Insufficient capacity results in lost sales.

Costly excess capacity reduces profits.

How much is enough?
Classification of Long-Lived Assets

Actively Used in Operations

Expected to Benefit Future Periods

Tangible
Physical Substance

Intangible
No Physical Substance
Classification of Long-Lived Assets

Actively Used in Operations

Expected to Benefit Future Periods

Tangible Physical Substance

Examples

- Land
- Assets subject to depreciation
  - Buildings and equipment
  - Furniture and fixtures
- Natural resource assets subject to depletion
  - Mineral deposits and timber
Classification of Long-Lived Assets

Actively Used in Operations

Examples
- Value represented by rights that produce benefits
  - Patents
  - Copyrights
  - Trademarks
  - Franchises
  - Goodwill
- Subject to amortization

Intangible
No Physical Substance

Expected to Benefit Future Periods
Acquisition cost includes the purchase price and all expenditures needed to prepare the asset for its intended use.

Acquisition cost does not include financing charges and cash discounts.
Acquisition Cost
Buildings

- Purchase price
- Architectural fees
- Cost of permits
- Excavation costs
- Construction costs
Acquisition Cost

Equipment

- Purchase price
- Installation costs
- Modification to building necessary to install equipment
- Transportation costs
Acquisition Cost

Land

- Purchase price
- Real estate commissions
- Title insurance premiums
- Delinquent taxes
- Surveying fees
- Title search and transfer fees

Land is not depreciable.
Acquisition for Cash

On June 1, Delta Air Lines purchased aircraft for $60,000,000 cash.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
On June 1, Delta Air Lines purchased aircraft for $60,000,000 cash.

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<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1</td>
<td>Flight equipment</td>
<td>60,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>60,000,000</td>
</tr>
</tbody>
</table>
On June 14, Delta Air Lines purchased aircraft for $1,000,000 cash and a $59,000,000 note payable.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 14</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
On June 14, Delta Air Lines purchased aircraft for $1,000,000 cash and a $59,000,000 note payable.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 14</td>
<td>Flight equipment</td>
<td>60,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>1,000,000</td>
</tr>
<tr>
<td></td>
<td>Note payable</td>
<td></td>
<td>59,000,000</td>
</tr>
</tbody>
</table>
Acquisition for Noncash Consideration

Record at the current market value of the consideration given, or the current market value of the asset acquired, whichever is more clearly evident.
On July 7, Delta purchased a $60,000,000 aircraft for $26,000,000 cash plus 400,000 shares of $3 par value common stock.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 7</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Acquisition for Noncash Consideration

On July 7, Delta purchased a $60,000,000 aircraft for $26,000,000 cash plus 400,000 shares of $3 par value common stock.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 7</td>
<td>Flight equipment</td>
<td>60,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>26,000,000</td>
</tr>
<tr>
<td></td>
<td>Common stock</td>
<td></td>
<td>1,200,000</td>
</tr>
<tr>
<td></td>
<td>Additional paid-in capital</td>
<td></td>
<td>32,800,000</td>
</tr>
</tbody>
</table>
Acquisition by Construction

Asset cost includes:

- All materials and labor traceable to the construction.
- A reasonable amount of overhead.
- Interest on debt incurred during the construction.
Acquisition as a Basket Purchase

The total cost of a combined purchase of land and building is separated on the basis of their relative market values.
Acquisition as a Basket Purchase

On January 1, Delta purchased land and building for $300,000 cash. The appraised values are building, $189,000, and land, $126,000. How much of the $300,000 purchase price will be charged to the building and land accounts?
## Acquisition as a Basket Purchase

<table>
<thead>
<tr>
<th>Asset</th>
<th>Appraised Value</th>
<th>% of Value</th>
<th>Purchase Price</th>
<th>Assigned Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$126,000</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>$189,000</td>
<td>60%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$315,000</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* $126,000 ÷ $315,000 = 40%
## Acquisition as a Basket Purchase

<table>
<thead>
<tr>
<th>Asset</th>
<th>Appraised Value</th>
<th>% of Value</th>
<th>Purchase Price</th>
<th>Assigned Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$126,000</td>
<td>40%</td>
<td>$300,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>Building</td>
<td>$189,000</td>
<td>60%</td>
<td>$300,000</td>
<td>$180,000</td>
</tr>
<tr>
<td>Total</td>
<td>$315,000</td>
<td>100%</td>
<td>$300,000</td>
<td>$300,000</td>
</tr>
</tbody>
</table>

