

Financial Accounting

Module 10: Other Assets



Module Learning Outcomes

Describe the accounting and reporting of other current and noncurrent assets

10.1: [Accounting for natural resources](#)

10.2: [Accounting for intangibles](#)

10.3: [Accounting for other assets](#)

10.4: [Financial Presentation of Other Assets](#)

Natural Resources

Learning Outcomes: Natural Resources

10.1: Accounting for natural resources

10.1.1: Understand the nature of depletable assets

10.1.2: Compute depletion for a given cost, residual value, and estimated output

10.1.3: Journalize adjusting entries for the recording of depletion

Understand the Nature of Depletable Assets

Balance Sheet

- Classify natural resources as a separate group among noncurrent assets under headings such as “Timber Stands” and “Oil Reserves”.
- Report natural resources at total cost less accumulated depletion. (Accumulated depletion is similar to the accumulated depreciation used for plant assets.)

General Ledger

- Record natural resources in at their cost of acquisition plus exploration and development costs and then we record an amount called “depletion” that is much like depreciation expense.

Analysis

- When analyzing the financial condition of companies owning natural resources, exercise caution because the historical costs reported for the natural resources may be only a small fraction of their current value.



Compute Depletion for a Given Cost, Residual Value, and Estimated Output

The calculation of depletion involves these steps:

- Compute a depletion base.
- Compute a unit depletion rate.
- Charge depletion based on units of usage.

The resulting net carrying amount of natural resources still on the books of a business does not necessarily reflect the market value of the underlying natural resources. Rather, the amount simply reflects an ongoing reduction in the amount of the original recorded cost of the natural resources.

Compute Depletion for a Given Cost, Residual Value, and Estimated Output

The **depletion base** is the asset that is to be depleted. It is comprised of the following four types of costs:

- Acquisition costs.
- Exploration costs.
- Development costs.
- Restoration costs.

To compute a unit depletion rate, subtract the salvage value of the asset from the depletion base and divide it by the total number of measurement units that you expect to recover. The formula for the **unit depletion rate** is:

$$(\text{Depletion base} - \text{Salvage value}) \div \text{Total units to be recovered.}$$

Journalize Adjusting Entries for the Recording of Depletion

By crediting the Accumulated Depletion account instead of the asset account (E.g. Coal Mine Assets), continue to report the original cost of the entire natural resource on the financial statements. Statement users can see the percentage of the resource that has been removed.

Total cost of the resource available, we combine this depletion cost with other extraction, mining, or removal costs. We can assign this total cost to either the cost of natural resources sold or the inventory of the natural resource still on hand.

Expense all, some, or none of the depletion and removal costs recognized in an accounting period, depending on the portion sold.

If all of the resource is sold, expense all of the depletion and removal costs. The cost of any portion not yet sold is part of the cost of inventory.



Practice Question 1

A copper mining company purchase the rights to the minerals in a 10 acre piece of land for \$3,000,000 and incurred additional \$75,000 to develop the mine. The company expects the estimated salvage value to be 0. The mining company estimates the capacity of the mine at 500,000 tons of copper. The first month, 43,000 tons of copper is excavated and 31,000 tons sold. What is the depletion expense on the mine for its first month of copper extraction?

- A. \$258,000
- B. \$73,920
- C. \$264,450
- D. \$72,000

Intangible Assets

Learning Outcomes: Intangible Assets

10.2: Accounting for intangibles

10.2.1: Define intangible assets

10.2.2: Compute amortization expense on amortizable assets

10.2.3: Record amortization of intangible assets

Define Intangible Assets

Intangible assets: identifiable non-monetary assets that cannot be seen, touched, or physically measured. Intangible assets are created through time and effort and are identifiable as a separate asset.

