

GASB 51

Accounting and Financial Reporting for Intangible Assets



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Summary

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- Description of Intangible Assets
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- Common Types of Intangible Assets
- Basic Guidance
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- Internally Generated Intangible Assets



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Summary – Cont.

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- Amortization of Intangible Assets
- Impairment Indicators



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Effective Date

- Statement No. 51 is effective for fiscal period ending June 30, 2010.
- Retroactive reporting is required for intangible assets except for those considered to have indefinite useful lives and those considered to be internally generated.



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Intangible Asset Description

- An intangible asset is an asset that posses all of the following characteristics:
 - Lack of physical substance
 - Nonfinancial nature
 - Initial useful life extending beyond a single reporting period



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Lack of Physical Substance

An asset may be contained IN or ON an item with physical substance

- Computer software on a compact disc

An asset may be closely associate with another item that has a physical substance

- A right-of-way easement on top of land



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Nonfinancial Nature

- An asset that is not in monetary form similar to cash and investment securities
- An asset that represents neither a claim or right to assets in a monetary form similar to receivables nor a prepayment for goods or services



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Common Types of Intangible Assets

- Right-of-way easements
- Other types of easements
- Patents, copyrights, trademarks
- Land use rights
- Licenses and permits
- Computer software
 - Purchased or licensed
 - Internally generated



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Basic Guidance

- All intangible assets subject to GASB 51 should be classified as capital assets:
 - All existing authoritative guidance related to capital assets should be applied to these intangible assets
 - Since considered capital assets, not reported as assets in modified accrual financial statements



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Basic Guidance - Cont.

- Scope exceptions:
 - Intangible assets acquired or created primarily for directly obtaining income or profit
 - Capital leases
 - Goodwill from a combination transaction



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Intangible Asset Recognition

- An intangible asset should be recognized on if it is “identifiable”:
- Asset is separable, i.e., capable of being separated and sold, transferred, licensed, etc.

-OR-

- Asset arises from contractual or legal rights, regardless of whether rights are separable



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Internally Generated Intangible Assets

- Internally generated intangible assets are assets that are:
- Created or produced by the government or an entity contracted by the government or
- Acquired from a third party but require more than minimal incremental effort to achieve expected service capacity
- GASB 51 provides a specified-conditions approach to capitalizing outlays



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Internally Generated Intangible Assets

- Outlays considered identifiable should be capitalized ONLY upon the 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 asset upon completion of the project



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Internally Generated Intangible Assets

- Demonstration of the technical feasibility for completing the project so that the 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 multiyear project, continue development of the intangible asset.



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Internally Generated Intangible Assets

- Outlays incurred prior to meeting criteria should be expensed as incurred



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Internally Generated Computer Software

Computer software is a common type of intangible asset that is often internally generated.

Computer software should be considered internally generated if:

- It is developed in-house by the government's personnel OR
- It is developed by a third-party contractor on behalf of the government



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Internally Generated Computer Software - Cont.

- It is commercially available software that is purchased or licensed by the government and modified using *more than incremental effort* before being put into operation (i.e., licensed financial accounting software that the government modifies to add special reporting capabilities)



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Internally Generated Computer Software - Cont.

Activities involved in developing and installing internal generated computer software can be grouped into the following steps:

- a) Preliminary Project Stage
- b) Application Development Stage
- c) Post-Implementation/Operation Stage



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Internally Generated Computer Software - Cont

The criteria noted on the previous slide should be considered met only when both of the following occur:

- a) The activities noted in the preliminary project stage are completed
- b) Management implicitly or explicitly authorizes and commits to funding, at least in the case of a multiyear project, the software project.



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Internally Generated Computer Software - Cont

Accordingly, outlays associated with activities in the PRELIMINARY PROJECT STAGE should be expensed as incurred.

For commercially available software that will be modified to the point that it is considered “internally generated”, (a) and (b) on the previous slide generally would be considered to have occurred upon the commitment to purchase or license the computer software.



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Internally Generated Computer Software - Cont

- Once the criteria noted on the previous slides are met, outlays related to activities in the APPLICATION DEVELOPMENT STAGE should be capitalized.
- Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational.



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Internally Generated Computer Software - Cont

- Outlays associated with activities in the POST-IMPLEMENTATION/OPERATION STAGE should be expensed as incurred
- Application Training
- Software Maintenance
- Employee Training
- Data Conversion



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Internally Generated Computer Software - Cont

Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized if the modification results in ANY of the following:



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Internally Generated Computer Software - Cont

- a) An increase in the functionality of the computer software,
- b) An increase in the efficiency of the computer software, or
- c) An extension of the estimated useful life of the software.

If the modification does not result in any of the above outcomes, the modification should be expensed as incurred.



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Amortization of Intangible Assets

Existing guidance for depreciation of capital assets generally applies to amortizing intangible assets.

Exception for intangible assets with indefinite useful lives:

- No factors currently exist that limit the useful life of the asset.
- Intangible assets with indefinite useful lives should not be amortized.



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Impairment Indicator

In addition to impairment indicators described in GASB 42, a common indicator of impairment of internally generated intangible assets is development stoppage, such as stoppage of development of computer software due to a change in the priorities of management.



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