* $126,000 ÷ $315,000 = 40%

Prepare the journal entry to record the purchase of land and building.
# Acquisition as a Basket Purchase

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Land</td>
<td>120,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Building</td>
<td>180,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>300,000</td>
</tr>
</tbody>
</table>
# Repairs, Maintenance, and Additions

<table>
<thead>
<tr>
<th>Type of Expenditure</th>
<th>Capital or Revenue</th>
<th>Identifying Characteristics</th>
</tr>
</thead>
</table>
| Ordinary repairs and maintenance | Revenue            | 1. Maintains normal operating condition  
2. Does not increase productivity  
3. Does not extend life beyond original estimate |
| Extraordinary repairs     | Capital            | 1. Major overhauls or partial replacements  
2. Extends life beyond original estimate |
| Additions                 | Capital            | 1. Increases productivity  
2. May extend useful life  
3. Improvements or expansions |
Many companies have policies expensing all expenditures below a certain amount according to the materiality constraint.

<table>
<thead>
<tr>
<th>Treatment</th>
<th>Financial Statement Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditure</td>
<td></td>
</tr>
<tr>
<td>Balance sheet account debited</td>
<td>Expense</td>
</tr>
<tr>
<td>Deferred</td>
<td>Higher</td>
</tr>
<tr>
<td>Revenue Expenditure</td>
<td></td>
</tr>
<tr>
<td>Income statement account debited</td>
<td>Currently recognized</td>
</tr>
</tbody>
</table>
Depreciation is a cost allocation process that systematically and rationally matches acquisition costs of operational assets with periods benefited by their use.
Depreciation

Depreciation Expense

Depreciation for the current year

Income Statement

Accumulated Depreciation

Total of depreciation to date on an asset

Balance Sheet
## Depreciation on Delta’s 1998 Balance Sheet

<table>
<thead>
<tr>
<th>Property and Equipment:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Flight equipment</td>
<td>$11,180</td>
<td></td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>$3,895</td>
<td>$7,285</td>
</tr>
<tr>
<td>Flight equipment under capital lease</td>
<td>515</td>
<td>299</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>Ground property and equipment</td>
<td>$3,285</td>
<td>1,431</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>$1,854</td>
<td></td>
</tr>
<tr>
<td>Advance payments for equipment</td>
<td>306</td>
<td></td>
</tr>
<tr>
<td>Total property and equipment</td>
<td>$9,321</td>
<td></td>
</tr>
</tbody>
</table>

Book values are not equal to market values.
Depreciation Concepts

The calculation of depreciation requires three amounts for each asset:

1. Acquisition cost.
2. Estimated useful life.
3. Estimated residual value.
Alternative Depreciation Methods

1. **Straight-line**
2. **Units-of-production**
3. **Accelerated Method:** Declining balance
At the beginning of the year, Delta purchased equipment for $62,500 cash. The equipment has an estimated useful life of 3 years and an estimated residual value of $2,500.

Depreciation Expense per Year = \frac{\text{Cost} - \text{Residual Value}}{\text{Life in Years}}

\text{SL}
Depreciation Expense per Year = \frac{\text{Cost} - \text{Residual Value}}{\text{Life in Years}}

Depreciation Expense per Year = \frac{$62,500 - $2,500}{3 \text{ years}} = \frac{$20,000}{3\text{ years}}$

SL
More than 95 percent of companies use the straight-line method for some or all of their assets method in financial reports.
Units-of-Production Method

**Step 1:**  
Depreciation Rate = \( \frac{\text{Cost} - \text{Residual Value}}{\text{Life in Units of Production}} \)

**Step 2:**  
Depreciation Expense = Depreciation Rate \( \times \) Number of Units Produced for the Year
At the beginning of the year, Delta purchased ground equipment for $62,500 cash. The equipment has a 100,000 mile useful life and an estimated residual value of $2,500.

