



State Accounting Office
of
Georgia
Fiscal Leadership for Georgia

GASB 51: Intangible Assets Implementation Training

Presented: February 11, 2010 and February 25, 2010



Agenda



- ✓ **Learning Objective and Level**
- ✓ **Historical Perspective**
- ✓ **Definitions and Applicability**
- ✓ **Capitalization Criteria**
- ✓ **Internally Generated Computer Software**
- ✓ **Amortization**
- ✓ **Accounting Policy Highlights**
- ✓ **PeopleSoft Asset Management Profiles**
- ✓ **Conclusion: GASB 51 Summary**
- ✓ **Questions / Evaluation**

Learning Objective and Level



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- ✓ **Objective:** At the end of this training, participants should be able to identify and understand the key accounting and reporting requirements resulting from the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.
- ✓ **Level:** Overview

Historical Perspective



- ✓ **Intangible assets included in description of capital assets in GASB 34**

- ✓ **Inconsistency in practice on how intangible assets are treated for accounting and financial reporting:**
 - *As capital assets*
 - *As intangible assets as considered in APB 17*
 - *Expensed in period that costs are incurred*

- ✓ **Objective of Statement is to reduce the inconsistency in reporting**

Intangible Asset Definition



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

- ✓ **Statement generally does not provide guidance on whether a transaction results in an asset**

- ✓ **Basis for conclusions does state that powers created through statute or inherent nature of government are not intangible assets**

Common Types of Intangible Assets



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

General Capitalization Criteria



- ✓ **All intangible assets subject to provisions should be classified as capital assets**
- ✓ **Existing guidance related to capital assets should be applied to intangible assets as appropriate:**
 - *Recognition*
 - *Measurement*
 - *Depreciation (amortization for intangibles)*
 - *Impairment*
 - *Presentation*
 - *Disclosure*
- ✓ **Rest of standard provides guidance specific to intangibles that should be applied in addition to, or in lieu of if appropriate, capital asset guidance**

General Capitalization Criteria



✓ **Scope exceptions:**

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

✓ **Retroactive** reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980

- *Except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.*

General Capitalization Criteria



- ✓ **An intangible asset should be recognized only if it is identifiable:**
 - *Asset is separable, i.e. capable of being separated and sold, transferred, licensed, etc.*
- OR-**
 - *Asset arises from contractual or other legal rights, regardless of whether rights are separable*

Internally Generated Intangible Assets (IGIA)



- ✓ **Internally generated intangible assets (IGIA) are:**
 - *Created or produced by the government or an entity contracted by the government; or*
 - *Acquired from a third party but require more than minimal incremental effort to achieve expected service capacity*

- ✓ **Statement provides a specified-conditions approach to recognizing outlays associated with IGIA**

General IGIA Capitalization Criteria



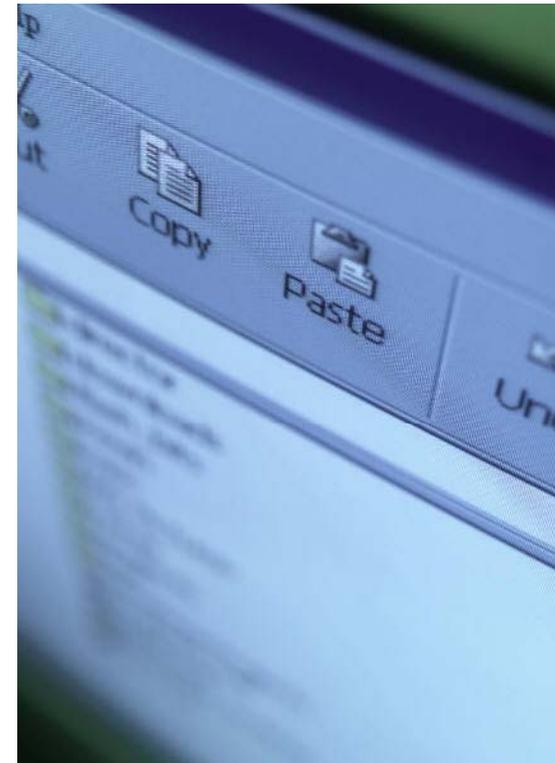
- ✓ **Outlays incurred related to an IGIA that is considered identifiable should be capitalized only upon the occurrence of all of the following:**
 - *Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the asset upon completion;*
 - *Demonstration of the technical or technological feasibility for completing the project;*
 - *Demonstration of the current intention, ability, and presence of effort to complete or continue development of the intangible asset*

