

14. INTANGIBLE ASSETS QUESTION BANK

QUESTION 1 (13 MARKS)

Ducking & Diving Limited is busy preparing financial statements for the financial year ended 31 October 2026. The following details regarding possible intangible assets were available:

Asset	Additional information
Customer list	The list was generated over the past two years, based on the company's regular customers over the period. The direct cost of generating the list is R30 000, but it is difficult to determine the indirect costs. Expected period of benefit from the names on the list at 1 January 2026 is 2 years. However, the list will be maintained indefinitely (i.e. new names will be added etc.) This internally generated customer list appears to be separable as there are no confidentiality clauses.
Casino license – Gauteng	The casino license cost R500 000 on 1 November 2021. The license is for an indefinite period (no date of termination).
Casino license – KwaZulu-Natal	The casino license cost R400 000 on 1 November 2022. The license is for 10 years with the option to renew it for another 10 years at insignificant cost provided that predetermined social functions are adequately performed. The company intends renewing the license and is expected to continue fulfilling the requisite social functions upon which renewal is dependent.
Casino license – Western Cape (20-year license without the option to renew)	The casino license cost R600 000 on 1 November 2023. The company intends tendering for the license when it becomes available at the end of its current license period.

REQUIRED:

- 1.1 Name the four elements of an asset (excluding the recognition criteria) and indicate why the casino licenses are assets to the company.
- 1.2 Name the characteristics of making an asset intangible and indicate why a casino license is intangible.
- 1.3 Should the customer list be recognised as an asset? Name two reasons to motivate your answer.
- 1.4 Determine the carrying value of each intangible asset above (if applicable) to be included in Ducking & Diving Limited's notes to the statement of financial position as at 31 October 2026.

QUESTION 1 – ANSWER

1.1 ELEMENTS OF AN ASSET

	Element	Application to a casino licence	
1	It is a resource	It enables the company to earn gambling income.	1
2	Resulting from a past event	The licences were obtained before 31 Oct. 2026.	1
3	Controlled by the entity	The licences entitle the company to the right to host gambling activities.	1
4	Future inflow of economic benefits is expected	Income will be generated by gambling activities	1

(4)

1.2 WHAT MAKES AN ASSET INTANGIBLE AND WHY IS A CASINO LICENCE INTANGIBLE?

	Characteristic	Why is a casino licence intangible?
1	Without physical substance	It comprises a legal right. The “untouchable” right supersedes the physical document.
2	A non-monetary asset	Not an asset that could qualify as a cash or cash equivalent under any other standard.
3	Identifiable	Each licence is unique and could be divorced from this particular licensed entity.

(Max 2)

1.3 REASONS FOR RECOGNISING CUSTOMER LIST ON BALANCE SHEET (OR NOT)

Yes / No	Reasons
No	The list is internally generated.
	The cost cannot be determined with reliability

(2)

1.4 CARRYING AMOUNTS OF EACH INTANGIBLE ASSET

Specific asset	Calculation of carrying amount		
Customer list	(Not an intangible asset)	Nil	½
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Casino licence: Gauteng	(Not amortised)	500 000	½
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Casino licence: KZN	Cost (1 November 2022)	400 000	½
	Accumulated amortisation		
	1 Nov 2022 – 31 Oct 2026 = 4 years		½
	$4 / 20 \times 400\,000$	(80 000)	½
		320 000	½
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Casino licence: W Cape	Cost (1 November 2023)	600 000	½
	Accumulated amortisation		
	1 Nov 2023 – 31 Oct 2026 = 3 years		½
	$3 / 20 \times 600\,000$	(90 000)	½
		510 000	½
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(5)

QUESTION 2 (15 MARKS)

Intan Ltd has researched and developed a model (Development X) to improve the existing production process. The details of the transactions were as follows:

Date (up to)	Transaction	R
30 June 2024	Research cost incurred	350 000
31 October 2024	Development cost paid (the cost did not satisfy the six recognition criteria up to that date)	40 000
1 November 2024	Development cost incurred (all six recognition criteria were satisfied as from this date)	760 000
1 November 2024	Production using the new model started on this date	

The recoverable amounts and total useful life of the development were re-estimated at the end of the last two financial years, as follows:

Date	Total Useful life	Recoverable amount (R)
31 October 2025	Twelve years	620 000
31 October 2026	Nine years	590 000

No residual value is expected for the development.