If the equipment is used 30,000 miles in the first year, what is the amount of depreciation expense?
Units-of-Production Method

Step 1:

Depreciation Rate = \( \frac{\$62,500 - \$2,500}{100,000 \text{ miles}} \) = \$0.60 \text{ per mile}

Step 2:

Depreciation Expense = \$0.60 \text{ per mile} \times 30,000 \text{ miles} = \$18,000
## Units-of-Production Method

<table>
<thead>
<tr>
<th>Year</th>
<th>Miles</th>
<th>Depreciation Expense</th>
<th>Accumulated Depreciation Balance</th>
<th>Undepreciated Balance (book value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30,000</td>
<td>$18,000</td>
<td>$18,000</td>
<td>$62,500</td>
</tr>
<tr>
<td>2</td>
<td>50,000</td>
<td></td>
<td></td>
<td>$44,500</td>
</tr>
<tr>
<td>3</td>
<td>20,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Units-of-Production Method

<table>
<thead>
<tr>
<th>Year</th>
<th>Miles</th>
<th>Depreciation Expense</th>
<th>Accumulated Depreciation Balance</th>
<th>Undepreciated Balance (book value)</th>
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<tr>
<td>1</td>
<td>30,000</td>
<td>$18,000</td>
<td>$18,000</td>
<td>$62,500</td>
</tr>
<tr>
<td>2</td>
<td>50,000</td>
<td>30,000</td>
<td>48,000</td>
<td>44,500</td>
</tr>
<tr>
<td>3</td>
<td>20,000</td>
<td>12,000</td>
<td>60,000</td>
<td>14,500</td>
</tr>
<tr>
<td></td>
<td>100,000</td>
<td>$60,000</td>
<td></td>
<td>2,500</td>
</tr>
</tbody>
</table>

**Residual Value**
Accelerated depreciation matches higher depreciation expense with higher revenues in the early years of an asset’s useful life when the asset is more efficient.
Double-Declining-Balance Method

Declining balance rate of 2 is double-declining-balance (DDB) rate.

\[
\text{Annual Depreciation expense} = \left( \frac{\text{Cost} - \text{Accumulated Depreciation}}{\text{Useful Life in Years}} \right) \times \text{Net Book Value}
\]

Cost – Accumulated Depreciation

Annual computation ignores residual value.
At the beginning of the year, Delta purchased equipment for $62,500 cash. The equipment has an estimated useful life of 3 years and an estimated residual value of $2,500.

Calculate the depreciation expense for the first two years.
Double-Declining-Balance Method

\[
\text{Annual Depreciation expense} = \frac{\text{Net Book Value}}{\text{Useful Life in Years}} \times 2
\]
Double-Declining-Balance Method

Annual Depreciation expense = Net Book Value × \( \left( \frac{2}{\text{Useful Life in Years}} \right) \)

Year 1 Depreciation:

\[
$62,500 \times \left( \frac{2}{3 \text{ years}} \right) = $41,667
\]

Year 2 Depreciation:

\[
($62,500 - $41,667) \times \left( \frac{2}{3 \text{ years}} \right) = $13,889
\]
### Double-Declining-Balance Method

<table>
<thead>
<tr>
<th>Year</th>
<th>Depreciation Expense (debit)</th>
<th>Accumulated Depreciation Balance</th>
<th>Undepreciated Balance (book value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$41,667</td>
<td>$41,667</td>
<td>$62,500</td>
</tr>
<tr>
<td>2</td>
<td>13,889</td>
<td>55,556</td>
<td>20,833</td>
</tr>
<tr>
<td>3</td>
<td>4,629</td>
<td>60,185</td>
<td>6,944</td>
</tr>
<tr>
<td></td>
<td><strong>$60,185</strong></td>
<td></td>
<td><strong>2,315</strong></td>
</tr>
</tbody>
</table>

\[
\text{($62,500 - $55,556) \times \left( \frac{2}{3 \text{ years}} \right) = $4,629}
\]

Below residual value
Depreciation expense is limited to the amount that reduces book value to the estimated residual value.

### Double-Declining-Balance Method

<table>
<thead>
<tr>
<th>Year</th>
<th>Depreciation Expense (debit)</th>
<th>Accumulated Depreciation Balance</th>
<th>Undepreciated Balance (book value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$41,667</td>
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<td>13,889</td>
<td>55,556</td>
<td>20,833</td>
</tr>
<tr>
<td>3</td>
<td>4,444</td>
<td>60,000</td>
<td>6,944</td>
</tr>
<tr>
<td></td>
<td>$60,000</td>
<td></td>
<td>2,500</td>
</tr>
</tbody>
</table>
For tax purposes, most corporations use the Modified Accelerated Cost Recovery System (MACRS).

MACRS depreciation provides for rapid write-off of an asset’s cost in order to stimulate new investment.
Depreciation Methods in Other Countries

Many countries, including Australia, Brazil, England, and Mexico, use other methods such as depreciation based on the current fair value of assets.
Changes in Depreciation Estimates

So depreciation is an estimate.

