

Accounting Standard for Business Enterprises No. 6 - Intangible Assets

Chapter I General Provisions

Article 1 To standardize the confirmation and measurement of intangible assets and disclosure of related information, these Standards are formulated in accordance with the Accounting Standard for Business Enterprises - Basic Standards.

Article 2 The following items shall be subject to other relevant accounting standards:

- (1) The right to use the land as investment real estates shall be subject to the Accounting Standard for Business Enterprises No. 3 -Investment properties;
- (2) The business reputation formed during the merger of enterprises shall be subject to the Accounting Standard for Business Enterprises No. 8 -Impairment of assets and Accounting Standard for Business Enterprises No. 20 –Business Combinations; and
- (3) The rights and interests related to oil and natural gas mining areas shall be subject to the Accounting Standard for Business Enterprises 27 -Extraction of Petroleum and Natural Gas.

Chapter II Confirmation

Article 3 The term "intangible asset" refers to the identifiable non-monetary assets possessed or controlled by enterprises which have no physical shape.

An asset, which satisfies any of the following conditions, shall meet the identifiable standards as mentioned in the definition of intangible assets:

- (1) Being able to separate or divide from the enterprise and being able to be sold, transferred, licensed, rented or exchanged independently or along with the relevant contracts, assets or liabilities; or
- (2) Being derived from any contractual right or other statutory rights, no matter whether or not these rights can be transferred or separated from the enterprise or other rights and obligations.

Article 4 Intangible assets may be confirmed when it meets the conditions simultaneously as follows:

- (1) The economic benefits related to intangible assets are likely to flow into the enterprise; and
- (2) The cost of intangible assets can be measured reliably.

Article 5 When making a judgment on whether or not the economic benefits generated by intangible assets is likely to flow into it, an enterprise shall make a reasonable estimation to all potential economic factors within the expected service life of intangible assets and present clear evidences.

Article 6 The expenditures for an intangible item of an enterprise shall all be recorded into the profit or loss for the current period, unless it is under any of the following circumstances:

- (1) The part meeting the confirmed conditions as prescribed in these Standards and consisting of the cost of intangible assets; and
- (2) The part obtaining from the merger of enterprises not under the same control or cannot being independently confirmed as intangible assets, or composing the business reputation confirmed on the day of purchase.

Article 7 The expenditures for its internal research and development projects of an enterprise shall be classified into research expenditures and development expenditures.

The term "research" refers to the creative and planned investigation to acquire and understand new scientific or technological knowledge.

The term "development" refers to the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product.

Article 8 The research expenditures for its internal research and development projects of an enterprise shall be recorded into the profit or loss for the current period.

Article 9 The development expenditures for its internal research and development projects of an enterprise may be confirmed as intangible assets when they satisfy the following conditions simultaneously:

- (1) It is feasible technically to finish intangible assets for use or sale;
- (2) It is intended to finish and use or sell the intangible assets;
- (3) The usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;
- (4) It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; and
- (5) The development expenditures of the intangible assets can be reliably measured.

Article 10 For an on-going research and development project which is obtained by an enterprise and has been confirmed as intangible assets, the post-obtainment expenditures shall be treated in accordance with Articles 7 to 9 of these Standards.

Article 11 The self-created business reputation of an enterprise, or its internally made brand, newspaper or magazine name shall not be confirmed as intangible assets.

Chapter III Initial Measurement

Article 12 The intangible assets shall be initially measured according to its cost. The cost of outsourcing intangible assets shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible assets for the expected purpose.

Where the payment of purchase price for intangible assets is delayed beyond the normal credit conditions, which is of financing intention, the cost of intangible assets shall be determined on the basis of the current value of the purchase price. The difference between the actual payment and the current value of the purchase price shall be recorded into profit or loss for the credit period, unless it shall be capitalized under the Accounting Standards for Enterprises No. 17 - Borrowing Cost.

