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Chapter 12 Test Bank

Corporate Financial Reporting (Lahore University of Management Sciences)

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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.	Internally created intangibles.
F	3.	Recording internally generated intangibles.
F	4.	Amortization of limited-life intangible assets.
T	5.	Amortization of intangible assets.
T	6.	Amortizing limited-life intangibles.
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.
T	11.	Internally generated goodwill.
F	12.	Recording internally generated goodwill.
T	13.	Impairment of intangibles.
T	14.	Recognition of impairment loss.
F	15.	Recovery of impairment loss.
F	16.	Impairment of intangibles.
F	17.	Example of research and development costs.
F	18.	Capitalizing research and development costs.
F	19.	Recording research and development costs.
F	20.	Reporting intangible assets.

MULTIPLE CHOICE—Conceptual

Answer	No.	Description
b	21	Characteristics of intangible assets.
c	22	Characteristics of intangible assets.
a	23	Characteristics of intangible assets.
c	24.	Accounting for internally-created intangibles.
a	25.	Research and development costs.
b	26.	Amortization methods for intangible assets.
d	27.	Cost of intangible asset.
d	28.	Factors in determining useful life.
b	S29.	Classifying intangible assets.
c	30.	Impairment of intangibles.
a	31.	Determining intangible asset useful life.
b	32.	Amortization of intangibles.
d	33.	Patent amortization.
c	34.	Patent amortization.
d	35.	Legal fees associated with patent infringement.
b	36.	Identification of intangible assets.
c	37.	Amortization of intangible assets.
a	38.	Entry to record patent amortization.
c	S39.	Trademark costs capitalized.

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MULTIPLE CHOICE—Conceptual (cont.)

Answer	No.	Description
c	40.	Composition of goodwill.
b	41.	When to record goodwill.
d	42.	Intangibles during acquisition of company.
c	43.	Seperability of goodwill.
b	[S]44.	Goodwill as master valuation account.
a	45.	Reporting of "negative goodwill."
d	46.	Accounting for goodwill.
a	47.	Recording goodwill.
b	48.	Impairment of intangible asset.
d	49.	Recoverability test.
c	[S]50.	Impairment test for indefinite-life intangibles.
b	[P]51.	Accounting for organization costs.
a	52.	Capitalization of certain R & D costs.
d	53.	Accounting principle for R & D expenditures.
d	54.	Accounting for R & D costs.
d	55.	Classification of R & D expense.
d	56.	Costs to defend a patent.
b	57.	Purpose of R & D costs.
d	58.	Classification of R & D costs.
d	59.	Classification of R & D costs.
c	60.	Costs excluded from R & D expense.
b	61.	Depreciation of laboratory building used in R & D.
a	62.	Operating losses during start-up period.
d	[P]63.	Accounting for organization costs.
a	[S]64.	Classification of R & D expense.
a	65.	Reporting goodwill.
b	66.	Intangible asset disclosure.
d	67.	Expense classification.
c	[P]68.	Reporting patent amortization.
c	69.	Reporting intangibles.
d	70.	Reporting expenses and losses.
d	71.	Reporting expenses and losses.
b	72.	Cost of computer software.
d	73.	Cost of computer software.
c	74.	Amortization of computer software costs.
d	75.	Amortization of computer software costs.

[P] These questions also appear in the Problem-Solving Survival Guide.
[S] These questions also appear in the Study Guide.
* This topic is dealt with in an Appendix to the chapter.

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MULTIPLE CHOICE—Computational

Answer	No.	Description
d	76.	Valuation of patent.
d	77.	Valuation of patent.
c	78.	Valuation of patent.
d	79.	Basket purchase of patents.
c	80.	Intangible asset amortization.
c	81.	Intangible asset amortization.
b	82.	Computing patent amortization expense.
b	83.	Computing patent amortization expense.
b	84.	Computing patent amortization expense.
c	85.	Calculate total intangible assets.
b	86.	Determine amount of worthless patent to be written off.
b	87.	Calculate patent amortization.
a	88.	Calculate trademark amortization.
b	89.	Calculate patent amortization.
c	90.	Calculate goodwill amount.
c	91.	Calculate goodwill amount.
d	92.	Calculate amount of goodwill.
a	93.	Calculate goodwill impairment.
b	94.	Proper accounting when fair value of net assets acquired exceeds cost.
b	95.	Calculate impairment loss.
c	96.	Calculate patent carrying value.
d	97.	Calculate patent carrying value.
b	98.	Calculate loss on impairment of goodwill.
b	99.	Calculate loss on impairment of goodwill.
d	100.	Calculate R & D expense.
c	101.	Calculate R & D expense.
c	102.	Calculate R & D expense.
a	103.	Calculate R & D expense.
a	104.	Calculate R & D expense.
c	105.	Reporting intangible assets.
c	*106.	Computing computer software costs.
c	*107.	Computing computer software costs.
c	*108.	Computing computer software costs.
a	*109.	Computing computer software costs.
b	*110.	Computing computer software costs.

MULTIPLE CHOICE—CPA Adapted

Answer	No.	Description
a	111.	Determine capitalized patent costs.
c	112.	Valuation of patent exchanged for common stock.
d	113.	Valuation of patent exchanged for treasury stock.
c	114.	Valuation and amortization of a patent.
c	115.	Amortization of a patent.
d	116.	Amortization of a trademark.
c	117.	Capitalization of legal fees.
a	118.	Amortization of goodwill.
c	119.	Calculate R & D expense.
a	120.	Determine R & D expense for the year.

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EXERCISES

Item	Description
E12-121	Essay – characteristics of intangible assets.
E12-122	Essay – cost of intangibles.
E12-123	Essay – types of intangibles.
E12-124	Essay – definition of and accounting for intangibles.
E12-125	Essay – stock issued for intangible.
E12-126	Essay – costs associated with patents.
E12-127	Intangible assets multiple choice.
E12-128	Essay – intangible asset amortization.
E12-129	Essay – useful life of intangibles.
E12-130	Entries for amortization and impairment.
E12-131	Essay - Intangible assets theory.
E12-132	Identify intangibles.
E12-133	Essay – Goodwill and negative goodwill.
E12-134	Carrying value of patent.
E12-135	Accounting for patent.
E12-136	Essay – goodwill.
E12-137	Essay – impairment.
E12-138	Goodwill impairment.
E12-139	Impairment of copyrights.
E12-140	Essay – R & D costs.
E12-141	Essay – start-up costs.
E12-142	Acquisition of tangible and intangible assets.
E12-143	Computer software amortization.

PROBLEMS

Item	Description
P12-144	Intangible assets.
P12-145	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 conceptual issues related to goodwill.
6. Describe the accounting procedures for recording goodwill.
7. Explain the accounting issues related to intangible-asset impairments.
8. Identify the conceptual issues related to research and development costs.
9. Describe the accounting procedures for research and development costs and for other similar costs.
10. Indicate the presentation of intangible assets and related items.

*11. Understand the accounting for computer software costs.

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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	21.	MC	22.	MC	23.	MC	121.	E	123.	E		
Learning Objective 2													
2.	TF	24.	MC	76.	MC	78.	MC	122.	E	126.	E		
3.	TF	25.	MC	77.	MC	79.	MC	125.	E				
Learning Objective 3													
4.	TF	26.	MC	[s]29.	MC	80.	MC	128.	E	131.	E		
5.	TF	27.	MC	30.	MC	81.	MC	129.	E				
6.	TF	28.	MC	32.	MC	82.	MC	130.	E				
Learning Objective 4													
7.	TF	35.	MC	83.	MC	88.	MC	114.	MC	132.	E	144.	P
8.	TF	36.	MC	84.	MC	89.	MC	115.	MC	133.	E		
9.	TF	37.	MC	85.	MC	111.	MC	116.	MC	134.	E		
33.	MC	38.	MC	86.	MC	112.	MC	117.	MC	135.	E		
34.	MC	39.	MC	87.	MC	113.	MC	127.	E	139.	E		
Learning Objective 5													
10.	TF	41.	MC	43.	MC	124.	E						
40.	MC	42.	MC	118.	MC	145.	P						
Learning Objective 6													
11.	TF	[s]44.	MC	46.	MC	90.	MC	92.	MC	94.	MC	142.	E
12.	TF	45.	MC	47.	MC	91.	MC	93.	MC	136.	E		
Learning Objective 7													
13.	TF	15.	TF	48.	MC	[s]50.	MC	96.	MC	98.	MC	137.	E
14.	TF	16.	TF	49.	MC	95.	MC	97.	MC	99.	MC	138.	E
Learning Objective 8													
17.	TF	[p]51.	MC	53.	MC	55.	MC	58.	MC	145.	P		
18.	TF	52.	MC	54.	MC	57.	MC	59.	MC				
Learning Objective 9													
19.	TF	61.	MC	[s]64.	MC	102.	MC	119.	MC	141.	E		
56.	MC	62.	MC	100.	MC	103.	MC	120.	MC	144.	P		
60.	MC	[p]63.	MC	101.	MC	104.	MC	140.	E				
Learning Objective 10													
20.	TF	65.	MC	67.	MC	69.	MC	71.	MC				
32.	MC	66.	MC	[p]68.	MC	70.	MC	105.	MC				
Learning Objective *11													
72.	MC	74.	MC	*106.	MC	*108.	MC	*110.	MC				
73.	MC	75.	MC	*107.	MC	*109.	MC	143.	E				

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

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TRUE-FALSE—Conceptual

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

2. Internally created intangibles are recorded at cost.

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

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

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

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

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

12. 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.

