

7. Future economic benefits obtained from intangible assets may include revenue from the sale of goods and services, cost savings or other benefits resulting from the use of the assets.

8. One of the most important criteria for the recognition of intangible assets is control over such assets. An entity controls an asset if it is entitled to obtain future economic benefits from it and has the right to restrict the access of others to it. The entity's ability to control intangible assets and economic benefits generated by them is normally stated in legal acts.

9. Examples of intangible assets are:

9.1. brand names;

9.2. patents and licenses;

9.3. copyright and related rights;

9.4. development activities;

9.5. computer software;

9.6. goodwill;

9.7. emission allowances related to integrated pollution prevention and control.

10. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or a patent), or film, etc. In determining whether an asset that incorporates both intangible and tangible elements should be treated as intangible or tangible, judgement is required to assess which element is more significant. If intangible asset is an inseparable part of a tangible asset, it is accounted for together with the tangible asset item. For example, a computer operating system that is necessary for a computer to function is included into the acquisition cost of the computer, whereas if computer software is not an integral part of the related hardware, it is treated as intangible assets.

11. Development activities may result in the creation or development of test samples with physical substance, however the physical element of the asset is secondary to its intangible component, because the main objective is to improve the product, therefore, such expenditure shall be attributed to intangible assets.

12. An intangible asset may be either separable or inseparable from other assets of an entity. An intangible asset that can be disposed or rented by the entity, is considered to be separable from the other assets of the entity. If an intangible asset is inseparable from other assets and renders future economic benefits only together with such assets, it may be recognised only when the entity is able to determine what future economic benefits it will obtain from such intangible asset.

13. Qualification of the entity’s employees, internal costs incurred when creating/compiling customers lists and similar objects are not attributed to intangible assets. Costs incurred by an entity in order to create brand names, mastheads and publishing titles and similar expenditure shall not be attributed to intangible assets either. Such expenditure cannot be separated from the cost of developing business as a whole and, as a result, it cannot be recognised as a separate intangible asset.

14. If some costs do not meet the definition of intangible assets, they are recognised as expenses at the time when they are incurred. Examples of costs to be recognised as expenses at the moment when they are incurred are as follows:

14.1. start-up costs, for example, the costs of establishing an entity, such as fees for legal and consulting services, registration fees, costs of opening a new plant or starting up a new business or activity;

14.2. staff training;

14.3. advertising and representation;

14.4. relocation or reorganisation of the entity or its part.

15. Entities can acquire intangible assets or generate them internally. Goodwill cannot be generated internally, because according to the definition it is obtained only upon acquisition of another entity.

IV. RECOGNITION OF ACQUISITION OF INTANGIBLE ASSETS

16. On initial recognition in accounting intangible assets are registered at the acquisition (production) cost.

17. If an intangible asset is acquired from external source, its cost can usually be measured reliably if the consideration is in the form of cash or other assets.

18. The acquisition cost of an intangible asset comprises the amount paid or payable upon its acquisition or the value of other assets used up, including any duties and other non-refundable taxes. Any directly attributable costs of preparing the asset for its intended use (for example, professional fees for legal services) can also be included into the acquisition cost of such asset.

19. If an intangible asset is acquired on credit for the amount exceeding its fair value with the settlement period exceeding 12 months and the agreement does not specify any interest or the amount of interest significantly differs from the market interest rate, the acquisition cost is calculated by discounting the total payable amount to the present value at the market interest rate. The difference is recognised as interest expenses over the entire period of credit repayment.

20. If an intangible asset is acquired as a part of a business combination, the acquisition cost of that intangible asset is based on its fair value at the date of acquisition. If no active market exists for an intangible asset, its cost reflects the amount that the entity would have paid at the date of acquisition in an arm's length transaction between knowledgeable and willing parties. In determining this amount, the entity uses reliable information and considers the terms of recent transactions for similar assets.

21. Upon acquisition of a business, the acquirer recognises intangible assets, which meet the recognition criteria specified in this Standard, even if such assets have not been recognised in the financial statements of the acquired entity. If the acquisition cost of an intangible asset acquired as a part of a business combination cannot be measured reliably, that asset is not recognised as a separate intangible asset.

