FASB FINANCIAL ACCOUNTING STANDARDS BOARD

	Memo No.	**2**
MEMO	Issue Date	**April 7, 2022**
	Meeting Date	**PCC Meeting April 22, 2022**

Contacts	**Aarika Friend**	Senior Project Manager	203-956-5393
	P.K. Barot	Practice Fellow	203-956-3456
	Kenjiro Matsuo	Project Manger	203-956-5273
	Henry Mirsberger	Postgraduate Technical Assistant	203-956-5264
	Ally Gustke	Postgraduate Technical Assistant	203-956-5239
	Alicia Manders	Assistant Director	203-956-5207

Issue	**Research Project—Accounting for and Disclosure of Intangibles**

Memo Purpose

1. This memo is intended to facilitate discussion among PCC members at their April meeting on accounting for and disclosure of intangibles, including software costs (PCC Public Meeting, Topic 8: Accounting for and Disclosure of Intangibles).
2. This memo is organized as follows:
   a) Research Project Background
   b) U.S. Accounting Requirements
   c) International Requirements (IFRS Standards)
   d) Feedback from 2021 Invitation to Comment, *Agenda Consultation*
   e) Next Steps
   f) Appendix A: Conceptual Definition of an Asset.

Questions for the PCC
Intangibles 1. Are improvements to the accounting for and/or disclosure of intangibles a priority that the Board should address at this time? If so, should the Board address a specific subset of intangibles?

2. If improvements are needed, should the Board focus on improvements to recognition and measurement or disclosure (or a combination of the approaches to meet the needs of investors)?

3. If disclosure improvements are needed, what qualitative and quantitative disclosures about intangibles (including research and development (R&D) and other internally generated intangibles) would be useful to investors? How would this information impact the analysis of an entity's internally generated intangibles and value creation?

Software Costs

4. Are improvements to the accounting for software costs a priority that the Board should address at this time? If so, should the Board focus on internal-use software, external-use software, or both?

5. What operability or auditing challenges, if any, does the current guidance in Subtopic 985-20, Software—Costs of Software to Be Sold, Leased, or Marketed, and/or Subtopic 350-40, Intangibles—Goodwill and Other—Internal-Use Software present? If there are challenges, how could the Board make improvements to address those challenges?

6. Do investors view software costs as unique and different from other non-software expenditures (that is, property, plant, and equipment or intangibles)? Does it make a difference in an investor's analysis if software costs are expensed as incurred or capitalized as an asset on the balance sheet? Are costs of software developed for internal use versus costs of software developed to be licensed or sold analyzed similarly or differently? Please explain.

Research Project Background

3. In December 2020, the FASB Chair expanded the objective and scope of the research project, Disclosure Review—Intangibles, to consider potential ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles and R&D.

4. In June 2021, the staff issued the Invitation to Comment, *Agenda Consultation*, (the 2021 ITC) to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB. In December 2021, in response to the feedback received on the 2021 ITC, the FASB Chair clarified that this research project also will explore software costs.

5. The staff is currently performing pre-agenda research on these two areas—intangible assets and software costs—with the goal of asking the Board whether a project or projects on accounting for and disclosure of intangibles and/or software costs should be added to the technical agenda.

6. When considering whether to add a project to the technical agenda, the Board evaluates potential projects against the following three criteria to ensure consistent agenda prioritization decisions:

a) **There is an identifiable and sufficiently pervasive need to improve GAAP—**What improvement is needed? To what extent does an issue affect investors, preparers, auditors, and others?

b) **There are technically feasible solutions, and the expected benefits of those solutions are likely to justify the expected costs of change—**What are the various alternative ways that an issue could be addressed? What are the expected benefits of the solutions, and can the solutions be implemented?

c) **The issue has an identifiable scope—**Can the FASB effectively identify the scope of a potential project? Can the issue be sufficiently described?

7. Decisions about whether a project meets those criteria are a matter of judgment by the Board, which is based on research and analysis performed by the FASB staff as well as the diverse experiences of Board members. The criteria help the Board to use its time and resources efficiently and effectively on the highest priority projects that the Board will be able to complete. The input received from PCC members at its April 2022 meeting will help to inform the staff and Board to evaluate a potential project or projects on the accounting for intangibles and/or software costs against the three criteria.

U.S. Accounting Requirements

8. The accounting requirements for intangible assets depend on whether they are internally generated or acquired. Specific guidance for costs related to R&D and specific guidance for software also are provided. A summary of the accounting requirements for intangibles is included below.

