



Solution 122.40

Component	Telecommunication entities
Index	Intangible assets – Subscriber acquisition costs
Short title	Period of amortisation

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

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life [IAS38R.97]. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost [IAS38R.94].

Over what period should an operator amortise subscriber acquisition costs?

Background

Operator D pays commissions of 175 to a third party dealer for the acquisition of a subscriber that has passed the usual credit check. The subscriber signs a 12-month contract. The average life of D's subscribers is 24 months. Operator D can reliably establish the recoverability of the 175 and has the systems to track the payment for each subscriber acquired separately.

Solution

Operator D should record the payment of 175 as an intangible asset. Operator D should amortise the 175 on a straight line basis over the 12 month life of the contract.

The fact that the average life of D's subscribers is 24 months is not relevant in considering the initial useful life because D is not able to control whether or not the subscriber renews the contract.