APB 17: Intangible Assets

Issued: August 1970

Effective Date: For intangible assets acquired after October 31, 1970

Affects: Deletes prospectively ARB 43, Chapter 5, paragraphs 1 through 9
        Deletes APB 6, paragraph 15

Affected by: Paragraph 6 amended by FAS 2, paragraph 4
             Paragraph 7 deleted by FAS 71, paragraph 26(g)
             Paragraph 29 amended by FAS 72, paragraph 12
             Paragraph 30 amended by FAS 72, paragraph 12; FAS 96, paragraph 205(d); and
             FAS 109, paragraph 288(e)
             Paragraph 31 amended by APB 30, paragraph 7; FAS 72, paragraph 12; FAS 121,
             paragraph 21; and FAS 135, paragraph 4(d)
             Superseded by FAS 142, paragraph D1(a)

Other Interpretive Pronouncements: AIN-APB 17, Interpretations No. 1 and 2 (Superseded by
                                    FAS 142)
                                    FIN 9

AICPA Accounting Standards Executive Committee (AcSEC)

Related Pronouncement: SOP 88-1

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: No EITF Issues

Interpreted by: Paragraph 9 interpreted by EITF Issue No. 85-8
                Paragraph 24 interpreted by EITF Issue No. 97-13
                Paragraph 26 interpreted by EITF Issue No. 88-20

Related Issues: EITF Issues No. 85-42 and 93-1

SUMMARY

Problem

1. An enterprise may acquire intangible assets from others or may develop them itself. Many kinds of intangible assets may be identified and given reasonably descriptive names, for example, patents, franchises, trademarks, and the like. Other types of intangible assets lack specific identifiability. Both identifiable and unidentifiable assets may be developed internally. Identifiable intangible assets may be acquired singly, as a part of a group of assets, or as part of an entire enterprise, but unidentifiable assets cannot be acquired singly. The excess of the cost of
an acquired company over the sum of identifiable net assets, usually called goodwill, is the most common unidentifiable intangible asset.

2. Accounting for an intangible asset involves the same kinds of problems as accounting for other long-lived assets, namely, determining an initial carrying amount, accounting for that amount after acquisition under normal business conditions (amortization), and accounting for that amount if the value declines substantially and permanently. Solving the problems is complicated by the characteristics of an intangible asset: its lack of physical qualities makes evidence of its existence elusive, its value is often difficult to estimate, and its useful life may be indeterminable.

3. The Director of Accounting Research of the American Institute of Certified Public Accountants has published Accounting Research Study No. 10, *Accounting for Goodwill*, by George R. Catlett and Norman O. Olson. The study emphasizes accounting for goodwill acquired in a business combination but also discusses accounting for goodwill developed internally. The study cites the supporting authoritative pronouncements and their influences on accounting practices and evaluates the effects of practices on financial reporting.

**Scope and Effect of Opinion**

4. The Board has considered the conclusions and recommendations of Accounting Research Study No. 10, the discussions of the appropriateness of accepted methods of accounting for intangible assets, and proposals for alternative accounting procedures. The Board expresses in this Opinion its conclusions on accounting for intangible assets.

5. This Opinion covers the accounting for both identifiable and unidentifiable intangible assets that a company acquires, including those acquired in business combinations. "Company" in this Opinion refers to both incorporated and unincorporated enterprises. The conclusions of the Opinion apply to intangible assets recorded, if any, on the acquisition of some or all of the stock held by minority stockholders of a subsidiary company. This Opinion also covers accounting for costs of developing goodwill and other unidentifiable intangible assets with indeterminate lives.

6. The provisions of this Opinion apply to costs of developing identifiable intangible assets that a company defers and records as assets. Some companies defer costs incurred to develop identifiable intangible assets while others record the costs as expenses as incurred. Certain costs, for example, preoperating costs, present problems which need to be studied separately. The question of deferral of those costs is beyond the scope of this Opinion.

7. [This paragraph has been deleted. See Status page.]