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

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

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

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

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

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

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

20. 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.
1.	F	6.	T	11.	T	16.	F
2.	F	7.	T	12.	F	17.	F
3.	F	8.	F	13.	T	18.	F
4.	F	9.	T	14.	T	19.	F
5.	T	10.	T	15.	F	20.	F

MULTIPLE CHOICE—Conceptual

21. 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.

22. 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.

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

24. 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.

25. 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 the above.

26. 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

27. 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 are included.

28. 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.

29. 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.

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

[S]31. 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.

32. Which intangible assets are amortized?

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

33. The cost of purchasing patent rights for a product that might otherwise have seriously competed with one of the purchaser's patented products 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 purchaser's product.
    d. amortized over the remaining estimated life of the original patent covering the product whose market would have been impaired by competition from the newly patented product.

34. Broadway Corporation was granted a patent on a product on January 1, 1998. To protect its patent, the corporation purchased on January 1, 2009 a patent on a competing product which was originally issued on January 10, 2005. Because of its unique plant, Broadway Corporation does not feel the competing patent can be used in producing a 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 2009.

35. 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.

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

37. 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.

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

39. 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 allowed to be capitalized?
    a. Attorney fees.
    b. Consulting fees.
    c. Research and development fees.
    d. Design costs.

40. 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.

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

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42. 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 the above.

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

44. 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 market value of the net tangible and identifiable intangible assets as compared with 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.

45. 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 market or appraised values of identifiable assets acquired less the fair value of liabilities assumed exceeded the cost to Easton. After revaluing noncurrent assets to zero, there was still some "negative goodwill." Proper accounting treatment by Easton is to report the 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.

46. 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.

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47. 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.

48. 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.

49. 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.

50. 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

51. The carrying amount of an intangible is
    a. the fair market 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.

52. 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

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53. 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

54. How should research and development costs be accounted for, according to a Financial Accounting Standards Board Statement?
    a. Must be capitalized when incurred and then amortized over their estimated useful lives.
    b. Must be expensed in the period incurred.
    c. May be either capitalized or expensed when incurred, depending upon the materiality of the amounts involved.
    d. 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.

55. Which of the following would be considered research and development?
    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.

56. 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.

57. 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 the above.

58. Which of the following is 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. all of the above.

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59. Which of the following is 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. Neither a nor b.
    d. Both a and b.

60. 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

61. 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.

62. 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.

63. 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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64. Which of the following would not be considered an R & D activity?
    a. Adaptation of an existing capability to a particular requirement or customer's need.
    b. Searching for applications of new research findings.
    c. Laboratory research aimed at discovery of new knowledge.
    d. Conceptual formulation and design of possible product or process alternatives.

65. Which of the following intangible assets should be shown as a separate item on the balance sheet?
    a. Goodwill
    b. Franchise
    c. Patent
    d. Trademark

66. The notes to the financial statements should include information about acquired intangible assets, and aggregate amortization expense for how many succeeding years?
    a. 6
    b. 5
    c. 4
    d. 3

67. Which of the following should be reported under the “Other Expenses and Losses” section of the income statement?
    a. Goodwill impairment losses.
    b. Trade name amortization expense.
    c. Patent impairment losses
    d. None of the above.

68. The total amount of patent cost amortized to date is usually
    a. shown in a separate Accumulated Patent Amortization account which is shown contra to the Patent account.
    b. shown in the current income statement.
    c. reflected as credits in the Patent account.
    d. reflected as a contra property, plant and equipment item.

69. Intangible assets are reported on the balance sheet
    a. with an accumulated depreciation account.
    b. in the property, plant, and equipment section.
    c. separately from other assets.
    d. none of the above.

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70. Which of the following is often reported as an extraordinary item?
    a. Amortization expense.
    b. Impairment losses for intangible assets other than goodwill.
    c. Impairment losses on goodwill.
    d. None of the above.

71. Which of the following is often reported as an extraordinary item?
    a. Amortization expense.
    b. Impairment losses for intangible assets.
    c. Research and development costs.
    d. None of the above.

*72. Which of the following costs incurred with developing computer software for internal use should be capitalized?
    a. Evaluation of alternatives.
    b. Coding.
    c. Training.
    d. Maintenance.

*73. When developing computer software to be sold, which of the following costs should be capitalized?
    a. Designing.
    b. Coding.
    c. Testing.
    d. None of the above.

*74. Capitalized costs incurred to develop internal use computer software should be amortized using the:
    a. percent-of-revenue approach.
    b. percent-of-completion approach.
    c. straight-line approach.
    d. accelerated amortization approach.

*75. Capitalized costs incurred while developing computer software to be sold should be amortized using the:
    a. lower of the straight-line method or the percent-of-revenue method.
    b. higher of the percent-of-revenue method or the percent-of-completion method.
    c. lower of the percent-of-revenue method or the percent-of-completion method.
    d. higher of the straight-line method or the percent-of-revenue method.

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Multiple Choice Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
21.	b	29.	b	37.	c	45.	a	53.	d	61.	b	69.	c
22.	c	30.	c	38.	a	46.	d	54.	d	62.	a	70.	d
23.	a	31.	a	39.	c	47.	a	55.	d	63.	d	71.	d
24.	c	32.	b	40.	c	48.	b	56.	d	64.	a	72.	b
25.	a	33.	d	41.	b	49.	d	57.	b	65.	a	73.	d
26.	b	34.	c	42.	d	50.	c	58.	d	66.	b	74.	c
27.	d	35.	d	43.	c	51.	b	59.	d	67.	d	75.	d
28.	d	36.	b	44.	b	52.	a	60.	c	68.	c		

MULTIPLE CHOICE—Computational

76. Lynne Corporation acquired a patent on May 1, 2010. Lynne paid cash of $30,000 to the seller. Legal fees of $1,000 were paid related to the acquisition. What amount should be debited to the patent account?
    a. $1,000
    b. $29,000
    c. $30,000
    d. $31,000

77. Contreras Corporation acquired a patent on May 1, 2010. Contreras paid cash of $25,000 to the seller. Legal fees of $900 were paid related to the acquisition. What amount should be debited to the patent account?
    a. $900
    b. $24,100
    c. $25,000
    d. $25,900

78. Mini Corp. acquires a patent from Maxi Co. in exchange for 2,500 shares of Mini Corp.'s $5 par value common stock and $75,000 cash. When the patent was initially issued to Maxi Co., Mini Corp.'s stock was selling at $7.50 per share. When Mini Corp. acquired the patent, its stock was selling for $9 a share. Mini Corp. should record the patent at what amount?
    a. $87,500
    b. $93,750
    c. $97,500
    d. $75,000

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79. Alonzo Co. acquires 3 patents from Shaq Corp. for a total of $360,000. The patents were carried on Shaq's books as follows: Patent AA: $5,000; Patent BB: $2,000; and Patent CC: $3,000. When Alonzo acquired the patents their fair market values were: Patent AA: $20,000; Patent BB: $240,000; and Patent CC: $60,000. At what amount should Alonzo record Patent BB?
    a. $120,000
    b. $240,000
    c. $2,000
    d. $270,000

80. Jeff Corporation purchased a limited-life intangible asset for $120,000 on May 1, 2008. It has a useful life of 10 years. What total amount of amortization expense should have been recorded on the intangible asset by December 31, 2010?
    a. $ -0-
    b. $24,000
    c. $32,000
    d. $36,000

81. Rich Corporation purchased a limited-life intangible asset for $210,000 on May 1, 2008. It has a useful life of 10 years. What total amount of amortization expense should have been recorded on the intangible asset by December 31, 2010?
    a. $ -0-.
    b. $42,000
    c. $56,000
    d. $63,000

82. Thompson Company incurred research and development costs of $100,000 and legal fees of $40,000 to acquire a patent. The patent has a legal life of 20 years and a useful life of 10 years. What amount should Thompson record as Patent Amortization Expense in the first year?
    a. $0.
    b. $ 4,000.
    c. $ 7,000.
    d. $14,000.

