

Intangible Assets

- Lack physical existence
- Not financial instruments

Examples: Copyrights, Patents, Trademarks, Goodwill, Licenses

Typically classified as non-current assets on the balance sheet.

Types of Intangibles

Patents: technology-related intangible assets

Copyrights: artistic-related intangible assets

- Plays, literary works, music works, etc.

Trademarks: marketing-related intangible asset

Goodwill: see next page.

Goodwill

Recorded when a company purchases another company and the purchase price is greater than the fair market value (FMV) of the identifiable net assets.

Only recorded when entire business is purchased

Calculated as:

the excess of cost of the purchase over the FMV of the identifiable net assets (assets less liabilities) purchased.


Goodwill

- Reported on the balance sheet as a non-current asset.
- Goodwill has an indefinite-life and should not be amortized.
- Only adjust carrying value when goodwill is impaired.
- Internally created goodwill should not be capitalized.

Recording Goodwill

Example: Business Corp. purchases the net assets of Industrial Inc. for \$75. To find value of goodwill Business Corp. must compare the FMV of the net assets and to the purchase price:

Calculation of Goodwill:

Cash	10
Receivables	15
Inventory	25
Equipment	20
Accounts Payable	<u>(20)</u>
FMV of identifiable net assets	50
Purchase Price	<u>75</u>
 Goodwill	25

Recording Goodwill

Example Continued:

Journal entry recorded by Business Corp:

Cash	10	
Receivables	15	
Inventory	25	
Equipment	20	
Goodwill	25	
	Accounts Payable	20
	Cash	75

Presentation of Intangibles

- Intangibles are reported as non-current assets on the **balance sheet**
 - Reported net of amortization
 - Contra accounts typically not shown for intangibles

- Amortization expense reported on the income statement

Research & Development

- Research and Development (R&D) costs -- costs incurred to develop new products or processes that may or may not result in commercially viable items.
- R&D costs are expensed immediately when the costs are incurred.