United Nations

Corporate Guidance

For

International Public Sector Accounting Standards

Intangible Assets

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Corporate Guidance to Support the Adoption of International Public Sector Accounting Standards (IPSAS) by the United Nations

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Corporate Guidance # 12 – Intangible assets

This corporate guidance will cover the following topics with respect to intangible assets:

- Guidance with examples of what constitutes an intangible asset: **see section: 5**;
- Recognition criteria for Intangibles, for example:
    - Illustrate with a UN specific example for each point. For instance, scenarios where DFS landing rights or right to use radio frequencies could be either Intangibles or not depending on the concept of control: **see section 5.1.1.3**;
    - Where intangibles assets maybe contained in a physical substance, legal documentation or film– how recognition and measurement are determined? **see section 5.1.2.2**;
- Relevant definitions with examples – e.g. IPSAS 31 paragraph 16
    - UN specific examples to illustrate how the theory should be applied in practice: **see sections 2-6**;
- Guidance on the data required to be captured and the procedures and processes to be put in place for non-automated accounting for intangible assets in a pre-Umoja environment: **see section 10.1**;
- Guidance on intangible costs to be capitalized/expensed – illustrate with examples for a publication process and internally generated assets: **see section 5**;
- Impairment of intangible assets: **see sections 6.2.2 and 10.2**;
- Guidance on internal controls relating to intangible assets: **see section 8.1**;
- Process for internally generated intangibles including deciding on an estimated useful life: **see sections 5.1.2, 6.1.1.2, and 6.2.1.1,** ;
- Treatment of intangibles in inventory (e.g., publications) including W.I.P: **see section 5.1.2.2**;
- Scenarios - examples should be provided to back up theory throughout the document with accounting entries where applicable.
    - An example on the full ERP implementation lifecycle i.e. from feasibility to roll out including research, development and post development stages–clarifying when each stage commences (what is the trigger?) and the accounting treatment at each stage: **see section 5.1.2.1**;
    - Examples on the treatment of externally acquired software licenses purchased on a per unit/user basis – clarify how threshold is applied: **see section 5.1.1.2**;
- Treatment of electronic downloaded documents if threshold exceeded: **see section 5.1.2.2**;
- Treatment of work in progress of intellectual property e.g. in a publishing process where the physical element is Inventories. Provide clarity on the treatment of intangibles that will be treated prospectively but the inventory element requires retrospective treatment: **see section 3**;
- Disclosure requirements including the treatment of Heritage assets: **see sections 8.2 and 9**.

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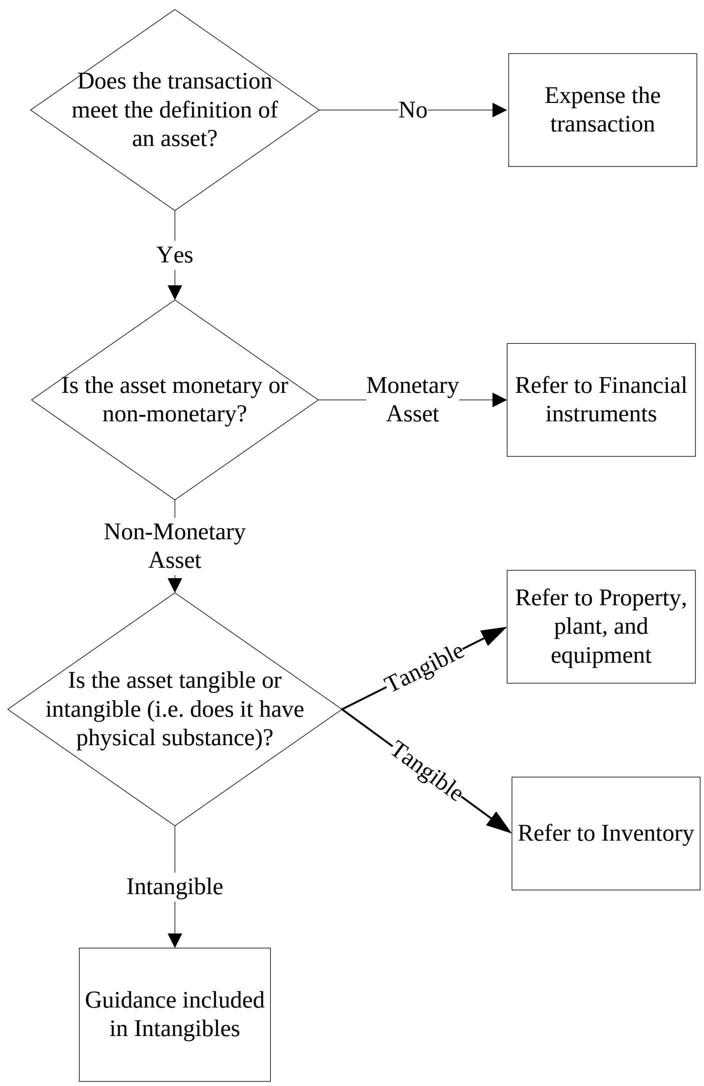
1 Introduction

IPSAS 31 *Intangible assets* provides the fundamental guidance surrounding the classification, recognition, measurement, de-recognition, and disclosure requirements of **intangible assets**. In the following sections of this document, the guidance has been presented, along with "in practice" examples of how the Secretariat (United Nations) should apply the guidance.

The goal of this document is to present relevant intangible asset guidance in order for the United Nations to adopt and apply a comprehensive and consistent accounting treatment for intangible assets.

Flowchart – Scope of intangibles



2 Definitions

General Terms

An **intangible asset** is an identifiable non-monetary asset without physical substance (one cannot literally see or touch it).

An **identifiable** asset is one that is separable or part of a binding contract.

An **asset** is a resource controlled by the United Nations as a result of past events and from which future economic benefits or service potential is expected to flow to the United Nations.

Externally acquired intangible assets are intangible assets purchased from a party outside of the United Nations.

Internally generated intangible assets are intangible assets developed inside the United Nations.

Research and Development

Research is the discovery, interpretation, and development of knowledge.

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.

Amortization

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

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

The **residual value** of an intangible asset is the estimated fair value at the end of its useful life to the United Nations, less any disposal costs.

The **useful life** of an intangible asset is:

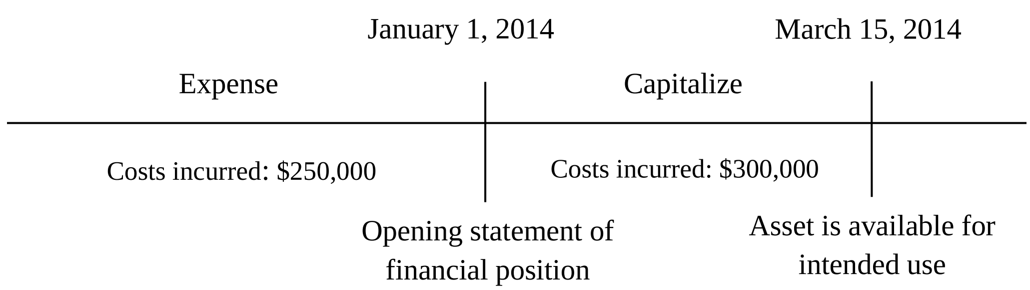
- The period over which the intangible is expected to be available for use by the United Nations; or
- The length of, or number of production or similar units, expected to be obtained from the intangible by the United Nations.

3 Intangibles in the opening statement of financial position

Intangible assets will be subject to transitional provisions and as such will be recognized **prospectively** (no recognition in the opening statement of financial position) except for development costs related to Umoja that meet the IPSAS 31 recognition criteria. Capitalizable Umoja development costs (see section 5.1.2.1) will be recognized on a **retrospective** basis (recognition in the opening statement of financial position) where feasible and measured at cost. The transitional provisions also apply to costs associated with upgrades to Galileo and as such will not be recognized in the opening statement of financial position.

Intangible assets under construction are also subject to transitional provisions (no recognition in the opening statement of financial position) except for in progress development costs related to Umoja that meet the IPSAS 31 recognition criteria. Costs related to in progress intangible assets after the opening statement of financial position will be **capitalized** as intangible assets if they meet the IPSAS 31 recognition criteria (see section 5).

Example – Intangible asset under construction that commences before the opening statement of financial position date and is completed after the said date



The $250,000 of costs incurred for the intangible asset under construction (not related to Umoja) **before** the opening statement of financial position date (January 1, 2014) will be **expensed** as incurred.

The $300,000 of costs incurred for the same intangible asset under construction **after** the opening statement of financial position date (January 1, 2014) will be **capitalized** as an intangible asset if it meets the definition and recognition criteria as stipulated in section 5 of this document.

The treatment of **in progress publications** (see section 5.1.2.2) at the opening statement of financial position is as follows:

- The portion classified as inventory will be recognized on a **retrospective** basis (recognition in the opening statement of financial position);

- The portion classified as intangible will be recognized on a **prospective** basis (no recognition in the opening statement of financial position).

4 Classification of intangibles

A **class** of intangible assets is a grouping of assets of a similar nature and use in the United Nations operations that is shown as a single item for the purpose of disclosure in the financial statements.

Asset classes of intangible assets are as follows:

Externally acquired

- Externally acquired software;
- Software licenses;
- Landing, radio, and other rights acquired through non-exchange transactions;
- Externally acquired websites; and
- Other externally acquired intangible assets.

Internally generated

- Internally generated software;
- Publications;
- Internally generated websites; and
- Internally generated intangible assets under construction.

5 Recognition of intangibles

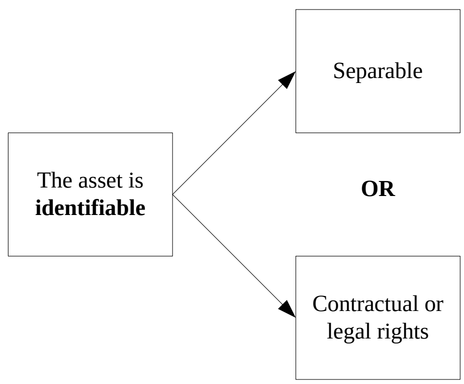
An intangible asset is **recognized** if, and only if, all of the following criteria are met:

- It is identifiable, i.e.:
  - Is separable meaning the asset can be **separated** or divided from the United Nations and sold, transferred, licensed, rented, or exchanged individually or in aggregate as part of a contract, regardless of whether the United Nations intends to do so; or
  - If it arises from contractual or other legal rights, regardless of whether the rights are transferable or separable from the United Nations or from other rights and obligations;
- The United Nations has control over the asset i.e. the United Nations has the power to obtain **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;
- It is probable (more than 50% probability) that the expected future economic benefits or service potential that are attributable to the asset will flow to the United Nations;
- The **cost or fair value** (donated intangibles) of the asset can be measured reliably;

- The intangible asset has a **useful life** of more than one year; and
- An externally acquired intangible asset meets the minimum established **threshold** of USD 5,000 per unit/user[1] for all reporting entities other than Volumes I & II. For Volume I & II, the **threshold** for capitalization of an externally acquired asset is USD 20,000 per unit/user. For internally generated intangible assets, the capitalization **threshold** is USD 100,000 for all UN secretariat reporting entities.

