CHAPTER 12

INTANGIBLE ASSETS

IFRS questions are available at the end of this chapter.

TRUE-FALSE—Conceptual

Answer	No.	Description
F	1.	Characteristics of intangible assets.
F	2.	Recording internally generated intangibles.
T	3.	Amortizing limited-life intangibles.
F	4.	Amortization of limited-life intangible assets.
T	5.	Amortization of intangible assets.
F	6.	Capitalizing trademark costs.
T	7.	Accounting for a customer list.
F	8.	Amortization of patents.
T	9.	Modification of an existing patent.
T	10.	Basic concept of goodwill.
F	11.	Goodwill as master valuation account.
T	12.	Internally generated goodwill.
F	13.	Recording internally generated goodwill.
T	14.	Impairment of intangibles.
T	15.	Recognition of impairment loss.
T	16.	Impaired asset and recoverable amount.
F	17.	Impairment of intangible assets.
F	18.	Recovery of impairment loss.
F	19.	Impairment of intangibles.
F	20.	Example of research and development costs.
F	21.	Capitalizing research and development costs.
F	22.	Recording research and development costs.
F	23.	Start-up costs and initial operating losses.
T	24.	Research and development costs.
F	25.	Reporting intangible assets.

MULTIPLE CHOICE—Conceptual

Answer	No.	Description
b	26	Characteristics of intangible assets.
c	27	Characteristics of intangible assets.
a	28	Characteristics of intangible assets.
c	29.	Accounting for internally-created intangibles.
a	30.	Research and development costs.
b	31.	Amortization methods for intangible assets.
d	32.	Cost of intangible asset.
d	33.	Factors in determining useful life.
b	S34.	Classifying intangible assets.
c	35.	Impairment of intangibles.
a	36.	Determining intangible asset useful life.
b	37.	Amortization of intangibles.

d	38.	Patent amortization.
c	39.	Patent amortization.
d	40.	Legal fees associated with patent infringement.
b	41.	Identification of intangible assets.
c	42.	Amortization of intangible assets.
a	43.	Entry to record patent amortization.
c	44.	Capitalizing trademark costs.
c	45.	Contract-related intangible assets.
a	46.	Definition of copyrights.
b	47.	Customer-related intangible assets.
d	48.	Technology-related intangible assets.
c	49.	Marketing-related intangible assets.
a	50.	Contract-related intangible assets.

MULTIPLE CHOICE—Conceptual (cont.)

Answer	No.	Description
c	51.	Composition of goodwill.
b	52.	When to record goodwill.
d	53.	Intangibles during acquisition of company.
c	54.	Separability of goodwill.
b	S55.	Goodwill as master valuation account.
a	56.	Reporting of "negative goodwill."
d	57.	Accounting for goodwill.
a	58.	Recording goodwill.
b	59.	Definition of a bargain purchase.
b	60.	Impairment of intangible asset.
d	61.	Recoverability test.
c	S62.	Impairment test for indefinite-life intangibles.
b	P63.	Carrying value of an intangible.
a	64.	Capitalization of certain R & D costs.
d	65.	Accounting principle for R & D expenditures.
d	66.	Accounting for R & D costs.
d	67.	Classification of R & D expense.
d	68.	Costs to defend a patent.
b	69.	Purpose of R & D costs.
d	70.	Classification of R & D costs.
a	71.	Classification of R & D costs.
c	72.	Costs excluded from R & D expense.
b	73.	Depreciation of laboratory building used in R & D.
a	74.	Operating losses during start-up period.
d	P75.	Accounting for organization costs.
a	S76.	Classification of R & D expense.
d	77.	Classification of R & D expense.
a	78.	Reporting goodwill.
b	79.	Intangible asset disclosure.
c	80.	Expense classification.
c	P81.	Reporting patent amortization.
c	82.	Reporting intangibles.

d	83.	Reporting expenses and losses.
d	84.	Reporting expenses and losses.

[P] These questions also appear in the Problem-Solving Survival Guide.
[S] These questions also appear in the Study Guide.