REQUIRED:

- 2.1 Explain briefly why research cost should not be capitalised. (2)
- 2.2 Show the reconciliation between the opening and closing carrying amounts for development X for the two years ended 31 October 2025 and 2026. (13)

QUESTION 2 (15 MARKS) – SOLUTION

2.1 WHY SHOULD RESEARCH COST NOT BE CAPITALISED?

Research is an investigation into new or improved possibilities. It is therefore not probable that future inflows of economic benefits will occur.

Research does not yet prove that a commercially viable end-product could be produced.

The 6 recognition criteria are not met. (Any two)

2.2 RECONCILIATION BETWEEN OPENING AND CLOSING CARRYING AMOUNTS OF DEVELOPMENT X

	R
Additions	760 000
Amortisation (760 000 / 12)	(63 333)
Impairment loss (696 667 – 620 000)	(76 667)
Net Carrying amount at 1 October 2025	620 000
Gross carrying amount	760 000
Accumulated amortisation	(63 333)
Accumulated impairment losses	(76 667)
Amortisation (620 000 / 8)	(77 500)
Impairment losses reversed (590 000 – 542 500)	47 500
Net Carrying amount at 31 October 2026	590 000
Gross carrying amount	760 000
Accumulated amortisation	(140 833)
Accumulated impairment losses	(29 167)

QUESTION 3 **(13 MARKS)**

Development Q is an internal research and development project undertaken by Quantani Ltd to develop a new product. The following costs were incurred in connection with Development Q:

1 June - 31 August 20X5	Total research costs paid	R 260 000
1 Sept 20X5 - 1 March 20X6	Total development costs incurred	R 480 000

All six recognition criteria for capitalisation were satisfied, and the development project was available for use on 1 March 20X6.

Development Q has an expected residual value of nil and an estimated useful life of ten years. On 28 February 20X7, the recoverable amount of Development Q is R400 000.

On 28 February 20X8 the total useful life of Development Q is re-estimated to be nine years, and the recoverable amount is R370 000.

REQUIRED:

- 3.1 Show the journal entry for the research costs incurred in connection with Development Q. (2)
- 3.2 Show the reconciliation between the opening and closing carrying amounts of Development Q for the years ending **28 February 20X7** and **28 February 20X8**. (11)

QUESTION 4 **(7 MARKS)**

Ignore VAT in this question.

On 1 January 20X8 Sports-Drinks Ltd purchased the brand "Power Aid" from an international company for R 1 000 000. It also paid R35 000 for the legal fees to secure the right to use the brand and R75 000 for a staff party to celebrate the new brand.

REQUIRED:

- 2.1 Calculate the total cost to be capitalised on the "Power Aid" brand during the financial year ended 28 February 20X8. (1)
- 2.2 Name the 3 characteristics of an intangible asset and indicate why the "Power Aid" brand can be classified as intangible. (6)

QUESTION 3 (13 MARKS) – SOLUTION**3.1 JOURNAL OF QUANTANI LTD**

	DR	CR
Research expense	260 000	
Bank		260 000

3.2 RECONCILIATION BETWEEN OPENING AND CLOSING CARRYING AMOUNTS OF DEVELOPMENT Q

	R
Net Carrying amount at 1 March 20X6	-
Additions	480 000
Amortisation (480 000 / 10)	(48 000)
Impairment loss (432 000 – 400 000)	(32 000)
Net carrying amount at 28 February 20X7	400 000
Gross carrying amount	480 000
Accumulated amortisation	(48 000)
Accumulated impairment losses	(32 000)
Amortisation (400 000 / 8)	(50 000)
Impairment loss reversed (370 000 – 350 000)	20 000
Net carrying amount at 28 February 20X8	370 000
Gross carrying amount	480 000
Accumulated amortisation (48 000 + 50 000)	(98 000)
Accumulated impairment loss (32 000 - 20 000)	(12 000)