Internally Generated Intangibles

9. In accordance with Topic 350, Intangibles—Goodwill and Other, the costs of internally developing, maintaining, or restoring intangible assets that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, are recognized as an expense when incurred. Other than that guidance, GAAP does not have overarching recognition and measurement guidance for internally developed intangible assets. Instead, GAAP has different guidance for recognizing and measuring some internally developed intangible assets, including software, certain oil and gas industry assets, film costs, record costs, title plant costs, and some other costs associated with obtaining a contract with a customer. Furthermore, GAAP has different guidance for recognizing and measuring costs to develop software depending on whether the software is developed for internal use or developed with a plan to market it externally. See the “Software to Be Sold, Leased, or Marketed” and “Internal-Use Software” sections in this memo below for more details.

10. Although stakeholders often look toward R&D when considering unrecognized internally generated intangibles, there are several other intangibles that are either not recognized or not always recognized. Depending on the entity, those other unrecognized internally generated intangibles might be individually

or in the aggregate more valuable to the entity than R&D. Examples of other internally generated intangibles that are not recognized include:

a) Brands and logos

b) Supply agreements with terms that are more favorable than current market terms

c) Noncompetition agreements

d) Collaboration agreements

e) Data.

11. Some stakeholders question whether those assets, if recognized and subsequently accounted for, would (a) provide useful information to investors or (b) have associated financial reporting benefits that justify the costs of recognizing the asset. However, many unrecognized internally generated intangible assets are required to be recognized if externally acquired.

12. In addition, stakeholders have various views about whether those other intangibles meet the definition of an asset. Appendix A of this memo includes additional information about the Board's definition and the characteristics of assets (excerpts from paragraphs E17–E36 of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting, Chapter 4, Elements of Financial Statements*, which was issued in December 2021).

Acquired Intangible Assets

13. The accounting for acquired intangible assets differs on the basis of both the way in which the asset is acquired (an asset acquisition or a business combination) and the type of reporting entity (public company, private company, and/or not-for-profit organization).

14. Topic 350 requires identifiable intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) to be recognized and measured at cost.

15. Topic 805, Business Combinations, requires intangible assets, including in-process R&D, acquired in a business combination to be recognized and initially measured at fair value.

16. In contrast to public business entities, not-for-profit organizations could be subject to merger (carryover basis) or acquisition accounting for acquired intangible assets.

17. Private companies and not-for-profit entities may elect an accounting alternative in Topic 805 for the recognition of identifiable intangible assets acquired in a business combination. Under the accounting alternative, the entity shall subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from other assets of a business and all noncompetition agreements acquired. An entity that elects this accounting alternative must adopt the accounting alternative for amortizing goodwill under Subtopic 350-20, Intangibles—Goodwill and

Other—Goodwill, which requires goodwill to be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

R&D

18. R&D is defined for accounting purposes in the Master Glossary as follows:

> Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process.
>
> Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

19. Under GAAP (Topic 730, Research and Development), R&D costs are expensed as incurred. An entity is required to disclose the total amount of R&D costs charged to expense in each period for which an income statement is presented. That guidance does not apply to R&D costs that are capitalized under other standards (for example, capitalized software costs) or to in-process R&D acquired in a business combination (or an acquisition by a not-for-profit entity).

20. When that R&D guidance originally was issued in 1974, which was prior to the FASB finalizing the concept statements, the FASB decided that R&D costs should be expensed as incurred for the following reasons:

    a) Future economic resource—At the time that most R&D costs are incurred, the future benefits are at best uncertain, and there is no indication that an economic resource is created.

    b) Measurability—Even if future benefits from a particular R&D project may be foreseen, they generally cannot be measured with a reasonable degree of certainty.

    c) Correlation—There is normally little, if any, direct relationship between the amount of current R&D expenditures and the amount of resultant future benefits to an entity.

    d) Matching—Because there is a lack of discernible future benefits at the time that the costs are incurred, the immediate recognition principle of expense recognition should apply.

