

**EXPOSURE DRAFT  
OF NATIONAL ACCOUNTING STANDART FOR COMMERCIAL  
ORGANIZATIONS №12**

**INTANGIBLE ASSETS**

**GENERAL PROVISIONS**

**Purpose of the Standard**

1. This Standard has been prepared in accordance with the Accounting Law of Azerbaijan Republic and is based on International Accounting Standard 38 Intangible Assets.

**Objective**

2. The objective of this Standard is to detail the accounting treatment for intangible assets that are not dealt with specifically in another NASCO.
3. In accordance with requirements of this Standard, entity recognition of an intangible asset is possible only when certain specified criteria are met.
4. This Standard identifies entity methods for measurement of the carrying amount of intangible assets and requires appropriate disclosures about intangible assets by the entity.

**Scope**

5. This Standard shall be applied by all types of commercial enterprises that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and Recommendations on its Application.
6. In the case of contradictions between effective normative-legal acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
7. This Standard will be applied in accounting for intangible assets by commercial enterprises, except:
  - (a) recognition and measurement of evaluation and exploration assets;
  - (b) expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources;
  - (c) deferred expenditure on acquisition and intangible assets arising from insurer rights on insurance contracts.
8. If another NASCO details the accounting treatment for a specific type of intangible asset, then that NASCO must be applied instead of this Standard. For example, this Standard does not deal with the followings:

- (a) intangible assets held by an entity for sale in the ordinary course of business (see NASCO 8 "Inventories", NASCO 16 "Construction Contracts");
  - (b) deferred tax assets (see NASCO 4 "Deferred Taxation");
  - (c) leases that are within the scope of NASCO 14 "Leases";
  - (d) assets arising from employee benefits (see NASCO 29 "Employee Benefits");
  - (e) financial assets (see NASCO 28 "Financial Instruments: Recognition and Measurement", NASCO 19 "Financial Statements of Organizations and Consolidated Financial Statements", NASCO 25 "Related Party Disclosures", NASCO 21 "Financial Statements of Organisations' Joint Activities");
  - (f) goodwill acquired in a business combination (see NASCO 18 "Combinations of Organisations' Activities");
  - (g) non-current intangible assets held for sale (see NASCO 23 "Discounted Operations and Accounting for Non-current Assets Held for Sale").
9. Intangible assets can be presented independently or as an integral part of some other physical object (for example, software compact disc, patent or legal document on special permission). If an asset contains both intangible and tangible elements, then the entity shall determine which element is the more significant and either account for the asset as tangible under NASCO 7 Property, Plant and Equipment or as an intangible under this Standard.
10. This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Although these expenditure may result in an asset with physical substance, the physical element of the asset is secondary to its intangible component.

## Definitions

11. The following terms are used in this NASCO and have the following meanings:

**An intangible asset** is an identifiable non-monetary asset without physical substance.

**Monetary assets** are money held and assets to be received in fixed or determinable amounts of money.

**An active market** is a market in which all the following conditions exist:

- (a) the items traded in the market are homogeneous;
- (b) willing buyers and sellers can normally be found at any time; and
- (c) prices are available to the public.

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

**Development activities** 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 Assets**

12. If an item seems to be within the scope of this NASCO but does not meet the definition of an intangible asset, such expenditure to acquire it or generate it internally is to be recognised as an expense when it is incurred. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date.
13. Intangible assets are defined based on the following criteria:
  - (a) identifiability;
  - (b) control;
  - (c) future economic benefit.
14. Distinction of an intangible asset from Goodwill requires an intangible asset to be identifiable. Goodwill that is acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized. Since such Goodwill is not identifiable, it is not subject to the provisions of this NASCO.
15. An asset meets the identifiability criterion in the definition of an intangible asset when it:
  - (a) is separable entity and can be disposed of either individually or together with a related contract, asset or liability; or
  - (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
16. Control is the second essential element in the definition of an intangible asset. In this context, control exists if the entity is expected to obtain future economic benefits flowing from the underlying resource and can restrict the access of others to those benefits. The control over future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. However, legal enforceability is not a necessary condition for control if the entity is able to demonstrate the control over future economic benefits in some other way.
17. The likelihood of enjoying future economic benefits arising from an intangible asset is the third key element in the definition of an intangible asset. The future economic benefits flowing from an intangible 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

## Recognition and Initial Measurement

18. The entity will recognize an intangible asset if the entity can show that the expenditure meets:
- (a) the definition of an intangible asset (see paragraphs 11 - 17); and
  - (b) the recognition criteria of an intangible asset (see paragraphs 20 - 21).