8. The conclusions of this Opinion modify previous views of the Board and its predecessor, the Committee on Accounting Procedure. This Opinion therefore supersedes the following Accounting Research Bulletin (ARB) and Opinion of the Accounting Principles Board (APB):

ARB No. 43, Chapter 5, *Intangible Assets*, except paragraph 10 which is superseded by
Conclusions

9. The Board concludes that a company should record as assets the costs of intangible assets acquired from others, including goodwill acquired in a business combination. A company should record as expenses the costs to develop intangible assets which are not specifically identifiable. The Board also concludes that the cost of each type of intangible asset should be amortized by systematic charges to income over the period estimated to be benefited. The period of amortization should not, however, exceed forty years.

BACKGROUND

Bases of Classification

10. Various intangible assets differ in their characteristics, their useful lives, their relations to operations, and their later dispositions. Intangible assets may be classified on several different bases:

- Identifiability - separately identifiable or lacking specific identification.
- Manner of acquisition - acquired singly, in groups, or in business combinations or developed internally.
- Expected period of benefit - limited by law or contract, related to human or economic factors, or indefinite or indeterminate duration.
- Separability from an entire enterprise - rights transferable without title, salable, or inseparable from the enterprise or a substantial part of it.

Present Accounting

Accounting for Costs at Acquisition

11. Present principles of accounting for intangible assets are generally similar to those for tangible, long-lived assets such as property, plant, and equipment. Intangible assets acquired from other entities are recorded at cost when acquired. Costs incurred to develop specifically identifiable intangible assets are often recorded as assets if the periods of expected future benefit are reasonably determinable. Costs of developing other intangible assets are usually recorded as expenses when incurred.

Accounting for Deferred Costs After Acquisition

12. Intangible assets have been divided into two classes for purposes of accounting for their costs: (a) those with a determinable term of existence because it is limited by law, regulation, or
agreement, or by the nature of the asset, and (b) those having no limited term of existence and no indication of limited life at the time of acquisition. The cost of a type (a) intangible asset is amortized by systematic charges to income over the term of existence or other period expected to be benefited. The cost of a type (b) intangible asset may be treated in either of two ways: (1) the cost may be retained until a limit on the term of existence or a loss of value is evident, at which time the cost is amortized systematically over the estimated remaining term of existence or, if worthless, written off as an extraordinary item in the income statement, or (2) the cost may be amortized at the discretion of management by charges to income even though no present evidence points to a limited term of existence or a loss of value.

13. The cost of an intangible asset, including goodwill acquired in a business combination, may not be written off as a lump sum to capital surplus or to retained earnings nor be reduced to a nominal amount at or immediately after acquisition (ARB No. 43, Chapter 5, and APB Opinion No. 9).

Criticism of Present Practice

14. Present accounting for goodwill and other unidentifiable intangible assets is often criticized because alternative methods of accounting for costs are acceptable. Some companies amortize the cost of acquired intangible assets over a short arbitrary period to reduce the amount of the asset as rapidly as practicable, while others retain the cost as an asset until evidence shows a loss of value and then record a material reduction in a single period. Selecting an arbitrary period of amortization is criticized because it may understate net income during the amortization period and overstate later net income. Retaining the cost as an asset is criticized because it may overstate net income before the loss of value is recognized and understate net income in the period of write-off.

Appraisal of Alternative Procedures

Cost of Intangible Assets

15. The cost of intangible assets acquired either singly or in groups, including intangible assets acquired in a business combination, from other businesses or individuals is determined by general principles of the historical-cost basis of accounting. The costs of developing goodwill and other intangible assets with indeterminate lives are ordinarily not distinguishable from the current costs of operations and are thus not assignable to specific assets.

Treatment of Costs

16. Costs of intangible assets which have fixed or reasonably determinable terms of existence are now amortized by systematic charges to income over their terms of existence. Differences of opinion center on the amortization of acquired intangible assets with lives which cannot be estimated reliably either at the date of acquisition or perhaps long after, for example, goodwill and trade names.

17. The literature on business combinations and goodwill, including Accounting Research Study No. 10, *Accounting for Goodwill*, contains at least four possible accounting treatments of
goodwill and similar intangible assets:

a. Retain the cost as an asset indefinitely unless a reduction in its value becomes evident.
b. Retain the cost as an asset but permit amortization as an operating expense over an arbitrary period.
c. Retain the cost as an asset but require amortization as an operating expense over its estimated limited life or over an arbitrary but specified maximum and minimum period.
d. Deduct the cost from stockholders' equity at the date acquired.