If all of the above criteria are not met, the cost of the item should be fully **expensed** in the financial period in which it was incurred.

Flowchart – Identifiable



Example – Identifiable

For physical assets identifiability is straightforward, because they can be seen. For intangible assets identifiability is more difficult and requires clear and practicable principles.

Intangible assets that can be separated and sold (e.g. computer software), individually or with another asset are deemed to meet the criterion for identifiability.

However, intangible assets that arise from contractual or legal rights are also identifiable even if they are not readily separable from the United Nations, for example:

The United Nations develops certain **know-how** and the United Nations incurred substantial costs in developing this know-how. The know-how could not be sold or exchanged, as it is only of value to the United Nations.

[1] The threshold should be evaluated on a per user or per unit basis rather than in total. Generally software licenses are issued for a certain number of license users.

Although the know-how is not separable, the United Nations has control over the intellectual property that the know-how represents. If a third party uses this know-how without permission from the United Nations, the third party will be in breach of law. The intellectual property therefore arises from contractual or legal rights and the criterion for identifiability is met.

The costs incurred to develop the know-how may be recognized as an internally generated intangible asset provided that all the criteria for capitalization as development expenditure (see section 5.1.2) and the other elements of the definition of an intangible asset have been met.

Example – Control

Control is usually evidenced by legally enforceable contractual or legal rights, such as legal title or a license (e.g. a software license, license to use a radio frequency, airport landing rights, etc.).
It is more difficult to demonstrate control in the absence of legal rights. The United Nations may be able to control the future economic benefits or service potential in some other way, for example control over the benefits of technical knowledge may be attained through secrecy.

Example – Control (Future economic benefit or service potential)

ASYCUDA (Automated SYstem for CUstoms DAta) is a computerized customs management system which covers most foreign trade procedures including manifests and customs declarations, accounting procedures, and transit and suspense procedures. The software is developed in Geneva by UNCTAD (United Nations Conference on Trade And Development) and takes into account the international codes and standards developed by the ISO (International Organization for Standardization), WCO (World Customs Organization), and the United Nations. The software can be configured to suit the national characteristics of individual customs regimes, national tariff, legislation, etc.

When national systems are rolled out, the respective governments have full control over the use of ASYCUDA and rights to access it. The beneficiary governments are also responsible for the ongoing maintenance and upkeep of the software (i.e. their national systems). Additionally, the beneficiary governments ultimately have the authority to replace or dispose of the software.

In the case of ASYCUDA, the UN claims copyright over the source code, but the operational IT systems of ASYCUDA are the properties of the beneficiary governments. Although the UN has control over the source code, it is the beneficiary governments, who use the software, and obtain the future economic benefits. UNCTAD creates and owns the source code and simply facilitates the installation and maintenance of the software. Additionally the UN does not charge license fees or derive any other economic benefits. The UN does not have a territory to collect customs, duties, or excise taxes using ASYCUDA; therefore the software provides no future service potential for the UN. Since the UN does not receive future economic benefits or service potential from ASYCUDA, the software fails to meet the recognition criteria, and therefore should not be recognized as an intangible asset.

5.1 <u>Initial recognition</u>

Initial recognition of intangible assets occurs upon either **external acquisition** or when an **internally generated** asset arises from development and meets the criteria outlined in section 5.1.2 herein. The accounting is heavily dependent on how the asset was obtained (external acquisition vs. internally generated).

5.1.1 <u>Externally acquired intangibles</u>

Intangible assets obtained through **external acquisitions** include any intangible assets purchased from another party. The <u>price</u> that the United Nations pays for the intangible asset encompasses its expectations about **future economic benefits or service potentials**. The <u>cost</u> of externally acquired intangibles can also be measured <u>reliably</u> when the purchase consideration is in the form of **cash or other monetary assets**. Therefore, externally acquired intangible assets <u>always</u> meet the recognition criteria, except when they fail to meet the capitalization threshold.

In the below sections, we discuss examples of externally acquired intangibles:

5.1.1.1 <u>Externally acquired software</u>

Externally acquired software are those purchased from a third party vendor.

5.1.1.2 <u>Software licenses</u>

Software licenses acquired for a period of <u>one year or longer</u> should be **capitalized** as an intangible asset and **amortized** over the useful life of the license if they meet the capitalization threshold.

All fees, including annual fixed fees to cover all required software maintenance and specified updates issued during the year are **expensed**.

Example – Software license #1

The United Nations obtains a software license, which will be used for three years (i.e. over the life of the contract). The total cost of the license is $6,000 (the United Nations has committed to the total contract amount) and will be spread across the three years. The United Nations also obtains a "package" of benefits including training, direct phone support, and update features for the duration of the license at $1,000 each year. Below is a breakdown of the amounts:

Product	**1st year cost**	**2nd year cost**	**3rd year cost**
Software license	2,000	2,000	2,000
Package	1,000	1,000	1,000

Based on the fact that the license cost of $6,000 exceeds the threshold of $5,000 (for a reporting entity outside of Volume I & II) per unit, the license portion will be **capitalized** as an intangible asset and then **amortized** over the useful life of three years. Additionally, the package of benefits does not meet the recognition criteria of an intangible asset and will be **treated as a pre-paid expense**.

Software license

Dr Software license (statement of financial position)	6,000	
Cr Accounts payable (statement of financial position)		6,000

Yearly amortization of the software license

Dr Amortization expense (statement of financial performance)	2,000	
Cr Software license – Accumulated depreciation (statement of financial position)		2,000

Package of benefits (year 1)

Dr Expense (statement of financial performance)	1,000	
Dr Pre-paid expense (statement of financial position)	2,000	
Cr Accounts payable (statement of financial position)		3,000

Package of benefits (year 2)

Dr Expense (statement of financial performance)	1,000	
Cr Pre-paid expense (statement of financial position)		1,000

Package of benefits (year 3)

Dr Expense (statement of financial performance)	1,000	
Cr Pre-paid expense (statement of financial position)		1,000

Example – Software license #2

The United Nations obtains a software license from a third party vendor for one year. The cost of the license is $25 **per user** with 6,000 **users**. The United Nations also obtains a "package" of benefits including training, direct phone support, and update features for the duration of the license. Below is a breakdown of the amounts:

Product	Cost
Software license	150,000
Package	1,000

Based on the fact that the license cost of $25 per **user** falls below the threshold of $5,000 (for a reporting entity outside Volume I & II) per user, the license portion will be **expensed**. Additionally, the package of benefits does not meet the recognition criteria of an intangible asset and will be **expensed**.

Software license

Dr Expense (statement of financial performance) 150,000

Cr Accounts payable (statement of financial position) 150,000

Package of benefits

Dr Expense (statement of financial performance) 1,000

Cr Accounts payable (statement of financial position) 1,000

5.1.1.3 Landing, radio, and other rights acquired through non-exchange transactions

An intangible asset such as airport landing rights, licenses to operate radio or television stations, import licenses or quotas or rights to access other restricted resources may be acquired through **non-exchange transactions**.

Example – License to use a radio frequency

Brazil and the United Nations have entered into an arrangement whereby the United Nations has the license to use a particular radio frequency to distribute radio content for UNMIX. Brazil owns the radio frequency, maintains the equipment that distributes the signal, and pays for the electricity that powers the signal transponder.

IPSAS 31 paragraphs 42 and 43 state that intangible assets acquired through a **non-exchange transaction**, including licenses to use a radio frequency, should be recorded at **fair value**.

The license to use a radio frequency meets the recognition criteria (amongst others control within the parameters of rights granted) as an externally acquired intangible asset through a non-exchange transaction. The intangible asset is recorded at fair value (see section 6.1.2) and because of the restrictions related to use of the license (for example it cannot be used for commercial purposes, sold, etc.), the fair value is close to zero.

Accounting Treatment:

No entry

5.1.1.4 Externally acquired websites

Externally acquired websites are those websites acquired from a third party. The payments made represent the cost of the website and must be initially **recognized** as an **intangible asset** if the recognition threshold is met.

5.1.2 Internally generated intangibles

Internally generated intangible assets are intangibles that the United Nations creates and develops in-house. Because it may be difficult to assess whether these internally generated intangible assets meet all the general recognition criteria for an intangible asset, the United Nations classifies the generation of the asset into a **research phase** and **development phase**:

Research phase: Costs arising from the research phase must always be **expensed** when incurred. These costs do not meet the definition of an intangible asset nor do they meet the recognition criteria because the United Nations is unable to demonstrate future economic benefits or service potential.

Development phase: Intangible assets arising from the development phase can be **recognized** if the United Nations can demonstrate that all of the following criteria are met:

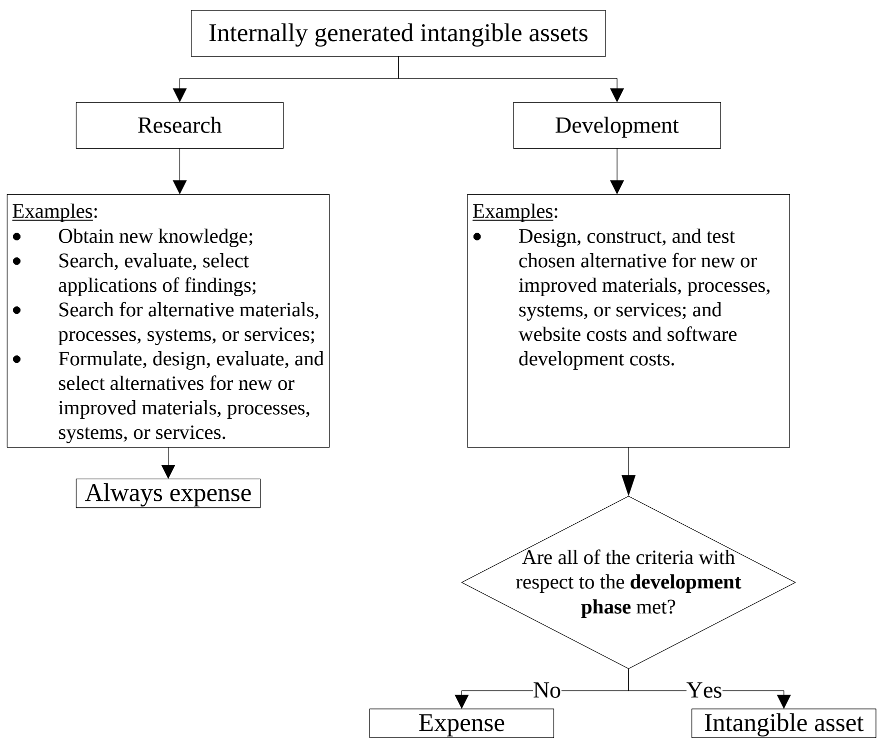
- Technical feasibility of completing the intangible asset;
- Intention to complete the intangible asset and use it;
- Ability to use the intangible asset;

- Manner in which the intangible asset will generate probable future economic benefits or service potential. Demonstration of the usefulness of the intangible asset;
- Availability of adequate technical, financial (e.g. approved budget), or other resources to complete the development and to use the intangible asset;
- Ability to measure the cost of the asset reliably during its development. The reliability of cost measurement (e.g. salary and other costs) is dependent on the existence of adequate processes to capture all the relevant costs; and
- The capitalization threshold of USD 100,000 is met.

