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:

<table>
<thead>
<tr>
<th>Cash</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>15</td>
</tr>
<tr>
<td>Inventory</td>
<td>25</td>
</tr>
<tr>
<td>Equipment</td>
<td>20</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>(20)</td>
</tr>
<tr>
<td><strong>FMV of identifiable net assets</strong></td>
<td><strong>50</strong></td>
</tr>
<tr>
<td><strong>Purchase Price</strong></td>
<td><strong>75</strong></td>
</tr>
<tr>
<td><strong>Goodwill</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>
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.