Software

21. There are two main areas of GAAP that provide accounting guidance for software costs. To determine the accounting for software costs, a company first must evaluate what area of GAAP applies; the guidance that a company must follow is largely dependent on how a company plans to use the software. When a company determines that it has a substantive plan to sell, lease, or otherwise market the software externally, it is required to account for the software costs as external-use and apply Subtopic

985-20, Software—Costs of Software to Be Sold, Leased, or Marketed. Conversely, when a company does not have such a substantive plan in place while the software is under development, it is required to account for the software costs to develop or purchase software as internal-use under Subtopic 350-40, Intangibles—Goodwill and Other—Internal-Use Software. Furthermore, the guidance in Subtopic 350-40 for internal-use software is generally applied to hosting arrangements, by both the vendor that is incurring costs to develop the hosting arrangement (such as software as a service (SaaS)) for customers and the customer incurring costs to implement the hosting arrangement.

22. That distinction and its evaluation are important because the application of the guidance for external-use software costs under Subtopic 985-20 and the application of the guidance for internal-use software costs under Subtopic 350-40 can result in significantly different financial reporting outcomes because there are key differences in these areas of GAAP, including different capitalization thresholds and subsequent measurement. The accounting model for licensed software that will be sold to customers is largely modeled after inventory accounting, while the accounting model for internal-use software is largely modeled after fixed asset accounting.

Software to Be Sold, Leased, or Marketed

23. In accordance with Subtopic 985-20, an entity is required to capitalize the eligible costs incurred in creating computer software to be sold, leased, or otherwise marketed—that is, software being developed that is subject to a plan to be marketed externally—after technological feasibility has been achieved. Technological feasibility is established when the company has completed all planning, designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications including functions, features, and technical performance requirements. Determining when a software product reaches technological feasibility is a judgmental assessment.

24. Entities are required to capitalize development costs incurred after establishing technological feasibility until the product is available for general release. Entities are required to expense software maintenance and customer support costs as incurred after general release of the software product.

25. The guidance under Subtopic 985-20 was issued in 1985 and has remained largely unchanged. During the development of the guidance, the Board considered broadening the scope to include costs incurred for an enterprise's development of computer software for its own use. However, the Board ultimately concluded not to broaden the scope because, at that time, the accounting for the costs of software used internally was not a significant problem.

Internal-Use Software

26. In accordance with Subtopic 350-40, R&D costs incurred for computer software developed or obtained for internal use, including cloud-computing arrangement (CCA) implementation costs, should be capitalized depending on the nature of the costs and the project stage during which they occur.

27. Subtopic 350-40 describes three stages of software development and implementation activities: (a) preliminary project stage, (b) application development stage, (c) postimplementation-operation stage. Generally, costs incurred during the preliminary project and postimplementation-operation stages are to be expensed as incurred, while costs incurred during the application development stage are to be capitalized.

28. The guidance on the three stages of software development and on which costs should be capitalized was issued in 1998 and has remained largely unchanged, with the exception of incorporating guidance on CCA implementation costs.

International Requirements (IFRS Standards)

29. IAS 38, *Intangible Assets*, issued in 2001, specifies recognition criteria for capitalizing initial costs incurred to acquire or internally generate an intangible asset and subsequent costs incurred to add to, replace part of, or service the asset. An entity is required to recognize an asset if the intangible is identifiable and if the following criteria are met:

    a) It is probable that the expected future benefits that are attributable to the asset will flow to the entity

    b) The cost of the asset can be measured reliably.

30. In accordance with IAS 38, internally generated intangible assets that meet the criteria described in the previous paragraph are required to be recognized on the balance sheet at cost and intangible assets acquired in an asset acquisition are required to be recognized at the purchase price plus any directly attributable cost of preparing the asset for its intended use. In accordance with IFRS 3, *Business Combinations*, intangible assets acquired in a business combination are required to be recognized at the acquisition-date fair value.

31. A difference between IAS 38 and GAAP is the accounting for R&D. IAS 38 makes a distinction between accounting for research costs and accounting for development costs. Expenditures incurred during the research phase should be expensed as incurred, while expenditures incurred during the development phase should be recognized as an intangible asset if an entity can demonstrate all of the following:

    a) The technical feasibility of completing the intangible asset so that it will be available for use or sale

    b) The entity’s intention to complete the intangible asset and use or sell it

    c) The entity’s ability to use or sell the intangible asset

d) How the intangible asset will generate probable future economic benefits (for example, the existence of a market or the usefulness of the intangible asset)