- ✓ **Outlays incurred prior to meeting the criteria should be expensed as incurred**

Internally Generated Software



- ✓ **Internally Generated Computer Software (IGCS)**
 - ***Similar to AICPA SOP 98-1***
 - ***Computer software is the most common type of intangible asset that is internally generated.***
 - Considered internally generated if it is developed in-house or by a third party contractor on the State's behalf.
 - ***Commercially available software that is purchased or licensed but is modified using more than minimal effort is also considered internally generated.***





- ✓ **Activities categorized in one of three stages:**
 - ***Preliminary project stage (expense)***
 - Conceptual formulation and evaluation of alternatives
 - Determination of existence of needed technology
 - Final selection of alternatives
 - ***Application development stage (capitalize)***
 - Design of the chosen path
 - Coding
 - Installation to hardware
 - Testing and parallel processing
 - Data conversion, if necessary to make operational
 - ***Post-implementation/operation stage (expense)***
 - Application training
 - Software maintenance
 - Data conversion, if not necessary to make operational



- ✓ **Data conversion activities include:**
 - *Purging/cleansing of existing data*
 - *Conversion of data from legacy system to new system*
 - *Reconciliation of data from legacy system to data in new system*

- ✓ **Modifications of software that is already in operation are capitalized only under certain conditions. The modification must result in any of the following:**
 - *An increase in the functionality of the software*
 - *An increase in the efficiency of the software*
 - *An extension of the estimated useful life of the software*



- ✓ **Existing guidance for depreciation of capital assets generally applies to amortizing intangible assets**

- ✓ **Exception for intangible assets with indefinite useful lives:**
 - *No factors currently exist that limit the useful life of the asset*
 - *A useful life that must be estimated does not mean indefinite useful life*
 - Permanent right-of-way easement vs. computer software

- ✓ **Intangible assets with indefinite useful lives should not be amortized**



- ✓ **Amortization is not a matter of valuation but a means of cost allocation.**
 - *Intangible assets are NOT amortized on the basis of a decline in their fair market value, but on the basis of systematic charges to expense.*
 - *An intangible asset that has an indefinite useful life is not amortized if there are no factors that limit its useful life.*
 - If any of these limitations exist, the intangible asset is amortized over its estimated useful life. The straight-line amortization method will be used by all State organizations.
 - If an organization recognized and amortized any intangible assets with indefinite useful lives prior to adopting Statement No. 51, it must restate its beginning balance to eliminate the prior period expense and reduce the related accumulated amortization.



- ✓ **At the fund level, intangible assets are recorded using the basis of accounting that is appropriate for the fund. At the entity-wide level, intangible assets are considered capital assets and are therefore recorded as fixed assets.**
 - *An intangible asset is capitalized on the accrual basis of accounting in State organizations' accounting records if it meets all of the following conditions:*
 - It is owned by the State organization and held for operations, not for resale.
 - It has a useful life that exceeds one year.
 - It meets the capitalization threshold.

Capitalization Thresholds



- ✓ This chart provides a list of intangible asset types, State capitalization thresholds and useful lives.
- ✓ If a State organization determines that a shorter useful life is appropriate for software, then the method for estimating the useful life must be formally documented.

