

### Purpose

To provide guidance on the Accounting Management Manual, with respect to the Group's intangible assets processes.

### Scope

This guidance applies to accounting for all intangible assets under control of SGSP (Australia) Assets Pty Ltd (SGSPAA) and/or its controlled entities (SGSPAA Group). This guidance does not apply for Regulatory or Taxation purposes.

### Regulatory Framework

For the purposes of this document, the mandatory requirements relating to the accounting treatment of intangible assets in the GL and Financial Statements are established by Australian Accounting Standard **AASB 138 "Intangible Assets"**. Goodwill arising from business combinations is addressed by **AASB 3 "Business Combinations"**.

### Guidance

#### Recognition

AASB138(13)

The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

#### Internally Generated Intangible Assets

AASB138(54), (55)

No intangible asset arising from the *research phase*<sup>1</sup> of an internal project shall be recognised. Expenditure on research shall be recognised as an expense when it is incurred. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

AASB138(57) (a) –  
(f)

However, assets arising from the *development phase*<sup>2</sup> of a project shall be recognised by the SGSPAA Group if **all** of the following can be demonstrated:

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

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<sup>1</sup> **Research** is defined as "...original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding..." per **AASB 138 "Intangible Assets"**, paragraph (8).

<sup>2</sup> **Development** is defined as "...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..." per **AAB138 "Intangible Assets"**, paragraph (8).

AASB138(66) (a) – (d)	<ul style="list-style-type: none"> <li>• The Group's intention to complete the intangible asset and use or sell it;</li> <li>• The Group's ability to use or sell the intangible asset;</li> <li>• How the Group will use the intangible asset to generate probable future economic benefits (including whether there is a market for the output of the intangible asset);</li> <li>• The availability of adequate technical, financial and other resources to complete the intangible asset and use or sell it; and</li> <li>• The Group's ability to measure reliably the expenditure relating to the intangible asset.</li> </ul>
	<p>The initial cost of an internally generated intangible asset may include:</p> <ul style="list-style-type: none"> <li>• Materials or services used or consumed in generating the intangible asset;</li> <li>• Employee benefits (per <b>AASB 119 “Employee Benefits”</b>) arising from the generation of the intangible asset;</li> <li>• Fees to register a legal right; and</li> <li>• Amortisation of patents and licences used to generate the intangible asset.</li> </ul>
AASB138(67) (a) – (c)	<p>However, the following items do not form part of the cost of an internally generated intangible asset:</p> <ul style="list-style-type: none"> <li>• Overhead expenditure that cannot be directly attributable to preparing the intangible asset for use (selling and administrative expenses, etc);</li> <li>• Inefficiencies and initial operating losses incurred prior to the intangible asset reaching its planned level of performance; and</li> <li>• The cost of training employees to operate the asset.</li> </ul>
AASB138(68) (a)	<p>Unless expenditure on an intangible item forms part of the cost of that item that meets the recognition criteria, the expenditure shall be recognised as an expense when it is incurred.</p>
AASB138(71)	<p>Note also, the Standard prohibits the Group from including in the cost of an intangible asset any amount that has previously been recognised as an expense. Amounts capitalised as part of the cost of an intangible asset can, however, be expensed to the profit or loss should the asset no longer meet the recognition criteria discussed above. This indicates that Management should take due care in assessing the potential of a project to generate an intangible asset at the project's inception.</p>
	<h3>Useful life</h3>
AASB138(88)	<p>The SGSPAA Group shall assess whether the useful life of an intangible asset is finite or indefinite. Where finite, the Fixed Asset Accountant along with Management and Financial Reporting shall determine the asset's useful life.</p> <p>An intangible asset shall be regarded 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.</p>
AASB138(94)	<p>Where the intangible asset arises from contractual or other legal rights, the useful life of the intangible shall not exceed the contract period.</p>

# GUIDANCE - INTANGIBLE ASSETS

JAA FIN GU 0013

## Software

The SGSPAA Group owns software licences for a number of products including: SAP; BPC; BI; Microsoft Windows; Quantum and so on. Software is recorded at cost and amortised on a straight-line basis over its useful life.

The useful life to be used for software across the SGSPAA Group is:

- SAP related assets – 7 years, as determined by management
- AMI/ Smart meters – 7 years, in accordance with the Cost Recovery Order in Council (CROIC)
- All other software – 5 years, or as determined by management

## Review

This Guidance is to be reviewed by the Corporate Reporting Team within two years of the previous review, or if changes in circumstances indicate that a review is necessary. The review shall include, but is not limited to, checking alignment with the relevant documents and the sources referred to in the left hand margin.

Revisions to this Guidance must be approved by the GM Financial Planning and Analysis, in accordance with **Approval** below.

## Contacts

Depending on the nature of the enquiry the following personnel will be able to assist:

- Senior Finance Analysts;
- Corporate Reporting Team;
- Financial Recording Team, Fixed Asset Accountant

## Approval

	Proposed By:	Approved By:
Signature:		
Name:	Robert Kercheval, Corporate Reporting Manager	Russell Dawson, GM Financial Planning & Analysis
Date:	23/11/18	23/11/18

# GUIDANCE - INTANGIBLE ASSETS

JAA FIN GU 0013

