SPECIFIC ITEMS
SECTION 3064
goodwill and intangible assets

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PURPOSE AND SCOPE

.01 This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

.02 This Section applies to goodwill subsequent to initial recognition. Standards for the initial recognition, measurement and disclosure of goodwill acquired in a business combination are provided in BUSINESS COMBINATIONS, Section 1582.

.03 This Section also applies to accounting for intangible assets, except intangible assets that are within the scope of another Section. This Section does not apply to:

(a) the initial recognition, measurement and disclosure of intangible assets acquired in a business combination (see BUSINESS COMBINATIONS, Section 1582);

(b) the establishment of a new cost basis for intangible assets as part of a comprehensive revaluation (see COMPREHENSIVE REVALUATION OF ASSETS AND LIABILITIES, Section 1625);

(c) intangible assets held by an entity for sale in the ordinary course of business (see INVENTORIES, Section 3031);

(d) activities that are unique to enterprises in the extractive industries such as prospecting, acquisitions of mineral rights, exploration, drilling, mining and related mineral development; PROPERTY, PLANT AND EQUIPMENT, Section 3061, contains standards for measurement, presentation and disclosure of mining and oil and gas properties;

(e) leases that are within the scope of LEASES, Section 3065;

(f) assets arising from employee benefits (see EMPLOYEE FUTURE BENEFITS, Section 3462);

(g) future income tax assets (see INCOME TAXES, Section 3465);

(h) non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475; and

(i) financial assets as defined in FINANCIAL INSTRUMENTS, Section 3856. The recognition and measurement of some financial assets are covered by SUBSIDIARIES, Section 1591, CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, INVESTMENTS, Section 3051, and INTERESTS IN JOINT ARRANGEMENTS, Section 3056.

.04 Standards for the recognition, measurement, presentation and disclosure of tangible capital assets are provided in PROPERTY, PLANT AND EQUIPMENT, Section 3061. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent) or film. In determining whether an asset that incorporates both intangible and tangible elements is to be accounted for under Section 3061 or as an intangible asset under this Section, an entity uses judgment to assess which element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset (see also ACCOUNTING GUIDELINE AcG-20, Customer's Accounting for Cloud Computing Arrangements). [Former paragraph 3064.04, amended by ACCOUNTING GUIDELINE AcG-20, Customer's Accounting for Cloud Computing Arrangements, retained in Archived Pronouncements.]

.05 Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of LEASES, Section 3065, and are within the scope of this Section.

.06 This Section applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (for example, a prototype), the physical element of the asset is secondary to its intangible component (i.e., the knowledge embodied in it).

.07 The portion of the difference between an investor's cost of an investment subject to significant influence and the amount of its underlying equity in the net assets of the investee that is similar to goodwill (equity method goodwill) is not reviewed for impairment in accordance with this Section. Investments accounted for by the equity method are reviewed for impairment in accordance with INVESTMENTS, paragraphs 3051.23-.27. Impairment write-downs as a result of the application of Section 3051 are presented in the income statement separately from goodwill impairment losses.

DEFINITIONS

.08 The following terms are used in this Section with the meanings specified:

(a) **Amortization** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

(b) **Carrying amount** is the amount at which an asset is recognized in the balance sheet after deducting any accumulated amortization and accumulated impairment losses thereon.

(c) **Cost** is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when appropriate, the amount attributed to that asset when initially recognized in accordance with the requirements of other Sections.

(d) **Depreciable amount** is the cost of an asset, or other amount substituted for cost, less its residual value.

(e) **Development** is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

(f) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(g) **Goodwill** is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

(h) An **intangible asset** is an identifiable non-monetary asset without physical substance.

(i) **Monetary assets** are money held and assets to be received in fixed or determinable amounts of money.

(j) An **operating segment** is a part of an enterprise:

- (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same enterprise);
- (ii) for which operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- (iii) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues. For example, start-up operations may be operating segments before earning revenues.