MULTIPLE CHOICE—Computational

Answer	No.	Description
d	85.	Valuation of patent.
d	86.	Valuation of patent.
c	87.	Valuation of patent.
d	88.	Basket purchase of patents.
c	89.	Intangible asset amortization.
c	90.	Intangible asset amortization.
b	91.	Computing patent amortization expense.
b	92.	Computing patent amortization expense.
b	93.	Computing patent amortization expense.
c	94.	Calculate total intangible assets.
b	95.	Determine amount of worthless patent to be written off.
b	96.	Calculate patent amortization.
a	97.	Calculate trademark amortization.
b	98.	Calculate patent amortization.
c	99.	Calculate goodwill amount.
c	100.	Calculate goodwill amount.
d	101.	Calculate goodwill amount.
a	102.	Calculate goodwill impairment.
b	103.	Proper accounting when fair value of net assets acquired exceeds cost.
b	104.	Fair value of identifiable net assets.
c	105.	Fair value of identifiable net assets.
b	106.	Calculate impairment loss.
c	107.	Calculate patent carrying value.
d	108.	Calculate patent carrying value.
b	109.	Calculate loss on impairment of goodwill.
b	110.	Calculate loss on impairment of goodwill.
d	111.	Calculate R & D expense.
c	112.	Calculate R & D expense.
c	113.	Calculate R & D expense.
a	114.	Calculate R & D expense.
a	115.	Calculate R & D expense.
c	116.	Reporting intangible assets.

MULTIPLE CHOICE—CPA Adapted

Answer	No.	Description
a	117.	Determine capitalized patent costs.
c	118.	Valuation of patent exchanged for common stock.
d	119.	Valuation of patent exchanged for treasury stock.
c	120.	Valuation and amortization of a patent.
c	121.	Amortization of a patent.
d	122.	Amortization of a trademark.
c	123.	Capitalization of legal fees.
a	124.	Amortization of goodwill.
c	125.	Calculate R & D expense.
a	126.	Determine R & D expense for the year.

BRIEF EXERCISES

Item	Description
BE12-127	Amortization of patent.
BE12-128	Calculate patent carrying value.
BE12-129	Calculate goodwill amount.
BE12-130	Impairment of patent.
BE12-131	Goodwill impairment.

EXERCISES

Item	Description
E12-132	Essay – characteristics of intangible assets.
E12-133	Essay – cost of intangibles.
E12-134	Essay – types of intangibles.
E12-135	Essay – definition of and accounting for intangibles.
E12-136	Essay – costs associated with patents.
E12-137	Essay – intangible asset amortization.
E12-138	Essay – useful life of intangibles.
E12-139	Entries for amortization and impairment.
E12-140	Essay - Intangible assets theory.
E12-141	Identify intangibles.
E12-142	Essay – Goodwill and negative goodwill.
E12-143	Carrying value of patent.
E12-144	Accounting for patent.
E12-145	Essay – goodwill.
E12-146	Essay – impairment.
E12-147	Goodwill impairment.
E12-148	Impairment of copyrights.
E12-149	Essay – R & D costs.
E12-150	Essay – start-up costs.
E12-151	Acquisition of tangible and intangible assets.

PROBLEMS

Item	Description
P12-152	Intangible assets.
P12-153	Goodwill, impairment.

CHAPTER LEARNING OBJECTIVES

1. Describe the characteristics of intangible assets.
2. Identify the costs to include in the initial valuation of intangible assets.
3. Explain the procedure for amortizing intangible assets.
4. Describe the types of intangible assets.
5. Explain the accounting issues for recording goodwill.
6. Explain the accounting issues related to intangible-asset impairments.
7. Identify the conceptual issues related to research and development costs.
8. Describe the accounting for research and development and similar costs.
9. Indicate the presentation of intangible assets and related items.