18. *Arguments for nonamortization.* The two of the four accounting proposals which do not involve amortization of goodwill as an operating expense are based in part on the contention that goodwill value is not consumed or used to produce earnings in the same manner as various property rights, and therefore net income should not be reduced by amortization of goodwill. Further, net income should not be reduced by both amortization of goodwill and current expenditures that are incurred to enhance or maintain the value of the acquired intangible assets. All methods of amortizing goodwill are criticized as arbitrary because the life of goodwill is indefinite and an estimated period of existence is not measurable.

19. The basis for proposing that the cost of goodwill be retained as an asset until a loss in value becomes evident is that the cost incurred for acquired goodwill should be accounted for as an asset at the date acquired and in later periods. The cost should not be reduced as long as the value of the asset is at least equal to that cost.

20. The basis for proposing that the cost of goodwill be deducted from stockholders' equity at the date acquired is that the nature of goodwill differs from other assets and warrants special accounting treatment. Since goodwill attaches only to a business as a whole and its value fluctuates widely for innumerable reasons, estimates of either the terms of existence or current value are unreliable for purposes of income determination.

**Accounting on the Historical-Cost Basis**

21. All assets which are represented by deferred costs are essentially alike in historical-cost based accounting. They result from expenditures or owners' contributions and are expected to increase revenue or reduce costs to be incurred in future periods. If future benefit or the period to be benefited is questionable, the expenditure is usually treated as a current expense and not as a deferred cost. Associating deferred costs with the revenue or period to which they are expected to relate is a basic problem in historical-cost based accounting both in measuring periodic income and in accounting for assets. The basic accounting treatment does not depend on whether the asset is a building, a piece of equipment, an element of inventory, a prepaid insurance premium, or whether it is tangible or intangible. The cost of goodwill and similar intangible assets is therefore essentially the same as the cost of land, buildings, or equipment under historical-cost based accounting. Deducting the cost of an asset from stockholders' equity (either retained earnings or capital in excess of par or stated value) at the date incurred does not match costs with revenue.

22. Accounting for the cost of a long-lived asset after acquisition normally depends on its estimated life. The cost of assets with perpetual existence, such as land, is carried forward as an
asset without amortization, and the cost of assets with finite lives is amortized by systematic charges to income. Goodwill and similar intangible assets do not clearly fit either classification; their lives are neither infinite nor specifically limited, but are indeterminate. Thus, although the principles underlying present practice conform to the principles of accounting for similar types of assets, their applications have led to alternative treatments. Amortizing the cost of goodwill and similar intangible assets on arbitrary bases in the absence of evidence of limited lives or decreased values may recognize expenses and decreases of assets prematurely, but delaying amortization of the cost until a loss is evident may recognize the decreases after the fact.

A Practical Solution

23. A solution to this dilemma is to set minimum and maximum amortization periods. This accounting follows from the observation that few, if any, intangible assets last forever, although some may seem to last almost indefinitely. Allocating the cost of goodwill or other intangible assets with an indeterminate life over time is necessary because the value almost inevitably becomes zero at some future date. Since the date at which the value becomes zero is indeterminate, the end of the useful life must necessarily be set arbitrarily at some point or within some range of time for accounting purposes.

OPINION

Acquisition of Intangible Assets

24. The Board concludes that a company should record as assets the costs of intangible assets acquired from other enterprises or individuals. Costs of developing, maintaining, or restoring intangible assets which are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to an enterprise as a whole - such as goodwill - should be deducted from income when incurred.

25. Cost of intangible assets. Intangible assets acquired singly should be recorded at cost at date of acquisition. Cost is measured by the amount of cash disbursed, the fair value of other assets distributed, the present value of amounts to be paid for liabilities incurred, or the fair value of consideration received for stock issued as described in paragraph 67 of APB Opinion No. 16.