- Valuable because of the advantages or exclusive privileges and rights they provide to a business.
- Generally arise from two sources:
 - exclusive privileges granted by governmental authority or by legal contract, such as patents, copyrights, franchises, trademarks and trade names, and leases; and
 - superior entrepreneurial capacity or management know-how and customer loyalty, which is called goodwill.
- All are nonphysical, but not all nonphysical assets are intangibles. For example, accounts receivable and prepaid expenses are nonphysical, yet classified as current assets rather than intangible assets.
- Generally both nonphysical and noncurrent; they appear in a separate long-term section of the balance sheet entitled "Intangible assets."
 - Goodwill
 - Patents
 - Copyrights
 - Franchise Agreements
 - Trademarks
 - R & D Costs

Define Intangible Assets

does not
physically
exist

is not a
financial
instrument

grant rights and privileges

Ex. copyright
trademark
patent

Compute Amortization Expense on Amortizable Assets

Amortization is the systematic write-off of the cost of an intangible asset to expense. A portion of an intangible asset's cost is allocated to each accounting period in the economic (useful) life of the asset.

How to account for the cost and amortization of intangible assets (other than goodwill)

- Intangible assets = Assets with *no physical form* and special rights.
 - Examples: Patents, copyrights, trademarks, franchises, & licenses.
 - Amortized over useful life, typically straight-line.
 - For example, amortization expense for a \$20,000 intangible with a 5-year life would be \$4,000 per year.

Date	Account Name	Debit	Credit
10-Jan	Patents, copyrights, etc.	\$20,000	
	Cash		\$20,000

Date	Account Name	Debit	Credit
10-Jan	Amortization Expense	\$4,000	
	Patents, copyrights, etc.		\$4,000

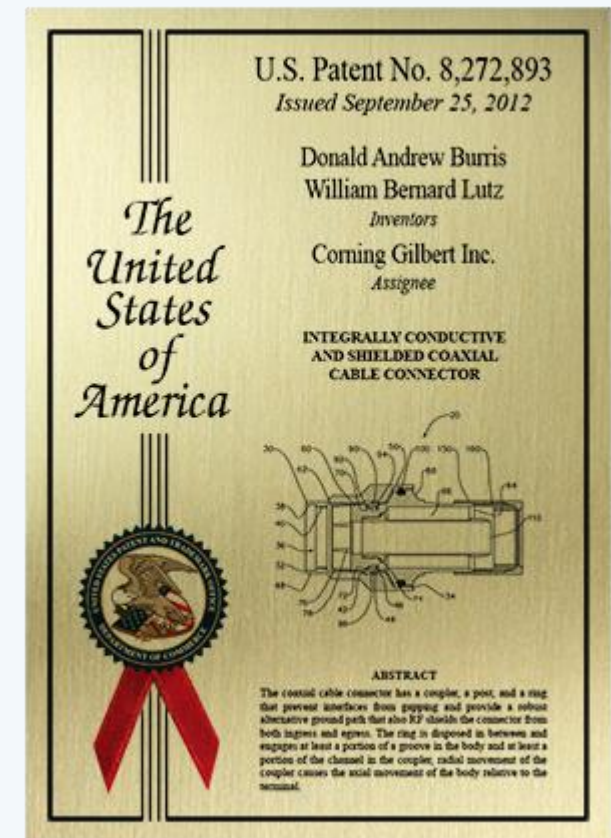
Record Amortization of Intangible Assets

Patent is a right granted by the federal government.

- Exclusive right that enables the owner to manufacture, sell, lease, or otherwise benefit from an invention for a limited period.
- The value of a patent lies in its ability to produce revenue. Patents have a legal life of 14-20 years.

Purchasing a Patent

- A company records it in the Patents account at cost and debits the Patents account for the cost of the first successful defense of the patent in lawsuits (assuming an outside law firm was hired rather than using internal legal staff). Such a lawsuit establishes the validity of the patent and thereby increases its service potential.
- In addition, the firm debits the cost of any competing patents purchased to ensure the revenue-generating capability of its own patent to the Patents account.