QUESTION 4 (7 MARKS) – SOLUTION

4.1	Purchase price	1 000 000
	Legal fees	35 000
	Cost to be capitalised	1035 000

4.2	CHARACTERISTIC	MOTIVATION FOR “POWER AID” BRAND
4.2.1	Identifiable	The brand is separable or it emanates from a legal or contractual right.
4.2.2	Non-monetary asset	Falls under IAS 38 and not IAS 32. Therefore, not cash or a cash equivalent.
4.2.3	Without physical substance	You cannot touch it, kick it or lick it 😊

QUESTION 5 (16 MARKS)

Apple Limited’s business involves the bottling and distribution of a wide variety of carbonated soft drinks. Some drinks are developed internally, while other brands are purchased. The following information relates to a specific type of bottle called “Twist tops” which the business developed internally, for the year ended 31 December 2027:

DATE	TRANSACTION	R
From 1 April 2026 to 31 July 2026	Research costs incurred	230 000
From 1 August 2026 to 31 December 2026	Development cost incurred. (All six recognition criteria for capitalisation were satisfied on 31 December 2026 and the development completed and available for use on this date.)	810 000
3 January 2027	Production of “Twist tops” started.	
1 November 2027	Generated a customer list over the last 3 years. The list will be maintained indefinitely and this customer list seems separable.	40 000

The development “Twist tops” has an estimated useful life of 6 years and no residual value. On 31 December 2027 the recoverable amount is R650 000.

On 31 December 2028 the total useful life of development “Twist tops” is re-estimated to be 5 years. On 31 December 2028 the recoverable amount is R502 500.

REQUIRED:

- 5.1 Provide the reconciliation between the opening and closing carrying amounts of development “Twist tops” for the years ended 31 December 2027 and 31 December 2028. (13)
- 5.2.1 Should the cost of generating the customer list be capitalised? (1)
- 5.2.2 Motivate your answer given in 5.2.1. (2)

QUESTION 5 (16 MARKS) – SOLUTION

5.1 RECONCILIATION BETWEEN OPENING AND CLOSING CARRYING AMOUNTS OF DEVELOPMENT “TWIST TOPS”

	R
Capitalisation	810 000
Amortisation (810 000/6)	(135 000)
Impairment loss (675 000 CA - 650 000 RA)	(25 000)
Net carrying amount at 31 December 2027	650 000
Gross carrying amount	810 000
Accumulated amortisation	(135 000)
Accumulated impairment losses	(25 000)
Amortisation (650 000/4 years) (4 years <i>remaining</i> useful life.)	(162 500)
Impairment loss reversed (502 500 RA – 487 500 CA)	15 000
Net carrying amount at 31 December 2028	502 500
Gross carrying amount	810 000
Accumulated amortisation (135 000 + 162 500)	(297 500)
Accumulated impairment losses (25 000 – 15 000)	(10 000)

5.2.1 Should the cost of generating the customer list be capitalised?

No

5.2.2 Motivation:

A customer list cannot be *separated* from the entity as it only applies to that particular entity. It does not emanate from a legal or contractual right either.

QUESTION 6 (15 MARKS)

Ignore VAT in this question.

Home & House Ltd is a company involved in the manufacturing of a variety of household products. Their financial year ends on 30 June. The following details are provided with regards to their intangible assets:

6.1

The "Air Chair" patent.

The right to manufacture under this patent for a period of 6 years was bought on credit on 30 November 2029 for R3 000 000 and may be renewed for a further 4 years at a cost of R2 000 000.

REQUIRED:

- 6.1.1 Motivate why the "Air Chair" patent is an intangible asset to Home & House Ltd by referring only to the definition criteria of an intangible asset. (3)
- 6.1.2 Over what period (in years) should the "Air Chair" patent be amortised? (1)

6.2

The "LawnGlider" brand.