However, if the United Nations cannot distinguish the generation of the asset into either category, it should treat the expenditure as if it were part of the **research phase**. There is no bright line to determine when the research phase has ended and the development phase starts, it will depend on facts and circumstances.

Refer to the below "Flowchart - Research and development phases" for a visual representation.

Flowchart - Research and development phases



5.1.2.1 *Internally generated software*

Expenditure made during the different stages of a software's development should be treated as follows in accordance with IPSAS:

Stage/ Nature of expenditure	Intangible asset	Expense
Pre-development stage		
• Gathering information about strategic projects and ensuring the availability of adequate resources to complete the development of the software		X
• Undertaking feasibility studies		X
• Analyzing the user requirements and possibilities of the existing software and demonstration of potential suppliers		X
• Evaluating the user requirements and objectives of the software		X
• Evaluating whether the software will be purchased or developed		X
• Evaluating alternative products and suppliers, undertaking a market study		X
• Selecting the software supplier (in case of purchase)		X
• Selecting the consultant who will support the development		X
• Defining the scope of the project/ Requesting a scope change		X
• Setting up the project		X
Development stage		
• Final designing (functional and technical blueprint)	X	
• Programming, configuring, and coding	X	
• Developing interfaces between systems	X	
• Developing technical documentation	X	
• Developing or acquiring externally software that allows data conversion	X	
• Installing to hardware	X	
• Technical training	X	
• Quality assurance and user validation testing	X	
Post-development stage		
• Data conversion (Purging, reconciliation of old and new data and creation of new data)		X
• Developing the user manual and training the end users		X
• Developing procedures and work instructions		X
• Maintaining the application		X
• Ongoing support		X
• Updating		X

Example - Umoja

The United Nations will recognize the implementation of Umoja as an intangible asset in its IPSAS opening statement of financial position (see section 3); the asset will be recognized in Volume 1.

Umoja will be rolled out across the United Nations in 3 distinct development phases which are as follows:

- The **Foundation Phase** - planned deployment date from July 2013;
- The **Umoja Extension 1** - planned deployment date from July 2014;
- The **Umoja Extension 2** - planned deployment in 2016.

The Foundation Phase is made up of grants management, funds management, financial accounting, real estate, purchasing, plant maintenance, logistics execution, and project systems.

The Extension 1 phase is made up of human resource management and travel management whilst the Extension 2 phase is made up of supply chain planning, defense force public security and budget formulation.

For the purposes of capitalizing Umoja, the costs in every phase (see above for the three phases) will be classified into 3 distinct stages as follows:

Stage	IPSAS Accounting treatment
• Pre-development stage	Expense
• Development stage	Capitalized as an intangible asset
• Post-development stage	Expense

The following dates have been identified for the **Foundation Phase**:

- Start of the development stage: Start of the final design (fall of 2010);
- End of the development stage: Final successful user validation testing (planned to be 1 July 2013).

All directly attributable costs (see section 6.1.1.2) incurred during the development stage are capitalized. Umoja will be capitalized at each deployment phase (Foundation, Extension 1, and Extension 2) as a sub asset of a parent asset. Development costs during each phase will be captured as "assets under construction" and will be transferred to "Internally generated software" as soon as deployment starts and amortization is ready to commence.

Any activities pre and post the development stage will be expensed. In addition, any activities in the development stage that do not directly contribute to the development of the Umoja solution or cannot be clearly distinguished from the pre-development stage will be expensed.

Example – Internally generated software

Currently the United Nations is upgrading and enhancing a number of old internal systems that have become incompatible or obsolete. A full-time contractor is hired for Application Z, for 30 weeks to develop the defined architectural enhancements which will improve the database structure, user access, business processes, and simplify functionalities that were not available in the previous system.

The upgrade is estimated to cost $150,000 based on the following requirements:

Upgrade Activities	Weeks	Cost	Stage/Nature of Expenditure
Gather user requirements	4 weeks	$ 20,000	Pre-development
Initial development	12 weeks	$ 60,000	Development
Unit testing and adjustment	3 weeks	$ 15,000	Development
System testing and adjustment	3 weeks	$ 15,000	Development
User acceptance testing	4 weeks	$ 20,000	Development
Deployment	1 week	$ 5,000	Post-development
Documentation (user manual)/ End user training	3 weeks	$ 15,000	Post-development
TOTAL:	**30 weeks**	**$ 150,000**	

Once the contractor has completed the enhancements, the system will be deployed to the field missions hosted on hardware purchased and maintained by the United Nations. When the system is in full implementation, a series of additional enhancements will take place which would include further customizations for new users/departments/offices. In addition, some development will take place for mobile interface so that users can perform some simple functions such as approving online, as well as dashboard features. These additional customizations are estimated at $68,000 for one full time contractor for 20 weeks.

Accounting Treatment

The upgrade activities categorized as pre-development and post-development stage will be **expensed as incurred**.

Dr Expense (statement of financial performance) $40,000

Cr Accounts payable (statement of financial position) $40,000

The upgrade activities categorized as development stage will be **capitalized,** because the costs exceed the threshold of $100,000.

Dr Software Application Z (statement of financial position) $110,000

Cr Accounts payable (statement of financial position) $110,000

The upgrade of Application Z is complete and fully functional, therefore the minor changes to the mobile interface should be evaluated separately. The estimated cost of $68,000 will be **expensed as incurred** as it is considered a minor enhancement and falls below the threshold of $100,000.

Dr Expense (statement of financial performance) $68,000

Cr Accounts payable (statement of financial position) $68,000

Note, alternatively if the changes to the mobile interface were viewed as significantly contributing to the functionality of Application Z the changes would be evaluated as part of the development stage of the upgrade and thus would be capitalizable.

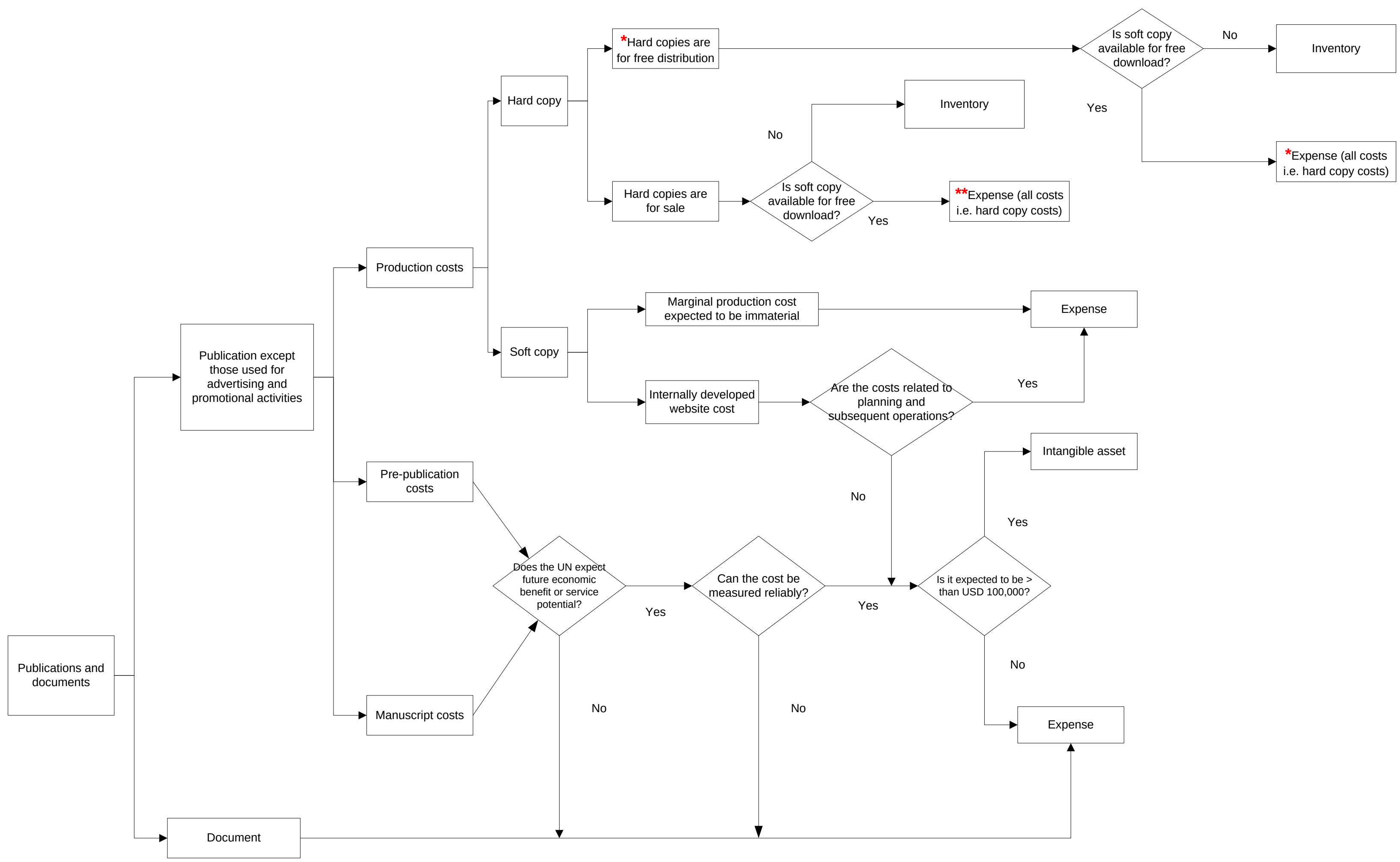
5.1.2.2 Documents and publications

Since its founding, written words have been central to articulating the aspirations of the United Nations. The United Nations and its key agencies have over 5,300 titles produced. The United Nations' website offers on-line access to the United Nations complete catalogue, in a range of formats including print, electronic and multimedia.

Costs incurred to come up with these documents and publications raises questions as to how the costs will be accounted for under IPSAS. This section provides an overview on how documents and publications are managed at the United Nations along with guidance on how to account for costs incurred at various stages.

Please refer to the flowchart "Accounting treatment of publications" on the following page for an overview on recognition of costs relating to documents and publications. Although this paper primarily focuses on accounting for intangibles please refer to Corporate Guidance paper #4 *Inventory* for detailed guidance on accounting for inventory.

Flowchart – Accounting treatment of publications



* Hard copies for free distribution should be expensed if the softcopy is available for free download; otherwise they should be treated as Inventory

** Based on past experience, the United Nations believes that the value of hard copy publications for sale is reduced significantly if the soft copies are available for free download, accordingly the United Nations has opted to expense hard copy costs if soft copies are available for free download.