(k) A **reporting unit** is the level of reporting at which goodwill is tested for impairment and is either an operating segment or one level below (referred to as a component). A component of an operating segment is a reporting unit when the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. However, two or more components of an operating segment are aggregated and deemed a single reporting unit when the components have similar economic characteristics. An operating segment is deemed to be a reporting unit when all of its components are similar, when none of its components is a reporting unit or when it is comprised of only a single component.

(l) **Research** is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

(m) The **residual value** of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(n) **Useful life** is:

- (i) the period over which an asset is expected to be available for use by an entity; or
- (ii) the number of production or similar units expected to be obtained from the asset by an entity.

INTANGIBLE ASSETS

.09 Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licenses, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

.10 Not all the items described in paragraph 3064.09 meet the definition of an intangible asset (i.e., identifiability, control over a resource and existence of future economic benefits). If an item within the scope of this Section does not meet the definition of an intangible asset or goodwill, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred.

Identifiability

.11 The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements but for which the acquirer is prepared to make a payment in the business combination.

.12 *An asset meets the identifiability criterion in the definition of an intangible asset when it:*

(a) is separable (i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability); or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Control

.13 An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

.14 Market and technical knowledge may give rise to future economic benefits. An entity controls those benefits if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (when permitted) or by a legal duty on employees to maintain confidentiality.

.15 An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

.16 An entity may have a portfolio of customers or a market share and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to trade with the entity. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (for example, portfolio of customers, market shares, customer relationships and customer loyalty) to meet the definition of intangible assets. In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of a business combination) provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

Future economic benefits

.17 The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

Recognition and measurement

.18 The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

(a) the definition of an intangible asset (see paragraphs 3064.08-.17); and

(b) the recognition criteria (see paragraphs 3064.21-.23).

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

.19 Paragraphs 3064.25-.30 deal with the application of the recognition criteria to separately acquired intangible assets and paragraphs 3064.31-.33 deal with the treatment of internally generated goodwill. Paragraphs 3064.34-.51 deal with the initial recognition and measurement of internally generated intangible assets.

.20 The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Section. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole. Therefore, only rarely will subsequent expenditure — expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset — be recognized in the carrying amount of an asset. Consistently with paragraph 3064.47, subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally acquired or internally generated) is always recognized in net income as incurred. This is because such expenditure cannot be distinguished from expenditure to develop the business as a whole.

.21 *An intangible asset shall be recognized if, and only if:*

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.

.22 *An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.*

.23 An entity uses judgment to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

.24 *An intangible asset shall be measured initially at cost.*

Separate acquisition

.25 Normally, the price an entity pays to acquire separately an intangible asset reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the effect of probability is reflected in the cost of the asset. Therefore, the probability recognition criterion in paragraph 3064.21(a) is always considered to be satisfied for separately acquired intangible assets.

.26 The cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

.27 The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any directly attributable cost of preparing the asset for its intended use.

.28 Examples of directly attributable costs are:

(a) costs of salaries, wages and employee benefits arising directly from bringing the asset to its working condition;

(b) professional fees arising directly from bringing the asset to its working condition; and

(c) costs of testing whether the asset is functioning properly.

.29 Examples of expenditures that are not part of the cost of an intangible asset are:

(a) costs of introducing a new product or service (including costs of advertising and promotional activities);

(b) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(c) administration and other general overhead costs.

.30 Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:

(a) costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and

(b) initial operating losses such as those incurred while demand for the asset's output builds up.

Internally generated goodwill

.31 *Internally generated goodwill shall not be recognized as an asset.*

.32 In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Section. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource (i.e., it is not separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost.

.33 Differences between the market value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally generated intangible assets

.34 It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:

(a) identifying whether and when there is an identifiable asset that will generate expected future economic benefits; and

(b) determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs 3064.35-.51 to all internally generated intangible assets.