ASSET DESCRIPTION	COST THRESHOLD*	USEFUL LIFE
Software	\$1 million	10 years
Easements	\$100,000	20 years
Water Rights	\$100,000	20 years
Timber Rights	\$100,000	20 years
Mineral Rights	\$100,000	20 years
Patents	\$100,000	20 years
Trademarks	\$100,000	20 years
Copyrights	\$100,000	20 years

** Note: Capital project funded with federal dollars may be subject to lower thresholds as defined by the applicable circular. In some cases, as low as \$5,000.*



✓ *Basis of Accounting*

- *Funds that operate on a statutory basis must convert their accounting activity to the modified accrual and/or accrual bases of accounting for the Comprehensive Annual Financial Report (CAFR). Proprietary and Fiduciary funds that do not operate on a statutory basis use the accrual basis of accounting throughout the year.*
- *Descriptions have been provided in draft policy for the following bases of accounting:*
 - Statutory Basis for Budgetary Compliance Reporting
 - Converting to Modified Accrual Basis for CAFR Reporting
 - Converting to Accrual Basis for CAFR Reporting
 - Accrual Basis for Funds Not Reporting on a Statutory Basis

Year-End Accounting Procedures



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- ✓ **The SAO financial reporting group will request information about intangible assets as part of the Capital Assets form in its year-end reporting forms package beginning with fiscal year 2010.**

Accounting Treatment Example



Assumptions:

- \$1500 purchase order for intangible asset executed during year 1:
 \$700 portion received and processed by accounts payable (AP) in year 1; balance processed by AP in year 2
 \$200 portion received by end of year 1 but not processed by AP until year 2
 \$600 portion to be received in year 2
- Acquired asset has a 10 year useful life
- Straight-line amortization recognized once asset is in service (\$150 per year beginning year 2)

Basis of Accounting	Journal Entry / Year-End Balance Descriptions	Governmental, Proprietary & Fiduciary Funds that Operate on a Statutory Basis		Proprietary & Fiduciary Funds that Operate Only on the Full Accrual Basis	
		Debit / (Credit)	Year 1	Year 2	Year 1
Statutory Basis:					
Execute purchase order	Expenditure		1,500	-	
	Encumbrance Liability		(1,500)	-	
Process voucher through AP	Expenditure		700	800	
	Accounts Payable		(700)	(800)	N/A
Reduce Encumbrance	Encumbrance Liability		700	800	
	Expenditure		(700)	(800)	
At year-end accrue received/ not processed-reverse next year	Encumbrance Liability		200	(200)	
	Accounts Payable		(200)	200	
Year-end balances	Expenditure/Fund Balance		1,500	1,500	
	Accounts Payable		(900)	(1,500)	
	Encumbrance Liability		(600)	-	

Accounting Treatment Example



Modified Accrual Basis:					
The change in the encumbrance liability is offset to expenditure:					
Reverse ending encumbrance	Encumbrance Liability	600	-		
	Expenditure	(600)	-	N/A	N/A
Adjust beginning fund balance for prior year encumbrance bal	Expenditure	-	600		
	Beginning Fund Balance	-	(600)		
Year-end balances					
	Expenditure/Fund Balance	900	1,500		
	Accounts Payable	(900)	(1,500)		
Full Accrual Basis:					
Establish asset	Fixed Asset (includes CIP)	900	600	900	600
	Expenditure	(900)	(600)		
	Accounts Payable			(900)	(600)
Adjust beginning net assets to reestablish prior year intangible asset balances	Fixed Assets	-	900	N/A	N/A
	Accumulated Amortization	-	-		
	Beginning Net Assets	-	(900)		
Record amortization (assume full year in 1st year of svc)	Amortization Expense	-	150	-	150
	Accumulated Amortization	-	(150)	-	(150)
Year-end balances					
	Expense/Net Assets	-	150	-	150
	Accounts Payable	(900)	(1,500)	(900)	(1,500)
	Fixed Asset - Gross	900	1,500	900	1,500
	Accumulated Amortization	-	(150)	-	(150)

Disclosure Requirements



- ✓ **There are no ongoing note disclosure requirements specific to intangible assets. Intangible assets should be incorporated into the capital asset note disclosures.**
- ✓ **If during implementation, an organization cannot restate prior periods presented for retroactive reporting purposes, it must:**
 - *Calculate the cumulative effect of applying the statement,*
 - *Restate its beginning net assets, fund balances or fund net assets by the cumulative effect for the earliest period possible, and*
 - *Disclose the nature and effect of the restatement and the reasons for not restating prior periods presented.*

PeopleSoft Profiles



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- ✓ **Self-paced training for the PeopleSoft Asset Management module is available on the SAO website:**
 - <http://saofnupk.state.ga.us/toc.html>
 - *See Module 4 – Asset Management*