SUMMARY OF LEARNING OBJECTIVES BY QUESTIONS

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	26.	MC	27.	MC	28.	MC	132.	E	134.	E		
Learning Objective 2													
2.	TF	30.	MC	86.	MC	88.	MC	136.	E				
29.	MC	85.	MC	87.	MC	133.	E						
Learning Objective 3													
3.	TF	31.	MC	s34.	MC	37.	MC	91.	MC	135.	E	139.	E
4.	TF	32.	MC	35.	MC	89.	MC	127.	BE	137.	E	140.	E
5.	TF	33.	MC	36.	MC	90.	MC	128.	BE	138.	E		
Learning Objective 4													
6.	TF	40.	MC	46.	MC	92.	MC	98.	MC	122.	MC	143.	E
7.	TF	41.	MC	47.	MC	93.	MC	117.	MC	123.	MC	144.	E
8.	TF	42.	MC	48.	MC	94.	MC	118.	MC	127.	BE	148.	E
9.	TF	43.	MC	49.	MC	95.	MC	119.	MC	128.	BE	152.	P
38.	MC	44.	MC	50.	MC	96.	MC	120.	MC	141.	E		
39.	MC	45.	MC	68.	MC	97.	MC	121.	MC	142.	E		
Learning Objective 5													
10.	TF	51.	MC	s55.	MC	59.	MC	102.	MC	124.	MC	153.	P
11.	TF	52.	MC	56.	MC	99.	MC	103.	MC	129.	BE		
12.	TF	53.	MC	57.	MC	100.	MC	104.	MC	145.	E		
13.	TF	54.	MC	58.	MC	101.	MC	105.	MC	151.	E		
Learning Objective 6													
14.	TF	17.	TF	60.	MC	106.	MC	109.	MC	131.	BE		
15.	TF	18.	TF	61.	MC	107.	MC	110.	MC	146.	E		
16.	TF	19.	TF	62.	MC	108.	MC	130.	BE	147.	E		
Learning Objective 7													
20.	TF	p63.	MC	65.	MC	67.	MC	70.	MC	153.	P		
21.	TF	64.	MC	66.	MC	69.	MC	71.	MC				
Learning Objective 8													
22.	TF	68.	MC	74.	MC	77.	MC	113.	MC	125.	MC	150.	E
23.	TF	72.	MC	p75.	MC	111.	MC	114.	MC	126.	MC	152.	P
24.	TF	73.	MC	s76.	MC	112.	MC	115.	MC	149.	E		
Learning Objective 9													
25.	TF	78.	MC	80.	MC	82.	MC	84.	MC				
32.	MC	79.	MC	p81.	MC	83.	MC	116.	MC				

Note: TF = True-False
MC = Multiple Choice
BE = Brief Exercise
E = Exercise
P = Problem

TRUE-FALSE—Conceptual

1. Intangible assets derive their value from the right (claim) to receive cash in the future.

2. Internally generated intangible assets are initially recorded at fair value.

3. Limited-life intangibles are amortized by systematic charges to expense over their useful life.

4. Amortization of limited-life intangible assets should not be affected by expected residual values.

5. Some intangible assets are not required to be amortized every year.

6. If a company develops a trademark, it should expense the costs related to attorney fees, registration fees, and design costs.

7. The cost of acquiring a customer list from another company is recorded as an intangible asset.

8. The cost of purchased patents should be amortized over the remaining legal life of the patent.

9. If a new patent is acquired through modification of an existing patent, the remaining book value of the original patent may be amortized over the life of the new patent.

10. In a business combination, a company assigns the cost, where possible, to the identifiable tangible and intangible assets, with the remainder recorded as goodwill.

11. Goodwill is considered a master valuation accounts because it measure the value of specifically identifiable intangible assets.

12. Internally generated goodwill should not be capitalized in the accounts.

13. Internally generated goodwill associated with a business may be recorded as an asset when a firm offer to purchase that business unit has been received.

14. All intangibles are subject to periodic consideration of impairment with corresponding potential write-downs.

15. If the fair value of an unlimited life intangible other than goodwill is less than its book value, an impairment loss must be recognized.

16. After an impairment loss is recorded for a limited-life intangible asset, the recoverable amount becomes the basis for the impaired asset and is used to calculate amortization in future periods.

17. The rules used to account for impairments of limited-life intangible assets are different from the rules used to account for impairments of plant and equipment.

18. If market value of an impaired asset recovers after an impairment has been recognized, the impairment may be reversed in a subsequent period.

19. The same recoverability test that is used for impairments of property, plant, and equipment is used for impairments of indefinite-life intangibles.