.35 To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

(a) a research phase; and

(b) a development phase.

Although the terms "research" and "development" are defined, the terms "research phase" and "development phase" have a broader meaning for the purpose of this Section.

.36 If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

Research phase

.37 *No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred.*

.38 In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is recognized as an expense when it is incurred.

.39 Examples of research activities are:

- (a) activities aimed at obtaining new knowledge;
- (b) the search for, evaluation and final selection of, applications of research findings or other knowledge;
- (c) the search for alternatives for materials, devices, products, processes, systems or services; and
- (d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development phase

.40 *In accounting for expenditures on internally generated intangible assets during the development phase, an entity shall make an accounting policy choice to either:*

- *(a) expense such expenditures as incurred; or*
- *(b) capitalize such expenditures as an intangible asset (provided the criteria in paragraph* 3064.41 *are met).*

This accounting policy choice shall be applied consistently to expenditures on all internal projects in the development phase. In making this accounting policy choice, the entity need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06*(b).*

.41 An intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, an entity can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) its intention to complete the intangible asset and use or sell it;
- (c) its ability to use or sell the intangible asset;
- (d) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- (e) its ability to measure reliably the expenditure attributable to the intangible asset during its development; and
- (f) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

.42 In the development phase of an internal project, in some instances, an entity can identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. This is because the development phase of a project is further advanced than the research phase.

.43 Examples of development activities are:

- (a) the design, construction and testing of pre-production or pre-use prototypes and models;
- (b) the design of tools, jigs, moulds and dies involving new technology;
- (c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- (d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

.44 To demonstrate how an intangible asset will generate probable future economic benefits, an entity assesses the future economic benefits to be received from the asset using the principles in IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063. If the asset will generate economic benefits only in combination with other assets, the entity applies the concept of asset groups in Section 3063.

.45 Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a business plan showing the technical, financial and other resources needed and the entity's ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender's indication of its willingness to fund the plan.

.46 An entity's costing systems can often measure reliably the cost of generating an intangible asset internally such as salary and other expenditure incurred in securing copyrights or licenses or developing computer software.

.47 *Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets.*

.48 Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets.

Cost of an internally generated intangible asset

.49 The cost of an internally generated intangible asset for the purpose of paragraph 3064.24 is the sum of expenditures incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 3064.21-.22 and 3064.41. Paragraph 3064.55 prohibits reinstatement of expenditures previously recognized as an expense.

.50 The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

(a) costs of materials and services used or consumed in generating the intangible asset;

(b) costs of employee salaries, wages and benefits arising from the generation of the intangible asset;

(c) fees to register a legal right;

(d) amortization of patents and licenses that are used to generate the intangible asset; and

(e) interest costs when the entity's accounting policy is to capitalize interest costs.

.51 The following are not components of the cost of an internally generated intangible asset:

(a) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;

(b) identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and

(c) expenditure on training staff to operate the asset.

Recognition of an expense

.52 *Expenditure on an intangible item shall be recognized as an expense when it is incurred unless:*

(a) for an internally generated intangible asset in the development phase, the entity has made an accounting policy choice to capitalize such expenditures (see paragraph 3064.40)*; and*

(b) it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 3064.18-.51).

.53 In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 3064.37) except when it is acquired as part of a business combination. Other examples of expenditure that is recognized as an expense when it is incurred include expenditure on:

(a) start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with PROPERTY, PLANT AND EQUIPMENT, Section 3061.

(b) training activities;

(c) advertising and promotional activities (including mail order catalogues and other similar documents intended to advertise goods, services or events to customers); and

(d) relocating or reorganizing part or all of an entity.

Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (i.e., pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs).

.53A An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service (for example, to deliver an advertisement to customers).