26. Intangible assets acquired as part of a group of assets or as part of an acquired company should also be recorded at cost at date of acquisition. Cost is measured differently for specifically identifiable intangible assets and those lacking specific identification. The cost of identifiable intangible assets is an assigned part of the total cost of the group of assets or enterprise acquired, normally based on the fair values of the individual assets. The cost of unidentifiable intangible assets is measured by the difference between the cost of the group of assets or enterprise acquired and the sum of the assigned costs of individual tangible and identifiable intangible assets acquired less liabilities assumed. Cost should be assigned to all specifically identifiable intangible assets; cost of identifiable assets should not be included in goodwill. Principles and procedures of determining cost of assets acquired, including intangible assets, are discussed in detail in paragraphs 66 to 89 of APB Opinion No. 16, Business Combinations.
Amortization of Intangible Assets

27. The Board believes that the value of intangible assets at any one date eventually disappears and that the recorded costs of intangible assets should be amortized by systematic charges to income over the periods estimated to be benefited. Factors which should be considered in estimating the useful lives of intangible assets include:

a. Legal, regulatory, or contractual provisions may limit the maximum useful life.
b. Provisions for renewal or extension may alter a specified limit on useful life.
c. Effects of obsolescence, demand, competition, and other economic factors may reduce a useful life.
d. A useful life may parallel the service life expectancies of individuals or groups of employees.
e. Expected actions of competitors and others may restrict present competitive advantages.
f. An apparently unlimited useful life may in fact be indefinite and benefits cannot be reasonably projected.
g. An intangible asset may be a composite of many individual factors with varying effective lives.

The period of amortization of intangible assets should be determined from the pertinent factors.

28. The cost of each type of intangible asset should be amortized on the basis of the estimated life of that specific asset and should not be written off in the period of acquisition. Analysis of all factors should result in a reasonable estimate of the useful life of most intangible assets. A reasonable estimate of the useful life may often be based on upper and lower limits even though a fixed existence is not determinable.

29. The period of amortization should not, however, exceed forty years. Analysis at the time of acquisition may indicate that the indeterminate lives of some intangible assets are likely to exceed forty years and the cost of those assets should be amortized over the maximum period of forty years, not an arbitrary shorter period.\textsuperscript{1a}

30. Method of amortization. The Board concludes that the straight-line method of amortization - equal annual amounts - should be applied unless a company demonstrates that another systematic method is more appropriate.\textsuperscript{1b} The financial statements should disclose the method and period of amortization.

31. Subsequent review of amortization. [Identifiable intangible assets not covered by FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and goodwill not identified with assets that are subject to an impairment loss shall be evaluated as follows.] A company should evaluate the periods of amortization continually to determine whether later events and circumstances warrant revised estimates of useful lives. If estimates are changed, the unamortized cost should be allocated to the increased or reduced number of remaining periods in the revised useful life but not to exceed forty years after acquisition.\textsuperscript{1c} Estimation of value and future benefits of an intangible asset may indicate that the unamortized cost should be reduced significantly by a deduction in determining net income. However, a single loss year or even a few loss years together do not necessarily justify an unusual charge to
income for all or a large part of the unamortized cost of intangible assets. The reason for an unusual deduction should be disclosed.

**Disposal of Goodwill**

32. Ordinarily goodwill and similar intangible assets cannot be disposed of apart from the enterprise as a whole. However, a large segment or separable group of assets of an acquired company or the entire acquired company may be sold or otherwise liquidated, and all or a portion of the unamortized cost of the goodwill recognized in the acquisition should be included in the cost of the assets sold.

**EFFECTIVE DATE**

33. The provisions of this Opinion shall be effective to account for intangible assets acquired after October 31, 1970. Intangible assets recognized in business combinations initiated before November 1, 1970 and consummated on or after that date under the terms prevailing on October 31, 1970 may be accounted for in accordance with this Opinion or Chapter 5 of ARB No. 43 and APB Opinion No. 9.

34. The provisions of this Opinion should not be applied retroactively to intangible assets acquired before November 1, 1970, whether in business combinations or otherwise.

35. The Board encourages the application on a prospective basis to all intangible assets held on October 31, 1970 of the provisions in paragraphs 27 to 31 of this Opinion which require amortization of all intangible assets. Unless the provisions of this Opinion are applied prospectively, the accounting for intangible assets held on October 31, 1970 should be in accordance with Chapter 5 of ARB No. 43 as modified by APB Opinion No. 9.