5.1.2.2.1 *Documents*

Documents include General Assembly resolutions, Security Council meeting agenda and minutes, annual reports of the Secretary-General, International Court of Justice proceeding transcripts, and international treaties.

Documents are generated as part of the day-to-day operations of the United Nations and represent mandatory activities of the organization. Consequently, these documents cannot be viewed separately from the operations of the United Nations. The documents are under copyrights and can be obtained without any cost as per the Bern Convention.

Examples of costs incurred to generate proceeding transcripts at International Court of Justice or Security Council meeting agenda and minutes include:

- Salaries and benefits of judges and court staff;
- Expenditure incurred by the court during the trial;
- Traveling cost for meetings; etc.

Accounting for costs incurred to create documents:

The costs incurred to create a document cannot be recognized as inventory or an intangible asset.

Accordingly the cost should be **expensed as incurred**. All document costs including the examples noted above should be expensed as incurred.

5.1.2.2.2 *Publications*

Publications include:

- Books and reports;
- Periodicals;
- Working papers; and
- Databases.

Publications are distributed in hard copy (book) and/ or soft copy (digital) form. Publications are copyrighted, and are sometimes available for free depending on decisions made by the author's department, but are generally available for sale (commercially). Some publications are composed as a collection of documents, packaged with connective tissue such as a foreword, introduction, table of contents, index, etc. to make the documents more accessible.

Examples of publications include:

- *Risk Management in Regulatory Framework;*
- *20 Years of Action for Global Environment;*
- *Law of the Sea Bulletin (issued three times a year);*
- *Asia-Pacific Population Journal (issued twice a year);* and
- *Report on World Social Situation 2013: Inequality Matters*.

Publications may also act as advertising and promotional material for the United Nations activities. The costs related to those publications are always expensed as incurred.

Expenses incurred to create a publication are broadly classified into three stages at the United Nations:

- Preparation of manuscript,
- Pre-publication costs, and
- Production costs.

I. Preparation of manuscript

A manuscript is referred to as an original copy of a work written by an author or composer. Copyright is a legal concept that gives the creator of an original work the exclusive right to copy it, be credited for it, and benefit financially from it. In circumstances where a work is produced under a contract of employment as a work for hire, the holder of the copyright is the employer and not the author. The copyright holder is entitled to enforce his rights. These rights are sometimes characterized as publishing rights. In situations in which work is produced by an outside contractor or co-authored, the copyright should be assessed based on the terms and conditions of employment as stipulated in the contract.

United Nations holds the publishing rights for its publications, and consequently can exploit the rights in various ways.

Examples of costs incurred at this stage include:

- Cost incurred to compile various tribunal decisions into a publication. Involves deleting references to names of parties, deleting some language from recordings at trials, etc.
- Cost incurred to make a video publication after redacting the video recorded during the court trial. This includes editing, deleting the original video etc.

Accounting for costs incurred to create a manuscript:

IPSAS 31 *Intangible assets* provides guidance on internally-generated intangible assets and development costs that may be capitalized generally but does not provide specific guidance on publications.

In the United Nations context the author and composer are in-house; accordingly the **United Nations has publishing rights** which can be exploited further in various ways like printed hard copy (book) format, soft copy (digital) format, specific languages, etc.

Since the United Nations has control over the manuscript it meets one criterion for recognition of intangible assets.

Additionally for a manuscript to be recognized as an intangible asset the United Nations should also expect future economic benefits or service potential from the manuscript. IPSAS 31 states the future economic benefits or service potential 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. If the publication is used to deliver goods and services in accordance with the United Nations' objectives (even though the publication does not directly generate net cash inflows) then the publication may be considered to have future service potential.

Further, intangible assets can only be recognized if the cost of the manuscript can be reliably determined and the $100,000 threshold for internally generated intangibles is met. Tracking the costs for each manuscript can be difficult and impractical considering that there is a team of in-house authors working on multiple manuscripts at one point in time. Accordingly, the costs (or effort) of tracking the marginal cost for the manuscript that can be capitalized may exceed the benefits. However, if the costs can be reliably measured, then they would be eligible for capitalization as an intangible asset.

The costs incurred to create a manuscript cannot be considered as inventory because inventories include tangible assets whereas a manuscript represents an original copy of a work written by an author or composer.

II. Pre-publication costs

Pre-publication assets represent direct costs incurred in the development of manuscripts **prior** to their publication.

Expenses incurred to create publications from manuscripts include:

- Typesetting of manuscript into composed pages;
- Manipulation of images, tables and charts to standardized format;
- Copyreads; and
- Proofreads.

Subsequent to the incurrence of pre-publication costs, the publication can be produced in either hard copy (book) or soft copy (digital) form. Only after this stage is a publication in the form that it can be sold or distributed.

Accounting for costs incurred at pre-publication stage:

The costs incurred at this stage are incurred once for each publication and are incurred irrespective of the number of copies to be printed or the manner of distribution. Until this stage is complete a publication cannot be categorized as held for sale or distribution in the ordinary course of operations, consequently the cost incurred at this stage should not be considered as inventory.

Under IPSAS, pre-publication costs are considered intangible assets and can be recognized as intangible assets in which the publication will:

- Generate probable future economic benefits or service potential;
- Have costs that can be measured reliably; and
- Meet the United Nations threshold of $100,000 for internally generated intangible assets.

III. Production costs

A publication can then be produced either in hard copy (book) or soft copy (digital) form.

III.I Hard copy (book)

Publishing a hard copy (book) includes costs such as printing, packing, paper, binding, etc.

<u>Accounting for costs incurred to publish hard copy book:</u>

IPSAS 12 *Inventories* states that inventories include goods available for distribution at no charge or nominal charge (i.e. for free distribution) or produced for sale. Accordingly, cost of producing hard copy (books) will be accounted for as <u>inventory</u>.

Measurement is based on whether inventory is distributed <u>for no or nominal charge</u> or <u>available for sale</u>:

- Available for distribution for no or nominal charge:
  - If the book is available for free download, the hard copy costs should be expensed
  - If the book is not available for free download, the hard copy costs are inventory and measured at the lower of cost or current replacement cost.
- Available for sale:
  - If the book is available for free download, the book is expected to generate a minimal amount of revenue therefore the United Nations has concluded these hardcopy costs should be expensed.
  - If the book is not available for free download, the hardcopy costs are inventory and measured at the lower of cost or net realizable value.

If the purpose for which the inventory is held changes, then the measurement should change accordingly.

III.II Soft copy (digital)

- Production costs for the publication in soft copy (digital) includes cost incurred to make a publication distributable in soft copy form. The additional cost is immaterial and it should accordingly be <u>expensed as incurred</u>.

- Accounting for the costs of developing online platforms (websites) to provide publications:

  - **For externally acquired websites,** see section 5.1.1.4.
  - **For internally generated website (i.e. developed by the United Nations itself),** see section 5.1.2.3.

Refer to the example below for examples of costs incurred at the United Nations:

Example – Treatment of publication related costs at the United Nations

We refer to the flowchart “Accounting treatment of publications” in the beginning of this section for further details.

Publications may also act as advertising and promotional material for the United Nations activities. The costs related to those publications are always expensed as incurred.

Type of cost	Accounting treatment
Marketing and advertising costs for publications	Expense
Paper and printing supplies	Hard copy production costs (inventory/ expense)
Salaries and benefits of staff involved in printing	Hard copy production costs (inventory/ expense)
Outsourced printing services	Hard copy production costs (inventory/ expense)
Salaries and benefits of staff editors and proofreaders	Pre-publication costs (intangible/expense)
Editorial services and translation services	Pre-publication costs (intangible/expense)
Salaries and benefits of staff writers and designers	Manuscript costs (intangible/expense)
Legal or other fees to register and/or defend copyright	Manuscript costs (intangible/expense)

Example – Publications

The International Maritime Organization (IMO) publishes over 250 texts of conventions, codes, regulations, recommendations, and guidelines governing maritime safety and prevention of marine pollution. Some publications are made available through an internet subscription service while others are sold directly to consumers in hard copy form.

The IMO decides to **publish** one of the internal codes for maritime safety and prevention of marine pollution as a soft copy. In this case because the regulation for the code already exists there is **no manuscript cost** to prepare the text (content). The pre-publication costs include the incremental cost of taking the documents of the code and regulations and tailoring them to become a publication (i.e. adding a title page, foreword, explanations, etc.). The **pre-publication costs** amount to $50,000 and are below the $100,000 threshold; therefore the pre-publication costs are expensed as incurred. The **production costs** are any costs incurred to make a publication distributable in soft copy form. The additional cost is very minimal accordingly should be expensed as incurred.

1. Is it a document or publication? Publication (soft copy)
2. What are the manuscript costs? No manuscript costs because code already exists.
3. What are the pre-publication costs? $50,000 (below the threshold) **Expense**
4. What are the production costs? Minimal costs incurred to distribute publication into soft copy. **Expense**

5.1.2.3 Internally generated websites

Internally generated websites are those developed by the United Nations itself for purposes such as storing internal policies and details of users of a service, and to search for relevant information. The table below illustrates typical expenditures incurred during each of the stages of developing an internally generated website and the appropriate accounting treatment.

Stage of Expenditure	Accounting Treatment
Planning • Feasibility studies; • Define objectives and specifications; and • Select preferences.	Expensed as incurred.
Application and infrastructure development • Develop operating software; • Obtain a domain name; • Install developed applications; • Develop code for application; and • Stress test.	Capitalize costs (except those used for promoting and advertising) as part of an intangible asset if they are directly attributable to preparing the website for operation in the manner intended by management. Expense promoting and advertising expenditures.
Graphical design development • Design appearance and layout of web pages.	Capitalize costs (except those used for promoting and advertising) as part of an intangible asset if they are directly attributable to preparing the website for operation in the manner intended by management. Expense promoting and advertising expenditures.
Content development • Create, purchase, prepare, and upload information (textual or graphical) onto the website prior to completion of website's development.	Capitalize costs (except those used for promoting and advertising) as part of an intangible asset if they are directly attributable to preparing the website for operation in the manner intended by management. Expense promoting and advertising expenditures.
Operating • Maintain and enhance the applications, infrastructure, graphical design, and content of the website.	Expensed as incurred unless it meets the recognition criteria. Recognition criteria are met in the case of an upgrade.

Other • Selling, administrative, and other overhead expenditures; and • Training employees to operate website.	Expense as incurred.

5.1.3 Expenses that cannot be recognized as part of an intangible

There are certain items that cannot be recognized as part of an intangible asset because they fail to meet the recognition criteria and therefore should be **expensed** as incurred. These items include:

- **Internally generated goodwill:** An expenditure that is used to generate future economic benefits or service potential, but fails to meet the criteria for an intangible asset (i.e. it is not an identifiable resource controlled by the United Nations that can be measured reliably at cost) is often described as contributing to internally generated goodwill. Internally generated goodwill cannot be recognized because it is not an identifiable resource.

- **Internally generated brands, mastheads, publishing titles, list of users of a service, and other items similar in substance** cannot be recognized as an intangible asset as they cannot be distinguished from the costs of developing the United Nations as a whole.