22. An intangible asset may be acquired in exchange for other assets.

23. If an intangible asset is acquired in exchange for issued equity instruments, its acquisition cost equals to the fair value of such equity instruments.

24. The acquisition cost of an intangible asset received in exchange is measured by adding direct costs related to the exchange of assets to the value specified in the exchange agreement.

25. If an intangible asset is acquired in exchange for another intangible asset or a combination of tangible and intangible assets, the acquired intangible asset is measured and recorded in accounting at the fair value. If it is impossible to determine the fair value of the acquired asset, the carrying amount of the transferred asset is considered to be the acquisition cost of the acquired intangible asset.

26. Intangible assets received gratis are recorded in accounting at their fair value if there is an active market for such assets and the fair value can be measured reliably.

27. If there is no active market for an intangible asset received gratis, the acquisition cost of such asset received gratis or for a negligible price is the amount of costs directly related to the receipt of the asset and its preparation for use.

28. If there is no active market for an asset received gratis and no costs are related to the receipt of the asset, the acquisition cost of such asset is equal to zero.

V. RECOGNITION OF INTERNALLY GENERATED INTANGIBLE ASSETS

29. On initial recognition in accounting internally generated intangible assets are registered at the acquisition (production) cost.

30. When assets are generated internally, expenditure is classified into research and development costs. If an entity cannot reasonably allocate costs to research and development activities, it shall treat all costs as the costs of research. Costs of research shall be recognised as expenses in the period when they are incurred.

31. Examples of costs of research are:

31.1. activities aimed at obtaining new knowledge;

31.2. evaluation and application of knowledge obtained;

31.3. the search for alternatives for materials, devices, products, processes, systems or services.

32. Examples of costs of development are:

32.1. the design, construction and testing of pre-production or pre-use prototypes and models;

32.2. the design of tools, jigs, moulds and dies involving new technology;

32.3. the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production;

32.4. the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

33. Costs incurred in the development phase can be recognised as an intangible asset if, and only if, an entity can demonstrate all of the following:

33.1. the technical feasibility as well as financial and other resources necessary for completing the development activities;

33.2. its intention to complete creating the intangible asset and use or sell it;

33.3. its ability to use or sell the intangible asset;

33.4. how the intangible asset will generate probable future economic benefits to the entity;

33.5. its ability to measure reliably costs attributable to the intangible asset during its development.

34. Availability of sufficient resources to complete an intangible asset, ability to use and obtain the benefits from it can be demonstrated by, for example, a business plan showing technical, financial and other resources needed and the entity's ability to use them.

35. An entity's costing system can often measure reliably the cost of generating (creating) an intangible asset internally.

36. The production (creation) cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria specified in this Standard. Expenditure on the internally generated intangible asset that is included in the production (creation) cost of the asset may include:

36.1. costs of materials and services used or consumed in generating the intangible asset;

36.2. salaries and related taxes of personnel directly engaged in generating the asset;

36.3. depreciation of tangible assets and amortisation of intangible assets that were used in generating the intangible asset;

36.4. other costs that are directly attributable to generating the intangible asset;

36.5. overheads that are necessary to generate the asset and that can be fairly measured and allocated to the asset on a reasonable and consistent basis. Overheads are allocated in the manner similar to that which applies in case of production of tangible assets.

37. The following are not components of the cost of an internally generated intangible asset:

37.1. selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to generating the asset or preparing it for use;

37.2. initial operating losses incurred before an asset achieves planned performance;

37.3. expenditure on training staff.

38. Costs that were initially recognised by an entity as expenses in the previous reporting periods shall not be subject to adjustments and shall not be included in the cost of an intangible asset at a later date.

VI. MAINTENANCE AND IMPROVEMENT OF INTANGIBLE ASSETS

39. Subsequent maintenance costs of intangible assets are recognised as expenses of the reporting period when they are incurred.