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

19. If any of two attributes indicated in the paragraph 18 is not present then the associated costs will be recognised as an expense in profit and loss as incurred.
20. An intangible asset shall be recognised if, and only if:
- (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
  - (b) the cost of the asset can be measured reliably.
21. An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent best estimate of the economic conditions that will exist over the useful life of the asset.
22. An intangible asset will be measured initially at historic cost.
23. Only rarely will subsequent expenditure - expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset - be recognised in the carrying amount of an asset. Such subsequent expenditure will be recognised in profit or loss as incurred unless there is conclusive evidence that the subsequent expenditure meets the recognition criteria of an intangible asset. If the subsequent expenditure does satisfy the recognition criteria it will be initially measured at historic cost.

## Separately acquired intangible assets

24. The recognition criterion in paragraph 20 (a) is always considered to be satisfied for separately acquired intangible assets. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.
25. The historic cost of a separately acquired intangible asset consists of two elements:
- (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.
26. The accumulation of costs to be recognised in the carrying amount of an intangible asset will stop when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore,

costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset.

27. Additional expenses incurred in connection with the development of an intangible asset, but which are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management, will not be included in the carrying amount of the asset but are recognised immediately in profit or loss.
28. If payment for an intangible asset is deferred beyond normal credit terms, its historic cost is the purchase price reflected in its cash price equivalent at the date of acquisition of intangible assets. The difference between the cash price equivalent and the total payments is recognized as interest expense over the period of credit in accordance with the NASCO 13 “Borrowing Costs”.

### **Intangible assets acquired in a business combination**

29. In accordance with the NASCO 18 “Combinations of Organisations’ Activities”, if an intangible asset is acquired in a business combination, the historic cost of that intangible asset is its fair value at the acquisition date.

### **Measuring the Fair Value of an Intangible Asset Acquired in a Business Combination**

30. The fair value of intangible assets acquired in business combinations can normally be measured with sufficient reliability. When there is a range of possible outcomes with different probabilities, that uncertainty forms part of the assessment of the asset’s fair value, rather than demonstrates an inability to measure fair value reliably. If an intangible asset acquired in a business combination has a finite useful life, there is a presumption that its fair value can be measured reliably.
31. An intangible asset acquired in a business combination might be separable, but only together with a related tangible or intangible asset. In such cases, the acquirer will recognise the group of assets as a single asset separately from goodwill if the individual fair values of the assets in the group are not reliably measurable individually.
32. If the individual fair values of the complementary assets are reliably measurable, they may be recognized as a single asset if the individual assets have similar useful lives.
33. The only circumstances in which it might not be possible to measure reliably the fair value of an intangible asset acquired in a business combination are when the intangible asset arises from legal or other contractual rights and either:
  - (a) is not separable; or
  - (b) is separable, but there is no history or evidence of exchange transactions for the same or similar assets

34. Appropriate quoted market prices in an active market provide the most reliable estimate of the fair value of an intangible asset. The appropriate market price is usually the current bid price. If current bid prices are unavailable, the price of the most recent similar transaction may provide a basis from which to estimate fair value, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the asset's fair value is estimated.
35. If no active market exists for an intangible asset, its fair value is the amount that the subject of accounting entity would have paid for the asset, at the acquisition date, in an arm's length transaction between knowledgeable and willing parties, on the basis of the best information available. In determining this amount, the subject of accounting entity should consider the outcome of recent transactions for similar assets.
36. Subjects of accounting Entities that are regularly involved in the purchase and sale of unique intangible assets may have developed techniques for estimating their fair values indirectly. These techniques may be used for initial measurement of an intangible asset acquired in a business combination if their objective is to estimate fair value and if they reflect current transactions and practices in the industry to which the asset belongs.

### **Subsequent Expenditure on an Acquired In-process Research and Development Project**

37. Research or development expenditure that:
  - (a) relates to an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset; and
  - (b) is incurred after the acquisition of that project shall be accounted for in accordance with paragraphs 47-48.
38. Subsequent expenditure on an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset is:
  - (a) recognised as an expense when incurred if it is research expenditure;
  - (b) recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 48; and
  - (c) added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 48.