.54 Paragraph 3064.52 does not preclude recognizing a prepayment as an asset when payment for the delivery of goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 3064.52 does not preclude an entity from recognizing a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Past expenses not to be recognized as an asset

.55 *Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.*

Subsequent measurement

.56 *A recognized intangible asset shall be amortized over its useful life to an enterprise, unless the life is determined to be indefinite. When an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its life is determined to be no longer indefinite.*

.57 *The amortization method and estimate of the useful life of an intangible asset shall be reviewed annually.*

.58 When an intangible asset has a finite useful life, but the precise length of that life is not known, the intangible asset is amortized over the best estimate of its useful life. Guidance for determining the useful life of an intangible asset is provided in paragraphs 3064.61-.63. The Illustrative Examples describe different intangible assets and how to account for them in accordance with this Section, including guidance on determining whether the useful life of an intangible asset is indefinite.

.59 The amount of an intangible asset to be amortized is the amount initially assigned to that asset less any residual value. The residual value of an intangible asset is assumed to be zero unless, at the end of its useful life to the reporting enterprise, the asset is expected to continue to have a useful life to another enterprise, and:

(a) the reporting enterprise has a commitment from a third party to purchase the asset at the end of its useful life; or

(b) the residual value can be determined by reference to an exchange transaction in an existing market for that asset and that market is expected to exist at the end of the asset's useful life.

.60 The method of amortization will reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. PROPERTY, PLANT AND EQUIPMENT, Section 3061, provides guidance on amortization methods. When the pattern of economic benefits cannot be reliably determined, a straight-line amortization method is used.

Determining the useful life of an intangible asset

.61 The estimate of the useful life of an intangible asset is based on an analysis of all pertinent factors, in particular:

(a) the expected use of the asset by the enterprise;

(b) the expected useful life of another asset or a group of assets to which the useful life of the asset may relate;

(c) any legal, regulatory or contractual provisions that may limit the useful life;

(d) any legal, regulatory or contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost (provided there is evidence to support renewal or extension, and renewal or extension can be accomplished without material modifications to the existing terms and conditions);

(e) the effects of obsolescence, demand, competition and other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels); and

(f) the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

When no legal, regulatory, contractual, competitive, economic or other factors limit the useful life of an intangible asset to the enterprise, the useful life of the asset is considered to be indefinite. The term "indefinite" does not mean infinite.

.62 When an intangible asset that is being amortized is subsequently determined to have an indefinite useful life, the asset is tested for impairment in accordance with paragraph 3064.65, ceases being amortized and is accounted for in the same manner as other intangible assets not subject to amortization. An impairment loss recognized in accordance with this paragraph is included in earnings for the current period and is not a change in accounting policy.

.63 When an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset is tested for impairment in accordance with paragraph 3064.65. An impairment loss recognized in accordance with this paragraph is included in earnings for the current period and is not a change in accounting policy. The intangible asset is then amortized over its estimated remaining useful life and accounted for in the same manner as other intangible assets that are subject to amortization.

Recognition and measurement of an impairment loss

Intangible assets subject to amortization

.64 *An intangible asset that is subject to amortization shall be tested for impairment in accordance with the provisions of IMPAIRMENT OF LONG-LIVED ASSETS, Section* 3063.

Intangible assets not subject to amortization

.65 *An intangible asset that is not subject to amortization shall be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may exceed its fair value.* (Examples of such events or changes in circumstances are listed in IMPAIRMENT OF LONG-LIVED ASSETS, paragraph 3063.10. There may be other indications that intangible assets not subject to amortization are impaired.)

.66 *When the carrying amount of the intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to the excess.*

.67 *An impairment loss for an intangible asset shall not be reversed if the fair value subsequently increases.*

.68 *Separately recorded indefinite-lived intangible assets, whether acquired or internally developed, shall be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset.*

GOODWILL

.69 *Goodwill shall be recognized on an enterprise's balance sheet at the amount initially recognized, less any write-down for impairment.*

.70 Goodwill is not amortized. It is tested for impairment in accordance with this Section at a level of reporting referred to as a reporting unit.