Other Current and Noncurrent Assets

Learning Outcomes: Other Current and Noncurrent Assets

10.3: Accounting for other assets

- 10.3.1: Demonstrate an understanding of accounting for short-term investments
- 10.3.2: Demonstrate an understanding of accounting for long-term investments
- 10.3.3: Identify other common current and noncurrent assets

Demonstrate an Understanding of Accounting for Short-term Investments



Demonstrate an Understanding of Accounting for Long-Term Investments

When a company owns **less than 50%** of the outstanding stock of another company as a long-term investment, the percentage of ownership determines whether to use the cost or equity method.

- A purchasing company owning **less than 20%** of the outstanding stock of the investee company, and does not exercise significant influence over it, uses the cost method.
- A purchasing company owning from **20% to 50%** of the outstanding stock of the investee company or owns less than 20%, but still exercises significant influence over it, uses the equity method.

Firms use the cost method for all short-term stock investments and almost all long-term stock investments of less than 20%. For investments of more than 50%, they use either the cost or equity method.

Demonstrate an Understanding of Accounting for Long-Term Investments

If an investor has more than 50% holding in a company, it is said to have control over the investee. The investor is called the parent and the investee is called the subsidiary and the investment is accounted for by combining all the accounts of the parent and the subsidiary, eliminating any intercompany transactions.

These “consolidated” financial statements combine the revenues and expenses of all the companies, and a portion of the net income attributable to the other investors, called the minority interest, is separately reported. Similarly, the consolidated balance sheet combines assets and liabilities of the parent and the subsidiary and separately mentions the equity attributable to minority interest.

Demonstrate an Understanding of Accounting for Long-Term Investments

Holding	≤ 20%	20–50%	≥ 50%
Accounting method	Fair value method	Equity method	Consolidation
Changes in fair value	Recognized in income statement	Ignored	Ignored
Net income of the investee	Ignored	Proportionately recognized in income statement; increases carrying value of investment	Not applicable
Dividends	Recognized income statement	Proportionately recognized to reduce the carrying value	Not applicable
Revenues, expenses, assets and liabilities	Not applicable	Not applicable	Revenues, expenses, assets, and liabilities are combined; minority interest is recognized when holding is less than 100%.

Identify Other Common Noncurrent Assets

Items classified as Other Noncurrent Assets:

- Rights Under Lease
- Notes Receivable



Reporting Other Assets

Learning Outcomes: Reporting Other Assets

10.4: Financial Presentation of Other Assets

10.4.1: Demonstrate proper financial statement presentation and disclosures related to natural resources

10.4.2: Demonstrate proper financial statement presentation and disclosures related to intangible assets

10.4.3: Demonstrate proper financial statement presentation and disclosures related to other current and noncurrent assets

Demonstrate Proper Financial Statement Presentation and Disclosures Related to Natural Resources

Resource Development Expenses

Costs in resource exploration, evaluation and development occur during the different phases of resource development projects. Exploration costs incurred before obtaining legal rights to explore an area are generally expensed as incurred. After obtaining legal rights, exploration costs are expensed in areas with uncertainty about obtaining proven resources. In areas where there is substantial knowledge about the area and consider it probable to obtain commercially viable proven resources, exploration and evaluation costs are capitalized.

Technical feasibility studies if obtained, resource evaluation expenses are capitalized when the study demonstrates proven or probable resources for which future economic returns are expected, while costs for projects not considered viable are expensed. Development costs necessary to bring the property to commercial production or increase the capacity or useful life are capitalized. Costs to maintain the production capacity in a property under production are expensed as incurred.