### **Acquisition of Intangible Assets by way of a Government Grant**

39. If an intangible asset is acquired free of charge, or for a nominal payment, by way of a government grant, then the entity has the right to recognize both the asset and the grant at fair value in accordance with NASCO 17 "Accounting for Government Grants and Disclosure of Government Assistance". If an entity chooses not to recognise the asset initially at fair value, according to the NASCO 17 "Accounting for Government Grants and Disclosure of Government Assistance" the entity recognises the asset initially at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use.

### **Exchanges of Assets**

40. Intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an intangible asset is measured at fair value unless:
- (a) the exchange transaction lacks commercial substance or;
  - (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

If the fair value of acquired asset(s) can not be measured reliably, its cost is measured at the fair value of the asset(s) given up. However, if the fair value of the asset(s) given up can not also be measured reliably, the cost of acquired asset(s) is measured at the carrying amount of the asset(s) given up.

41. If cash or cash equivalents are included as part of the exchange transaction this may indicate that the assets exchanged do not have a similar fair value.
42. Where the exchange transaction involves assets with equal fair value, the cost of acquired asset(s) is equivalent to the carrying amount of the asset(s) given up.

### **Internally Generated Goodwill**

43. Internally generated goodwill shall not be recognised as an asset.

### **Internally Generated Intangible Assets**

44. In addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, the entity applies the specific requirements in paragraphs 45-52 to all internally generated intangible assets.
45. To assess whether an internally generated intangible asset meets the criteria for recognition, the entity classifies the generation of the asset into
- (a) a research phase; and
  - (b) a development phase.

Although the terms 'research' and 'development' are defined, the terms 'research phase' and 'development phase' have a broader meaning for the purpose of this Standard.

46. If the entity cannot distinguish the research phase from the development phase of an internal project the entity will treat the expenditure on that project as if it were incurred in the research phase only.

### **Research Phase**

47. Expenditure on research (or during the research phase of an internal project) shall not be recognised as an asset but shall be recognized as an expense when it is incurred.

### **Development Phase**

48. An intangible asset that arises from development (or from the development phase of an internal project) shall be recognised only if the entity can demonstrate all of the following:
- (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;
  - (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
  - (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.
49. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance will not be recognised as intangible assets. Costs incurred in the creation of such items will be recognized as an expense in the period in which it is incurred.
50. To demonstrate how an intangible asset will generate probable future economic benefits, an entity assesses the future economic benefits to be received from the asset under NASCO 24 "Impairment of Assets". If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of cash-generating units in NASCO 24 "Impairment of Assets".

### **Historic Cost of an Internally Generated Intangible Asset**

51. The historic cost of an internally generated intangible asset for the purpose of paragraph 22 is the total expenditure incurred from the date when the

intangible asset first meets the asset recognition criteria and criteria in the paragraphs 20, 21 and 48.

52. The historic cost of an internally generated intangible asset consists of all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

### **Recognition of an Expense**

53. Expenditure on an intangible item will be recognised as an expense when it is incurred unless:
- (a) it forms part of the historic cost of an intangible asset that meets the recognition criteria (see paragraphs 18-52); or
  - (b) the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, this expenditure (included in the cost of the business combination) shall form part of the amount attributed to goodwill at the acquisition date (see NASCO 18 "Combinations of Organisations' Activities").
54. If expenditure is incurred to provide future economic benefits to the entity, but no intangible asset or other asset is acquired or created that can be recognised, the expenditure is recognised as an expense when it is incurred.
55. Paragraph 53 does not preclude recognising a prepayment as an asset when payment for the delivery of goods or services has been made in advance of the delivery of goods or the rendering of services.

### **Past Expenses not to be Recognised as an Asset**

56. Expenditure on an intangible object that was initially recognised as an expense will not be recognised as part of the historic cost of an intangible asset at a later date.

### **Measurement after Recognition**

57. The entity will choose either the historic cost model or the revaluation model as its accounting policy for measurement of intangible assets. 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.