This brand was purchased on 31 August 2028 for R480 000 cash and the brand was ready for use on that date.

On this date the "LawnGlider" brand was expected to have:

- A total useful life of 10 years and
- A residual value of zero.

On 30 June 2029, the "LawnGlider" brand was estimated to have a recoverable amount of R400 000.

During June 2030, the "LawnGlider" brand was estimated to have a longer total useful life than was initially expected. It was estimated that as from 1 July 2029 the brand would have a remaining useful life of 10 years and a residual value of zero.

On 30 June 2030 the recoverable amount of the brand was estimated at R370 000.

REQUIRED:

- 6.2 Show the note to the financial statements of Home & House Ltd for Intangible Assets, to reconcile the opening and closing net carrying amounts of the "LawnGlider" brand only, for the financial year ended 30 June **2010**. (8)

6.3

The “Self-sanitising toilet” development project.

Home & House Ltd has spent the past 12 months developing this revolutionary new product. The following costs were incurred and paid for during the financial year ended 30 June 2030 in connection with this project:

- Research costs up to 31 October 2029 amounted to R1 650 000.
- Development costs up to 31 December 2029 amounted to R2 850 000. At this time, three of the recognition criteria for capitalisation were met.
- Further development costs up to 30 June 2030 amounted to R7 950 000. All six recognition criteria for capitalisation had been satisfied since 1 January 2030.

REQUIRED:

Answer the following questions regarding the costs incurred on the “Self-sanitising toilet” development project for the year ended 30 June 2030.

- 6.3.1 Will the research costs of R1 650 000 be capitalised or expensed? (1)
- 6.3.2 What amount of development costs, if any, will be expensed? (1)
- 6.3.3 What amount of development costs, if any, will be capitalised? (1)

QUESTION 6 – SOLUTION (15 MARKS)

6.1.1	1	It is identifiable – It is therefore either <u>separable</u> from the entity or It emanates from a contractual or legal right,
	2	It is a Non-monetary asset – Not cash or cash equivalent. Monetary assets fall under IAS 32 while we are dealing with IAS 38
	3	Without physical substance – The legal <i>right</i> to manufacture under this patent is the essence of the asset.

6.1.2	6 years
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6.2 INTANGIBLE ASSETS NOTE TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2030

	“LAWNGLIDER” BRAND
	R
Net carrying amount at 30 June 2029	400 000
Gross carrying amount	480 000
Accumulated amortisation (480 000/10 x 10/12)	(40 000)
Accumulated impairment losses (440 000 CA – 400 000 RA)	(40 000)
Amortisation (New CA of 400 000 / 10 years remaining useful life)	(40 000)
Impairment loss reversed (360 000 CA – 370 000 RA)	10 000
Net carrying amount at 30 June 2030	370 000
Gross carrying amount	480 000
Accumulated amortisation (40 000 + 40 000)	(80 000)
Accumulated impairment losses (40 000 – 10 000)	(30 000)

6.3.1	The “Self-sanitising toilet” development project
7.3.1	Expensed ✓
7.3.2	R2 850 000 ✓
7.3.3	R7 950 000 ✓

(3)

QUESTION 7 (23 MARKS)

QUESTION 7.1 (19 MARKS)

Ignore VAT in this question.

Bangkok Bottling Ltd's business involves the bottling and distribution of a wide variety of carbonated soft drinks. Some drinks are developed internally by the business, whilst other brands are purchased. Their financial year ends on 31 December. The following information is relevant with regards to an intangible asset, the *Lemon-Cola* brand:

This brand was purchased on 1 June 2021 for an amount of R1 040 000, which was paid for in full. In addition, an amount of R60 000 was paid on 1 July 2021 for legal fees to secure the right to use the Lemon-Cola brand, and the brand was ready for use on this date.

The Lemon-Cola brand is expected to have a residual value of zero and a useful life of 10 years.

