PLANT ACCOUNTING:
ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS

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I. INTRODUCTION

In June 2007, the Governmental Accounting Standards Board (GASB) issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires capitalization of identifiable intangible assets and provides guidance for amortization of intangible assets. Examples of intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets can be purchased or licensed, acquired through non-exchange transactions, or internally-generated.

II. DEFINITION OF INTANGIBLE ASSETS

As asset is categorized as an intangible asset if it includes all of the following characteristics:

- Unit acquisition value of $5,000 or more
- Normal (useful) life of greater than one year
- Lack of physical substance: An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance. (GASB 51, ¶2a)
- Assets of non-financial nature: An asset that is not in a monetary form similar to cash and investment securities, and represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services. (GASB 51, ¶2b)

Intangible assets can be purchased or licensed, acquired through non-exchange transactions, or internally-generated. Intangible assets include:

- Easements
- Land rights, including water, mineral and timber rights
- Copyrights (as qualified below)
- Patents (as qualified below)
- Trademarks (as qualified below)
- Computer software (as further defined in Section III.E)
- Good will
- Covenants not to compete

Copyrights, patents and trademarks should be classified and recorded as intangible assets only if they are acquired for the primary purpose of enhancing the quality of operational services of the University. Copyrights, patents and trademarks not meeting this definition should not be classified as intangible assets (see Section III for more information).

III. GENERAL APPROACH

GASB Statement No. 51 requires intangible assets to be classified as capital assets. Intangible assets received in a non-exchange transaction should be recorded at their estimated fair value at the time of acquisition plus ancillary charges, if any.

Items of intangible assets will be reported by the campuses to the Office of the President annually in the CFS-AST file (see Accounting Manual Chapter P-415-3, *Plant Accounting: Capitalization and Elimination in Current Funds*). This file is used to gather the information on capital assets to determine the annual depreciation and amortization for the year.

Intangible assets will be amortized using the UCOP Corporate Asset Depreciation (DPR) system and will follow the depreciation procedures in place for other Capital Asset Account Number (CAAN)-based assets (see Accounting Manual Chapter P-415-3.1, *Plant Accounting: Investment in Plant—Depreciation*).

III. GENERAL APPROACH (continued)

In accordance with the policies for other capital assets, the University will apply a “mid-year convention” to intangible assets to calculate the annual amortization expense. Annual amortization will be calculated for all intangible assets acquired between January 1 and December 31 (see Accounting Manual Chapter P-415-3).

A. Assigning CAAN Numbers

Generally, a unique CAAN should be assigned and used to record each item of intangible assets. A unique CAAN is necessary in order to assign a specific useful life to each item. Some classifications of intangible assets may be recorded in aggregate using a common CAAN number, but most cannot be recorded in aggregate, since each item will have varying useful lives (e.g., copyrights, patents, trademarks).

Note: Campuses should inventory software with unit or system cost of $5 million or less, in aggregate and not on an itemized basis. Software with unit or system cost greater than $5 million may be inventoried either in aggregate or on an itemized basis, as appropriate. Each campus must, at a minimum, establish separate CAANs for each classification of software. See Section III.E for additional information on software.

The following chart summarizes the use of CAANs for some intangible asset categories:

Classification of Intangible Assets	Assign Unique CAAN per Item/Unit?
Easements	No, if indefinite life Yes, if limited life
Land Rights	No, if indefinite life Yes, if limited life
Patents–Purchased	Yes
Patents–Internally-generated	Yes
Trademarks–Purchased	Yes
Trademarks–Internally-generated	Yes

Classification of Intangible Assets	Assign Unique CAAN per Item/Unit?
Software > $5 million–Purchased	Campus option: Campuses may assign unique CAAN per item or system, or may use a single CAAN for all software in this category. Use of a separate CAAN per item or system will enable the campus to assign specific useful life for amortization.
Software > $5 million–Internally-generated	Campus option: Campuses may assign unique CAAN per item or system, or may use a single CAAN for all software in this category. Use of a separate CAAN per item or system will enable the campus to assign specific useful life for amortization.
Software ≤ $5 million–Purchased	No, a unique CAAN per item should not be assigned. Rather, a single CAAN should be used for all software in this category.
Software ≤ $5 million–Internally-generated	No, a unique CAAN per item should not be assigned. Rather, a single CAAN should be used for all software in this category.

