**INTANGIBLE ASSETS**

An intangible asset is both long term and nonphysical. Its value comes from the long-term rights or advantages it affords its owner. Table below describes the most common types of intangible assets—goodwill, trademarks and brand names, copyrights, patents, franchises and licenses, leaseholds, software, non compete covenants, and customer lists—and their accounting treatment. Like intangible assets, some current assets—for example, accounts receivable and certain prepaid expenses—have no physical substance, but because current assets are short term, they are not classified as intangible assets.

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| TYPE | DESCRIPTION | USUAL ACCOUNTING TREATMENT |
| **Subject to Amortization and Annual Impairment Test** | | |
| Copyright | An exclusive right granted by the government to reproduce and sell literary, musical, and other artistic materials and computer programs for a period of the author’s life plus 70 years. | Record at acquisition cost, and amortize over the asset’s useful life, which is often much shorter than its legal life. For example, the cost of paperback rights to a popular novel would typically be amortized over a useful life of 2 to 4 years. |
| Patent | An exclusive right granted by the government for a period of 20 years to make a particular product or use a specific process. A design may be granted a patent for 14 years. | The cost of successfully defending a patent in a patent infringement suit is added to the acquisition cost of the patent. Amortize over the asset’s useful life, which may be less than its legal life. |
| Leasehold | A right to occupy land or buildings under a long-term rental contract. For example, if Company A sells its right to use a retail location to Company B for 10 years, Company B has purchased a leasehold. | Company B debits Leasehold for the amount of the purchase price and amortizes it over the life of the leasehold (10 years). |
| Software | Capitalized costs of computer programs developed for sale, lease, or internal use. | Record the amount of capitalizable production costs, and amortize over the estimated economic life of the product. |
| Non complete covenant | A contract limiting the rights of others to compete in a specific industry or line of business for a specified period. | Record at acquisition cost, and amortize over the contract period. |
| Customer list | A list of customers or subscribers. | Debit Customer Lists for amount paid, and amortize over the asset’s expected life. |
| **Subject to Annual Impairment Test Only** | | |
| Goodwill | The excess of the amount paid for a business over the fair market value of the business’s net assets. | Debit Goodwill for the acquisition cost, and  review impairment annually. |
| Trademark,  Brand name | A registered symbol or name that can be used only by its owner to identify a product or service. | Debit Trademark or Brand Name for the  acquisition cost, and amortize it over a  reasonable life. |
| Franchise Lease | A right to an exclusive territory or market, or the right to use a formula, technique, process, or design. | Debit Franchise or License for the acquisition cost, and amortize it over a reasonable life, not to exceed 40 years. |
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Purchased intangible assets are recorded at cost, or at fair value when purchased as part of a group of assets. The useful life of an intangible asset is the period over which the asset is expected to contribute to future cash flows of the entity. The useful life may be definite or indefinite.

**Definite useful life.**

A definite useful life means the useful life is subject to a legal limit or can be reasonably estimated. Examples include patents, copyrights, and leaseholds. Often the estimated useful lives of these assets are less than their legal limits. The cost of an intangible asset with a definite useful life should be allocated to expense through periodic amortization over its useful life in the same way that a building is depreciated.

**Indefinite useful life.**

An indefinite useful life means that the useful life of the asset is not limited by legal, regulatory, contractual, competitive, economic, or other factors. This definition does not imply that these assets last forever. Examples can include trademarks and brands. The costs of intangible assets with an indefinite life are not amortized as long as circumstances continue to support an indefinite life.

**Research and Development Costs**

Most successful companies carry out research and development (R&D) activities, often within a separate department. Among these activities are development of new products, testing of existing and proposed products, and pure research.

The costs of these activities are substantial for many companies. The Financial Accounting Standards Board requires that all R&D costs be treated as revenue expenditures and charged to expense in the period in which they are incurred. The reasoning behind this requirement is that it is too hard to trace specific costs to specific profitable developments. Also, the costs of research and development are continuous and necessary for the success of a business and so should be treated as current expenses. To support this conclusion, the FASB cited studies showing that 30 to 90 percent of all new products fail and that 75 percent of new-product expenses go to unsuccessful products. Thus, their costs do not represent future benefits.

**Computer Software Costs**

The costs that companies incur in developing computer software for sale or lease or for their own internal use are considered research and development costs until the product has proved technologically feasible. Thus, costs incurred before that point should be charged to expense as they are incurred. A product is deemed technologically feasible when a detailed working program has been designed. Once that occurs, all software production costs are recorded as assets and are amortized over the software’s estimated economic life using the straight-line method.

**Goodwill**

*Goodwill* means different things to different people. Generally, it refers to a company’s good reputation. From an accounting standpoint, goodwill exists when a purchaser pays more for a business than the fair market value of the business’s net assets. In other words, the purchaser would pay less if it bought the assets separately. Most businesses are worth more as going concerns than as collections of assets. When the purchase price of a business is more than the fair market value of its physical assets, the business must have intangible assets. If it does not have patents, copyrights, trademarks, or other identifiable intangible assets of value, the excess payment is assumed to be for goodwill. Goodwill reflects all the factors that allow a company to earn a higher-than-market rate of return on its assets, including customer satisfaction, good management, manufacturing efficiency, the advantages of having a monopoly, good locations, and good employee relations. The payment above and beyond the fair market value of the tangible assets and other specific intangible assets is properly recorded in the Goodwill account. The FASB requires that purchased goodwill be reported as a separate line item on the balance sheet and that it be reviewed annually for impairment. If the fair value of goodwill is less than its carrying value on the balance sheet, goodwill