# How to Present an Increase in Intangibles in Cash Flow Statement

by Jay Way

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Intangibles are a special kind of asset, for example intellectual property, that can provide long-term benefit to a business. Intangibles are listed as assets on a balance sheet alongside physical assets. A change in the value of intangibles may or may not affect the cash flow statement, even though the change affects a business's accounting income. However, an increase in intangibles must be presented in the cash flow statement when it involves cash transactions. Business transactions are first reported in the balance sheet or income statement, and transactions that provide or use cash are presented again in the cash flow statement.

**1. Classify the increase in intangibles. An increase in intangibles as reported on the** balance sheet can be the result of different business activities. The potential value of a business goodwill or license may increase in favorable market conditions, and a business may decide to mark up the perceived value increase in intangibles. However, such an increase in intangibles generates only unrealized gains for income-reporting purposes with no cash flow involved. But if an increase in intangibles is the result of a cash purchase of additional intangibles, the increase should be presented in the cash flow statement.

**2. Understand the cash flow statement. The cash flow statement reports various** cash flow transactions from different business activities such as operating activities and investing activities. Certain intangible-related cash flow such as fees collected from licensing during operations does not result in an increase in intangibles, but must also be presented in the cash flow statement as cash provided from operating activities. The investing section of the cash flow statement lists cash provided by sales of investments and cash used for purchases of investments. For cash flow reporting, an increase in intangibles represents the use of cash for purchasing intangibles in an investing activity.

**3. Record the increase in intangibles as an investing activity. When a business** purchases an intangible, the total value of the intangible as reported on the balance sheet increases. When the purchase is paid in cash, the business presents the increase in the intangible in the cash flow statement by listing the amount of cash paid under "cash used for purchases of investments." Thus, an equal amount of cash is reduced both in the cash account on the balance sheet and in the investing section of the cash flow statement.

References (2)

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An investment and research professional, Jay Way started writing financial articles for Web content providers in 2007. He has written for goldprice.org, shareguides.co.uk and upskilled.com.au. Way holds a Master of Business Administration in finance from Central Michigan University and a Master of Accountancy from Golden Gate University in San Francisco.

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