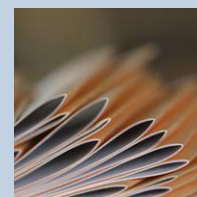


# Asset Recognition

April 10, 2008



## Introduction

In February 2008, the Accounting Standards Board issued Revisions Release No. 48 to the CICA Handbook. The release addresses asset recognition through amendments to Section 1000 – Financial Statement Concepts and introduces Section 3064 which provides new guidance on internally generated intangible assets.

Essentially the revisions serve to remove any material from the Handbook that could be construed to allow the recognition of assets that would not otherwise meet the definition nor the recognition criteria of an asset.

As a result of these revisions, the ability for entities to defer costs to later periods based on matching may be significantly restricted.

### Section 1000 – Financial Statement Concepts

Amendments to this Section focus on clarifying the criteria for asset recognition. These amendments are a continuation of the trend which places more emphasis on the balance sheet than the matching principle. Many entities, particularly those in the start-up phase of a new business for example, have relied on the matching principle in order to defer costs associated with future probable benefits until the related revenue is recorded. Revised Section 1000 de-emphasizes this matching concept by disallowing the recognition of items in the balance sheet which do not meet the definition of assets. In fact, all references to deferrals have been removed from this Section.

### Section 3064 – Goodwill and Intangible Assets

This Section replaces existing guidance contained in Section 3062 – Goodwill and Other Intangible Assets, and Section 3450 – Research and Development Costs. In keeping with the emphasis on asset recognition criteria, new Section



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3064 reinforces the distinction between costs that should be expensed and those that should be capitalized.

The new section is in alignment with International Financial Reporting Standard IAS 38 with respect to the definition and initial recognition criteria of intangible assets, including internally generated intangible assets. Internally generated intangible assets would include, among other things, research and development costs. The guidance on such costs is now contained in Section 3064 and, for all intents and purposes, remains unchanged. Generally, research costs are expensed as incurred and development costs, meeting certain criteria are capitalized.

The new standards are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Earlier adoption is encouraged. Cooperative organizations should not apply this section to intangible assets or goodwill acquired in a business combination until interpretive guidance related to the application of the purchase method by these organizations is issued.

Upon adoption of the new section, any intangibles recognized prior to the fiscal year beginning on or after October 1, 2008 that do not meet the new recognition or measurement criteria should be accounted for as a change in accounting policy. In accordance with the standard, an intangible item that was initially recognized as an expense should not be recognized as part of the cost of an intangible asset on transition to this Section.

Previous Sections 3062 and 3450 have been filed under Superseded Accounting Recommendations in the CICA Handbook and will be withdrawn when they are no longer effective.

#### **Other Affected Guidance**

As a result of the main changes noted above, other guidance in the CICA Handbook is affected, in particular:

- EIC-27 – Revenues and Expenditures during the Pre-Operating Period

Upon adoption of Section 3064, the guidance contained in this Abstract is no longer applicable. Entities will recall that EIC-27 allowed for the deferral of operating losses incurred during the pre-operating period of a business. The ability to do so will no longer be available.

- AcG-11 – Enterprises in the Development Stage

This guideline has been updated to be consistent with the changes to Section 1000 and the requirements contained in Section 3064, including an elimination of all references to deferring costs, and more explanatory text related to development costs qualifying as intangibles.