Intangible Assets
They lack physical existence (like rights and privileges do). They are not financial instruments. They are long-term assets.

Valuation of Intangibles
- Recorded at cost (if exchanged for stock—fair value)
- Internally generated: the cost to create intangibles expensed as incurred
  - Capitalized direct costs if spent to obtain

Amortization of Intangibles
- If limited life: amortized; If indefinite life: not amortized
- Useful life depends on several factors
  1. Expected use
  2. Life of a related group
  3. Renewal or extension
  4. Legal, regulatory or contractual limits
  5. Obsolescence, demand, competition, etc
  6. Maintenance level

JE: Amortization expense xxx
Asset (carrying value) or Accumulated Amortization xxx

***Salvage value is assumed to be zero unless intangible has value to another entity. It is impaired if carrying amount exceeds fair value and is non-recoverable. Intangibles with indefinite life, if impaired, only compare fair value with the carrying amount.

Types of Intangibles
- Marketing-related
  - Trademark/trade name: rests with original user as long as it is used
  - Registration w/ the US patent & trademark office is renewable every 10 years
  - Capitalizable cost= purchase price + attorney, consulting & registration fees + design cost + legal defense
- Customer related
- Artistic related
  - Plays, literature, music, pictures, photos, video, and audiovisual
  - Protected by copyright (a federal grant for life of author plus 70 yrs).
  - Copyrights are not renewable
  - They give the right to reproduce and sell
  - Research and development is expensed when incurred
  - Acquisition and defense costs are capitalized
- Contract related
  - Franchise: right to sell, use trademark, in a certain area
  - License: usually from municipality to private business
    - Ferry, telephone, electric lines, bus lines, air waves
  - Franchise and license cost with a limited life are amortized over life
- Technology related (Innovations)
  - Patent: right to use, manufacture and sell a product/process for 20 years
  - Purchase price is the cost; along with attorney’s fees, cost is capitalizable and are amortized over legal or useful life (shorter)
  - Research and development are expensed when incurred

JE: Patents xxx
Cash xxx
To record patent purchase

Patent Amortization Expense xxx
Patents xxx

Periodic amortization
- Modifications or additions can result in a new patent
- If impaired/worthless (i.e. no demand) → expensed or written down