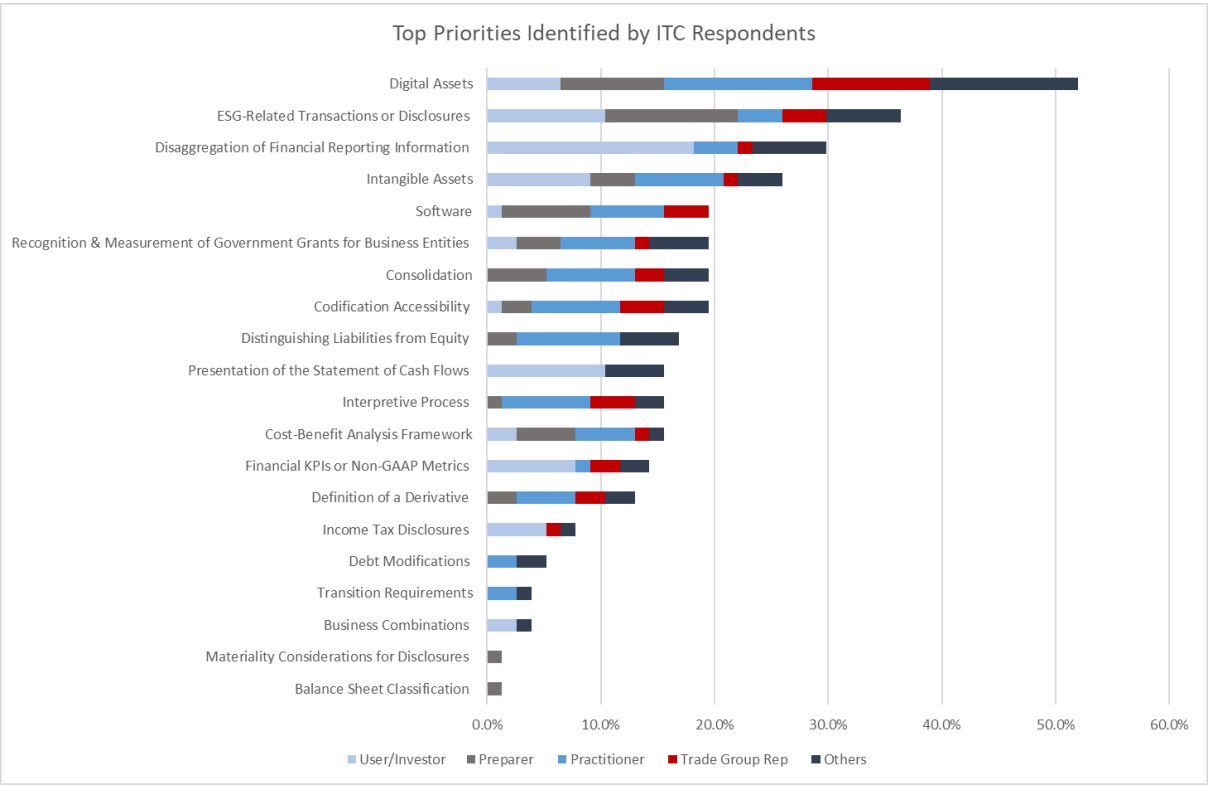
e) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset

f) The entity's ability to reliably measure the expenditure attributable to the intangible asset during its development.

32. Previously, stakeholders indicated that there was a high amount of subjectivity involved in capitalizing development phase costs under IAS 38. Stakeholders also indicated that although the requirements for internally developed development costs under GAAP and under IFRS Standards are different, the financial reporting outcomes are not always significantly different because the threshold for recognizing development under IFRS Standards is both high and subject to judgment.

Feedback from 2021 Invitation to Comment

33. To provide perspective for how respondents to the 2021 ITC identified the intangible assets and software as a priority, the staff has excerpted the following chart from the Feedback Summary on the 2021 Invitation to Comment, which provides a visual representation of the areas that respondents identified as top priority, in order of most frequently identified to least frequently identified:



Intangible Assets

34. Approximately 50 percent of respondents across all stakeholder types provided feedback on intangible assets. Approximately half of those respondents identified intangible assets as a top priority and a few identified the area as one that the Board should not address at this time, while the remaining respondents did not specifically identify intangible assets as top or low priority. While respondents acknowledged that for many companies there can be a significant difference between book value and market capitalization, respondents' views were mixed about whether that gap needs to be reduced and/or whether reducing the gap is consistent with the objective of financial reporting. Overall, respondents indicated that the Board should perform research to better understand the information needs of users that relate to intangibles, while also considering the costs and challenges that preparers would incur in preparing such information and existing investors would incur in analyzing the new information.