.71 Equity method goodwill is not amortized (see INVESTMENTS, paragraph 3051.11).

Recognition and measurement of an impairment loss

.72 *Goodwill shall be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit.*

.73 Examples of such events or circumstances include, but are not limited to:

(a) a significant adverse change in legal factors or in the business climate;

(b) an adverse action or assessment by a regulator;

(c) unanticipated competition;

(d) a loss of key personnel;

(e) a more-likely-than-not expectation that a significant portion or all of a reporting unit will be sold or otherwise disposed of;

(f) the testing for write-down or impairment of a significant asset group within a reporting unit; or

(g) the recognition of a goodwill impairment loss in its separate financial statements by a subsidiary that is a component of the reporting unit.

.74 *When the carrying amount of a reporting unit, including goodwill, exceeds its fair value a goodwill impairment loss shall be recognized in an amount equal to the excess. The goodwill impairment loss recognized shall not exceed the carrying amount of goodwill. A goodwill impairment loss shall not be reversed if the fair value of the reporting unit subsequently increases.*

.75 When the goodwill impairment test is not complete before the financial statements are issued, and a goodwill impairment loss is probable and can be reasonably estimated, the best estimate of that loss is recognized in those financial statements (see MEASUREMENT UNCERTAINTY, Section 1508). The measurement of the impairment loss is completed as soon as possible. Any adjustment to the estimated loss based on the completion of the measurement of the impairment loss is recognized in the subsequent reporting period.

.76 When goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) is tested for impairment before goodwill. For example, when a significant asset group is to be tested for impairment (thus potentially requiring a goodwill impairment test), the impairment test for the significant asset group is performed before the goodwill impairment test. When the asset group is impaired, the impairment loss is recognized prior to goodwill being tested for impairment.

.77 All goodwill recognized by a subsidiary (subsidiary goodwill) in its separate financial statements is accounted for in accordance with this Section. Subsidiary goodwill is tested for impairment at the subsidiary level using the subsidiary's reporting units. When a goodwill impairment loss is recognized by the subsidiary, goodwill of the reporting unit or units (at the higher consolidated level) in which the subsidiary's reporting unit with impaired goodwill resides is tested for impairment if the event that gave rise to the loss at the subsidiary level would more likely than not reduce the fair value of the reporting unit (at the higher consolidated level) below its carrying amount. Only when goodwill of that higher-level reporting unit is impaired is a goodwill impairment loss recognized at the consolidated level.

Assigning assets and liabilities to reporting units

.78 *For the purpose of testing goodwill for impairment, acquired assets and assumed liabilities shall be assigned to a reporting unit, as of the date of acquisition, when:*

(a) the asset is employed in, or the liability relates to, the operations of a reporting unit; and

(b) the asset or liability is considered in determining the fair value of the reporting unit.

.79 The requirement to assign items to reporting units applies to assets acquired and liabilities assumed in a business combination as well as to those acquired or assumed individually or with a group of other assets. Assets or liabilities considered part of corporate assets or liabilities are also assigned to a reporting unit when both of the above criteria are met. Examples of items that might meet these criteria and therefore be assigned to a reporting unit are environmental liabilities that relate to an existing operating facility of the reporting unit and a pension obligation included in the determination of the fair value of the reporting unit.

.80 Some assets or liabilities may be employed in or related to the operations of multiple reporting units. The methodology used to determine the amount of those assets and liabilities to assign to a reporting unit is reasonable and supportable, and applied in a consistent manner. For example, assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, could be allocated according to the benefit received by the different reporting units, or based on the relative fair values of the different reporting units. In the case of pension items, a pro rata allocation based on payroll expense might be used.