- **Other items that do not meet intangible asset criteria,** for example:
  - Expenditure on training activities; and
  - Expenditure on relocation and reorganization.

- **Past expenses:** Any expenditure expensed during the research or development phase in a previous financial year cannot subsequently be capitalized if the project meets the recognition criteria at a later date.

5.2 Subsequent recognition

Subsequent recognition occurs after the initial recognition of an **externally acquired intangible asset** or after **completion of an internally generated intangible asset**. The costs are those incurred to add to (i.e. update or upgrade), replace part of, or service it. In most cases because of the nature of intangible assets, there are no additions or replacements to the asset. Most subsequent expenditures are merely to maintain the **expected future economic and service potential**. Additionally it is difficult to distinguish expenditures as attributable to a particular asset rather than to the United Nations' operations as a whole. Therefore, it is on seldom occasion that a subsequent expenditure is recognized in the carrying amount of an intangible asset.

An **upgrade** by definition results in additional functionalities or specifications. An example would be a software version upgrade and therefore the costs to upgrade would be **capitalized** (booked as an intangible asset). However, a software update would not meet the criteria for capitalization because it is merely for minor software enhancements or to fix features that are not working quite right; the expenditures would be **expensed as incurred**.

6 <u>Measurement of intangibles</u>

6.1 Initial measurement

Generally, all **intangible assets** recognized in the financial statements of the United Nations should be measured at **cost** when they are first recognized, except for **items donated** to the United Nations. Such goods should be measured at **fair value**.

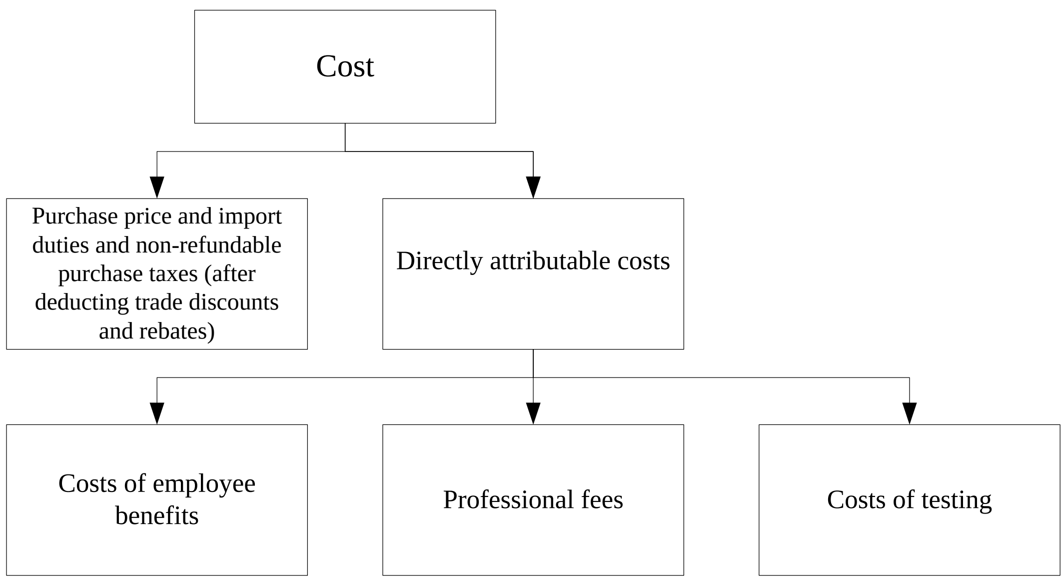
6.1.1 Measurement at cost

As noted above, under the **cost model**, intangible assets are measured at cost less any subsequent accumulated amortization and accumulated impairment losses.

6.1.1.1 Externally acquired intangibles

An intangible asset should initially be measured at cost. The cost of an **externally acquired intangible asset** comprises its purchase price and any directly attributable costs of preparing the asset for its intended use.

Flowchart - Externally acquired intangible assets measured at cost



The **purchase price** of an externally acquired intangible incorporates assumptions about the probable <u>economic future benefits</u> or <u>service potential</u> that may be generated by the asset.

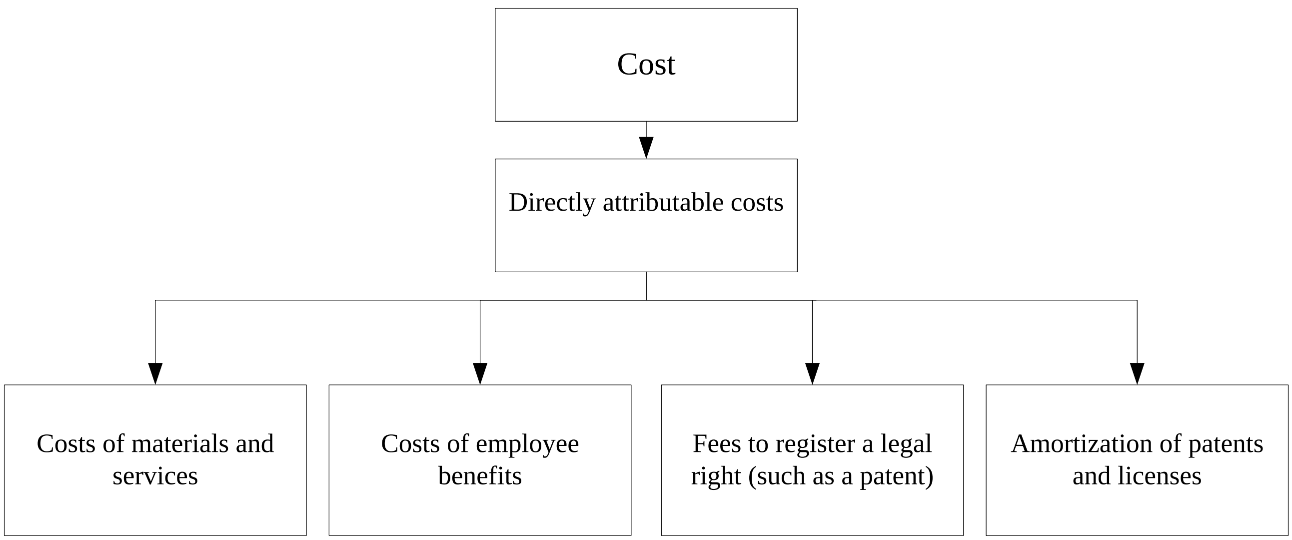
General administrative and overhead costs are not included in the measurement of the externally acquired intangible asset.

Capitalization of costs <u>ceases</u> when the intangible asset is in the condition for its intended use by management. Therefore costs incurred while an intangible asset is capable of being operated in the manner intended by management, but the asset has yet to be brought into use, are not eligible for capitalization.

6.1.1.2 <u>Internally generated intangibles</u>

The costs of **internally generated intangibles** include total <u>directly attributable costs</u> necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include:

Flowchart - Internally generated intangible assets measured at cost



For internally generated intangible assets, selling, general, and administrative expenses and other overhead expenses are <u>not included in cost</u> unless they can be directly attributable to preparing the asset for its intended use by management.

Depreciation expenses of PP&E that are directly used in generating the intangible asset are <u>included</u> in the cost of an internally generated intangible asset. In instances where machinery or equipment is used for multiple jobs, the United Nations may allocate depreciation expense based on usage (i.e. determine the amount of machine hours directly utilized in generating the intangible asset as a percentage of total machine hours and allocate that percentage of depreciation expense to the intangible asset).

Example - Umoja

The middle column titled "Intangible asset" in the below table gives an overview of the costs of Umoja to be capitalized as an intangible asset:

Stage	Intangible asset	Expense
Pre-development stage	Not applicable	**Expense** all costs

Development stage	Directly attributable costs are **capitalized,** e.g.:
	• Costs of materials and services:
	    • Costs of professional consultancy advice (e.g. PwC design costs, Accenture Build, SAP Advisory Services, Excelensia Consulting);
	    • HP Testing Tools (testing from the final design stage);
	• Employee costs and travel of directly involved:
	    • UN staff: Salary will be pro-rata based on 220 days a year;
	    • Consultants: Based on the daily rate or on 220 days a year basis where a fixed salary contract applies;
	• Direct legal costs of negotiating contracts (e.g. Fulbright Legal Services);
	• Amortization of patents and licences that are used to generate Umoja.
		Non directly attributable costs are **expensed**, e.g.:
		• HP Testing Tools (testing prior to the start of the final design stage);
		• Staff and travel cost of PMO (Programme Management Office);
		• Other general administration and support staff costs;
		• Legal support costs except for costs of negotiating contracts (e.g. Fulbright Legal Services);
		• Change management support costs;
		• Office rent and utilities;
		• Telephone costs;
		• Desktop support costs and IT support (e.g. Trigyn IT Consultancy);
		• ICC Costs (hosting the SAP system) and Amazon Web Services (hosting services);
		• Other general overheads.

Post-development stage	Not applicable except for upgrades	**Expense** all costs, e.g.: • Inspira based training for Umoja end-users; • SAP Application Management Support; • Application Management Support (AMS); • Maintenance costs.

Costs of <u>hardware</u> purchased as a result of Umoja implementation should be treated as PP&E and depreciated over its useful life; if these costs meet the capitalization criteria they will be considered as PP&E and will <u>not</u> form part of the Umoja intangible asset. We refer to *CG#10 PP&E* for a detailed discussion of PP&E.

6.1.2 Measurement at fair value

In some cases, intangible assets can be acquired through **non-exchange transactions** such as donations. An example of a donated intangible asset would be a situation in which a publication is written by an outside expert and subsequently[2] donated to the United Nations. In these situations, the item is measured at fair value on the date of acquisition.

6.2 Subsequent measurement

Intangible assets are measured subsequently at **cost** less any accumulated amortization and impairment losses.

6.2.1 Amortization

The **depreciable amount** is defined as the asset's cost less its residual value. The United Nations decided to apply a **residual value** of zero for intangible assets.

The **depreciable amount** of an asset is allocated on a straight line method basis over its useful life (see section 6.2.1.1).

Amortization **begins** 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.

Amortization **ceases** when the asset is fully depreciated or derecognized (see section 7).

The remaining **useful life** of an intangible asset with a **finite** useful life should be reviewed on an annual basis.

Example - Umoja

Umoja will be capitalized at each deployment phase (Foundation, Extension 1, and Extension 2) as a sub asset of a parent asset. Development costs during each phase will be captured as "assets under construction" and will be transferred to "Internally generated software" as soon as deployment starts and amortization is ready to commence.

[2] If the outside expert wrote the manuscript at the request of the United Nations and donated it, this would be considered a service in-kind rather than a donated asset, see additional detail in *CG #5 Funding Agreements*.