20. Periodic alterations to existing products are an example of research and development costs.

21. Research and development costs that result in patents may be capitalized to the extent of the fair value of the patent.

22. Research and development costs are recorded as intangible assets if it is felt they will provide economic benefits in future years.

23. GAAP requires start-up costs and initial operating losses during the early years to be capitalized.

24. Material, labor, and overhead costs incurred in developing a new product are to be expensed as these are development costs.

25. Contra accounts must be reported for intangible assets in a manner similar to accumulated depreciation and property, plant, and equipment.

True False Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	6.	F	11.	F	16.	T	21.	F
2.	F	7.	T	12.	T	17.	F	22.	F
3.	T	8.	F	13.	F	18.	F	23.	F
4.	F	9.	T	14.	T	19.	F	24.	T
5.	T	10.	T	15.	T	20.	F	25.	F

MULTIPLE CHOICE—Conceptual

26. Which of the following does **not** describe intangible assets?
    a. They lack physical existence.
    b. They are financial instruments.
    c. They provide long-term benefits.
    d. They are classified as long-term assets.

27. Which of the following characteristics do intangible assets possess?
    a. Physical existence.
    b. Claim to a specific amount of cash in the future.
    c. Long-lived.
    d. Held for resale.

28. Which characteristic is **not** possessed by intangible assets?
    a. Physical existence.
    b. Long-lived.
    c. Result in future benefits.
    d. Expensed over current and/or future years.

29. Costs incurred internally to create intangibles are
    a. capitalized.
    b. capitalized if they have an indefinite life.
    c. expensed as incurred.
    d. expensed only if they have a limited life.

30. Which of the following costs incurred internally to create an intangible asset is generally expensed?
    a. Research and development costs.
    b. Filing costs.
    c. Legal costs.
    d. All of these answer choices are correct.

31. Which of the following methods of amortization is normally used for intangible assets?
    a. Sum-of-the-years'-digits
    b. Straight-line
    c. Units of production
    d. Double-declining-balance

32. The cost of an intangible asset includes all of the following **except**
    a. purchase price.
    b. legal fees.
    c. other incidental expenses.
    d. All of these choices are included.

33. Factors considered in determining an intangible asset's useful life include all of the following **except**
    a. the expected use of the asset.
    b. any legal or contractual provisions that may limit the useful life.
    c. any provisions for renewal or extension of the asset's legal life.
    d. the amortization method used.

34. Under current accounting practice, intangible assets are classified as
    a. amortizable or unamortizable.
    b. limited-life or indefinite-life.
    c. specifically identifiable or goodwill-type.
    d. legally restricted or goodwill-type.

35. Companies should test indefinite life intangible assets at least annually for
    a. recoverability.
    b. amortization.
    c. impairment.
    d. estimated useful life.

S36. One factor that is not considered in determining the useful life of an intangible asset is

a. salvage value.
b. provisions for renewal or extension.
c. legal life.
d. expected actions of competitors.

37. Which intangible assets are amortized?

	Limited-Life	Indefinite-Life
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

38. The cost of successfully defending a patent suit should be
a. charged off in the current period.
b. amortized over the legal life of the purchased patent.
c. added to factory overhead and allocated to production of the product.
d. amortized over the remaining estimated useful life of the patent.

39. Broadway Corporation was granted a patent on a product on January 1, 2004. To protect its patent, the corporation purchased on January 1, 2015 a patent on a competing product which was originally issued on January 10, 2011. Because of its unique plant, Broadway Corporation does not feel the competing patent can be used in producing the product. The cost of the competing patent should be
a. amortized over a maximum period of 20 years.
b. amortized over a maximum period of 16 years.
c. amortized over a maximum period of 9 years.
d. expensed in 2015.

40. Wriglee, Inc. went to court this year and successfully defended its patent from infringement by a competitor. The cost of this defense should be charged to
a. patents and amortized over the legal life of the patent.
b. legal fees and amortized over 5 years or less.
c. expenses of the period.
d. patents and amortized over the remaining useful life of the patent.

41. Which of the following is **not** an intangible asset?
a. Trade name
b. Research and development costs
c. Franchise
d. Copyrights

42. Which of the following intangible assets should **not** be amortized?
a. Copyrights
b. Customer lists
c. Perpetual franchises
d. All of these intangible assets should be amortized.