Capitalized resource costs are depleted using the units-of-production method. Resource development assets are evaluated for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Demonstrate Proper Financial Statement Presentation and Disclosures Related to Intangible Assets

Here is the relevant checklist from the AICPA November 2017 Financial Reporting Framework for Small- and Medium-Sized Entities Presentation and Disclosure Checklist:

Intangible Assets [chapter 13] Presentation

1. Has the entity presented the aggregate amount of goodwill as a separate line item in the entity's statement of financial position? [13.62]
2. Has the entity aggregated and presented intangible assets as a separate line item in the entity's statement of financial position? [13.63]

Disclosure

1. Has the entity disclosed the following information:
 - *The carrying amount in total and by major intangible asset class?*
 - *The aggregate amortization expense for the period?*
 - *The amortization method used, including the amortization period or rate, by major intangible asset class?*
 - *The accounting policy for internally generated intangible assets, including the treatment of development costs, whether expensed or capitalized?* [13.64]
2. If the entity has incurred expenditure on start-up costs, has the entity disclosed the policy for accounting for those costs? [13.66]

Demonstrate Proper Financial Statement Presentation and Disclosures to Other Current and Noncurrent Assets

From the AICPA November 2017 Financial Reporting Framework for Small- and Medium-Sized Entities Presentation and Disclosure Checklist:

Equity, Debt, and Other Investments [chapter 11] Presentation

1. Has the entity presented the following separately on the statement of financial position or in the notes to the financial statements:
 - a. Investments in companies subject to significant influence accounted for using the equity method?
 - b. Other investments accounted for at cost?
 - c. Equity and debt investments held-for-sale? [11.20]
2. Has the entity presented separately in the statement of operations or in the notes to the financial statements:
 - a. Income from investments in companies subject to significant influence accounted for using the equity method?
 - b. Income from other investments accounted for at cost?
 - c. Equity and debt investments held-for-sale? [11.21]
3. Has the entity grouped investments reported on the statement of financial position and investment income reported in the statement of operations in the same way? [11.22]
4. The FRF for SMEs accounting framework requires that equity method investees normally should follow the same basis of accounting (FRF for SMEs accounting framework) as the investor. Accordingly, have the financial statements of equity- method investees been adjusted, if necessary, to conform with standards in the framework, unless it is impracticable to do so? [11.05]
5. Has the entity's proportionate share of any discontinued operations, changes in accounting policy, corrections of errors relating to prior period financial statements, or capital transactions of an equity-method investee presented and disclosed separately, according to its nature, in the entity's financial statements? [11.13]

Demonstrate Proper Financial Statement Presentation and Disclosures to Other Current and Noncurrent Assets

Disclosure

1. Has the entity disclosed the basis used to account for investments? [11.23]
2. When the fiscal periods of an investor and an investee are not the same and the equity method is used to account for the investee, has the entity disclosed events relating to, or transactions of, the investee that have occurred during the intervening period and significantly affect the financial position or results of operations of the investor? (This disclosure is not necessary if these events or transactions are recorded in the financial statements.) [11.24]
3. Other than for investments held for sale, has the entity disclosed the name and description of each significant investment, including the carrying amounts, and proportion of ownership interests held in each investment? [11.25]

In the following footnote excerpts from Albemarle Corporation's 2019 annual report, see if you can find the required disclosures with regard to other current assets, particularly investments.

Practice Question 2

Zango, Inc. has multiple patents for toy designs and goodwill to be disclosed on its financial statements. Zango, Inc asks you to consult with them on the proper way to report these intangible assets. You tell them, patents, goodwill and other intangible assets are to be reported on the financial statements as:

- A. Noncurrent equity before Bonds.
- B. Noncurrent assets after PP&E.
- C. Current assets after cash.
- D. Noncurrent assets after inventory.

Quick Review

- What is the nature of depletable assets?
- How are depletion for a given cost, residual value, and estimated output calculated?
- When and how are adjusting entries for the recording of depletion recorded?
- What is the definition of intangible assets?
- How is amortization expense on amortizable assets computed?
- How are amortization of intangible assets recorded?

More Quick Review

- What does accounting for short-term investments consist of?
- What is accounting for long-term investments like?
- What are other common current and noncurrent assets?
- How are proper financial statement presentations and disclosures related to natural resources?
- How are proper financial statement presentations and disclosures related to intangible assets?
- How are proper financial statement presentations and disclosures related to other current and noncurrent assets?