- ✓ **Contact our Help Desk if you need assistance:**
 - *404-657-3956 or 888-896-7771*
 - *Available Monday – Friday from 8 a.m. to 5 p.m.*

PeopleSoft Profiles



- ✓ **The following intangible asset profiles are available in the PeopleSoft Asset Management module:**

SetID	Asset Profile ID	Description	Capitalized Asset	General Ledger
STATE	COPYRGHT	COPYRIGHTS \$100,000-GOVT	Y	GFAAG
STATE	COPYRGHTZ	COPYRIGHTS \$100,000-PROP	Y	GAAPACTUAL
STATE	EASEMENT	EASEMENT \$100,000-GOVT	Y	GFAAG
STATE	EASEMENTZ	EASEMENT \$100,000-PROP	Y	GAAPACTUAL
STATE	EASE_NON	EASEMENT NONDEP \$100,000-GOVT	Y	GFAAG
STATE	EASE_NONZ	EASEMENT NONDEP-\$100,000-PROP	Y	GAAPACTUAL
STATE	MINERAL	MINERAL RIGHTS \$100,000-GOVT	Y	GFAAG
STATE	MINERALZ	MINERAL RIGHTS \$100,000-PROP	Y	GAAPACTUAL
STATE	MINE-NON	MINERAL RGHTS NONDEP \$100,000GV	Y	GFAAG
STATE	MINE-NONZ	MINERAL RGHTS NONDEP \$100,000PR	Y	GAAPACTUAL
STATE	PATENTS	PATENTS \$100,000-GOVT	Y	GFAAG
STATE	PATENTSZ	PATENTS \$100,000-PROP	Y	GAAPACTUAL
STATE	SOFT	SOFTWARE GT \$1,000,000-GOVT	Y	GFAAG
STATE	SOFTZ	SOFTWARE GT \$1,000,000-PROP	Y	GAAPACTUAL
STATE	TIMBER	TIMBER RIGHTS \$100,000-GOVT	Y	GFAAG
STATE	TIMBERZ	TIMBER RIGHTS \$100,000-PROP	Y	GAAPACTUAL
STATE	TIMBR_NON	TIMBER RGHTS NONDEP \$100,000GV	Y	GFAAG
STATE	TIMBR_NONZ	TIMBER RGHTS NONDEP \$100,000PR	Y	GAAPACTUAL
STATE	TRADEMK	TRADEMARK \$100,000-GOVT	Y	GFAAG
STATE	TRADEMKZ	TRADEMARK \$100,000-PROP	Y	GAAPACTUAL
STATE	WATER	WATER RIGHTS \$100,000-GOVT	Y	GFAAG
STATE	WATERZ	WATER RIGHTS \$100,000-PROP	Y	GAAPACTUAL
STATE	WATER_NON	WATER RIGHTS NONDEP \$100,000GV	Y	GFAAG
STATE	WATER_NONZ	WATER RGHTS NONDEP \$100,000PRP	Y	GAAPACTUAL

PeopleSoft Profiles



- ✓ PeopleSoft account numbers associated with the intangible asset profiles are listed below.

SetID	Expenditure Account	Gross Asset Account	Accum Depr Account	Description
STATE	729001	161001	162001	Water Rights
STATE	729002	161001	162001	Timber Rights
STATE	729003	161001	162001	Mineral Rights
STATE	729004	161001	162001	Easements
STATE	730001	161001	162001	Patents
STATE	730002	161001	162001	Trademarks
STATE	730003	161001	162001	Copyrights
STATE	823001	168001	169001	Software

PeopleSoft Profiles



- ✓ Following is an example of the presentation of intangible asset balances on the PeopleSoft GFAAG trial balance:

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Ledger: GFAAG Fiscal Year 2010 From Period 001 To 006 Trial Balance by Business Unit From 2009-07-01 To 2009-12-31 General Ledger Report Print Date: 11/13/2009 Page 1 PS Id: GLS4042X