83. ELO Corporation purchased a patent for $90,000 on September 1, 2008. It had a useful life of 10 years. On January 1, 2010, ELO spent $22,000 to successfully defend the patent in a lawsuit. ELO feels that as of that date, the remaining useful life is 5 years. What amount should be reported for patent amortization expense for 2010?
    a. $20,600.
    b. $20,000.
    c. $18,800.
    d. $15,600.

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84. Danks Corporation purchased a patent for $450,000 on September 1, 2008. It had a useful life of 10 years. On January 1, 2010, Danks spent $110,000 to successfully defend the patent in a lawsuit. Danks feels that as of that date, the remaining useful life is 5 years. What amount should be reported for patent amortization expense for 2010?
a. $103,000.
b. $100,000.
c. $94,000.
d. $78,000.

85. The general ledger of Vance Corporation as of December 31, 2011, includes the following accounts:

Copyrights	$ 30,000
Deposits with advertising agency (will be used to promote goodwill)	27,000
Discount on bonds payable	70,000
Excess of cost over fair value of identifiable net assets of Acquired subsidiary	390,000
Trademarks	90,000

In the preparation of Vance's balance sheet as of December 31, 2011, what should be reported as total intangible assets?
a. $480,000.
b. $507,000.
c. $510,000.
d. $537,000.

86. In January, 2006, Findley Corporation purchased a patent for a new consumer product for $720,000. At the time of purchase, the patent was valid for fifteen years. Due to the competitive nature of the product, however, the patent was estimated to have a useful life of only ten years. During 2011 the product was permanently removed from the market under governmental order because of a potential health hazard present in the product. What amount should Findley charge to expense during 2011, assuming amortization is recorded at the end of each year?
a. $480,000.
b. $360,000.
c. $72,000.
d. $48,000.

87. Day Company purchased a patent on January 1, 2010 for $360,000. The patent had a remaining useful life of 10 years at that date. In January of 2011, Day successfully defends the patent at a cost of $162,000, extending the patent’s life to 12/31/22. What amount of amortization expense would Kerr record in 2011?
a. $36,000
b. $40,500
c. $43,500
d. $54,000

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88. On January 2, 2011, Klein Co. bought a trademark from Royce, Inc. for $1,000,000. An independent research company estimated that the remaining useful life of the trademark was 10 years. Its unamortized cost on Royce's books was $800,000. In Klein's 2011 income statement, what amount should be reported as amortization expense?
    a. $100,000.
    b. $ 80,000.
    c. $ 50,000.
    d. $ 40,000.

89. A company acquires a patent for a drug with a remaining legal and useful life of six years on January 1, 2009 for $1,800,000. The company uses straight-line amortization for patents. On January 2, 2011, a new patent is received for a timed-release version of the same drug. The new patent has a legal and useful life of twenty years. The least amount of amortization that could be recorded in 2011 is
    a. $300,000.
    b. $ 60,000.
    c. $ 81,818.
    d. $ 69,000.

90. Blue Sky Company's 12/31/10 balance sheet reports assets of $5,000,000 and liabilities of $2,000,000. All of Blue Sky's assets' book values approximate their fair value, except for land, which has a fair value that is $300,000 greater than its book value. On 12/31/10, Horace Wimp Corporation paid $5,100,000 to acquire Blue Sky. What amount of goodwill should Horace Wimp record as a result of this purchase?
    a. $ -0-
    b. $100,000
    c. $1,800,000
    d. $2,100,000

91. Dotel Company's 12/31/10 balance sheet reports assets of $6,000,000 and liabilities of $2,500,000. All of Dotel's assets' book values approximate their fair value, except for land, which has a fair value that is $400,000 greater than its book value. On 12/31/10, Egbert Corporation paid $6,100,000 to acquire Dotel. What amount of goodwill should Egbert record as a result of this purchase?
    a. $ -0-
    b. $ 100,000
    c. $2,200,000
    d. $2,600,000

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92. Floyd Company purchases Haeger Company for $800,000 cash on January 1, 2011. The book value of Haeger Company's net assets, as reflected on its December 31, 2010 balance sheet is $620,000. An analysis by Floyd on December 31, 2010 indicates that the fair value of Haeger's tangible assets exceeded the book value by $60,000, and the fair value of identifiable intangible assets exceeded book value by $45,000. How much goodwill should be recognized by Floyd Company when recording the purchase of Haeger Company?
    a. $ -0-
    b. $180,000
    c. $120,000
    d. $75,000

93. General Products Company bought Special Products Division in 2010 and appropriately recorded $500,000 of goodwill related to the purchase. On December 31, 2011, the fair value of Special Products Division is $4,000,000 and it is carried on General Product's books for a total of $3,400,000, including the goodwill. An analysis of Special Products Division's assets indicates that goodwill of $400,000 exists on December 31, 2011. What goodwill impairment should be recognized by General Products in 2011?
    a. $0.
    b. $200,000.
    c. $50,000.
    d. $300,000.

94. During 2011, Bond Company purchased the net assets of May Corporation for $1,000,000. On the date of the transaction, May had $300,000 of liabilities. The fair value of May's assets when acquired were as follows:

Current assets	$ 540,000
Noncurrent assets	1,260,000
	$1,800,000

How should the $500,000 difference between the fair value of the net assets acquired ($1,500,000) and the cost ($1,000,000) be accounted for by Bond?
    a. The $500,000 difference should be credited to retained earnings.
    b. The $500,000 difference should be recognized as a gain.
    c. The current assets should be recorded at $540,000 and the noncurrent assets should be recorded at $760,000.
    d. A deferred credit of $500,000 should be set up and then amortized to income over a period not to exceed forty years.

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95. The following information is available for Barkley Company's patents:

Cost	$1,720,000
Carrying amount	860,000
Expected future net cash flows	800,000
Fair value	650,000

Barkley would record a loss on impairment of
a. $ 60,000.
b. $210,000.
c. $860,000.
d. $920,000.

96. Harrel Company acquired a patent on an oil extraction technique on January 1, 2010 for $5,000,000. It was expected to have a 10 year life and no residual value. Harrel uses straight-line amortization for patents. On December 31, 2011, the expected future cash flows expected from the patent were expected to be $600,000 per year for the next eight years. The present value of these cash flows, discounted at Harrel's market interest rate, is $2,800,000. At what amount should the patent be carried on the December 31, 2011 balance sheet?
a. $5,000,000
b. $4,800,000
c. $4,000,000
d. $2,800,000

97. Malrom Manufacturing Company acquired a patent on a manufacturing process on January 1, 2010 for $5,000,000. It was expected to have a 10 year life and no residual value. Malrom uses straight-line amortization for patents. On December 31, 2011, the expected future cash flows expected from the patent were expected to be $400,000 per year for the next eight years. The present value of these cash flows, discounted at Malrom's market interest rate, is $2,400,000. At what amount should the patent be carried on the December 31, 2011 balance sheet?
a. $5,000,000
b. $4,000,000
c. $3,200,000
d. $2,400,000

98. Twilight Corporation acquired End-of-the-World Products on January 1, 2010 for $4,000,000, and recorded goodwill of $750,000 as a result of that purchase. At December 31, 2010, the End-of-the-World Products Division had a fair value of $3,400,000. The net identifiable assets of the Division (excluding goodwill) had a fair value of $2,900,000 at that time. What amount of loss on impairment of goodwill should Twilight record in 2010?
a. $ -0-
b. $250,000
c. $350,000
d. $600,000

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99. Jenks Corporation acquired Linebrink Products on January 1, 2010 for $4,000,000, and recorded goodwill of $750,000 as a result of that purchase. At December 31, 2010, Linebrink Products had a fair value of $3,400,000. The net identifiable assets of the Linebrink (excluding goodwill) had a fair value of $2,900,000 at that time. What amount of loss on impairment of goodwill should Jenks record in 2010?
a. $ -0-
b. $250,000
c. $350,000
d. $600,000

100. In 2010, Edwards Corporation incurred research and development costs as follows:

Materials and equipment	$ 90,000
Personnel	120,000
Indirect costs	150,000
	$360,000

These costs relate to a product that will be marketed in 2011. It is estimated that these costs will be recouped by December 31, 2013. The equipment has no alternative future use. What is the amount of research and development costs that should be expensed in 2010?
a. $0.
b. $210,000.
c. $270,000.
d. $360,000.