On 31 December 2021, the Lemon-Cola brand was estimated to have a recoverable amount of R900 000.

On 31 December 2022, the directors estimated that the Lemon-Cola brand would have a shorter useful life than was initially expected. They estimated that the brand would only have a total useful life of 8 years, with the residual value still being zero. On this date, the recoverable amount of the brand was estimated to be R850 000.

REQUIRED:

- 7.1.1 Motivate why the Lemon-Cola brand is an intangible asset to Bangkok Bottling Ltd, by referring only to the definition criteria for an intangible asset. (3)
- 7.1.2 Prepare journal entries for the Lemon-Cola brand for the financial year ended 31 December 2021. (8)
- 7.1.3 Prepare the note to the financial statements of Bangkok Bottling Ltd for the financial year ended 31 December 2022 for Intangible assets (the Lemon-Cola brand only). (8)

QUESTION 7.2 (4 MARKS)

The following information is relevant with regards to another intangible asset of Bangkok Bottling Ltd, namely the *Magic-Can* development project:

Magic-Can is a revolutionary type of can which has been developed by Bangkok Bottling Ltd over the past year. The can has a re-sealable top which allows it to be closed again after it has been opened, thereby preventing the fizz from escaping. The following costs were paid by EFT during the financial year ended 31 December 2022 in connection with this project:

- Total research costs amounted to R250 000.
- Development costs amounting to R350 000 had been paid, but during this time all the recognition criteria for capitalisation had not been satisfied because it was still uncertain whether the prototypes would function as intended.
- Further development costs amounting to R450 000 had been paid once it became clear that the concept is working. The six recognition criteria for capitalisation had therefore been satisfied by 31 December 2022.

REQUIRED:

Prepare journal entries for the *Magic-Can* development project for the year ended 31 December 2022.

(4)

QUESTION 7 (23 MARKS)**QUESTION 7.1 (19 MARKS)**

3.1.1	1	The brand is identifiable as it is unique/can be distinguished from other brands/can be separated from the entity ✓
	2	The brand is non-monetary as it cannot be classified as cash or a cash equivalent ✓
	3	The brand does not have physical substance as it gives the business the legal right to manufacture the Lemon-Cola drink and not for instance the machinery to manufacture it ✓

(3)**7.1.2 JOURNAL FOR THE YEAR ENDED 31 DECEMBER 2021**

			DR	CR
June	1	Lemon-Cola brand: cost	1 040 000 ½	
		Bank		1 040 000 ½
July	1	Lemon-Cola brand: cost	60 000 ½	
		Bank		60 000 ½
31 Dec		Amortisation (1 100 000 – 0)/10X6/12	55 000 ½	
		Lemon-Cola brand: Accumulated amortisation		55 000 ½
		Impairment loss (CA 1 045 000 – RA 900 000)	145 000 ½	
		Lemon-Cola brand: Accumulated impairment losses		145 000 ½

(8)

7.1.3 BANGKOK BOTTLING LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

INTANGIBLE ASSETS	LEMON-COLA BRAND
	R
Net carrying amount at 31 December 2021	900 000 ✓
Gross carrying amount/Cost	1 100 000
Accumulated amortisation	(55 000) (✓)
Accumulated impairment losses	(145 000) (✓)
Amortisation (900 000 / 7,5)	(120 000) ✓
Prior Impairment losses reversed (850 000 RA – 780 000 CA)	70 000 ✓
Net carrying amount at 31 December 2022	850 000 ✓
Gross carrying amount /Cost	1 100 000
Accumulated amortisation (55 000 + 120 000)	(175 000) (✓)
Accumulated impairment losses (145 000 – 70 000)	(75 000) (✓)

(✓) principle

(8)

QUESTION 7.2 (4 MARKS)

3.2.1 JOURNAL FOR DECEMBER 2022

	31	Research expense	250 000 ✓	
		Patent development expense	350 000 ✓	
		Magic-Can development asset: Cost	450 000 ✓	
		Bank		1 050 000 ✓

(4)