



MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 49 [2014]

Consumption of Economic Benefits of Intangible Assets

The issue:

The *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 136)* clarify that the use of revenue-based method is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be rebutted in the amortization of intangible asset in certain limited circumstances:

- a) the intangible asset is expressed as a measure of revenue, i.e. the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold (for example, the operation of the toll road expires when the cumulative amount of tolls generated from operating the road reaches RM100 million); or
- b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The Amendments however, do not explain when or how the pattern of consumption of economic benefits is highly correlated with the pattern in which revenue is generated.

Current accounting practice as observed by the Submitter:

Not applicable as the amendments shall be applied for annual periods beginning on or after 1 January 2016.

Reasons for the FRSIC to address the issue:

The submitter informed that divergent practice may arise when implementing the Amendments.

Submitter's proposal or recommendation to address the issue:

The submitter would like to request the FRSIC to discuss and identify the parameters and adjustments that may have to be made when determining whether a "high correlation" exists between revenue and the consumption of the economic benefits of the intangible asset.

Submitted on:

5 August 2014

Corresponding Guidance:

ISSUE WAS REJECTED FROM FURTHER DELIBERATION.

FRSIC has considered this issue and decided to reject the issue due to the existence of many variables, factors and parameters and hence, the potential impact on adjustments for the purpose of determining whether a “high correlation” exists between revenue and consumption of economic benefits of intangible asset. Judgement is necessary in respect of each instance, given the facts, circumstances and scenarios at hand when performing an evaluation. For instance, revenue may be affected by changes in sales volume as well as prices, which may also be affected by the current inflation. Consequently, FRSIC was of the view that the scope is too broad for a FRSIC Consensus to be issued. An entity shall exercise professional judgement to assess whether any identified parameters and adjustments reflects the pattern of consumption of economic benefits embodied in the intangible asset, in determining whether a “high correlation” exists between revenue and consumption of intangible asset.