Estimated residual value

Estimated useful life

Over the life of an asset, new information may come to light that indicates the original estimates were inaccurate.
Changes in Depreciation Estimates

If our estimates change, depreciation is:

\[
\text{Book value at date of change} \quad _{\underline{\text{−}}} \quad \text{Residual value at date of change} \quad \text{Remaining useful life at date of change}
\]
Changes in Depreciation Estimates

After owning aircraft costing $60,000,000 for five years, Delta revised estimates of residual value and useful life:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost of aircraft</td>
<td>$60,000,000</td>
</tr>
<tr>
<td>Original estimated useful life</td>
<td>20 years</td>
</tr>
<tr>
<td>Original estimated residual value</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Original annual depreciation</td>
<td>$2,850,000</td>
</tr>
<tr>
<td>Revised estimated useful life</td>
<td>25 years</td>
</tr>
<tr>
<td>Revised estimated residual value</td>
<td>$750,000</td>
</tr>
</tbody>
</table>

What is the new annual depreciation?
## Changes in Depreciation Estimates

<table>
<thead>
<tr>
<th>Calculation</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost</td>
<td>$60,000,000</td>
</tr>
<tr>
<td>Accumulated depreciation (years 1-5)</td>
<td>14,250,000</td>
</tr>
<tr>
<td>($2,850,000 per year × 5 years)</td>
<td></td>
</tr>
<tr>
<td>Remaining book value</td>
<td>45,750,000</td>
</tr>
<tr>
<td>Less: New residual value</td>
<td>750,000</td>
</tr>
<tr>
<td>New depreciable amount</td>
<td>45,000,000</td>
</tr>
<tr>
<td>Divide by remaining life</td>
<td>÷ 20</td>
</tr>
<tr>
<td>Revised annual depreciation</td>
<td>$2,250,000</td>
</tr>
</tbody>
</table>
Disposal of Property, Plant, and Equipment

- Voluntary disposals:
  - Sale
  - Trade-in
  - Retirement

- Involuntary disposals:
  - Fire
  - Accident
Disposal of Property, Plant, and Equipment

1. Update depreciation to the date of disposal.
2. Journalize disposal by:
   - Recording cash received (debit) or paid (credit).
   - Writing off accumulated depreciation (debit).
   - Recording a gain (credit) or loss (debit).
   - Writing off the asset cost (credit).
Disposal of Property, Plant, and Equipment

If Cash > BV, record a gain (credit).
If Cash < BV, record a loss (debit).
If Cash = BV, no gain or loss.
Delta Airlines sold flight equipment for $4,000,000 cash at the end of its 17th year of use. The flight equipment originally cost $20,000,000, and was depreciated using the straight-line method with zero salvage value and a useful life of 20 years.
The amount of depreciation recorded at the end of the 17th year to bring depreciation up to date is:

a. $0.
b. $1,000,000.
c. $2,000,000.
d. $4,000,000.
The amount of depreciation recorded at the end of the 17th year to bring depreciation up to date is:

- $0.
- $1,000,000.
- $2,000,000.
- $4,000,000.

Annual Depreciation: 
\[
\frac{($20,000,000 - $0)}{20 \text{ Years}} = $1,000,000
\]
Disposal of Property, Plant, and Equipment

After updating the depreciation, the equipment’s book value at the end of the 17th year is:

a. $3,000,000.
b. $16,000,000.
c. $17,000,000.
d. $4,000,000.
After updating the depreciation, the equipment's book value at the end of the 17th year is:

a. $3,000,000.
b. $16,000,000.
c. $17,000,000.
d. $4,000,000.

Accumulated Depreciation = (17yrs. × $1,000,000) = $17,000,000

BV = Cost - Accumulated Depreciation

BV = $20,000,000 - $17,000,000
= $3,000,000
The equipment’s sale resulted in:

a. a gain of $1,000,000.
b. a gain of $3,000,000.
c. a gain of $4,000,000.
d. a loss of $1,000,000.
The equipment’s sale resulted in:

a. a gain of $1,000,000.
b. a gain of $3,000,000.
c. a gain of $4,000,000.
d. a loss of $1,000,000.