### **Historic Cost Model**

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

## Revaluation Model

59. After initial recognition, an intangible asset will be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value will be determined by reference to an active market. Revaluations will be made with the regularity needed to ensure that the carrying amount of the asset at the balance sheet date is not materially different from its fair value.
60. The revaluation model is applied after an asset has been initially recognised at historic cost. If only part of the historic cost of an intangible asset is recognised as an asset because the whole asset did not meet the criteria for recognition, the revaluation model may be applied to the whole of that asset.
61. If an intangible asset is revalued, any accumulated amortisation at the date of the revaluation is either eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.
62. 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 is to be carried at its historic cost less any accumulated amortisation and impairment losses.
63. If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.
64. The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired. If this is the case, the extent of such impairment should be determined in accordance with NASCO 24 Impairment of Assets.
65. If the fair value of the asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.
66. If an intangible asset's carrying amount is increased as a result of a revaluation, the increase is to be credited directly to equity under the heading of revaluation surplus. However, if an asset had previously been revalued and a revaluation decrease had been recognized in profit and loss then any subsequent revaluation increase may be recognized in profit or loss but only to the extent that it reverses the previous revaluation decrease. Any revaluation increase remaining after the reversal of previous decreases must be credited directly to equity under the heading of revaluation surplus.
67. If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be debited directly to equity under the heading of revaluation

surplus to the extent of any credit balance in the revaluation surplus in respect of that asset.

68. The cumulative revaluation surplus included in equity may be transferred directly to retained earnings only when the surplus is realized on the retirement or disposal of the asset. However, some of the surplus may be realised as the asset is used by the entity; in such a case, the amount of the surplus realised is the difference between amortisation based on the revalued carrying amount of the asset and amortisation that would have been recognised based on the asset's historic cost. The transfer from revaluation surplus to retained earnings is not made through the income statement.

## **USEFUL LIFE**

69. The subject of accountingentity will assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the subject of accountingentity as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the subject of accountingentity. The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised and an intangible asset with an indefinite useful life is not.
70. The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised and an intangible asset with an indefinite useful life is not.
71. A conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at that standard of performance.

## **INTANGIBLE ASSETS WITH FINITE USEFUL LIVES**

### **Amortisation Period and Amortisation Method**

72. The depreciable amount of an intangible asset with a finite useful life will be allocated on a systematic basis over its useful life. Amortisation will 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 and is not dependent on actual use of the asset. Amortization does not necessarily cease when the asset is not in active use. Amortisation will cease at earlier of the date that the asset is:
- (a) held for sale, but not fully amortised on that date; derecognized;
  - (b) derecognized; fully amortised, but not derecognized; and
  - (c) fully amortised, but not derecognized; held for sale, but not fully amortised on that date.
73. A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the unit

of production method The amortization method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. A variety of amortization methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. If an expected pattern of consumption cannot be determined reliably, the straight-line method must be used.

74. The amortisation charge for each period will be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset. The amortization charge can be zero under usage methods of amortization while there is no production. The fact that an amortization charge is zero because the usage method is being used may indicate that the asset may be impaired and in this case the asset will be immediately examined on impairment.<sup>1</sup>If the future economic benefits embodied in an asset are absorbed in producing other assets, the amortisation charge constitutes part of the cost of the other asset.
75. The amortization charge can be zero under usage methods of amortization while there is no production. The fact that an amortization charge is zero because the usage method is being used may indicate that the asset may be impaired and in this case the asset will be immediately examined on impairment under NASCO 24 – “Impairment of assets”.

### **Residual Value**

76. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
  - (b) 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.
77. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value.
78. An estimate of an asset’s residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used.

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<sup>1</sup> This provision will be in force after introduction of NASCO Impairment of Assets.

## Review of Residual Value

79. If the historic cost method is adopted, the residual value is not subsequently increased for changes in prices or value. If the revaluation method is adopted, the residual value is reviewed at least at each financial year-end. A change in the asset's residual value is accounted for as a change in an accounting estimate under NASCO 11 – Accounting Policy, Changes in Accounting Estimates and Errors and the amortization charge for the current and future periods must be adjusted.
80. The effect of the change in accounting estimate relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised in future periods. The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

## Review of Amortisation Period and Amortisation Method

81. The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern under NASCO 11 – Accounting Policy, Changes in Accounting Estimates and Errors. Such changes shall be accounted for as changes in accounting estimates and the amortization charge for the current and future periods must be adjusted.