B. Assigning Useful Lives

Intangible assets will have various useful lives, depending on the facts of circumstances of the asset. Therefore, the useful life to be assigned to each item of intangible asset will be collected each year through the Useful Life Override (ULO) system.

The ULO will recognize and accept cases where the useful life may be indefinite, resulting in no amortization for that item to be calculated.

III. GENERAL APPROACH

B. Assigning Useful Lives(continued)

Software will not require an override useful life and will be excluded from the ULO system. Software has been assigned default useful lives of either three or seven years (see Accounting Manual Chapter P-415-3.1).

C. Accounting Codes for Intangible Assets

Accounting codes have been established for intangible assets. For details refer to Accounting Manual Chapters A-115-2, *Accounting Codes: General Ledger* and A-115-3, *Accounting Codes: Transaction Codes for Fund Balance Accounts*.

D. Approach to Copyrights, Patents and Trademarks

GASB Statement No. 51 requires the classification of copyrights, patents and trademarks as intangible assets under specific circumstances. For the University, these circumstances should be very rare. In most cases, the cost of research and development associated with the internal development of copyrights, patents and trademarks will be expensed. Patents may be classified as intangible assets only if the patents are acquired specifically to improve the quality of the University's future operating services.

Patents, trademarks and copyrights, classified as intangible assets, will be capitalized and amortized in accordance with established policy and procedures for capital assets.

The University will classify and report copyrights, patents and trademarks as investments when they are acquired for the primary purpose of generating passive income. Copyrights, patents and trademarks classified as investments will be recorded at lower of cost or fair value at the time of acquisition or completion (for internally-developed items). Since fair value cannot be determined until income is realized, the investment must be recorded at zero fair value unless income has also been realized.

Expenditures made to develop and acquire copyrights, patents and trademarks that are not classified as intangible assets or as investments will be recorded as operating expense, in accordance with FAS No. 2.

Exhibit 1 provides an overview of the University’s approach to classifying and recording copyrights, patents and trademarks.

E. Approach to Computer Software

Computer software is categorized into two classes and capitalized as capital assets:

- Software with unit or system cost of $5 million or less is capitalized and amortized over three years. Only the external cost of acquisition is capitalized for this class of software.
- Software with unit or system cost of over $5 million is capitalized and amortized over seven years. The capitalized cost of this class of software includes *internal and external* cost of acquisition and development.

Additional information is available in Accounting Manual Chapter P-415-3 and IRM No. 51.2, *Intangible Assets–Software Issues*.

Exhibit 2 provides an overview of the University’s approach to classifying and recording computer software.

F. Internally-Generated Intangible Assets

Intangible assets are considered internally-generated if they are created or produced by the University, or if they are acquired from a third party, but require more than minimal incremental effort on the part of the University to begin to achieve their expected level of service capacity. Examples of internally-generated intangible assets include patents, trademarks and computer software.

III. GENERAL APPROACH

F. Internally-Generated Intangible Assets (continued)

Outlays incurred for the development of an internally-generated intangible asset should be capitalized only upon occurrence of all of the following:

- Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon completion of the project.
- Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.
- Demonstration of the current intention, ability and presence of effort to complete or, in the case of a multi-year project, continue development of the intangible asset. Evidence of intention, ability and presence of effort to complete the intangible asset may include budgetary commitments for funding the project, reference to the project in strategic planning documents, commitments with external parties to assist in the creation of the intangible asset and efforts to secure the University's legal rights to the projects.

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred.

1. Internally-Generated Computer Software

Computer software is considered internally-generated if it is developed in-house by University employees or by a third-party contractor on behalf of the University. Commercially available software that is purchased or licensed by the University and modified using more than minimal incremental effort before being put into operation also should be considered internally-generated. For example, licensed financial accounting software that the University modifies to add special reporting capabilities would be considered internally-generated.

Additional information is available in Accounting Manual Chapter P-415-3 and IRM No. 51.2.

2. Internally-Generated Copyrights, Trademarks or Patents

The University will capitalize the internal development costs of copyrights, trademarks and patents that are generated specifically to improve the quality of the University's future services. Internally-generated costs shall include the internal development costs, as well as the administrative costs required to obtain the copyright, trademark or patent.