Assigning goodwill to reporting units

.81 *For the purpose of testing goodwill for impairment, all goodwill acquired in a business combination shall be assigned to one or more reporting units as of the date of acquisition.*

.82 The total amount of acquired goodwill may be divided among a number of reporting units. The methodology used to determine the amount of goodwill to assign to a reporting unit is reasonable and supportable, and applied in a consistent manner. In concept, the amount of goodwill assigned to a reporting unit is determined in the same manner as the amount of goodwill to be recognized in a business combination. In essence, the fair value representing a "purchase price" is determined for each reporting unit, and this "purchase price" is allocated to the assets and liabilities of the unit. When the "purchase price" exceeds the amount assigned to those net assets, the excess is the goodwill assigned to that reporting unit. Goodwill is assigned to reporting units of the acquiring enterprise that are expected to benefit from the synergies of the combination even though other assets or liabilities of the acquired enterprise may not be assigned to that reporting unit. When goodwill is assigned to a reporting unit that has not been assigned any of the assets acquired or liabilities assumed in the acquisition, the amount of goodwill to be assigned to the reporting unit might be determined by applying a "with and without" computation so that the difference between its fair value before the acquisition and its fair value after the acquisition represents the amount of goodwill assigned to the reporting unit. The allocation of goodwill to reporting units is to be completed within the same year as the allocation of the purchase price for the business combination as a whole in accordance with BUSINESS COMBINATIONS, Section 1582, when possible, or in the following year.

Reorganization of reporting structure

.83 When an enterprise reorganizes its reporting structure in a manner that changes the composition of one or more of its reporting units, the guidance in paragraphs 3064.78-.80 is used to reassign assets and liabilities to the reporting units affected. Goodwill is reassigned to the reporting units affected using a relative fair value allocation approach, similar to that used when a portion of a reporting unit is to be disposed of (see paragraphs 3064.89-.92). For example, existing reporting unit A is to be split up and integrated into reporting units B, C and D. Goodwill in reporting unit A is assigned to reporting units B, C and D based on the relative fair values of the three portions of reporting unit A prior to them being integrated into reporting units B, C and D.

Disposal of all or a portion of a reporting unit

.84 *When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit shall be included in the carrying amount of the reporting unit in determining the gain or loss on disposal.*

.85 *When a portion of a reporting unit that constitutes a business is to be disposed of, goodwill associated with that business shall be included in the carrying amount of the business in determining the gain or loss on disposal. The amount of goodwill to be included in the carrying amount shall be based on the relative fair values of the business to be disposed of and the portion of the reporting unit to be retained. When only a portion of goodwill is allocated to a business to be disposed of, the goodwill remaining in the portion of the reporting unit to be retained shall be tested for impairment.*

.86 For example, if a business is being sold for $100 and the fair value of the reporting unit excluding the business being sold is $300, 25 percent of the reporting unit goodwill is included in the carrying amount of the business to be sold.

.87 When the business to be disposed of was never integrated into the reporting unit after its acquisition and the benefits of the acquired goodwill were never realized by the rest of the reporting unit, the current carrying amount of that acquired goodwill is included in the carrying amount of the business to be disposed of. This situation might occur when the acquired business is operated as a stand-alone entity or when the business is to be disposed of shortly after it is acquired.

PRESENTATION

.88 *The aggregate amount of goodwill shall be presented as a separate line item in an enterprise's balance sheet.*

.89 *The aggregate amount of goodwill impairment losses shall be presented as a separate line item in the income statement before discontinued operations, unless a goodwill impairment loss is associated with a discontinued operation, or disclosed in the notes to the financial statements. A goodwill impairment loss associated with a discontinued operation shall be included on a net-of-tax basis within the results of discontinued operations.*

.90 *Intangible assets shall be aggregated and presented as a separate line item in an enterprise's balance sheet.*

DISCLOSURE

.91 *The financial statements shall disclose the following information:*

- *(a) for intangible assets subject to amortization:*
  - *(i) the net carrying amount in total and by major intangible asset class;*
  - *(ii) the aggregate amortization expense for the period; and*
  - *(iii) the amortization method used, including the amortization period or rate;*
- *(b) the carrying amount in total and by major intangible asset class for intangible assets not subject to amortization; and*
- *(c) the basis to account for internally generated intangible assets.*

.92 An intangible asset class is a group of intangible assets that are similar, either by their nature or by their use in the operations of an enterprise.