6.2.1.1 Useful life

Almost all the United Nations' intangible assets all have a **finite** useful life. The following table should be used when assessing an intangible asset's useful life:

Asset Classes	**Estimated useful life (in years)**
Externally acquired software	Set* (3-10 year range)
Software licenses	Set* (2-6 year range)
Externally acquired websites	Set* (short)
Other externally acquired intangible assets	Set*
Internally generated software	Set* (3-10 year range)
Publications	Set*
Internally generated websites	Set* (short)
Internally generated intangible assets under construction	No amortization

Set* - Specific useful lives and residual values will be applied for high cost and/or specialized items when application of the standard useful lives for the class would result in non-compliance with IPSAS.

Example - Umoja

Each Umoja sub asset will be amortized on a straight-line basis over a finite useful life of 6 years. The useful life of 6 years is determined based on the estimated time Umoja will require an **upgrade**, which will result in additional functionalities and specifications. These expenditures related to an upgrade will be **capitalized** (i.e. booked as an intangible asset).

6.2.2 Impairment

Irrespective of whether there is any indication of impairment, the United Nations must test an intangible asset with an **indefinite** useful life or an intangible **asset not available for use** for impairment annually by comparing its carrying amount to its recoverable service amount.

Other intangible assets are tested whenever there is an indication that the asset might be impaired.

Refer to *CG#3 Impairment* and section 10.2 for a detailed discussion of impairment of intangible assets.

7 De-recognition of intangibles

An intangible asset is **derecognized** upon:

- Disposals, which can occur through sales, financing leases, or non-exchange transactions; or
- When no future economic benefits or service potential are expected from its use or disposal.

A **gain** or **loss** is determined on the asset de-recognition as the difference between the net disposal proceeds and carrying amount.

8 Special topics

8.1 Internal controls

Internal controls are designed and implemented by those charged with governance, management, and other personnel to provide **reasonable assurance** concerning the achievement of the United Nations' objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Risk assessment

Identified areas of risk over intangible assets include:

- **Classification**: are the intangibles classified appropriately as either externally acquired or internally generated?
- **Recognition**: do the intangibles meet the recognition criteria stipulated in the corporate guidance?
- **Measurement**:
  - **Initial**: are the intangibles measured appropriately and accurately, and are all the directly attributable costs included?
  - **Subsequent**: are the intangibles correctly amortized using an appropriate estimate of useful life and tested for impairment either **annually** for intangibles with an indefinite useful life and intangible assets under construction or when there is an **indication** of impairment for other intangibles.
- **De-recognition**: are de-recognized intangibles taken off the United Nations' books?

Internal control activities

The below control activities (depicted in the diagram) are designed to mitigate the **risks** noted above:

Classification

- Appropriate approval procedures relating to the acquisition of intangibles.
- Review of the asset register by an independent party.

Recognition

- Proper documentation about the recognition of internally generated intangibles.
- Adequate training for employees.

Measurement

- Documentation to support the figures presented in the asset register.
- Procedures to review the useful life regularly.
- Appropriate approval procedures relating to impairment of intangibles.
- Adequate training for employees.
- Periodic reconciliation of general ledger and sub ledger.
- Drafting a movement schedule which is reconciled to the statement of financial position and the statement of financial performance.
- Month and year end procedures to ensure that acquisitions, amortization, and disposals are booked in a timely manner.

Derecognition

- Proper de-recognition documentation in place.
- Adequate training for employees.
- Month and year end procedures to ensure that acquisitions, amortization, and disposals are booked in a timely manner.

8.2 Heritage assets

Heritage assets are assets with cultural, environmental, or historical significance. An example includes recordings of significant historical events. Intangible heritage assets embody some typical characteristics:

- The financial value (based on the market) is an incomplete reflection of the cultural, environmental, and historical terms;
- Legal and/or statutory obligations restrict the sale of the intangible asset;
- The intangible asset's value may appreciate over time; and
- It may be difficult to estimate the useful life (i.e. hundreds of years).

These assets are rarely held to generate future economic benefits or service potential, and there may be social or legal restrictions in using them for such purposes.

The United Nations has decided not to recognize intangible heritage assets. However, the United Nations has decided to include a high level description of significant intangible heritage assets in the notes to the financial statements.

9 Disclosure requirements

IPSAS 31 *Intangible assets* require several **disclosures** in the footnotes of the financial statements.

The United Nations will disclose the following for each class of **intangible assets**, distinguishing between externally acquired and internally generated intangible assets:

- Useful lives and whether indefinite or finite;
- The amortization methods used;
- The gross carrying amount and accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
- The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;
- A reconciliation (see example movement schedule on the following page) of the **carrying amount** at the beginning and end of the period showing:
  - Additions, indicating separately those from internal development and those externally acquired;
  - Disposals;
  - Impairment losses **recognized** in surplus or deficit during the period in accordance with IPSAS 21 (if any);
  - Impairment losses **reversed** in surplus or deficit during the period in accordance with IPSAS 21 (if any);
  - Any amortization recognized during the period; and
  - Other changes in the carrying amount during the period.

The United Nations will **disclose**:

- A description, the carrying amount, and remaining amortization period of any individual intangible asset that is material[3] to the United Nations' financial statements.
- For intangible assets acquired through a non-exchange transaction and initially recognized at **fair value**:
  - The fair value initially recognized for these assets;
  - Their carrying amount; and
  - Subsequent measurement model (cost model).
- The existence and carrying amounts of intangible assets whose title is **restricted** and the carrying amounts of intangible assets **pledged** as security for liabilities.
- The amount of **contractual commitments** for the acquisition of intangible assets.
- The United Nations will disclose the aggregate amount of **research and development** expensed during the period.

[3] Refer to *CG#11 Materiality Framework* for further details.

Example – Movement schedule

		Externally acquired				Internally generated				
		Software	Software licenses	Websites	Other intangible assets	Software	Publications	Websites	Intangible assets under construction	Total
Cost	At 1 January 20X1									
	Additions									
	Disposals									
	As at 31 December 20X1									
	Additions									
	Disposals									
	As at 31 December 20X2									
Accumulated amortization and impairment	At 1 January 20X1									
	Amortization charge									
	Impairment charge									
	Disposal									
	As at 31 December 20X1									
	Amortization charge									
	Impairment charge									
	Disposal									
	As at 31 December 20X2									
Net book value	Cost									
	Accumulated amortization and impairment									
	As at 31 December 20X1									
	Cost									
	Accumulated amortization and impairment									
	As at 31 December 20X2									

10 Workflow changes related to IPSAS implementation

10.1 Guidance on the data required to be captured and the procedures and processes to be put in place for non-automated accounting for intangible assets in a pre-Umoja environment

The United Nations maintains an asset register in a non-automated format (i.e. spreadsheet). An **asset register** is a complete and accurate list of assets owned by the United Nations that is regularly updated and validated. It is crucial in managing assets information and normally will contain information beyond that required for financial reporting. For each intangible asset, an effective asset register should contain the following data:

- Name of the intangible;
- Description;
- Unique asset number;
- Date when the asset is available for use;
- Expected useful life;
- Date intangible useful life last reviewed;
- Date of last impairment test;
- Depreciation method (straight line);
- Acquisition value; and
- Date of de-recognition.

The following steps (below) illustrate the procedures and processes necessary to appropriately classify and account for intangible assets held by the United Nations. Applying these procedures across the United Nations will lead to a comprehensive and consistent approach of reviewing, classifying, and accounting for intangible assets.

Identify all potential intangible assets

First, it is important for the United Nations to identify all potential intangible assets. For example, potential intangibles include externally acquired software.

Apply recognition criteria for intangible assets

From the compiled list, the United Nations must apply the recognition criteria to evaluate each intangible. See section 5 for recognition criteria.

Intangibles will be subject to transitional provisions, and as such will be recognized **prospectively** except for development costs related to Umoja. Capitalizable Umoja costs will be recognized **retrospectively**.

Measure recognized intangible assets

The United Nations will initially measure intangibles at cost unless it is donated; donated items will be measured at fair value.

Identify the useful lives and residual values in order to calculate amortization

For each of the intangible assets, the **useful life** and **residual values** (presumed to be 0) should be identified in order to calculate amortization. The amortization method is straight-line.

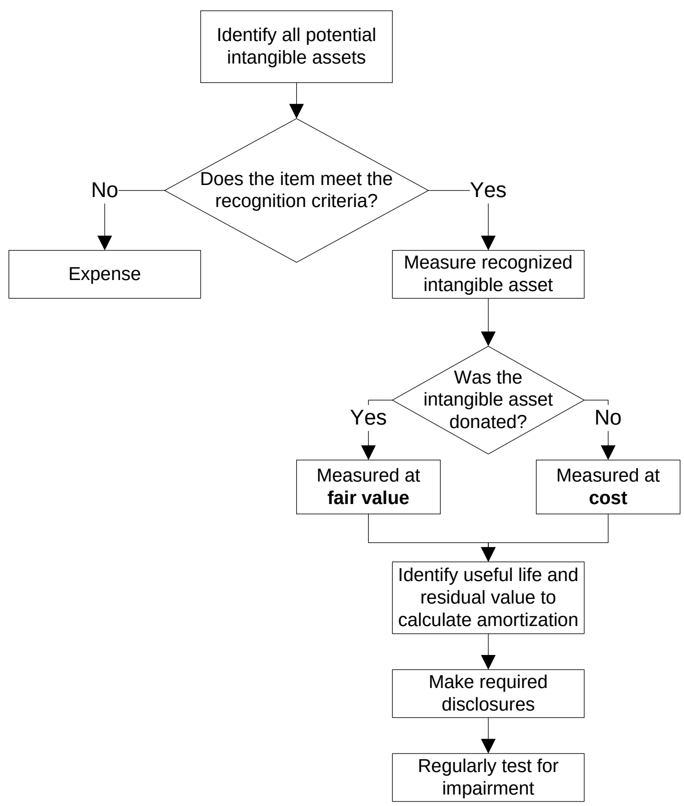
Make required disclosures

The United Nations should make certain **disclosures** in the footnotes of the financial statements. See section 9 for these disclosure requirements.

Regular testing for impairment

The United Nations must test intangibles with an **indefinite** useful life or intangible assets **under construction** for impairment annually, and other intangibles (e.g. **finite** life) when there is an indication of impairment. See section 10.2 for further details.