35. Some respondents suggested that the Board consider prioritizing an intangible asset project focused on recognition and measurement. The following considerations were identified by respondents if the Board were to pursue such a project:

    a) **Internally developed versus acquired intangible assets—**Numerous respondents suggested that the Board align the guidance for internally developed R&D and in-process research and development (IPR&D) acquired through an asset acquisition and a business combination. A standard setter noted that any work that the Board undertakes on intangible assets should result in greater comparability between companies that grow organically and companies that do so through acquisitions.

    b) **Focus on R&D as a first step—**An investor recommended that the Board add a project targeting the accounting for development costs that are incurred with the specific objective of creating a product that will generate future revenues. Several other respondents echoed similar comments that the Board should look to R&D as a first step of a recognition and measurement project on intangibles.

    c) **All internally generated intangible assets—**A preparer stated that developing a framework that could be applied to all internally generated intangible assets would be most beneficial. This preparer noted that it is unclear why software should have a different accounting model than other intangible assets that arise from R&D. An investor said that given the significance of intangibles to the valuation of public companies and that companies generate much of their value through them, internally developed intangible assets should be recognized and measured no differently than investments in plant and equipment or financial assets.

    d) **Recovering previous impairment losses—**A practitioner recommended that the Board undertake a project to require recognizing recoveries of previously recognized intangible impairment losses.

36. There were several respondents who suggested the Board consider prioritizing an intangible asset project focused on disclosure improvements. One practitioner noted that although, in its view, the Board should not prioritize a project at this time to address the recognition and measurement of intangible assets, it stated that enhanced disclosures could improve the relevance of financial statements to users and that the Board should prioritize requiring qualitative disclosures of a company's predominant creators of enterprise value and how those assets create value for the company. Another practitioner agreed that it would be worthwhile for the Board to consider what information investors would find useful about a company's effort to develop or maintain its intangible assets. There were several other respondents who provided similar feedback that encouraged the Board to perform outreach with financial statement users and focus a project on providing relevant disclosures to address that feedback.

37. However, there were also several respondents, including preparers and practitioners, who did not support additional intangible disclosures. Generally, those respondents said that the additional intangible disclosures described in "Chapter 2—Emerging Areas in Financial Reporting" of the 2021 ITC would not provide relevant information that would result in a meaningful benefit to users and that qualitative disclosures would likely result in boilerplate information.

Software

38. Over one-third of respondents across all stakeholder types provided feedback on accounting for software. Approximately half of those respondents identified accounting for software as a top priority. There were no respondents who indicated that they would not support the Board addressing this area. Overall, respondents requested that (a) the Board better align the accounting with how software is developed because the current guidance is outdated and lacks relevance given the evolution of the software industry and (b) there should be no difference in how a company accounts for software developed for internal use and how a company accounts for software developed to be sold, leased, or otherwise marketed.

39. Respondents provided various suggestions for the Board to consider in improving the accounting for software costs:

    a) Adopt the external-use software guidance for all revenue-generating software costs (for example, licensing and SaaS)

    b) Adopt the internal-use software guidance for all software costs

    c) Supersede the current software guidance and create a new capitalization model for all software costs, such as a model based on IAS 38 or leveraging a capitalization threshold model utilized to account for tangible assets in GAAP

    d) Require all software costs to be expensed as incurred as R&D costs under Topic 730

e) Permit companies to apply a policy election to expense all software R&D costs as incurred, either for all companies or for private companies

f) Consider software costs as part of a holistic project on the accounting for intangible assets

g) Develop implementation guidance with examples of how to apply the current software models when the costs are incurred in an iterative or agile development environment.

Next Steps

40. The Board will consider whether to add a project or projects on accounting for and disclosure of intangibles and/or software costs to its technical agenda.

Appendix A: Conceptual Definition of an Asset

Excerpts Taken from Chapter 4 of Concepts Statement 8

Characteristics of Assets

E17. An asset has the following two essential characteristics:

a. It is a present right.
b. The right is to an economic benefit.

The combination of those two characteristics allows an entity to obtain the economic benefit and control others' access to the benefit. A present right of an entity to an economic benefit entitles the entity to the economic benefit and the ability to restrict others' access to the benefit to which the entity is entitled.

E18. Assets commonly have features that help identify them—for example, assets may be contractual, tangible, exchangeable, or separable. However, those features are not essential characteristics of assets. Their absence is not sufficient to preclude an item from qualifying as an asset.