.93 *For each goodwill impairment loss recognized, the following information shall be disclosed in the financial statements that include the period in which the impairment loss is recognized:*

(a) a description of the facts and circumstances leading to the impairment; and

(b) the amount of the impairment loss.

.94 *For each impairment loss recognized related to an intangible asset, the following information shall be disclosed in the financial statements that include the period in which the impairment loss is recognized:*

(a) a description of the impaired intangible asset and the facts and circumstances leading to the impairment;

(b) the amount of the impairment loss; and

(c) the caption in the income statement in which the impairment loss is included.

EFFECTIVE DATE AND TRANSITION

.95 Except as specified in paragraphs 3064.96-.98, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.96 Amendments to paragraph 3064.89, issued in October 2012, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2013. Earlier application is permitted.

.97 Amendments to paragraphs 3064.03(i) and 3064.07, issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

.98 Amendment to paragraph 3064.04, issued in November 2022, applies to annual financial statements relating to fiscal years beginning on or after January 1, 2024. Earlier application is permitted.

ILLUSTRATIVE EXAMPLES

ACQUIRED INTANGIBLE ASSETS

This material is illustrative only.

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of the Section.

Each of the following examples describe an acquired intangible asset, the facts and circumstances surrounding the determination of the useful life of the intangible asset and the subsequent accounting based on that determination. The facts and circumstances unique to each acquired intangible need to be considered in making similar determinations.

1. An acquired customer list. A direct-mail marketing company acquired the customer list and expects that it will be able to derive benefit from the information on the acquired customer list for at least one year but for no more than three years.

The customer list is amortized over 18 months, management's best estimate of its useful life, following the pattern in which the expected benefits will be consumed or otherwise used up. Although the acquiring enterprise may intend to add customer names and other information to the list in the future, the expected benefits of the acquired customer list apply only to the customers on that list at the date of acquisition. The customer list is reviewed for impairment in accordance with the provisions of IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.

2. An acquired patent that expires in 15 years. The product protected by that patented technology is expected to be a source of cash flows for at least 15 years. The reporting enterprise has a commitment from a third party to purchase that patent in five years for 60 percent of the amount the acquiring enterprise paid for the patent and the enterprise intends to sell the patent at that time.

The patent is amortized over its five-year useful life to the reporting enterprise following the pattern in which the expected benefits will be consumed or otherwise used up. The amount to be amortized is 40 percent of the value assigned to the patent at the acquisition date (since the residual value is 60 percent). The patent is reviewed for impairment in accordance with the provisions of IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.

3. An acquired copyright that has a remaining legal life of 50 years. An analysis of consumer habits and market trends provides evidence that the copyrighted material will generate cash flows for approximately 30 more years.

The copyright is amortized over its 30-year estimated useful life following the pattern in which the expected benefits will be consumed or otherwise used up. It is reviewed for impairment in accordance with IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.

4. An acquired broadcast license that expires in five years. The broadcast license is renewable every 10 years provided the company complies with regulatory requirements and provides an acceptable level of service to its customers. The license may be renewed indefinitely at little cost and was renewed twice prior to its recent acquisition. The acquiring enterprise intends to renew the license indefinitely, and evidence supports its ability to do so. Historically, there has been no compelling challenge to the renewal of the license. It is not expected that the technology used in broadcasting will be replaced by another technology any time in the foreseeable future. Therefore, the cash flows from that license are expected to continue indefinitely.

The broadcast license is deemed to have an indefinite useful life because cash flows are expected to continue indefinitely. Therefore, the license is not amortized until its useful life is deemed to be no longer indefinite. The license is tested for impairment in accordance with paragraph 3064.65.