*The Opinion entitled “Intangible Assets” was adopted by the assenting votes of thirteen members of the Board. Messrs. Burger, Catlett, Davidson, Hellerson, and Horngren dissented.*

Mr. Catlett dissents to this Opinion because he believes that goodwill should never be shown as an asset in the balance sheet and should never be amortized as a charge to income. In his view, goodwill, regardless of the form of consideration paid for it, reflects values brought about by investor expectations attributable to a multitude of factors. Such values fluctuate frequently and widely, and the changes do not occur in any rational, predictable manner. Thus, there is no continuing relationship between the value of goodwill and its cost. Goodwill does not have a demonstrable useful life; and its expiration, if any, cannot be related on any logical basis to the operating revenues of particular periods. If goodwill values from an earlier date and for only a portion of a combined company, and the arbitrary amortization of such values, are reflected in financial statements, an unwarranted responsibility is placed upon investors to make proper allowance for this misstatement of assets and distortion of earnings in appraising the earning power and the value of the combined company, including all of its goodwill, on a current basis. Mr. Catlett believes that the lack of recognition by the Accounting Research Study No. 10, has resulted in conclusions which adversely affect the development of sound accounting principles far beyond the accounting for goodwill. He also believes this Opinion demonstrates in
In a dramatic manner the urgent need for the Accounting Principles Board to define clearly the objectives of financial statements if it is to deal successfully with basic accounting problems.

Messrs. Burger, Davidson, Hellerson, and Horngren dissent to the required amortization of goodwill and other intangible assets (for example, perpetual franchises) having indeterminate lives. Whether amortization is appropriate depends on the particular circumstances of each case, including the evidence of increases or decreases in the value of such assets. In some cases, the facts may indicate maintenance or enhancement rather than diminution of value of the intangibles. In such cases, amortization is inappropriate. In other cases, the useful life may be determinable; then the cost should be amortized by systematic charges to income over the estimated period of usefulness. In all cases, the amortization of intangible assets should be used on professional judgment, rather than arbitrary rules.

**APB 17 NOTES**

Opinions of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board, which is the senior technical body of the Institute authorized to issue pronouncements on accounting principles.

Board Opinions are considered appropriate in all circumstances covered but need not be applied to immaterial items.

Covering all possible conditions and circumstances in an Opinion of the Accounting Principles Board is usually impracticable. The substance of transactions and the principles, guides, rules, and criteria described in Opinions should control the accounting for transactions not expressly covered.

Unless otherwise stated, Opinions of the Board are not intended to be retroactive.

Council of the Institute has resolved that Institute members should disclose departures from Board Opinions in their reports as independent auditors when the effect of the departures on the financial statements is material or see to it that such departures are disclosed in notes to the financial statements and, where practicable, should disclose their effects on the financial statements. (Special Bulletin, Disclosure of Departures from Opinions of the Accounting Principles Board, October 1964). Members of the Institute must assume the burden of justifying any such departures.

**Accounting Principles Board (1970)**

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<th>LeRoy Layton, Chairman</th>
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i APB17, Footnote 1--Accounting research studies are not pronouncements of the Board or of the Institute but are published for the purpose of stimulating discussion on important accounting matters.

ii APB17, Footnote 1a—Paragraphs 5 and 6 of FASB Statement No. 72, Accounting for Certain Acquisitions of Banking or Thrift Institutions, specify an exception to the provisions of this [Opinion] with respect to the amortization of goodwill recognized in certain acquisitions of banking or thrift institutions.

iii APB17, Footnote 1b—Paragraphs 5 and 6 of Statement 72 specify an exception to the provisions of this [Opinion] with respect to the amortization of goodwill recognized in certain acquisitions of banking or thrift institutions.

iv APB17, Footnote 1c—Paragraphs 5 and 6 of Statement 72 specify an exception to the provisions of this [Opinion] with respect to the amortization of goodwill recognized in certain acquisitions of banking or thrift institutions.

v APB17, Footnote 2--Paragraphs 46-a and 47-a of APB Opinion No. 16, Business Combinations, define date initiated and describe the effect of changes in terms of a plan of combination.