E19. Essential to the definition of an asset is a right to an "economic benefit"—the capacity to provide services or benefits to the entities that use them. Generally, in a business entity, that economic benefit eventually results in potential net cash inflows to the entity. In a not-for-profit entity, that economic benefit is used to provide desired or needed goods or services to beneficiaries or other constituents, which may or may not directly result in net cash inflows to the entity. Some not-for-profit entities rely significantly on contributions or donations of cash to supplement selling prices or to replace cash or other assets used in providing goods and services. The relationship between the economic benefit of an entity's assets and net cash inflows to that entity can be indirect in both business entities and not-for-profit entities.

E20. An asset has the capacity to be beneficial to an entity by being exchanged for something else of value to the entity, by being used to produce something of value to the entity, or by being used to settle the entity's liabilities. Rights that give an entity no advantage beyond the common advantages of others because they are available to all do not qualify as assets. A right that is not restricted, such as a right to sue or a right to enjoy music, is not an asset of an entity. Access to a public road outside an entity's property might provide an economic benefit, but because the entity cannot restrict access to that road by others, the road is not an asset of the entity. Although proximity of the road might add value to the property, there is no right that has granted privileged access or advantage to the entity. A specific right to use a public highway from which a licensee might otherwise be excluded— for example, a license to operate a truck on the highways within a state—would create an economic benefit for the licensee, with respect to that license, even though it does not restrict access of others to the highway.

E21. Incurring a cost to acquire an item does not in itself qualify the item to meet the definition of an asset, for example, services provided by other entities, including personal services that are received and used simultaneously. They can be assets of an entity only momentarily—as the entity receives and uses them—although their use may create or add value to other assets of the entity. Rights to receive services of other entities for specified or determinable future periods can be assets of an entity.

Present right

E22. A right entitles its holder to have or obtain something or to act in a certain manner. Rights can be obtained in various ways. Often, rights are obtained by legal ownership, for example, owning a building. Legal ownership gives the owner access to economic benefits, including the ability to possess, use, and enjoy the right; to sell, donate, or exchange the right; or to exploit the right's value by, for example, pledging it as a security for borrowing.

E23. Legally enforceable rights to economic benefits can be obtained without legal ownership of the underlying benefit itself as is the case, for example, when property is leased or intellectual property is licensed or when an entity has the rights to specified certain cash flows, as in the case of a contract providing rights only to interest flows from a specified debt instrument. Other legally enforceable rights that give rise to assets include the right to require other parties to make payments or render services and the right to use a patent or a trademark. Legally enforceable rights include, among other rights, contractual rights (for example, rights from options held).

E24. Rights also might be enforceable by means equivalent to legal enforcement, such as those arising within a self-regulatory structure. If enforcement by other such means is sufficiently similar to legal enforcement, rights enforceable by those alternative enforcement mechanisms may be the equivalent of legally enforceable rights. An entity also can obtain economic benefits from a right in the absence of legally enforceable rights. For example, an entity might not have legally enforceable rights to secret know-how but can otherwise obtain economic benefits from it. The entity may use or sell the knowledge and restrict or otherwise prevent or limit others' access to the benefits. [Footnote reference omitted]

E25. To qualify as an asset of an entity, that entity need not have an exclusive right to an economic benefit. Rights, including the ability to restrict access to a benefit, and restrictions may be single (held or imposed solely by the entity) or shared (held or imposed in conjunction with others). Two or more entities might have different rights and share the same economic benefit at the same time or might otherwise have rights to the same economic benefits at different times. For example, lease arrangements unbundle the economic benefits of the underlying asset by giving (a) the lessee the right to hold and use the property and the lessor the right to receive lease payments for a specified interval and (b) the lessor the right to receive any residual value. Each entity has an asset based on its rights to a particular economic benefit, and the rights allow the entity to restrict access to the particular economic benefit.

E26. Two or more entities might have an undivided interest in an economic benefit, such as a parcel of land or mineral resources. Each entity has a right to economic benefits deriving from that right that might qualify as an asset, even though the right of each entity is subject, at least to some extent, to the rights of the other entity or entities. The entity with rights to an economic benefit is the one that can exchange some or all of those rights, use the items to which it has the rights to produce goods and services or reduce other expenditures, exact a price for others' use of the rights, or use the rights to settle liabilities or make distributions to owners.