Flowchart – Workflow



10.2 Impairment of intangibles

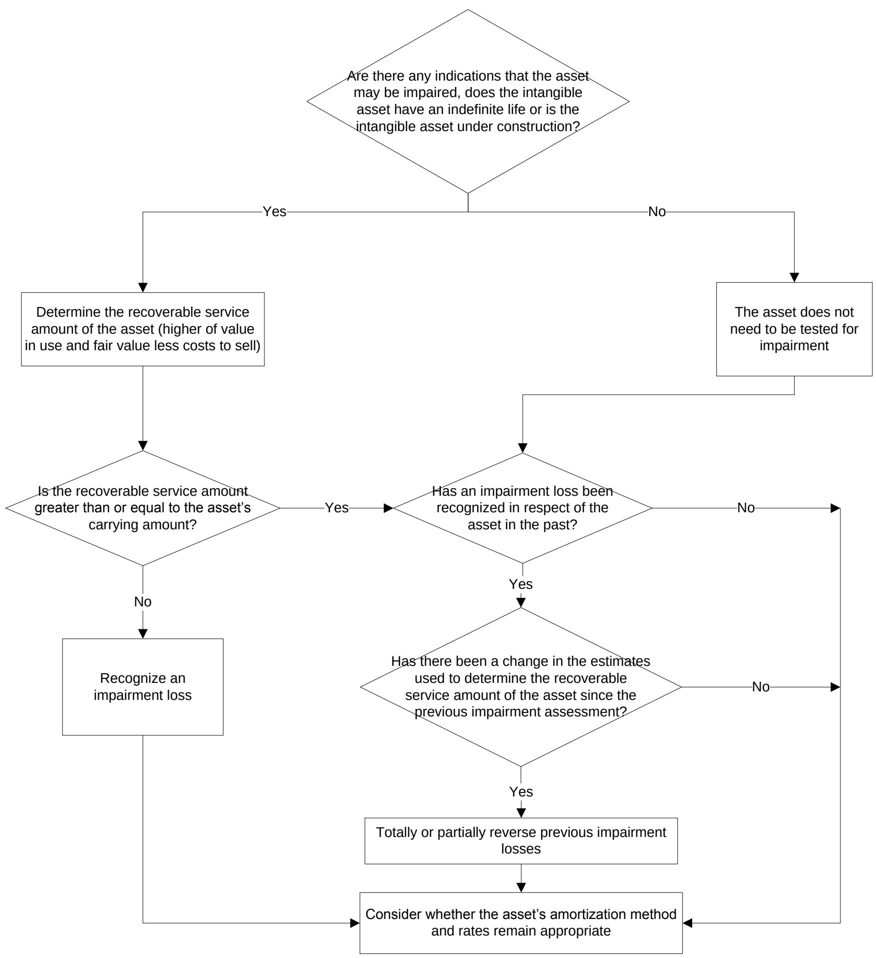
While one might expect detailed guidance on the impairment of intangible assets in IPSAS 31 *Intangible assets*, the question of impairment of intangible assets is actually covered in IPSAS 21 *Impairment of non-cash-generating assets*. The reason the guidance is found in a separate standard is that the approach for impairment of intangibles was aligned to the approach for impairment of items of property, plant and equipment and a separate standard on the impairment of all such non-cash generating assets was consequently developed instead of duplicating the information in the respective standards.

While the guidance provided in IPSAS 21 on impairments is discussed in detail in *CG #3 Impairment of non-cash-generating assets* and should be referred to, a summary of the main concepts is provided below.

10.2.1 Overall Impairment Process

An overview of the overall process is as follows:

Flowchart – Overview of impairment assessment



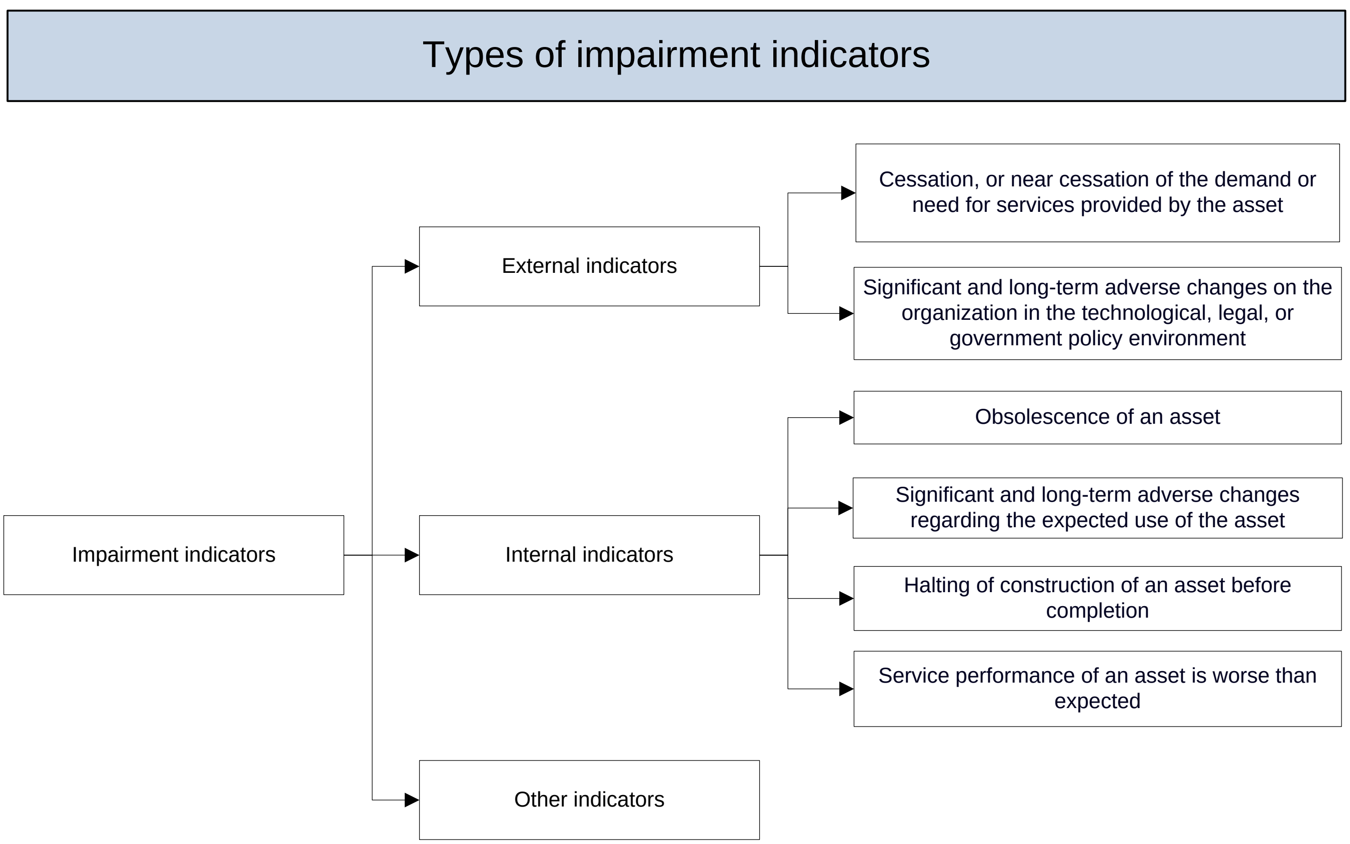
10.2.2 Identification of assets requiring an impairment review

Contrary to popular belief, IPSAS 21 does not require a detailed impairment review of most intangible assets on a regular basis, but instead specifies that an impairment review should only be undertaken when there is an indication that impairment has occurred[4].

Consequently, the United Nations should assess at each reporting date, whether an indicator of impairment exists, which would trigger a detailed impairment assessment. When considering whether indicators for impairment exist, it is important to bear in mind that those circumstances and situations that usually give rise to impairment are often significant events that would have far-reaching impact on the entire organization.

While many different situations and circumstances can be indicators of impairment and while no list of indicators can be exhaustive, IPSAS 21 describes some scenarios as specific indicators for impairment.

Flowchart – Overview of impairment indicators



[4] Please note that there is an exception to this rule as annual impairment assessments are required for intangible assets that have an indefinite useful life or that are under construction. A detail impairment calculation needs to be performed for all such assets, irrelevant of whether an indicator of impairment exists or not.

10.2.3 Performing an impairment review

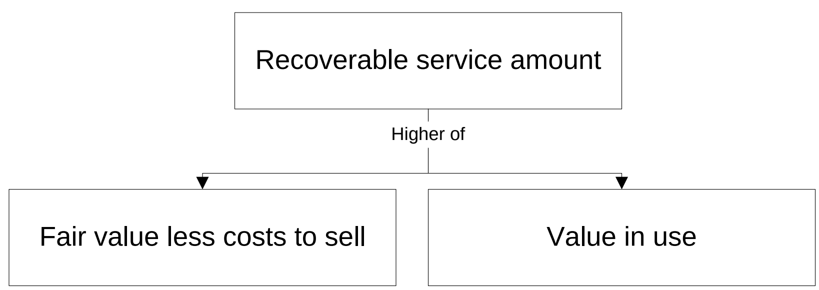
If the United Nations identifies an indicator of impairment, if the intangible asset has an indefinite useful life, or if the intangible asset is currently under construction, the United Nations is required to conduct a detailed **impairment review** for the intangible asset under review. While an impairment review incorporates multiple steps, the main aspect is to compare an asset's carrying amount before impairment with the asset's recoverable service amount. If the asset's recoverable service amount is less than the asset's carrying value, the asset is considered to be impaired and needs to be written down.

10.2.4 Determining recoverable service amount

If a detailed impairment review is necessary, the next step of the impairment review is to determine the asset's recoverable service amount.

An **asset's recoverable service amount** is defined as the higher of the asset's fair value less costs to sell and its value in use.

Flowchart – Determining recoverable service amount



When establishing the asset's recoverable service amount, i.e. the higher of the asset's fair value less costs to sell and its value in use, one should not calculate both amounts right away. First, the one that is easier to establish should be calculated. If this amount is higher than the carrying amount of the asset no additional calculation is required. Only if the amount calculated first is lower than the asset's carrying value, the other amount should be calculated.

10.2.4.1 Fair value less costs to sell

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

While IPSAS 21 does not provide detailed guidance on how to estimate or calculate the fair value less costs to sell, it instead provides a **hierarchy** of the preferred sources of the amount[5]:

1) Price in a binding sale agreement;
2) Market price for an asset traded in an active market;

[5] For details and examples on each of these methods, refer to *CG #3 Impairment of non-cash-generating assets*.

3) Amount obtainable from the disposal of the asset.

While IPSAS 21 prescribes that the fair value less costs to sell should be assessed by going through the different approaches in order, the expectation is that the United Nations would mostly use the third method (amount obtainable from the disposal of the asset) for its impairment review purposes.

10.2.4.2 Value in use

IPSAS 21 defines an asset's **value in use** as the present value of the asset's remaining service potential and offers organizations three methods[6] to establish an asset's value in use:

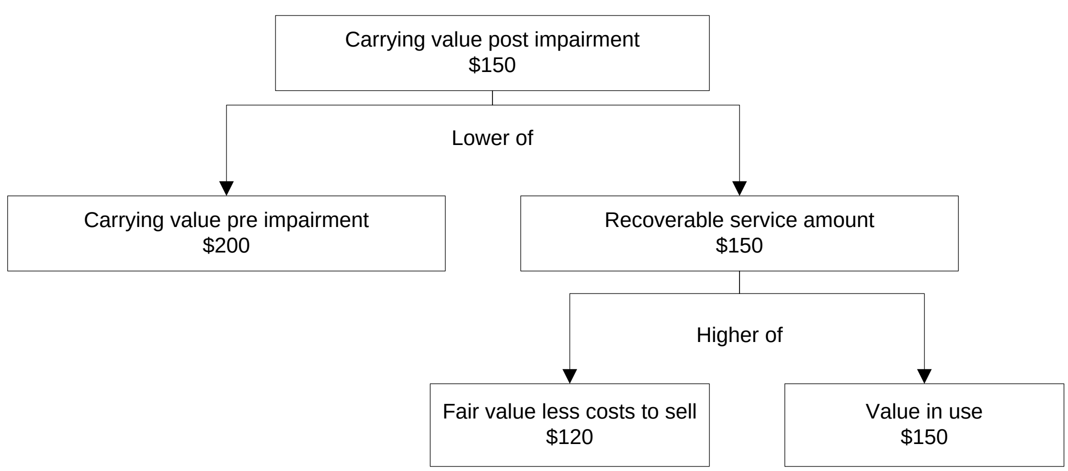
- Depreciated replacement cost approach;
- Restoration cost approach;
- Service units approach.