5. The broadcast license in Example 4. The regulator subsequently decides that it will no longer renew broadcast licenses but will auction them off. At the time the regulator's decision is made, the broadcast license has three years until it expires. The cash flows from the license are expected to continue until the license expires.

Because the broadcast license can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired license is tested for impairment in accordance with paragraph 3064.65. The license is then amortized over its remaining three-year useful life following the pattern in which the expected benefits will be consumed or otherwise used up. Because the license is subject to amortization, in the future it will be reviewed for impairment in accordance with the provisions of IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.

6. An acquired airline route authority to the United Kingdom that expires in three years. The route authority may be renewed every five years and the acquiring enterprise intends to comply with the applicable rules and regulations surrounding renewal. Route authority renewals are routinely granted at a minimal cost and have historically been renewed when the airline has complied with the applicable rules and regulations. The acquiring enterprise expects to provide service to the United Kingdom from its hub airports for an indefinite period and expects that the related supporting infrastructure (airport gates, slots, and terminal facility leases) will remain in place at those airports for as long as it has the route authority. An analysis of demand and cash flows supports those assumptions.

Because the facts and circumstances support the acquiring enterprise's ability to continue providing air service to the United Kingdom from its hub airports indefinitely, the intangible asset related to the route authority is considered to have an indefinite useful life. Therefore, the route authority is not amortized until its useful life is deemed to be no longer indefinite and it is tested for impairment in accordance with paragraph 3064.65.

7. An acquired trademark that is used to identify and distinguish a leading consumer product that has been a market share leader for the past eight years. The trademark has a remaining legal life of five years but is renewable every 10 years at little cost. The acquiring enterprise intends to continuously renew the trademark, and evidence supports its ability to do so. An analysis of product life cycle studies, market, competitive, and environmental trends, and brand extension opportunities provides evidence that the trademarked product will generate cash flows for the acquiring enterprise for an indefinite period of time.

The trademark is deemed to have an indefinite useful life because it is expected to contribute to cash flows for an indefinite period of time. Therefore, the trademark is not amortized until its useful life is no longer indefinite. The trademark is tested for impairment in accordance with paragraph 3064.65.

8. A trademark that distinguished a leading consumer product was acquired 10 years ago. When it was acquired, the trademark was considered to have an indefinite useful life because the product was expected to generate cash flows indefinitely. During the annual impairment test of the intangible asset, the enterprise determines that unexpected competition has entered the market that will reduce future sales of the product. Management estimates that cash flows generated by the product will be 20 percent less for the foreseeable future; however, management expects that the product will continue to generate cash flows indefinitely at those reduced amounts.

As a result of the projected decrease in future cash flows, the enterprise determines that the fair value of the trademark is less than its carrying amount and an impairment loss is recognized. Because it is still deemed to have an indefinite useful life, the trademark continues not to be amortized and continues to be tested for impairment in accordance with paragraph 3064.65.

9. A trademark for a line of automobiles that was acquired several years ago with an acquisition of an automobile company. The line of automobiles had been produced by the acquired company for 35 years with numerous new models developed under the trademark. At the acquisition date, the acquiring company expected to continue to produce the line of automobiles and an analysis of various economic factors indicated there was no limit to the period of time the trademark would contribute to cash flows. Because cash flows were expected to continue indefinitely, the trademark has not been amortized. Management recently decided to phase out production of that automobile line over the next four years.

Because the useful life of that acquired trademark is no longer deemed to be indefinite, the trademark is tested for impairment in accordance with paragraph 3064.65. The carrying amount of the trademark, after any impairment write-down, is then amortized over its remaining four-year useful life following the pattern in which the expected benefits will be consumed or otherwise used up. Because the trademark is subject to amortization, in the future it will be reviewed for impairment in accordance with IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.