The effect of the change in accounting estimate relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised in future periods.<sup>2</sup>

## Intangible Assets with Indefinite Useful Lives

82. An intangible asset with an indefinite useful life will not be amortised.
83. An subject of accountingentity is required to test an intangible asset with an indefinite useful life for impairment under NASCO 24 – Impairment of assets by comparing its recoverable amount with its carrying amount:
- (a) annually, and
  - (b) whenever there is an indication that the intangible asset may be impaired.

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<sup>2</sup> This item will be expanded upon when there is a NASCO equivalent to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Revised 2004)

## **Review of Useful Life Assessment**

84. The useful life of an intangible asset that is not being amortised will be reviewed each 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 will be accounted for as a change in an accounting estimate under NASCO 11 – Accounting Policy, Changes in Accounting Estimates and Errors.
85. Reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the subject of accountingentity tests the asset for impairment under NASCO 24 – Impairment of assets by comparing its recoverable amount with its carrying amount, and recognises any excess of the carrying amount over the recoverable amount as an impairment loss.

## **Recoverability of the Carrying Amount – Impairment Losses**

86. To determine whether an intangible asset is impaired, the subject of accountingentity will apply NASCO NASCO 24 – "Impairment of Assets".

## **Retirements and Disposals**

87. An intangible asset shall be derecognised:
- (a) on disposal; or
  - (b) when no future economic benefits are expected from its use or disposal.
88. The gain or loss arising from the derecognition of an intangible asset will be determined as the difference between the net disposal proceeds and the carrying amount of the asset. It will be recognised in profit or loss when the asset is derecognised (unless NASCO- Leases requires otherwise on a sale and leaseback). Gains arising from derecognition of an intangible asset will be classified as other operating income.
89. If in accordance with the recognition principle in paragraph 19 18 the subject of accountingentity recognises in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognises the carrying amount of the replaced part. If it is not practicable for the subject of accountingentity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.
- If subject of accounting holds an intangible asset retired from active use with the intention to sell it, but not in the next reporting period, then it continues to classify those intangible assets as intangible assets in use. When a subject of accounting intends to sell those intangible assets in the next reporting period it will reclassify those intangible assets into inventories and apply to these intangible assets provisions of NASCO 8, "Inventories".
90. The consideration receivable on disposal of an intangible asset is recognised initially at its fair value. If payment for the intangible asset is deferred, the

consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with NASCO 6 – Income reflecting the effective yield on the receivable.

91. Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale.

## **DISCLOSURE**

### **General provisions**

92. The subject of accountingentity will 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 income statement 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:
    - (i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;
    - (ii) intangible assets classified as held for sale and other disposals;
    - (iii) increases or decreases during the period resulting from revaluations and from impairment losses recognised or reversed directly in equity (if any);
    - (iv) impairment losses recognised in profit or loss during the period (if any);
    - (v) impairment losses reversed in profit or loss during the period (if any);
    - (vi) any amortisation recognised during the period;
    - (vii) net exchange differences arising on the translation of the financial statements of a foreign entity.
    - (viii) other changes in the carrying amount during the period.
93. The subject of accountingentity must disclose the nature and amount of any change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. In the context of intangible assets, such disclosure may arise from changes in:
- (a) the assessment of an intangible asset's useful life;
  - (b) the amortisation method; or
  - (c) residual values.
94. The subject of accountingentity will 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 subject of accountingentity will 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 subject of accountingentity's financial statements.
- (c) for intangible assets acquired by way of a government grant:
  - (i) the fair value initially recognised for these assets;
  - (ii) their carrying amount; and
  - (iii) whether they are measured after recognition under the historic 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**

95. If intangible assets are accounted for at revalued amounts, the subject of accountingentity will 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 historic cost model.
  - (b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders; and
  - (c) the methods and significant assumptions applied in estimating the assets' fair values.

#### **RESEARCH AND DEVELOPMENT EXPENDITURE**

96. The subject of accountingentity will disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

#### **First Time Application**

97. On the first time application of this standard a subject of accountingentity may elect to measure an intangible asset at the date of transition to NASCO using the cost of the previous revaluation of intangible asset at, or before, the date of transition to NASCO as the deemed cost, provided that the previous

revaluation was carried out in accordance with the accounting regulations of the Republic of Azerbaijan current at the time of that revaluation.