While the United Nations generally has the option to use any of the three methods to calculate an asset's value in use, IPSAS recommends that the United Nations should base its choice of method on the availability of data and nature of the impairment.

10.2.5 Measurement of impairment loss

As mentioned above, an asset is impaired when its recoverable service amount is less than the asset's carrying amount. The **impairment loss** is calculated as the difference between these two amounts and the new carrying value of the asset is the lower of the two.

Flowchart – Measurement of impairment loss



An impairment loss of $50 should be booked (i.e. the difference between carrying value pre-impairment and recoverable service amount.)

[6] For details and examples on each of these methods, refer to *CG #3 Impairment of non-cash-generating assets*.

Consequently, once the asset's fair value less costs to sell and value in use have been established as described above and the recoverable service amount is less than the asset's current carrying value, the United Nations is in a position to calculate the impairment charge and write down its asset.

Flowchart – Impairment loss calculation

Carrying value pre impairment	–	Recoverable service amount	=	Impairment loss

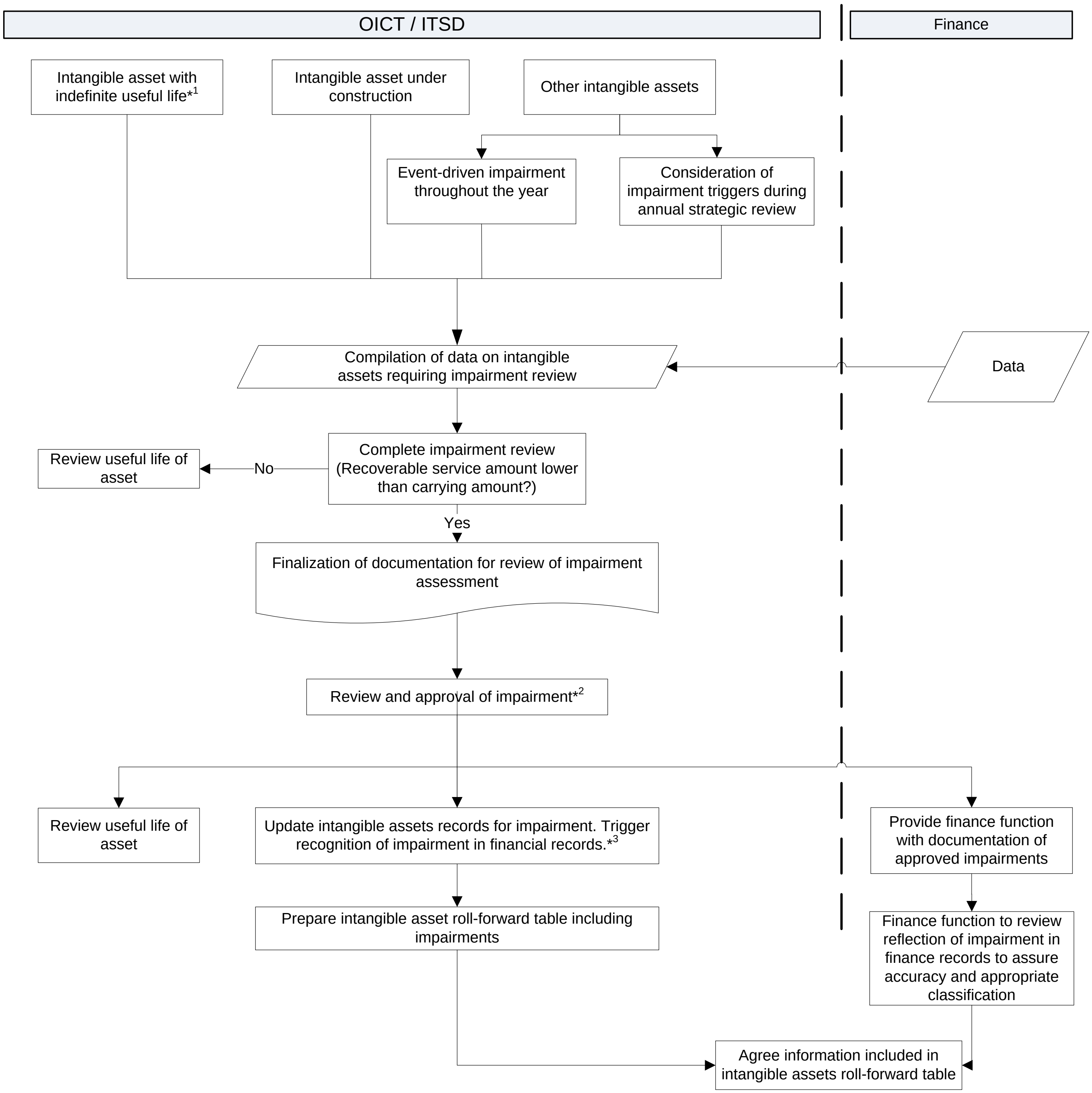
If an asset's carrying amount is less than its recoverable service amount, the asset is not impaired and no impairment charge is recognized in the financial statements.

10.2.6 Workflows changes related to IPSAS implementation regarding impairment of intangibles

As the concept of intangible assets is new to the United Nations, detailed workflows will have to be developed to facilitate the management of and accounting for such assets.

While the specifics will have to be confirmed, including the incorporation of thresholds, the workflow around the impairment of intangible assets is expected to follow these broad steps:

Flowchart – Impairment procedures overview



*[1] Please note that the United Nations is not expected to have many intangible assets with indefinite lives. This approach is therefore considered to be rare.
*[2] The expectation is that a team of representatives from the finance department and the Office of Information and Communication Technology (OICT) or Information Technology Services Division (ITSD) from the Department for Field Support (DFS) will review and decide over impairments of software licenses and IT related equipment under the delegation of authority. Impairments of other types of intangible assets will be reviewed and decided over by a team of representatives from the finance department and individuals with oversight of the assessed assets.
*[3] Please note that the roles and responsibilities are still under discussion.

11 Case study 1

Please refer to the link: Flowchart - Accounting treatment of publications

Case study 1 – ICTR documents and publications

The International Criminal Tribunal for Rwanda (ICTR) is an international court established to judge people responsible for the Rwandan Genocide and other serious violations of international law in Rwanda. ICTR judges cases and then compiles them into detailed publications describing the legal proceedings of each case. These publications will be sold and can be downloaded for free from the ICTR's website. The publications can be exemplified below:

Trial judgment

1. The costs for **authoring the judgment** include 3 judges for 6 years who served on cases at $200,000 per year, plus professional support staff from the chambers. These costs are to be **expensed as incurred** because they cannot be separated from the normal operations of ICTR.

2. Once the United Nations decides to publish the trial judgment and sell it commercially because it would provide good case law and reference book for future court proceedings, they begin to incur manuscript costs. The **manuscript costs** include editing some language from recordings on trial, adding text content including a forward, index, etc., and other tasks to compile the content for publication. Since the United Nations has determined the publication will provide the United Nations with future economic benefits[7], the costs can be measured reliably, and are above the threshold of $100,000 (threshold for internally generated intangible assets for all UN secretariat reporting entities), the costs are **capitalized** as an **intangible asset**. Alternatively, if the publication was provided at no cost, the United Nations may have determined the case law established in the legal proceedings, to be an important legal principle that is expected to provide future service potential to the United Nations, thus assuming all other factors for recognition are met, the costs are capitalized as an intangible.

3. After the trial judgment content is prepared, the United Nations incurs **pre-publication costs** such as proof reading, manipulating images, tables, charts, and standardizing formats. These costs are also expected to exceed the threshold of $100,000 and therefore can be **capitalized** as an **intangible asset**.

4. The United Nations will also incur **production costs**. For the trial judgment publication, a hard copy and soft copy will be published and the soft copy will be available for free download:

The **hard copy** publication will be sold commercially; however because a free electronic version is available, the hard copy costs will be **expensed as incurred**.

[7] For an example of future economic benefit and service potential please refer to the example on the ASYCUDA software in section 5.

The **soft copy** publication includes the **marginal costs** incurred to make the publication distributable in soft copy form. These additional costs are immaterial and accordingly should be **expensed as incurred.** The soft copy publication also includes costs of developing online platforms such as **internally generated websites** to provide the publication. As discussed in section 5.1.2.3, certain expenditures depending on the stage of expenditure of internally generated websites can be **capitalized** as an **intangible asset**.

Audio visual recordings

1. The mandate of ICTR is to conduct trials related to the Rwandan Genocide and other serious violations of international law in Rwanda. As such, whether or not ICTR produces video recording publications for the public, they would tape these trial recordings. Accordingly, the 25,000 hours of audio visual recordings of trials will be **expensed as incurred** because they cannot be separated from the normal operations of ICTR.

2. Once the United Nations decides to redact the audio visual recordings for digital publication to sell commercially, it will incur **manuscript costs**. These include the cost to edit the tapes, select certain frames, correct the audio, etc. Because the United Nations expects future economic benefits or service potential from the digital publication and the costs can be measured reliably, and are above the threshold of $100,000, the costs are **capitalized** as an **intangible asset.**

3. The **pre-publication costs** represent tasks such as sound dubbing and those activities involved in pre-production in the media industry. The **manuscript** and **pre-publication costs** are material and in aggregate amount to $4,000,000. As such, the pre-publication costs are also **capitalized** as an **intangible asset**.

4. The **production costs** for the soft copy include the costs to upload clips of the visual recordings on the **internally generated website**. As discussed in section 5.1.2.3, certain expenditures depending on the stage of expenditure of internally generated websites can be **capitalized** as an **intangible asset**.

Court transcripts

1. As mentioned above, the mandate of ICTR is to conduct trials related to the Rwandan Genocide. Therefore whether or not ICTR produces publications for the public, they would record and maintain court transcripts for all cases and court proceedings as part of ICTR's normal operations. As such these costs will be **expensed as incurred**.

2. After the United Nations decides to redact the court transcripts for publication commercially, the costs (manuscript, pre-publication, and production) incurred and the accounting treatments will follow the explanation above in trial judgment.

Prosecution evidence collection

During the court proceedings, prosecution collects evidence consisting of witness statements, artifacts, pictures, and the like. These assets are **not recognized** in the statement of financial position of the United Nations.