101. Hall Co. incurred research and development costs in 2011 as follows:

Materials used in research and development projects	$ 450,000
Equipment acquired that will have alternate future uses in future research and development projects	3,000,000
Depreciation for 2011 on above equipment	300,000
Personnel costs of persons involved in research and development projects	750,000
Consulting fees paid to outsiders for research and development projects	300,000
Indirect costs reasonably allocable to research and development projects	225,000
	$5,025,000

The amount of research and development costs charged to Hall's 2011 income statement should be
a. $1,500,000.
b. $1,900,000.
c. $2,025,000.
d. $4,500,000.

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102. Loazia Inc. incurred the following costs during the year ended December 31, 2011:

Laboratory research aimed at discovery of new knowledge	$180,000
Costs of testing prototype and design modifications	45,000
Quality control during commercial production, including routine testing of products	270,000
Construction of research facilities having an estimated useful life of 6 years but no alternative future use	360,000

The total amount to be classified and expensed as research and development in 2011 is
a. $555,000.
b. $855,000.
c. $585,000.
d. $285,000.

103. MaBelle Corporation incurred the following costs in 2010:

Acquisition of R&D equipment with a useful life of 4 years in R&D projects	$600,000
Start-up costs incurred when opening a new plant	140,000
Advertising expense to introduce a new product	700,000
Engineering costs incurred to advance a product to full production stage	400,000

What amount should MaBelle record as research & development expense in 2010?
a. $ 550,000
b. $ 740,000
c. $1,000,000
d. $1,140,000

104. Leeper Corporation incurred the following costs in 2010:

Acquisition of R&D equipment with a useful life of 4 years in R&D projects	$800,000
Cost of making minor modifications to an existing product	140,000
Advertising expense to introduce a new product	700,000
Engineering costs incurred to advance a product to full production stage	600,000

What amount should Leeper record as research & development expense in 2010?
a. $ 800,000
b. $ 940,000
c. $1,300,000
d. $1,640,000

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105. Platteville Corporation has the following account balances at 12/31/10:

Amortization expense	$ 10,000
Goodwill	140,000
Patent, net of $30,000 amortization	70,000

What amount should Platteville report for intangible assets on the 12/31/10 balance sheet?
a. $ 70,000
b. $100,000
c. $210,000
d. $220,000

*106. Shangra-La Company incurred $1,500,000 ($400,000 in 2009 and $1,100,000 in 2010) to develop a computer software product. $500,000 of this amount was expended before technological feasibility was established in early 2010. The product will earn future revenues of $4,000,000 over its 5-year life, as follows: 2010 – $1,000,000; 2011 – $1,000,000; 2012 – $800,000; 2013 – $800,000; and 2014 – $400,000. What portion of the $1,500,000 computer software costs should be expensed in 2010?
a. $250,000
b. $300,000
c. $350,000
d. $1,100,000

*107. Logan Company incurred $3,000,000 ($800,000 in 2009 and $2,200,000 in 2010) to develop a computer software product. $1,000,000 of this amount was expended before technological feasibility was established in early 2010. The product will earn future revenues of $8,000,000 over its 5-year life, as follows: 2010 – $2,000,000; 2011 – $2,000,000; 2012 – $1,600,000; 2013 – $1,600,000; and 2014 – $800,000. What portion of the $3,000,000 computer software costs should be expensed in 2010?
a. $500,000.
b. $600,000.
c. $700,000.
d. $2,200,000.

*108. Geller Inc. incurred $500,000 of capitalizable costs to develop computer software during 2011. The software will earn total revenues over its 4-year life as follows: 2011 - $400,000; 2012 - $500,000; 2013 - $600,000; and 2014 - $500,000. What amount of the computer software costs should be expensed in 2011?
a. $500,000
b. $100,000
c. $125,000
d. $175,000

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*109. Tripiani Inc. incurred $600,000 of capitalizable costs to develop computer software during 2011. The software will earn total revenues over its 5-year life as follows: 2011 - $500,000; 2012 - $600,000; 2013 - $600,000; 2014 - $200,000; and 2015 - $100,000. What amount of the computer software costs should be expensed in 2011?
a. $150,000
b. $120,000
c. $135,000
d. $200,000

*110. Tripiani Inc. incurred $600,000 of capitalizable costs to develop computer software during 2011. The software will be used internally over its 5-year life. What amount of the computer software costs should be expensed in 2011?
a. $600,000
b. $120,000
c. $135,000
d. $200,000

Multiple Choice Answers—Computational

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
*76.	d	82.	b	88.	a	94.	b	100.	d	*106.	c
*77.	d	83.	b	89.	b	95.	b	101.	c	*107.	c
78.	c	84.	b	90.	c	96.	c	102.	c	*108.	c
79.	d	85.	c	91.	c	97.	d	103.	a	*109.	a
80.	c	86.	b	92.	d	98.	b	104.	a	*110.	b
81.	c	87.	b	93.	a	99.	b	105.	c		

MULTIPLE CHOICE—CPA Adapted

111. Lopez Corp. incurred $420,000 of research and development costs to develop a product for which a patent was granted on January 2, 2006. Legal fees and other costs associated with registration of the patent totaled $80,000. On March 31, 2011, Lopez paid $150,000 for legal fees in a successful defense of the patent. The total amount capitalized for the patent through March 31, 2011 should be
a. $230,000.
b. $500,000.
c. $570,000.
d. $650,000.

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112. On June 30, 2011, Cey, Inc. exchanged 2,000 shares of Seely Corp. $30 par value common stock for a patent owned by Gore Co. The Seely stock was acquired in 2011 at a cost of $55,000. At the exchange date, Seely common stock had a fair value of $46 per share, and the patent had a net carrying value of $110,000 on Gore's books. Cey should record the patent at
a. $55,000.
b. $60,000.
c. $92,000.
d. $110,000.

113. On May 5, 2011, MacDougal Corp. exchanged 2,000 shares of its $25 par value treasury common stock for a patent owned by Masset Co. The treasury shares were acquired in 2010 for $45,000. At May 5, 2011, MacDougal's common stock was quoted at $34 per share, and the patent had a carrying value of $55,000 on Masset's books. MacDougal should record the patent at
a. $45,000.
b. $50,000.
c. $55,000.
d. $68,000.

114. Ely Co. bought a patent from Baden Corp. on January 1, 2011, for $300,000. An independent consultant retained by Ely estimated that the remaining useful life at January 1, 2011 is 15 years. Its unamortized cost on Baden's accounting records was $150,000; the patent had been amortized for 5 years by Baden. How much should be amortized for the year ended December 31, 2011 by Ely Co.?
a. $0.
b. $15,000.
c. $20,000.
d. $30,000.

115. January 2, 2008, Koll, Inc. purchased a patent for a new consumer product for $270,000. At the time of purchase, the patent was valid for 15 years; however, the patent's useful life was estimated to be only 10 years due to the competitive nature of the product. On December 31, 2011, the product was permanently withdrawn from the market under governmental order because of a potential health hazard in the product. What amount should Koll charge against income during 2011, assuming amortization is recorded at the end of each year?
a. $ 27,000
b. $162,000
c. $189,000
d. $216,000

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116. On January 1, 2007, Russell Company purchased a copyright for $1,000,000, having an estimated useful life of 16 years. In January 2011, Russell paid $150,000 for legal fees in a successful defense of the copyright. Copyright amortization expense for the year ended December 31, 2011, should be
a. $0.
b. $62,500.
c. $71,875.
d. $75,000.

117. Which of the following legal fees should be capitalized?

	Legal fees to obtain a copyright	Legal fees to successfully defend a trademark
a.	No	No
b.	No	Yes
c.	Yes	Yes
d.	Yes	No

118. Which of the following costs of goodwill should be amortized over their estimated useful lives?

	Costs of goodwill from a business combination	Costs of developing goodwill internally
a.	No	No
b.	No	Yes
c.	Yes	Yes
d.	Yes	No

119. During 2011, Leon Co. incurred the following costs:

Testing in search for process alternatives	$ 350,000
Costs of marketing research for new product	250,000
Modification of the formulation of a process	510,000
Research and development services performed by Beck Corp. for Leon	425,000

In Leon's 2011 income statement, research and development expense should be
a. $510,000.
b. $935,000.
c. $1,285,000.
d. $1,535,000.