40. Costs of improving an intangible asset after its acquisition or generation (creation) shall be recognised as expenses in that reporting period when they are incurred, except for cases when it is possible to reliably measure such costs, allocate them to the particular asset and when the entity can determine reliably that subsequent expenditure is likely to enhance economic benefits generated by that asset. If these conditions are met, the amount of costs is included into the acquisition (production) cost of the intangible asset.

41. It is often difficult to determine whether or not the expenditure will improve the intangible asset and as a result it will generate higher economic benefits in future or will it simply maintain the asset at its current standard of performance. In addition, it is often difficult to attribute such costs directly to a particular intangible asset, and therefore only rarely will the costs incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset result in additions to the acquisition (production) cost of the intangible asset.

42. In the balance sheet intangible assets shall be presented at their book value.

VII. AMORTISATION OF INTANGIBLE ASSETS

43. The depreciable amount of an intangible asset shall be allocated on a systematic basis over its useful life.

44. The amount of amortisation of an intangible asset is recognised as expenses in each reporting period, excluding cases when amortisation costs are included in the acquisition (production) cost of other assets.

45. Amortisation of an intangible asset is calculated on the basis of the annual depreciation rate set by the entity in view of:

45.1. the expected useful life of the asset;

45.2. whether the asset could be efficiently managed by another management team;

45.3. information on estimated useful lives of similar assets that are used in a similar way;

45.4. technical, technological or other types of obsolescence;

45.5. the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;

45.6. expected actions by existing or potential competitors;

45.7. the period of control over the asset and legal or similar limits on the use of the asset;

45.8. whether the useful life of the asset is dependent on the useful life of other assets of the entity.

46. Estimates of the useful life of an intangible asset generally become less reliable as the length of the useful life increases. However, if there is persuasive evidence that the useful life of an intangible asset will exceed 20 years, an entity can set the period of useful life of an asset longer than 20 years.

47. The useful life of an intangible asset may be long, but it is always finite.

48. If control over intangible assets is achieved through legal rights granted for a finite period, the useful life of the intangible asset shall not exceed the period of the legal rights, unless the legal rights are renewable and renewal is virtually certain.

49. Examples of factors which indicate that renewal of a legal right is virtually certain:

49.1. the legal right to control the asset will be renewed with little or no additional cost;

49.2. the conditions, necessary to obtain the renewal of the legal right, that are specified in the agreement will be satisfied and the legal rights will be renewed.

50. Intangible assets shall be amortised applying the straight-line (linear) amortisation method.

51. In its accounting policy an entity may select the units-of-production method if there is reasonable evidence that the depreciable amount will be systematically allocated over the useful life of an asset and related to a certain quantity of produced goods (rendered services). For example, the units-of-production amortisation method may be applied for calculating amortisation of emission allowances related to integrated pollution and control.

52. Under the straight-line (linear) method, the annual amount of amortisation is calculated according to the formula:

$$\frac{\text{Acquisition (production / creation) cost – Residual value}}{\text{Useful life in years}}$$

53. Amount of amortisation calculated under the units-of-production depreciation method depends on the quantity of units produced (services provided). Under this method the annual amount of amortisation is calculated according to the formula:

$$\frac{\text{(Acquisition (production) cost – Residual value) x Number of units produced during the year}}{\text{Maximum number of units expected to be produced over useful life}}$$

54. The residual value of an intangible asset shall be equal to zero, excluding the cases when a third party commits itself to purchasing the asset at the end of its useful life, or if an active market for such asset exists and the residual value can be determined according to it, and, moreover, this market is likely to be present upon expiration of the useful life of the asset.

55. The depreciable amount of assets is determined after deducting the residual value of the assets from their acquisition (production) cost. A residual value other than zero implies that an entity expects to dispose the intangible asset at the end of its useful life.

56. Amortisation period shall be reviewed at least at each balance sheet date. If the expected useful life of an asset is significantly different from previous estimates, the amortisation period shall be changed accordingly.

57. If upon receipt of new information the useful life of an intangible asset is adjusted, the book value of the asset shall be amortised over the reviewed useful life. If the acquisition cost of an asset has been increased as a result of improvement or reduced due to impairment, over the remaining useful life of the asset amortisation shall be calculated from its reviewed book value.