Article 13 The cost of self-developed intangible assets shall include the total expenditures incurred during the period from the time when it meets the provisions of Articles 4 to 9 of these Standards to the time when the expected purposes of use are realized, except that the expenditures which have already been treated prior to the said period shall not be adjusted.

Article 14 The cost invested into intangible assets by investors shall be determined according to the conventional value in the investment contract or agreement, except for those of unfair value in the contract or agreement.

Article 15 The costs of intangible assets acquired from non-monetary assets transaction, debt recombination, government subsidies, and merger of enterprises shall be determined respectively according to the Accounting Standard for Business Enterprises No. 7 - Exchange of non-monetary assets, Accounting Standard for Business Enterprises No. 12 - Debt Restructurings, Accounting Standard for Business Enterprises No. 16 - Government Grants and Accounting Standard for Business Enterprises No. 20 - Business Combinations.

Chapter IV Subsequent Measurement

Article 16 An enterprise shall analyze and judge the service life of intangible assets, when it obtains intangible assets.

As for the intangible assets with limited service life, the enterprise shall estimate the years of its service life, or the amount of the output or any other similar measurement unit, which constitutes its service life. If it is unable to forecast the period when the intangible asset can bring economic benefits to the enterprise, it shall be regarded as an intangible asset with uncertain service life.

Article 17 With regard to intangible assets with limited service life, its amortization amount shall be amortized within its service life systematically and reasonably.

An enterprise shall amortize intangible assets from the time when it is available for use to the time when it is not confirmed as the intangible assets any more.

The method chosen by an enterprise for the amortization of intangible assets shall reflect the expected realization pattern of the economic benefits which relevant to the intangible assets. If it is unable to determine the expected realization pattern reliably, intangible assets shall be amortized by the straight-line method.

Generally, the amortized amount of intangible assets shall be recorded into profit or loss for the current period, unless there are other accounting standards.

Article 18 The reasonable amortization amount of intangible assets shall be its cost minus the expected residual value. For intangible assets with an impairment provision, the accumulative amount of impairment provision shall be deducted from the cost as well. For intangible assets with a limited service life, its residual value shall be regarded as zero, unless it is under the circumstances as follows:

- (1) A third party promises to purchase the intangible assets at the end of its service life; and
- (2) The information about the expected residual value is able to obtain from the active market and the market is most likely to remain when the service life of the intangible asset ends.

Article 19 Intangible assets with uncertain service life may not be amortized.

Article 20 The impairment of intangible assets shall be treated in accordance with the Accounting Standards for Enterprises No. 8 -Impairment of Assets.

Article 21 An enterprise shall, at least at the end of each year, check the service life and the amortization method of intangible assets with limited service life. When the service life and the amortization method of intangible assets are different from those before, the years and method of the amortization shall be changed.

An enterprise shall check the service life of intangible assets with uncertain service life during each accounting period. Where there are evidences to prove the intangible assets have limited service life, it shall be estimated of its service life, and be treated according to these Standards.

Chapter V Disposal and Discarding

Article 22 The balances of the price acquired and the carrying value of intangible assets shall be recorded into the profit or loss for the current period, where an enterprise sells intangible assets.

Article 23 In case no economic benefit is expected to be brought by some intangible assets to the enterprise, the carrying value of the intangible assets shall be written off.

Chapter VI Disclosure

Article 24 An enterprise shall disclose the following information related to its intangible assets according to their categories in the annotation:

- (1) The beginning and ending book balances, accumulative amount of amortization, and accumulative amount of provision for impairment of intangible assets;
- (2) The estimation about the service lives of intangible assets with limited service lives; the basis for the judgment about the uncertain service life of intangible assets with uncertain service lives;
- (3) The methods for the amortization of intangible assets;
- (4) The carrying value of intangible assets used for guaranties, the amortization amount for the current period, and other information; and
- (5) The amount recorded into profit or loss for the current period and those confirmed as the research and development expenditures for intangible assets.