43. When a patent is amortized, the credit is usually made to
    a. the Patents account.
    b. an Accumulated Amortization account.
    c. a Deferred Credit account.
    d. an expense account.

44. When a company develops a trademark the costs directly related to securing it should generally be capitalized. Which of the following costs associated with a trademark would **not** be capitalized?
    a. Attorney fees.
    b. Consulting fees.
    c. Research and development costs.
    d. Design costs.

45. Which of the following is a contract-related intangible assts?
    a. Trademark
    b. Copyright
    c. Franchise
    d. Patent

46. The right granted to all authors, painters, musicians, sculptors, and other artists for their creations and expressions is termed as a
    a. copyright
    b. trademark
    c. patent
    d. franchise

47. Which of the following types of intangible assets result from interactions and relationships with outside parties?
    a. Marketing-related intangible assets
    b. Customer-related intangible assets
    c. Contract-related intangible assets
    d. Artistic-related intangible assets

48. Which of the following is a type of technology-related intangible asset?
    a. Copyright
    b. Franchise
    c. License
    d. Patent

49. Trademarks, newspaper mastheads, and internet domain names are all examples of
    a. contract-related intangible assets
    b. artistic-related intangible assets
    c. marketing-related intangible assets
    d. customer-related intangible assets

50. John Thomas has recently entered into an agreement with Longman Inc. Under this agreement, John will sell its products using the trade name of Longman in a specified geographical location. What type of intangible asset is this agreement between John Thomas and Longman Inc.?
    a. contract-related intangible assets
    b. artistic-related intangible assets
    c. marketing-related intangible assets
    d. customer-related intangible assets

51. In a business combination, companies record identifiable intangible assets that they can reliably measure. All other intangible assets, too difficult to identify or measure, are recorded as
    a. other assets.
    b. indirect costs.
    c. goodwill.
    d. direct costs.

52. Goodwill may be recorded when
    a. it is identified within a company.
    b. one company acquires another in a business combination.
    c. the fair value of a company's assets exceeds their cost.
    d. a company has exceptional customer relations.

53. When a new company is acquired, which of these intangible assets, unrecorded on the acquired company's books, might be recorded in addition to goodwill?
    a. A brand name.
    b. A patent.
    c. A customer list.
    d. All of these answer choices are correct.

54. Which of the following intangible assets cannot be sold by a business to raise needed cash for a capital project?
    a. Patent.
    b. Copyright.
    c. Goodwill.
    d. Brand Name.

55. The reason goodwill is sometimes referred to as a master valuation account is because
    a. it represents the purchase price of a business that is about to be sold.
    b. it is the difference between the fair value of the net tangible and identifiable intangible assets and the purchase price of the acquired business.
    c. the value of a business is computed without consideration of goodwill and then goodwill is added to arrive at a master valuation.
    d. it is the only account in the financial statements that is based on value, all other accounts are recorded at an amount other than their value.

56. Easton Company and Lofton Company were combined in a purchase transaction. Easton was able to acquire Lofton at a bargain price. The sum of the fair values of identifiable assets acquired less the fair value of liabilities assumed exceeded the cost of acquiring Easton. Easton will report the excess amount as
    a. a gain.
    b. part of current income in the year of combination.
    c. a deferred credit and amortize it.
    d. paid-in capital.

57. Purchased goodwill should
    a. be written off as soon as possible against retained earnings.
    b. be written off as soon as possible as an extraordinary item.
    c. be written off by systematic charges as a regular operating expense over the period benefited.
    d. not be amortized.

58. The intangible asset goodwill may be
    a. capitalized only when purchased.
    b. capitalized either when purchased or created internally.
    c. capitalized only when created internally.
    d. written off directly to retained earnings.

59. When the purchaser in a business combination pays less then the fair value of the identifiable net assets, such a situation is referred to as a:
    a. goodwill purchase.
    b. bargain purchase.
    c. residual purchase.
    d. blanket purchase.