E27. Assets may be intangible, and even if they are not separable or exchangeable, they may be useable by an entity in producing or distributing goods or services. For example, a license may be nontransferable and therefore not exchangeable; however, the license provides the right to engage in economically beneficial activities.

E28. To meet the definition of an asset, the right must be a present right; that is, the right exists at the financial statement date, not a right expected to occur in the future. The existence of a present right at the financial statement date means that the right and therefore the asset have arisen from past transactions or other past events or circumstances. Often, assets are obtained by purchasing or producing them, but other transactions, events, or circumstances may generate assets. Examples include the receipt of land or buildings from a government or contributions received by a not-for-profit entity. The means of acquiring rights does not affect whether the item meets the essential characteristics of an asset. However, an examination of the history of how potential rights may have been created might help to determine whether a present right exists at the financial statement date.

E29. Transactions or other events or circumstances expected to occur in the future do not give rise to assets today. An intention to purchase inventory does not by itself meet the definition of an asset. Equipment to be acquired next year is not a present right to that equipment today. A benefit that is expected only because of an anticipation of the action or performance of either a counterparty or the entity is not a present right. In contrast, an existing contract to purchase equipment (a right to purchase equipment) might give rise to an economic benefit that is distinct from the benefit embodied in the equipment itself.

E30. Sometimes present rights with uncertain amounts and timing are referred to as contingent assets. The term contingent asset has been a source of confusion because it is often thought to refer to circumstances in which the existence of a right depends on the occurrence or nonoccurrence of a future event. Absent a present right, the occurrence or nonoccurrence of a future event does not by itself give rise to an asset. Some items commonly described as contingent assets satisfy the definition of an asset because the contingency does not relate to whether a present right exists but instead relates to one or more uncertain future events that affect the amount of economic benefit for which a right exists. For those rights, the fact that the outcome is unknown affects the measurement but not the existence of the asset.

Right to an economic benefit

E31. Another essential characteristic of an asset is that the right of an entity must be to an economic benefit. An asset of an entity might be represented by rights to a particular property (such as the right to possess, use, and enjoy a parcel of land) or by rights to some or all the economic benefits derived from the property.

E32. Cash (including deposits in banks) is valuable because of what it can buy. It can be exchanged for virtually any good or service that is available, or it can be saved and exchanged for goods and services in the future. The purchasing power of cash is the basis of its value and economic benefit.

E33. To carry out their activities, both business entities and not-for-profit entities commonly produce goods or services. Both types of entities create utility and value in similar ways—by using goods or services to produce other goods or services. Business entities expect customers to pay for the utility and value added, and they price their outputs accordingly. Some not-for-profit entities distribute some or all of their outputs of goods or services at prices that include the utility and value they have added. Other not-for-profit entities commonly distribute the goods or services they produce to beneficiaries gratis or at nominal prices. Although that may make measuring the value of their outputs difficult, it does not deprive them of value.

E34. The ability of an entity to sell, transfer, license, or exchange a right provides evidence that the right presently exists, the entity controls access to that right, and the right is to an economic benefit. Some intangible assets arise from rights conveyed legally by contract, statute, or other means. For example, trademarks may be registered with the government. Contracts often are negotiated with customers or suppliers. The existence of contractual or other legal rights is a common characteristic of an intangible asset. However, if the right can be identified and, particularly, the identified right can be separated from the entity, it gives credibility that the right exists and that it is to an economic benefit.

E35. Many activities are undertaken with the expectation of obtaining an economic benefit in the future. Examples include research and development, advertising, training, start-up activities, and preoperating activities. While the costs incurred in those activities are not assets, the activities may result in an entity creating a right to an economic benefit and, therefore, obtaining an asset or enhancing an existing asset. For those and similar activities, assessments of when a present right exists and whether the right is to a related economic benefit may be especially uncertain. An entity (a) may have rights that are not to a discernible economic benefit or (b) may have identified future economic benefits to which it has no present rights. The practical problem is whether a right to a future economic benefit exists at a specified date.

E36. Some intangible items that do not arise from rights conveyed by contract or other legal means are nonetheless capable of being separated and exchanged for something of value. If an item is capable of being separated and exchanged for something of value, that would be evidence that a right exists and that the right is to an economic benefit. Others cannot be separated from an entity and sold or otherwise transferred, but still may represent rights to economic benefits. Generalizations about facts and circumstances that bring about internally generated intangible assets are so varied that whether an asset has been created often must be resolved at the standards level.