### **Transitional Provisions**

98. Paragraph 59 57 of this Standard requires a subject of accountingentity to choose either the historic cost model in paragraph 60 58 or the revaluation model in paragraph 61 59 as its accounting policy and apply that policy to an entire class of intangible assets or separate intangible assets if there is no active market for those assets. Until such time as the National Accounting Standard on fair value has been introduced a subject of accountingentity must adopt the historic cost model as its accounting policy as regards intangible assets.
99. Until such time as the NASCO on fair value has been introduced the fair value of the intangible assets may be established by:
  - (a) means of an expert valuation; or
  - (b) reference to the normal selling price of asset acquired, adjusted by the amount of any cash or cash equivalents transferred; or
  - (c) reference to the normal selling price of the asset given up, adjusted by the amount of any cash or cash equivalents transferred
100. Paragraph 86 of this Standard requires entities to adopt the provisions of the NASCO 24 – Impairment of Assets. Until such time as the NASCO on impairment has been introduced a entity shall not adjust the carrying value of intangible assets to reflect any impairment.

### **EFFECTIVE DATE**

101. This National Accounting Standard for Commercial Organizations becomes operative after the date determined by the Ministry of Finance of the Azerbaijan Republic

## Appendix 1 – Comparison with IAS 38 Intangible Assets

This National Accounting Standard for Commercial Organisations (NASCO) 12 – Intangible Assets is drawn primarily from International Accounting Standard (IAS) 38 (2004) – Intangible Assets. The main differences between NASCO 12 and IAS 38 are as follows:

- The General Provisions set out in paragraph 1 is added to NASCO 12 and relate the standard to the Accounting Law of the Republic of Azerbaijan. IAS 38 does not contain such section.
- Paragraphs 5 and 6 of NASCO 12 define the scope of the organisations required to apply the standard as set out in the Accounting Law of the Republic of Azerbaijan.
- Paragraph 11 of NASCO 12 does not contain an all of the definitions contained in IAS. All definitions that have been omitted are contained in previous NASCOs.
- In respect of an exchange transaction, IAS 38 (revised 2004) uses the concept of commercial substance based on future cash flows. For the purposes of easier application, NASCO 12 relies on the concept of similarity which is consistent with NASCO 6 Income. Accordingly, NASCO 12 requires exchanged assets with similar fair values to be recognized at the carrying amount of the asset given up. Exchanges of assets with dissimilar fair values have to be recognized at the fair value of the asset given up or, failing that, at the carrying value of the asset given up. NASCO 12 does not contain any of the tests of commercial substance contained in IAS 38.
- NASCO 12 requires that if the enterprise holds an intangible asset retired from active use with the intention to sell it, but not in the next reporting period, then it continues to classify those intangible assets as intangible assets in use. When an enterprise intends to sell those intangible assets in the next reporting period it will reclassify those intangible assets into inventories and apply to these intangible assets provisions of NASCO 8, Inventories. IAS 38 does not apply to intangible assets classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. According to IFRS 5 an entity shall measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
- IAS 38 encourages, but not requires, to disclose the following information:
  - (a) a description of any fully amortised intangible asset that is still in use; and
  - (b) a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before the version of IAS 38 Intangible Assets issued in 1998 was effective.

NASCO 12 does not contain such provision.

- NASCO 12 contains a section under First Time Application that provides regulations on deemed cost. Under provisions of this section the enterprise may elect as a deemed cost the cost recognized in accordance with the accounting regulations of Azerbaijan Republic current at, or before, the date of transition to NASCO. There is no similar paragraph in IAS 38
- NASCO 12 contains an extra section on transitional provisions, which postpones the introduction of some provisions of the Standard until the introduction of the relevant National Accounting Standards, which are planned to be introduced later:
  1. until introduction of NASCO Fair value the enterprise will not use the revaluation model;
  2. until introduction of NASCO Impairment of Assets the enterprise will not adjust the carrying value of intangible assets to reflect any impairment.

There is no similar paragraph in IAS 38.

- NASCO 12 says that until such time as the NASCO Fair Value has been introduced the fair value may be established by:
  - (a) means of an expert valuation ; or
  - (b) on the basis of the normal selling price of the asset acquired;  
or
  - (c) on the basis of the normal selling price of the asset given up.

There is no similar paragraph in IAS 38.

- NASCO 12 does not contain the illustrative examples and explanations contained in IAS 38. These are included, and more fully expanded on, in the Explanations and Recommendations NASCO 12.