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120. Riley Co. incurred the following costs during 2011:

Significant modification to the formulation of a chemical product	$160,000
Trouble-shooting in connection with breakdowns during commercial production	150,000
Cost of exploration of new formulas	200,000
Seasonal or other periodic design changes to existing products	185,000
Laboratory research aimed at discovery of new technology	225,000

In its income statement for the year ended December 31, 2011, Riley should report research and development expense of
a. $585,000.
b. $735,000.
c. $770,000.
d. $920,000.

Multiple Choice Answers—CPA Adapted

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
111.	a	113.	d	115.	c	117.	c	119.	c
112.	c	114.	c	116.	d	118.	a	120.	a

DERIVATIONS — Computational

No.	Answer	Derivation
76.	d	$30,000 + $1,000 = $31,000.
77.	d	$25,000 + $900 = $25,900.
78.	c	(2,500 X $9) + $75,000 = $97,500.
79.	d	$360,000 X ($240,000 / $320,000) = $270,000.
80.	c	($120,000 ÷ 10) × 2 2/3 = $32,000.
81.	c	($210,000 ÷ 10) × 2 2/3 = $56,000.
82.	b	$40,000 ÷ 10 = $4,000.
83.	b	$90,000 – [($90,000 ÷ 10) × 1 1/3] = $78,000. ($78,000 + $22,000) ÷ 5 = $20,000.
84.	b	$450,000 – [($450,000 ÷ 10) × 1 1/3] = $390,000. ($390,000 + $110,000) ÷ 5 = $100,000.
85.	c	$30,000 + $390,000 + $90,000 = $510,000.
86.	b	($720,000 ÷ 10) × 5 = $360,000.
87.	b	[($360,000 – $36,000) + $162,000] ÷ 12 = $40,500.

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DERIVATIONS — Computational (cont.)

No.	Answer	Derivation
88.	a	$1,000,000 ÷ 10 = $100,000.
89.	b	$1,800,000 – [($1,800,000 ÷ 6) × 2] = $1,200,000. $1,200,000 ÷ 20 = $60,000.
90.	c	($5,000,000 + $300,000) – $2,000,000 = $3,300,000 $5,100,000 – $3,300,000 = $1,800,000.
91.	c	($6,000,000 + $400,000) – $2,500,000 = $3,900,000. $6,100,000 – $3,900,000 = $2,200,000.
92.	d	$620,000 + $60,000 + $45,000 = $725,000. $800,000 – $725,000 = $75,000.
93.	a	Since $4,000,000 > $3,400,000, $0 impairment.
94.	b	$1,500,000 – $1,000,000 = $500,000 gain.
95.	b	$860,000 – $650,000 = $210,000.
96.	c	$5,000,000 – [($5,000,000 ÷ 10) × 2] = $4,000,000.
97.	d	$5,000,000 – [($5,000,000 ÷ 10) × 2] = $4,000,000. Since $4,000,000 > ($400,000 × 8), patent is reported at $2,400,000 (present value of cash flows.
98.	b	$3,400,000 – $2,900,000 = $500,000 $750,000 – $500,000 = $250,000.
99.	b	$3,400,000 – $2,900,000 = $500,000 $750,000 – $500,000 = $250,000.
100.	d	Expense total of $360,000.
101.	c	$5,025,000 – $3,000,000 = $2,025,000.
102.	c	$180,000 + $45,000 + $360,000 = $585,000.
103.	a	($600,000 ÷ 4) + $400,000 = $550,000.
104.	a	($800,000 ÷ 4) + $600,000 = $800,000.
105.	c	$140,000 +$70,000 = $210,000.

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No.	Answer	Derivation
*106.	c	($1,500,000 – $500,000) × ($1,000,000 ÷ $4,000,000) = $250,000. $250,000 + ($500,000 – $400,000) = $350,000.
*107.	c	($3,000,000 – $1,000,000) × ($2,000,000 ÷ $8,000,000) = $500,000. $500,000 + ($1,000,000 – $800,000) = $700,000.
*108.	c	$500,000 X ¼ = $125,000 (greater than $100,000).
*109.	a	$600,000 X $500,000 / $2,000,000 = $150,000 (greater than $120,000).
*110.	b	$600,000 X 1/5 = $120,000.

DERIVATIONS — CPA Adapted

111.	a	$80,000 + $150,000 = $230,000.
112.	c	$2,000 × $46 = $92,000.
113.	d	$2,000 × $34 = $68,000.
114.	c	$300,000 ÷ 15 = $20,000.
115.	c	$270,000 – [($270,000 ÷ 10) × 3] = $189,000.
116.	d	($1,000,000 – [($1,000,000 ÷ 16) × 4] = $750,000 ($750,000 + $150,000) ÷ 12 = $75,000.
117.	c	Conceptual.
118.	a	Conceptual.
119.	c	$350,000 + $510,000 + $425,000 = $1,285,000.
120.	a	$160,000 + $200,000 + $225,000 = $585,000.

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EXERCISES

Ex. 12-121

Intangible assets have two main characteristics: (1) they lack physical existence, and (2) they are not financial instruments.

Instructions

(a) Explain why intangibles are classified as assets if they have no physical existence.
(b) Explain why intangibles are not considered financial instruments.

Solution 12-121

(a) Intangible assets derive their value from the rights and privileges they grant to the company that owns them.
(b) Intangibles are not considered financial instruments because they do not derive their value from the right (claim) to receive cash or cash equivalents in the future.

Ex. 12-122

Intangible assets may be internally generated or purchased from another party. In either case, what costs should be included in the initial valuation of the asset is an issue.

Instructions

(a) Identify the typical costs included in the cash purchase of an intangible asset.
(b) Discuss how to determine the cost of an intangible asset acquired in a non-cash transaction.
(c) Describe how to determine the cost of several intangible assets acquired in a "basket purchase." Provide a numerical example involving intangibles being acquired for a total price of $120,000.

Solution 12-122

(a) The typical costs included in the purchase of an intangible asset are: purchase price, legal fees, and other incidental expenses.
(b) In a non-cash acquisition of an intangible asset, the initial cost of the intangible is either the fair market value of the consideration given or the fair market value of the intangible received, whichever is more clearly evident.
(c) When several intangible assets are acquired in a "basket purchase", the cost of the individual assets is based on their relative fair market values. For example:

Asset	FMV	%	Allocation	
Patent A	$ 60,000	60	60% x $120,000 =	$ 72,000
Patent B	40,000	40	40% x $120,000 =	48,000
Totals	$100,000	100		$120,000

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Ex. 12-123

Why does the accounting profession make a distinction between internally created intangible assets and purchased intangible assets?

Solution 12-123

When intangible assets are created internally, it is often difficult to determine the validity of any future service potential. To permit deferral of these types of costs would lead to a great deal of subjectivity because management could argue that almost any expense could be capitalized on the basis that it will increase future benefits. The cost of purchased intangible assets, however, is capitalized because its cost can be objectively verified and reflects its fair value at the date of acquisition.

Ex. 12-124—Short essay questions.

1. What are intangible assets?
2. How are limited-life intangibles accounted for subsequent to acquisition?

Solution 12-124

1. Intangible assets are assets that derive their value from the rights and privileges granted to the company using them. They provide services over a period of years and are normally classified as long-term assets. Examples are patents, copyrights, franchises, goodwill, trademarks, and trade names.
2. Limited-life intangibles are amortized by systematic charges to expense over their useful life. In addition, they are reviewed for impairment each year. Impairment occurs when the future net cash flows are less than the carrying amount of the intangible asset. The intangible asset is reduced for the amount by which its carrying value exceeds its fair value at year end.

Ex. 12-125

If intangible assets are acquired for stock, how is the cost of the intangible determined?

Solution 12-125

If intangible assets are acquired for stock, the cost of the intangible is the fair value of the consideration given or the fair value of the consideration received, whichever is more clearly evident.

Ex. 12-126

Redstone Company spent $190,000 developing a new process, $45,000 in legal fees to obtain a patent, and $91,000 to market the process that was patented. How should these costs be accounted for in the year they are incurred?

Solution 12-126

The $190,000 should be expensed when incurred as research and development expense. The $91,000 is expensed as selling and promotion expense when incurred. The $45,000 of costs to legally obtain the patent should be capitalized and amortized over the useful or legal life of the patent, whichever is shorter.

