

Intangible Assets

Topics to be Discussed

Intangible Assets
acquisition costs
 research and development
costs subsequent to acquisition
amortization

Intangible Assets

Long-term rights and privileges of a non-physical nature acquired for use in operation of the entity

Acquisition

characteristics of intangibles

- ☞ identifiability - separately identifiable or lacking specific identification
- ☞ manner of acquisition - acquired singly, in groups, or in business combinations or developed internally
- ☞ expected period of benefit - limited by law or contract, related to human or economic factors, or indefinite or indeterminate duration
- ☞ separability from enterprise - rights transferable without title, salable, or inseparable from the entire enterprise

purchased intangibles

recorded at cost

internally developed intangibles

expensed unless

 specifically identifiable,
 determinate life, and
 separable from the enterprise

if all criteria met, all costs are recorded as an asset

cost includes all costs of acquiring intangible asset and preparing it for intended use as well as costs of successfully defending intangible asset

research and development

per FASB Statement #2, R&D costs should be charged to expense in year incurred

Amortization

prior accounting pronouncements assumed all intangible assets had finite useful lives

current standards (FASB 142) assumes some intangible assets may have indefinite useful lives

the useful life of an intangible asset is defined in this Statement as the period over which an asset is expected to contribute directly or indirectly to future cash flows

for intangible assets with finite useful lives

asset cost should be written off over useful life

legal life of patent - 20 years

legal life of copyrights - life of creator plus 70 years

legal life of trademarks/tradenames - indefinite renewals for periods of 20 years each

intangible assets that are not amortized will be tested for impairment at least annually by comparing the fair values of those assets with their recorded amounts

if the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess

the amortization method adopted should reflect the pattern in which the asset is consumed if that pattern can be reliably determined, with the straight line method being used as a default

entry

Amortization Expense

XXX

Asset

XXX