60. A loss on impairment of an intangible asset is the difference between the asset's
    a. carrying amount and the expected future net cash flows.
    b. carrying amount and its fair value.
    c. fair value and the expected future net cash flows.
    d. book value and its fair value.

61. The recoverability test is used to determine any impairment loss on which of the following types of intangible assets?
    a. Indefinite life intangibles other than goodwill.
    b. Indefinite life intangibles.
    c. Goodwill.
    d. Limited life intangibles.

62. Buerhle Company needs to determine if its indefinite-life intangibles other than goodwill have been impaired and should be reduced or written off on its balance sheet. The impairment test(s) to be used is (are)

	Recoverability Test	Fair Value Test
a.	Yes	Yes
b.	Yes	No
c	No	Yes
d.	No	No

63. The carrying value of an intangible is

a. the fair value of the asset at a balance sheet date.
b. the asset's acquisition cost less the total related amortization recorded to date.
c. equal to the balance of the related accumulated amortization account.
d. the assessed value of the asset for intangible tax purposes.

64. Which of the following research and development related costs should be capitalized and depreciated over current and future periods?
a. Research and development general laboratory building which can be put to alternative uses in the future
b. Inventory used for a specific research project
c. Administrative salaries allocated to research and development
d. Research findings purchased from another company to aid a particular research project currently in process

65. Which of the following principles best describes the current method of accounting for research and development costs?
a. Associating cause and effect
b. Systematic and rational allocation
c. Income tax minimization
d. Immediate recognition as an expense

66. According to a Financial Accounting Standards Board Statement, how are research and development costs accounted for?
a. They must be capitalized when incurred and then amortized over their estimated useful lives.
b. They must be expensed in the period incurred.
c. They may be either capitalized or expensed when incurred, depending upon the materiality of the amounts involved.
d. They must be expensed in the period incurred unless it can be clearly demonstrated that the expenditure will have alternative future uses or unless contractually reimbursable.

67. Which of the following would be considered research and development costs?
a. Routine efforts to refine an existing product.
b. Periodic alterations to existing production lines.
c. Marketing research to promote a new product.
d. Construction of prototypes.

68. Which of the following costs should be capitalized in the year incurred?
a. Research and development costs.
b. Costs to internally generate goodwill.
c. Organizational costs.
d. Costs to successfully defend a patent.

69. Research and development costs
a. are intangible assets.
b. may result in the development of a patent.
c. are easily identified with specific projects.
d. All of these answer choices are correct.

70. Which of the following is **not** considered research and development costs?
a. Planned search or critical investigation aimed at discovery of new knowledge.

b. Translation of research findings or other knowledge into a plan or design for a new product or process.
c. Translation of research findings or other knowledge into a significant improvement of an existing product.
d. Cost of marketing research to promote a new product.

71. Which of the following is considered research and development costs?
a. Planned search or critical investigation aimed at discovery of new knowledge.
b. Research costs incurred under contract with another company.
c. Commissions to sales staff marketing a new product.
d. Cost of marketing research to promote a new product.

72. Which of the following costs should be **excluded** from research and development expense?
a. Modification of the design of a product
b. Acquisition of R & D equipment for use on a current project only
c. Cost of marketing research for a new product
d. Engineering activity required to advance the design of a product to the manufacturing stage

73. If a company constructs a laboratory building to be used as a research and development facility, the cost of the laboratory building is matched against earnings as
a. research and development expense in the period(s) of construction.
b. depreciation deducted as part of research and development costs.
c. depreciation or immediate write-off depending on company policy.
d. an expense at such time as productive research and development has been obtained from the facility.

74. Operating losses incurred during the start-up years of a new business should be
a. accounted for and reported like the operating losses of any other business.
b. written off directly against retained earnings.
c. capitalized as a deferred charge and amortized over five years.
d. capitalized as an intangible asset and amortized over a period not to exceed 20 years.

75. The costs of organizing a corporation include legal fees, fees paid to the state of incorporation, fees paid to promoters, and the costs of meetings for organizing the promoters. These costs are said to benefit the corporation for the entity's entire life. These costs should be
a. capitalized and never amortized.
b. capitalized and amortized over 40 years.
c. capitalized and amortized over 5 years.
d. expensed as incurred.

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