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Ex. 12-127—Intangible assets questions.

Indicate the *best* answer by circling the proper letter.

1. Copyrights should be amortized over
   a. their legal life.
   b. the life of the creator plus fifty years.
   c. twenty years.
   d. their useful life or legal life, whichever is shorter.

2. A patent should be amortized over
   a. twenty years.
   b. its useful life.
   c. its useful life or twenty years, whichever is longer.
   d. its useful life or twenty years, whichever is shorter.

3. The major problem of accounting for intangibles is determining
   a. fair market value.
   b. separability.
   c. salvage value.
   d. useful life.

4. Limited-life intangibles are reported at their
   a. replacement cost.
   b. carrying amount unless impaired.
   c. acquisition cost.
   d. liquidation value.

5. Negative goodwill arises when the _____ of the net assets acquired is higher than the purchase price of the assets.
   a. useful life
   b. carrying value
   c. fair market value
   d. excess earnings

Solution 12-127

1. d 2. d 3. d 4. b 5. c

Ex. 12-128

Intangible assets have either a limited useful life or an indefinite useful life. How should these two different types of intangibles be amortized?

Solution 12-128

Limited-life intangible assets should be amortized by systematic charges to expense over the shorter of their useful life or legal life. An intangible asset with an indefinite life is not amortized.

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Ex. 12-129

What are factors to be considered in estimating the useful life of an intangible asset?

Solution 12-129

Factors to be considered in determining useful life are:

a. The expected use of the asset by the entity.
b. The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate.
c. Any legal, regulatory, or contractual provisions that may limit 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.
e. The effects of obsolescence, demand, competition, and other economic factors.
f. The level of maintenance expenditure required to obtain the expected future cash flows from the asset.

Ex. 12-130

Barkley Corp. obtained a trade name in January 2009, incurring legal costs of $15,000. The company amortizes the trade name over 8 years. Barkley successfully defended its trade name in January 2010, incurring $4,900 in legal fees. At the beginning of 2011, based on new marketing research, Barkley determines that the fair value of the trade name is $12,000. Estimated total future cash flows from the trade name are $13,000 on January 4, 2011.

Instructions

Prepare the necessary journal entries for the years ending December 31, 2009, 2010, and 2011. Show all computations.

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Solution 12-130

2009			
Dec. 31	Amortization Expense - Trade Name	1,875	
	Trade Name		1,875
	($15,000 ÷ 8 years)		
2010			
Dec. 31	Amortization Expense – Trade Name	2,575	
	Trade Name		2,575
	[($15,000 - $1,875 + $4,900) ÷ 7 years]		
2011			
Dec. 31	Loss on Impairment	3,450	
	Trade Name		3,450

Carrying value = $15,000 - $1,875 + $4,900 - $2,575 = $15,450
Total future cash flows = 13,000
Therefore, an impairment loss has occurred

Carrying value	= $15,450
Fair value	= (12,000)
Loss on impairment	= $ 3,450

2011			
Dec. 31	Amortization Expense – Trade Name	2,000	
	Trade Name		2,000
	($12,000 ÷ 6 years)		

Ex. 12-131—Intangible assets theory.

It has been argued on the grounds of conservatism that all intangible assets should be written off immediately after acquisition. Discuss the accounting arguments against this treatment.

Solution 12-131

Intangible assets provide revenues over a period of years. Limited-life intangibles are therefore capitalized and amortized by systematic charges to expense over their useful life. This treatment is in accordance with the matching principle—deducting expenses in the same period(s) that revenues are reported.

Ex. 12-132

Listed below is a selection of accounts found in the general ledger of Marshall Corporation as of December 31, 2011:

Accounts receivable	Research & development costs
Goodwill	Internet domain name
Organization costs	Initial operating loss
Prepaid insurance	Non-competition agreement
Radio broadcasting rights	Customer list
Premium on bonds payable	Video copyrights
Trade name	Notes receivable

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Instructions

List those accounts that should be classified as intangible assets.

Solution 12-132

Goodwill	Non-competition agreement
Radio broadcasting rights	Customer list
Trade name	Video copyrights
Internet domain name	

Ex. 12-133

Define the following terms.
(a) Goodwill (b) Negative goodwill

Solution 12-133

(a) Varying approaches are used to define goodwill. They are:
- Goodwill should be measured initially as the excess of the fair value of the acquisition cost over the fair value of the net assets acquired.
- Goodwill is sometimes defined as one or more unidentified intangible assets and identifiable intangible assets that are not reliably measurable. Examples of elements of goodwill include new channels of distribution, synergies of combining sales forces, and a superior management team.
- Goodwill may also be defined as the intrinsic value that a business has acquired beyond the mere value of its net assets whether due to the personality of those conducting it, the nature of its location, its reputation, or any other circumstance incidental to the business and tending to make it permanent. Another definition is the capitalized value of the excess of estimated future profits of a business over the rate of return on capital considered normal in the industry.

(b) Negative goodwill develops when the fair value of the assets purchased is higher than the cost. This situation may develop from a market imperfection. In this case, the seller would have been better off to sell the assets individually than in total. However, situations do occur (e.g., a forced liquidation or distressed sale due to the death of the company founder), in which the purchase price is less than the value of the identifiable net assets.

Ex. 12-134—Carrying value of patent.

Sisco Co. purchased a patent from Thornton Co. for $180,000 on July 1, 2008. Expenditures of $68,000 for successful litigation in defense of the patent were paid on July 1, 2011. Sisco estimates that the useful life of the patent will be 20 years from the date of acquisition.

Instructions

Prepare a computation of the carrying value of the patent at December 31, 2011.

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Solution 12-134

Cost of patent	$180,000
Amortization 7/1/08 to 7/1/11 [($180,000 ÷ 20) × 3]	(27,000)
Carrying value at 7/1/11	153,000
Cost of successful defense	68,000
Carrying value	221,000
Amortization 7/1/11 to 12/31/11 [$221,000 × 1/(20 – 3) × 1/2]	(6,500)
Carrying value at 12/31/11	$214,500

Ex. 12-135—Accounting for patent.

In early January 2009, Lerner Corporation applied for a patent, incurring legal costs of $50,000. In January 2010, Lerner incurred $9,000 of legal fees in a successful defense of its patent.

Instructions

(a) Compute 2009 amortization, 12/31/09 carrying value, 2010 amortization, and 12/31/10 carrying value if the company amortizes the patent over 10 years.

(b) Compute the 2011 amortization and the 12/31/11 carrying value, assuming that at the beginning of 2011, based on new market research, Lerner determines that the fair value of the patent is $44,000. Estimated future cash flows from the patent are $45,000 on January 3, 2011.

Solution 12-135

(a) 2009 amortization: $50,000 ÷ 10 yrs. = $5,000
12/31/09 carrying value: $50,000 – $5,000 = $45,000
2010 amortization: ($45,000 + $9,000) ÷ 9 yrs. = $6,000
12/31/10 carrying value: ($45,000 + $9,000) – $6,000 = $48,000

(b) Since the expected future cash flows ($45,000) are less than the carrying value ($48,000), an impairment loss must be computed.
Loss on impairment: $48,000 carrying value – $44,000 fair value = $4,000
2011 amortization: $44,000 ÷ 8 yrs. = $5,500
12/31/11 carrying value: $44,000 – $5,500 = $38,500

Ex. 12-136

Under what circumstances is it appropriate to record goodwill in the accounts? How should goodwill, properly recorded on the books, be written off in accordance with generally accepted accounting principles?

Solution 12-136

Goodwill is recorded only when it is acquired through a business combination. Goodwill acquired in a business combination is considered to have an indefinite life and therefore should not be amortized, but should be tested for impairment on at least an annual basis.

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Ex. 12-137

Fred's Company is considering the write-off of a limited life intangible asset because of its lack of profitability. Explain to the management of Fred's how to determine whether a writeoff is permitted.

Solution 12-137

Accounting standards require that if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, then the carrying amount of the asset should be assessed. The assessment or review takes the form of a recoverability test that compares the sum of the expected future cash flows from the asset (undiscounted) to the carrying amount. If the cash flows are less than the carrying amount, the asset has been impaired. The impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset. The fair value of assets is measured by their market value if an active market for them exists. If no market price is available, the present value of the expected future net cash flows from the asset may be used.

Ex. 12-138

Leon Corp. purchased Spinks Co. 4 years ago and at that time recorded goodwill of $300,000. The Sinks Division's net assets, including goodwill, have a carrying amount of $700,000. The fair value of the division is estimated to be $750,000.

