



## Solution 122.3

<b>Component</b>	Telecommunication entities
<b>Index</b>	Intangible assets – telecommunication licences
<b>Short title</b>	Basis of amortising telecom licences

**Attention:** This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

### Issue

An intangible asset’s depreciable amount should be allocated on a systematic basis over the best estimate of its useful life [\[IAS38R.97\]](#).

What basis of amortisation should an operator adopt in respect of its telecom licences?

### Background

Operator C purchases a telecom licence in 1999 for 1 million. The licence has a term of 12 years. C’s network assets are ready for use in 2001. The telecom licence has a remaining term of 10 years from the date the underlying assets are ready to use.

C expects its subscriber base to grow over the next few years and reach a critical mass in four years’ time – that is, 2005.

### Solution

Operator C should amortise the full value of the licence on a straight-line basis over its remaining term of 10 years.

The amortisation method should reflect the pattern in which the entity consumes the asset’s economic benefits [\[IAS38R.97\]](#). The licence does not suffer wear and tear from usage (i.e. the number of customers using the service). The economic benefits of a licence relate to C’s ability to benefit from the use of the licence. The economic benefit consumed relates to the fact that a period of time has passed and that the useful life of the licence is now shorter by that period. Accordingly the asset depletes on a time basis and the straight-line basis of amortisation is the most appropriate one. The presumption for intangible assets is that straight-line is the most appropriate basis of amortisation [\[IAS38R.98\]](#).