VIII. IMPAIRMENT AND DERECOGNITION OF INTANGIBLE ASSETS

58. If an intangible asset is not yet available for use or its useful life is estimated as exceeding twenty years, at least at each balance sheet date, even if there are no signs of impairment in value, an entity shall review and, if necessary, adjust the value of the intangible asset. If its value has decreased, the impairment in value of intangible assets shall be recognised.

59. If an impairment loss occurs before the end of the financial year commencing after the financial year of the acquisition of an intangible asset in a business combination, and it is not related to the change in circumstances since the date of the business combination, the impairment loss is recognised as an adjustment to both the cost of intangible assets and goodwill recognised at the date of acquisition.

60. Impairment of intangible assets shall be determined in the manner established by 23 Business Accounting Standard “Impairment of Assets”**.**

61. If after a change in circumstances a recognised intangible asset no longer meets the criteria of attribution to intangible assets, it shall be derecognised.

62. Upon disposal of an intangible asset, the result of the transaction is presented in the income statement. Gains or losses arising from a disposal of intangible assets shall be determined as the difference between the disposal proceeds and the book value of sold assets and all costs related to the disposal.

63. If not fully amortised intangible asset is lost or written off, losses shall be recognised and presented in the income statement as operating expenses.

64. Intangible assets that are not used in the entity’s activities and are held for sale, are recorded at their book value in the inventories account on the day from which the assets are no longer used. Accounting requirements for such assets are established by 9 Business Accounting Standard “Inventories”.

65. Intangible assets shall be recorded in the inventories account and held for sale only when they meet all the following criteria:

65.1. It is possible to sell the assets quickly on the normal terms of sale at the current state and the sale is highly probable.

65.2. The sale of assets is highly probable if:

65.2.1. these assets have an active market;

65.2.2. the sale of the assets has started, the search for the buyer is ongoing and there are no intentions to discontinue the sale;

65.2.3. it is planned to sell the intangible assets within 12 months after their registration in the inventories account;

65.3. If intangible assets have not been sold within 12 months after their transfer into the inventories, they may still be recorded in the inventories account when they are unsold due to circumstances not depending on the entity, and the entity has not abandoned plans to sell these assets, and it is probable that they will be sold in the nearest future.

66. If intangible assets do not meet the criteria specified in paragraph 65, they shall not be accounted for as inventories.

IX. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

67. Explanatory notes to financial statements shall disclose the following information:

67.1. for each group of intangible assets:

67.1.1. the useful life;

67.1.2. the acquisition (production) cost at the beginning and at the end of the period;

67.1.3. the value of intangible assets acquired or generated (created) during the reporting period;

67.1.4. the value of assets written off;

67.1.5. impairment losses and reversal of impairment;

67.1.6. the amount of amortisation calculated during the reporting period and the item of the income statement where it is included;

67.1.7. accumulated amortisation at the beginning and at the end of the period;

67.1.8. the book value at the beginning and at the end of the period.

67.2. the accounting policy for intangible assets and its changes;

67.3. changes in accounting estimates;

67.4. the acquisition (production) cost of fully amortised assets still in use;

67.5. the book value of intangible assets amortised during the period longer than 20 years and the reasons for setting such amortisation period;

67.6. information about intangible assets received gratis that are used in the entity's operations;

67.6. the book value of intangible assets the control of which is restricted by legal acts or certain agreements;

67.8. the book value of intangible assets used as collateral to guarantee the discharge of liabilities;

67.9. the book value of intangible assets derecognised upon the first-time application of this Standard as a result of the failure to meet the recognition criteria established hereunder.

X. FINAL PROVISIONS

68. An entity applying this Standard for the first time, shall derecognise intangible assets failing to meet the recognition criteria for intangible assets established hereunder according to the requirements of 7 Business Accounting Standard “Changes in Accounting Policies, Accounting Estimates and Correction of Errors”.

69. The revised version of this Standard shall be effective for financial statements covering periods beginning on or after 1 January 2008.