Instructions

(a) Explain whether or not Leon Corp. must prepare an entry to record impairment of the goodwill. Include the entry, if necessary.
(b) Repeat instruction (a) assuming that the fair value of the division is estimated to be $650,000 and the implied goodwill is $225,000.

Solution 12-138

(a) The fair value of the division ($750,000) exceeds the carrying amount of its assets ($700,000). Therefore, goodwill is not impaired and no entry is necessary.
(b) The fair value of the division ($650,000) is less than the carrying amount of its assets ($700,000). Therefore, goodwill is impaired. The amount of the impairment loss is $75,000, the difference between the recorded goodwill ($300,000) and the implied goodwill ($225,000).

Loss on Impairment	75,000	
Goodwill		75,000

Ex. 12-139—Impairment of copyrights.

Presented below is information related to copyrights owned by Wamser Corporation at December 31, 2010.

Cost	$2,700,000
Carrying amount	2,350,000
Expected future net cash flows	2,100,000
Fair value	1,400,000

Assume Wamser will continue to use this asset in the future. As of December 31, 2010, the copyrights have a remaining useful life of 5 years.

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Instructions

(a) Prepare the journal entry (if any) to record the impairment of the asset at December 31, 2010.
(b) Prepare the journal entry to record amortization expense for 2011.
(c) The fair value of the copyright at December 31, 2009 is $1,500,000. Prepare the journal entry (if any) necessary to record this increase in fair value.

Solution 12-139

(a) December 31, 2010

Loss on Impairment		950,000	
Copyrights			950,000
Carrying amount	$2,350,000		
Fair value	1,400,000		
Loss on impairment	$ 950,000		

(b) December 31, 2011

Amortization Expense		280,000	
Copyrights			280,000
New carrying amount	$1,400,000		
Useful life	÷ 5 years		
Amortization	$ 280,000		

(c) No entry necessary. Restoration of any impairment loss is not permitted for assets held for future use.

Ex. 12-140

Research and development activities may include (a) personnel costs, (b) materials and equipment costs, and (c) indirect costs. What is the recommended accounting treatment for these three types of R&D costs?

Solution 12-140

(a) Personnel (labor) type costs incurred in R & D activities should be expensed as incurred.
(b) Materials and equipment costs should be expensed immediately unless the items have alternative future uses. If the items have alternative future uses, the materials should be recorded as inventories and allocated as consumed and the equipment should be capitalized and depreciated as used.
(c) Indirect costs of R & D activities should be reasonably allocated to R & D (except for general and administrative costs, which must be clearly related to be included) and expensed.

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Ex. 12-141

Recently, a group of university students decided to incorporate for the purposes of selling a process to recycle the waste product from manufacturing cheese. Some of the initial costs involved were legal fees and office expenses incurred in starting the business, state incorporation fees, and stamp taxes. One student wishes to charge these costs against revenue in the current period. Another wishes to defer these costs and amortize them in the future. Which student is correct and why?

Solution 12-141

These costs are referred to as start-up costs, or more specifically organizational costs in this case. Accounting for start up costs is straightforward—expense these costs as incurred. The profession recognizes that these costs are incurred with the expectation that future revenues will occur or increased efficiencies will result. However, to determine the amount and timing of future benefits is so difficult that a conservative approach—expensing these costs as incurred—is required.

Ex. 12-142—Acquisition of tangible and intangible assets.

Vasquez Manufacturing Company decided to expand further by purchasing Wasserman Company. The balance sheet of Wasserman Company as of December 31, 2011 was as follows:

Wasserman Company
Balance Sheet
December 31, 2011

Assets		Liabilities and Equities	
Cash	$ 210,000	Accounts payable	$ 375,000
Receivables	550,000	Common stock	800,000
Inventory	275,000	Retained earnings	885,000
Plant assets (net)	1,025,000		
Total assets	$2,060,000	Total liabilities and equities	$2,060,000

An appraisal, agreed to by the parties, indicated that the fair market value of the inventory was $350,000 and that the fair market value of the plant assets was $1,225,000. The fair market value of the receivables is equal to the amount reported on the balance sheet. The agreed purchase price was $2,075,000, and this amount was paid in cash to the previous owners of Wasserman Company.

Instructions
Determine the amount of goodwill (if any) implied in the purchase price of $2,075,000. Show calculations.

Solution 12-142

Purchase price		$2,075,000
Less tangible net assets acquired:		
Book value ($2,060,000 – $375,000)	$1,685,000	
Appraisal increment—inventory	75,000	
Appraisal increment—plant assets	200,000	
Total fair market value of tangible net assets acquired		1,960,000
Goodwill		$ 115,000

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***Ex. 12-143**

MacroSoft Inc. has capitalized $600,000 of software costs. Sales from this product were $360,000 in the first year. MacroSoft estimates additional revenues of $840,000 over the product's economic life of 5 years.

Instructions

Prepare the journal entry to record software cost amortization for the first year. Show all computations.

Solution 12-143

Computations: Percent of revenue approach

$600,000 x [$360,000/($360,000 + $840,000)] = $180,000

Straight-line approach

$600,000 x 1/5 = $120,000

Journal Entry:

Amortization Expense	180,000	
Computer Software Costs		180,000

PROBLEMS

Pr. 12-144—Intangible assets.

The following transactions involving intangible assets of Minton Corporation occurred on or near December 31, 2010. Complete the chart below by writing the journal entry(ies) needed at that date to record the transaction and at December 31, 2011 to record any resultant amortization. If no entry is required at a particular date, write "none needed."

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Pr. 12-144 (Cont.)

	On Date of Transaction	On December 31, 2011
1.	Minton paid Grand Company $500,000 for the exclusive right to market a particular product, using the Grand name and logo in promotional material. The franchise runs for as long as Minton is in business.	
2.	Minton spent $600,000 developing a new manufacturing process. It has applied for a patent, and it believes that its application will be successful.	
3.	In January, 2011, Minton's application for a patent (#2 above) was granted. Legal and registration costs incurred were $120,000. The patent runs for 20 years. The manufacturing process will be useful to Minton for 10 years.	
4.	Minton incurred $192,000 in successfully defending one of its patents in an infringement suit. The patent expires during December, 2014.	
5.	Minton incurred $480,000 in an unsuccessful patent defense. As a result of the adverse verdict, the patent, with a remaining unamortized cost of $252,000, is deemed worthless.	
6.	Minton paid Sneed Laboratories $104,000 for research and development work performed by Sneed under contract for Minton. The benefits are expected to last six years.	

Solution 12-144

	On Date of Transaction			On December 31, 2011		
1.	Franchise.....	500,000		"None needed."		
	Cash.....		500,000			
2.	Research and Devel. Expense....	600,000		"None needed."		
	Cash.....		600,000			
3.	Patents.....	120,000		Patent Amortization Expense.....	12,000	
	Cash.....		120,000	Patents.....		12,000
4.	Patents.....	192,000		Patent Amortization Expense.....	48,000	
	Cash.....		192,000	Patents.....		48,000

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Solution 12-144 (Cont.)

5.	Legal Fees Exp....	480,000		5. "None needed."
	Cash.....		480,000	
	Patent Expense...	252,000		
	Patents.....		252,000	
6.	Research and Devel. Expense....	104,000		6. "None needed."
	Cash.....		104,000	

Pr. 12-145—Goodwill, impairment.

On May 31, 2011, Armstrong Company paid $3,500,000 to acquire all of the common stock of Hall Corporation, which became a division of Armstrong. Hall reported the following balance sheet at the time of the acquisition:

Current assets	$ 900,000	Current liabilities	$ 600,000
Noncurrent assets	2,700,000	Long-term liabilities	500,000
		Stockholders' equity	2,500,000
		Total liabilities and	
Total assets	$3,600,000	stockholders' equity	$3,600,000

It was determined at the date of the purchase that the fair value of the identifiable net assets of Hall was $2,800,000. At December 31, 2011, Hall reports the following balance sheet information:

Current assets	$ 800,000
Noncurrent assets (including goodwill recognized in purchase)	2,400,000
Current liabilities	(700,000)
Long-term liabilities	(500,000)
Net assets	$2,000,000

It is determined that the fair market value of the Hall division is $2,100,000. The recorded amount for Hall's net assets (excluding goodwill) is the same as fair value, except for property, plant, and equipment, which has a fair value of $200,000 above the carrying value.

