

Toward Business Literacy: Accounting Outlines



Intangible Assets

They lack physical existence (like rights and privileges do). They are not financial instruments. They are long-term assets.

Valuation of Intangibles

- Recorded at cost (if exchanged for stock—fair value)
- Internally generated: the cost to create intangibles expensed as incurred
 - Capitalized direct costs if spent to obtain

Amortization of Intangibles

- If limited life: amortized; If indefinite life: not amortized
- Useful life depends on several factors
 1. Expected use
 2. Life of a related group
 3. Renewal or extension
 4. Legal, regulatory or contractual limits
 5. Obsolescence, demand, competition, etc
 6. Maintenance level

JE:	Amortization expense	xxx	
	Asset (carrying value) or Accumulated Amortization		xxx

***Salvage value is assumed to be zero unless intangible has value to another entity. It is impaired if carrying amount exceeds fair value and is non-recoverable. Intangibles with indefinite life, if impaired, only compare fair value with the carrying amount.

Types of Intangibles

- Marketing-related
 - Trademark/trade name: rests with original user as long as it is used
 - Registration w/ the US patent & trademark office is renewable every 10 years
 - Capitalizable cost= purchase price + attorney, consulting & registration fees + design cost + legal defense
- Customer related → Lists, order backlogs, contractual and non-contractual relationships
- Artistic related → Plays, literature, music, pictures, photos, video, and audiovisual
 - Protected by copyright (a federal grant for life of author plus 70 yrs).
 - Copyrights are not renewable
 - They give the right to reproduce and sell
 - Research and development is expensed when incurred
 - Acquisition and defense costs are capitalized
- Contract related
 - Franchise: right to sell, use trademark, in a certain area
 - License: usually from municipality to private business
 - Ferry, telephone, electric lines, bus lines, air waves
 - Franchise and license cost with a limited life are amortized over life
- Technology related (Innovations)
 - Patent: right to use, manufacture and sell a product/process for 20 years
 - Purchase price is the cost; along with attorney's fees, cost is capitalizable and are amortized over legal or useful life (shorter)
 - Research and development are expensed when incurred

JE:	Patents	xxx	
	Cash		xxx
	To record patent purchase		

Patent Amortization Expense	xxx	
Patents		xxx
Periodic amortization		

- Modifications or additions can result in a new patent
- If impaired/worthless (i.e. no demand) → expensed or written down