IV. IMPAIRMENT OF INTANGIBLE ASSETS

Intangible assets are subject to impairment loss when their service utility has declined significantly and unexpectedly. See Accounting Manual Chapter P-415-4, *Plant Accounting: Investment in Plant–Impairment of Capital Assets and Insurance Recoveries*, for additional information on impairments.

V. REFERENCES

GASB Statement No. 51, Issues Resolution Memoranda 51.1, 51.2, and 51.3.

Accounting Manual Chapters:

A-115-2	Accounting Codes: General Ledger
A-115-3	Accounting Codes: Transaction Codes for Fund Balances Accounts
P-415-3.1	Plant Accounting: Investment in Plant—Depreciation
P-415-4	Plant Accounting: Investment in Plant–Impairment of Capital Assets and Insurance Recoveries

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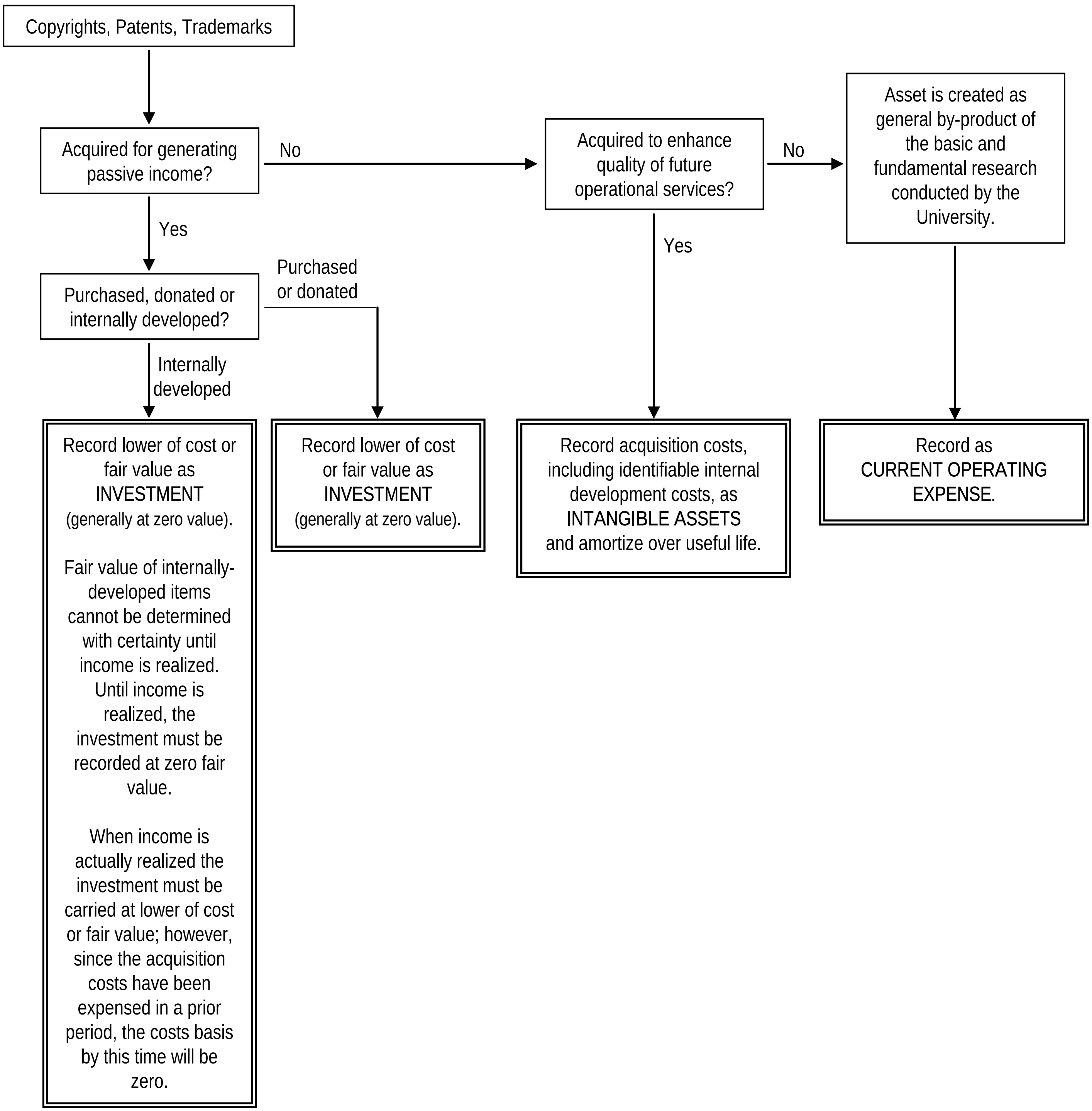
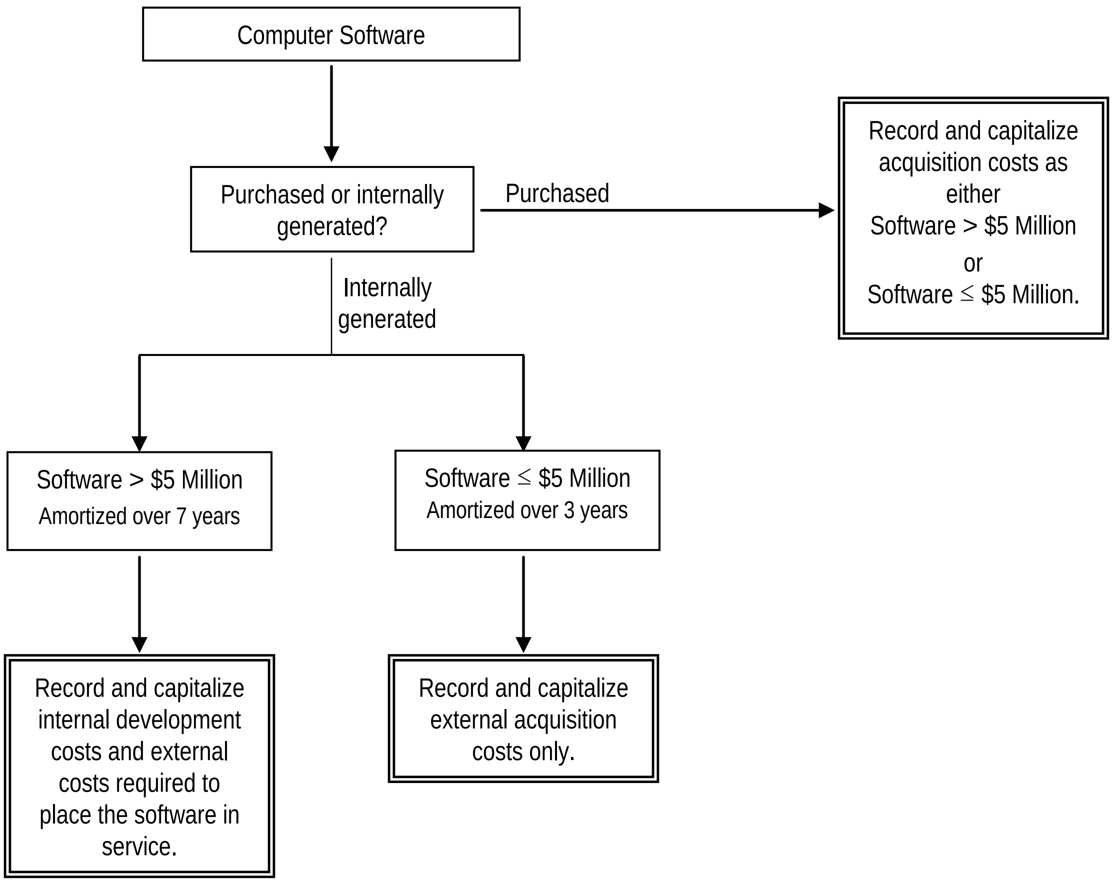
EXHIBIT 1: Classifying and Recording Copyrights, Patents and Trademarks



Note: A unique CAAN number must be assigned to identify each item of asset.

EXHIBIT 2: Classifying and Recording Computer Software



Note: A unique CAAN number may be assigned to identify each item or system of software. Alternatively, a single CAAN number may be assigned to identify all software of $5 million or less and another single CAAN number may be assigned to all software greater than $5 million.

End.