Instructions

(a) Compute the amount of goodwill recognized, if any, on May 31, 2011.
(b) Determine the impairment loss, if any, to be recorded on December 31, 2011.
(c) Assume that the fair value of the Hall division is $1,900,000 instead of $2,100,000. Prepare the journal entry to record the impairment loss, if any, on December 31, 2011.

Solution 12-145

(a) Goodwill = Fair value of the division less the fair value of the identifiable assets.
$3,500,000 – $2,800,000 = $700,000.

(b) No impairment loss is recorded, because the fair value of Hall ($2,100,000) is greater than the carrying value ($2,000,000) of the new assets.

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Solution 12-145 (Cont.)

(c) Computation of impairment loss:

Implied fair value of goodwill = Fair value of division less the carrying value of the division (adjusted for fair value changes), net of goodwill:

Fair value of Hall division		$1,900,000
Carrying value of division	$2,000,000	
Increase in fair value of PP&E	200,000	
Less goodwill	(700,000)	
		(1,500,000)
Implied value of goodwill		400,000
Carrying amount of goodwill		(500,000)
Loss on impairment		$ (100,000)

Loss on Impairment.....	100,000	
Goodwill.....		100,000

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IFRS QUESTIONS

True/False Questions

1. As in U.S. GAAP, under iGAAP the costs associated with research and development are segregated into two components.
2. Costs in the research phase are expensed under U.S. GAAP, but capitalized under iGAAP.
3. Costs in the research phase are always expensed under both iGAAP and U.S. GAAP.
4. iGAAP differs from U.S. GAAP in the development phase in that costs are capitalized once technological feasibility is achieved.
5. The increased acceptance of iGAAP has caused costs associated with internally generated intangible assets to be capitalized under U.S. GAAP.
6. iGAAP permits some capitalization of internally generated intangible assets, if it is probable there will be a future benefit and the amount can be readily measured.
7. While iGAAP requires an impairment test at each reporting date for long-lived assets, it requires no such test for intangibles once a legal or useful life has been determined.
8. iGAAP allows reversal of impairment losses when there has been a change in economic conditions or in the expected use of the asset. Under U.S GAAP, impairment losses cannot be reversed for assets to be held and used.
9. iGAAP and U.S. GAAP are similar in the accounting for impairments of assets held for disposal.
10. Under U.S. GAAP, impairment loss is measured as the excess of the carrying amount over the assets discounted cash flow.

Answers to True/False:

1. True
2. False
3. True
4. True
5. False
6. True
7. False
8. True
9. True
10. False

Multiple-Choice Questions

1. As in U.S. GAAP, under iGAAP the costs associated with research and development are segregated into
   a. two components, the research phase and the production phase.
   b. two components, the research phase and the development phase.
   c. three components, the planning phase, the research phase and the production phase.
   d. three components, the analysis phase, the development phase and the production phase.

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2. In accounting for internally generated intangible assets, U.S. GAAP requires that
   a. all costs, no matter how immaterial, be capitalized.
   b. only material costs be capitalized.
   c. planned costs be capitalized, while costs in excess of plan be expensed.
   d. all costs be expensed.

3. The following costs are incurred during the research and development phases of a laser bone scanner

Laboratory research aimed at discovery of new knowledge	$500,000
Search for application of new research findings	400,000
Salaries of research staff designing new laser bone scanner	1,200,000
Material, labor and overhead costs of prototype laser scanner	850,000
Costs of testing prototype and design modifications	450,000
Engineering costs incurred to advance the laser scanner to full production stage (technological feasibility reached)	700,000

   Identify which of these are research phase items and will be immediately expensed under U.S. GAAP and iGAAP.

	U.S. GAAP	iGAAP
a.	$ 900,000	$ 900,000
b.	2,100,000	1,200,000
c.	4,100,000	4,100,000
d.	4,100,000	3,400,000

4. The following costs are incurred during the research and development phases of a laser bone scanner

Laboratory research aimed at discovery of new knowledge	$500,000
Search for application of new research findings	400,000
Salaries of research staff designing new laser bone scanner	1,200,000
Material, labor and overhead costs of prototype laser scanner	850,000
Costs of testing prototype and design modifications	450,000
Engineering costs incurred to advance the laser scanner to full production stage (technological feasibility reached)	700,000

   Identify which of these are development phase items and will be immediately expensed under U.S. GAAP and iGAAP.

	U.S. GAAP	iGAAP
a.	$ 900,000	$ 900,000
b.	2,100,000	1,200,000
c.	3,200,000	3,200,000
d.	3,200,000	3,200,000

5. The primary iGAAP related to intangible assets and impairments is found in
   a. IAS 38 and IAS 10.
   b. IAS 16 and IAS 36.
   c. IAS 1 and IAS 34.
   d. IAS 38 and IAS 36.

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6. iGAAP allows reversal of impairment losses when
   a. the reversal is greater than the amount of the original impairment.
   b. the reversal falls in a subsequent fiscal year of the company's operations.
   c. there has been a change in economic conditions or in the expected use of the asset.
   d. reversal of impairment losses is never allowed.

7. Under U.S. GAAP, impairment losses
   a. can be reversed but only if the reversal is greater than the amount of the original impairment.
   b. can be reversed but only if the reversal falls in a subsequent fiscal year of the company's operations.
   c. cannot be reversed for assets to be held and used.
   d. none of the above.

8. iGAAP and U.S. GAAP
   a. are diametrically opposed in their accounting for impairments of assets held for disposal.
   b. are similar in the accounting for impairments of assets held for disposal.
   c. are moving toward common ground in their accounting for impairments of assets held for disposal.
   d. are moving further apart in their accounting for impairments of assets held for disposal.

9. Under iGAAP, costs in the development phase are
   a. never capitalized, but expensed as they are under U.S. GAAP.
   b. capitalized if they exceed development phase costS incurred for previously successful ventures.
   c. capitalized once technological feasibility is achieved.
   d. capitalized on an interim basis, but then expensed prior to the end of the company's fiscal year.

Answers to Multiple Choice:

1. b
2. d
3. a
4. d
5. d
6. c
7. c
8. c
9. c

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Short Answer

1. Briefly describe some of the similarities and differences between U.S. GAAP and iGAAP with respect to the accounting for intangible assets.

   1. **Similarities** include (1) in U.S. GAAP and iGAAP, the costs associated with research and development are segregated into the two components; (2) iGAAP and U.S. GAAP are similar for intangibles acquired in a business combination. That is, an intangible asset is recognized separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged; (3) Under both GAAPs, limited life intangibles are subject to amortization, but goodwill indefinite life intangibles are not amortized; rather they are assessed for impairment on an annual basis; (4) iGAAP and U.S. GAAP are similar in the accounting for impairments of assets held for disposal.

   Notable **differences** are: (1) while costs in the research phase are always expensed under both iGAAP and U.S. GAAP, under iGAAP costs in the development phase are capitalized once technological feasibility is achieved; (2) iGAAP permits some capitalization of internally generated intangible assets (e.g. brand value), if it is probable there will be a future benefit and the amount can be reliably measured. U.S. GAAP requires expensing of all costs associated with internally generated intangibles; (3) iGAAP requires an impairment test at each reporting date for long-lived assets and intangibles and records an impairment if the asset's carrying amount exceeds its recoverable amount; the recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the future cash flows to be derived from the particular asset, discounted to present value. Under U.S. GAAP, impairment loss is measured as the excess of the carrying amount over the asset's fair value; (4) iGAAP allows reversal of impairment losses when there has been a change in economic conditions or in the expected use of the asset. Under U.S. GAAP, impairment losses cannot be reversed for assets to be held and used; the impairment loss results in a new cost basis for the asset; (5) under iGAAP, acquired in-process research and development (IPR&D) is recognized as a separate intangible asset if it meets the definition of an intangible asset and its fair value can be measured reliably. U.S. requires acquired IPR&D to be written off.

2. Briefly discuss the convergence efforts that are underway in the area of intangible assets.

   2. The IASB and FASB have identified a project relating to the accounting for research and development that could possibly converge iGAAP and U.S. GAAP on the issue of in-process R&D. One possibility is to amend U.S. GAAP to allow capitalization of in-process R&D similar to the provisions in iGAAP. A second project, in a very preliminary stage, would consider expanded recognition of internally generated intangible assets. As indicated, iGAAP permits more recognition of intangibles compared to U.S. GAAP. Thus, it will be challenging to develop converged standards for intangible assets, given the long-standing prohibition on capitalizing intangible assets and research and development in U.S. GAAP.

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