Gain = Cash Received - Book Value
Gain = $4,000,000 - $3,000,000 = $1,000,000
Prepare the journal entry to record Delta’s sale of the equipment at the end of the 17th year.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
Disposal of Property, Plant, and Equipment

Prepare the journal entry to record Delta’s sale of the equipment at the end of the 17th year.

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>4,000,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>17,000,000</td>
<td></td>
</tr>
<tr>
<td>Gain on Sale</td>
<td></td>
<td>1,000,000</td>
</tr>
<tr>
<td>Flight Equipment</td>
<td></td>
<td>20,000,000</td>
</tr>
</tbody>
</table>
Natural Resources

Extracted from the natural environment.

Examples: oil, coal, gold

A noncurrent asset presented at cost less accumulated depletion.
Natural Resources

Total cost of asset is the cost of acquisition, exploration, and development.

Total cost is allocated over periods benefited by means of depletion.

Depletion is like depreciation.
Depletion of Natural Resources

Depletion is calculated using the units-of-production method.

Unit depletion rate is calculated as follows:

\[
\frac{\text{Acquisition and Development Cost} - \text{Residual Value}}{\text{Estimated Recoverable Units}}
\]
Total depletion cost for a period is:

\[
\text{Total depletion cost} = \text{UNIT DEPLETION RATE} \times \text{NUMBER OF UNITS EXTRACTED IN PERIOD}
\]
Specialized plant assets may be required to extract the natural resource.

These assets are recorded in a separate account and depreciated.
Intangible Assets

- Noncurrent assets without physical substance.
- Useful life is often difficult to determine.
- Often provide exclusive rights or privileges.
- Usually acquired for operational use.
Intangible Assets

Record at current cash equivalent cost, including purchase price, legal fees, and filing fees.

- Goodwill
- Trademarks
- Patents
- Copyrights
- Franchises
- Leaseholds
Intangible Assets

• Amortize over shorter of economic life or legal life, subject to rules specified by GAAP.

• Use straight-line method.

• Research and development costs are normally expensed as incurred.
Intangible Assets

Goodwill

- Occurs when one company buys another company.
- Only purchased goodwill is an intangible asset.

The amount by which the purchase price exceeds the fair market value of net assets acquired.
Intangible Assets

Goodwill

Eddy Company paid $1,000,000 to purchase all of James Company’s assets and assumed liabilities of $200,000. The acquired assets were appraised at a fair value of $900,000.
Intangible Assets

Goodwill

What amount of goodwill should be recorded on Eddy Company books?

a. $100,000
b. $200,000
c. $300,000
d. $400,000
What amount of goodwill should be recorded on Eddy Company books?

<table>
<thead>
<tr>
<th>Option</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>$100,000</td>
</tr>
<tr>
<td>b.</td>
<td>$200,000</td>
</tr>
<tr>
<td>c.</td>
<td><strong>$300,000</strong></td>
</tr>
<tr>
<td>d.</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

### Calculation

- **FMV of Assets**: $900,000
- **Debt Assumed**: $200,000
- **FMV of Net Assets**: $700,000
- **Purchase Price**: $1,000,000
- **Goodwill**: $300,000
Intangible Assets
Trademarks

A symbol, design, or logo associated with a business.

Internally developed trademarks have no recorded asset cost.

Purchased trademarks are recorded at cost.
Intangible Assets
Patents

Exclusive right granted by federal government to sell or manufacture an invention.

Cost is purchase price plus legal cost to defend.

Amortize cost over the shorter of useful life or 17 years.
Intangible Assets

Copyrights

Exclusive right granted by the federal government to protect artistic or intellectual properties.

Legal life is life of creator plus 50 years.

Amortize cost over the period benefited.
Intangible Assets

Franchises

Legally protected right to sell products or provide services purchased by franchisee from franchisor.

Purchase price is an intangible asset which is amortized.
Intangible Assets

Leaseholds

- A lease is a contract to use property granted by lessor to lessee and rights granted under the lease are called a leasehold.

- A leasehold is recorded only if advance payment is involved. Otherwise, periodic payments are rent expense.
Intangible Assets

Leasehold Improvements

Long-lived alterations made by lessee to leased property.

Leasehold improvements are recorded at cost and amortized over their useful life.
Asset Impairment

Impairment is the loss of a significant portion of the utility of an asset through . . .

- Casualty.
- Obsolescence.
- Lack of demand for the asset’s services.

A loss should be recognized when an asset suffers a permanent impairment.
This computer is about to become fully depreciated!

End of Chapter 8