Acct Descr Src YYYYMM Jtrnl	Beginning Balance w/o Encumbrance	Transactions Debit	Transactions Credit	Ending Balance w/o Encumbrance	Encumbrance Balance	Ending Balance w/ Encumbrance
168001 COMPUTER SOFTWARE AM		136,785,338.42	9,637,008.68			
TOTAL: 168001	4,500,000.00	136,785,338.42	9,637,008.68	131,648,329.74	0.00	131,648,329.74
169001 ACCUM DEP-COMPUTER SOFTWARE AM		2,000,000.00	0.00			
TOTAL: 169001	4,500,000.02-	2,000,000.00	0.00	2,500,000.02-	0.00	2,500,000.02-
171001 BUILDINGS AM		0.00	115,955,420.08			
TOTAL: 171001	115,955,420.08	0.00	115,955,420.08	0.00	0.00	0.00
172001 ACCUMULATED DEPRECIATION-BLDGS AM		58,802,811.72	176,720.87			
TOTAL: 172001	58,626,089.55-	58,802,811.72	176,720.87	1.30	0.00	1.30
175001 MACHINERY & EQUIPMENT AM		61,609.56	80,691,313.15			
TOTAL: 175001	96,982,829.82	61,609.56	80,691,313.15	16,353,126.23	0.00	16,353,126.23
176001 ACCUM DEP - MACHINERY & EQUIP AM		71,484,761.04	717,790.48			

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Conclusion: GASB 51 Summary



- ✓ **GASB 51 is effective as of July 1, 2009 (FY 2010)**
 - *Software capitalization NOT new to the State*
 - *Software capitalized since 2004 under the Capital Asset Guide*

- ✓ **PeopleSoft Asset Management profiles for Software and Other Intangibles are available**
 - *Useful life for software = 10 years*
 - *Useful life for other = 20 years*

- ✓ **Accounting policies issued for 30-day comment period on 01/19/2010**
 - *Threshold for software = \$1 million*
 - *Threshold for other intangible assets = \$100 thousand*



- ✓ **Questions and answers**
- ✓ **Please complete the course evaluation**
- ✓ **Thank you for participating**

Questions & Answers



Answers to questions raised during training:

Q1	What costs should be capitalized: only direct or both direct and indirect?
A1	Consistent with software guidance in the Capital Asset Guide (page 18), only direct costs should be capitalized.
Q2	Is the PeopleSoft CIP (construction in progress) profile for intangible assets the same profile that is used for tangible assets?
A2	Yes
Q3	Will a new expense account be added in PeopleSoft to capture internal payroll costs that will be capitalized with internally generated assets?
A3	We do not expect to add a new account because the project chartfield can be used to identify these expenditures.



Answers to questions raised during training:

Q4

- a) Should modifications/enhancements to existing assets be accounted for as new assets with the useful life set at the new remaining life – or – should the modification/enhancement value be added to the existing asset with the adjusted net book value then amortized over the new remaining useful life of the existing asset?
- b) How should transactions be entered into the PeopleSoft asset management (AM) module to ensure that enhancements comply with the answer to part (a) of this question? For example, can profiles and parent/child relationships be added or modified to accommodate the answer to part (a)?



Answers to questions raised during training:

A4

- a) The enhancement value should be added to the existing asset with the adjusted net book value then amortized on a prospective basis over the new remaining useful life.
- b) Please send an email to sao_reporting@sao.ga.gov if your organization needs assistance with a specific modification/enhancement transaction.



Answers to questions raised during training:

Q5	At one point the expenditure account for software was 663001; now it is 823001. If the original asset was recorded to 663001 and an enhancement is processed after the account number change, how is the transaction handled by PeopleSoft AM? Is the parent/child relationship affected?
A5	It does not matter that the original software acquisition cost was charged to account 663001. New modification/enhancement activity should be charged to the new expenditure account (823001). Users can establish a child using expenditure account 823001 even if the parent was charged to 663001 since both of these expenditure accounts point to the same asset account (168001).



Answers to questions raised during training:

Q6	How do you decide if a modification or enhancement significantly increases functionality, efficiency, or the useful life?
A6	Consistent with the Capital Asset Guide, if modification or enhancement expenditures meet or exceed the capitalization threshold or they increase the life or value of the asset by at least 25% of the original life or cost, then the modification or enhancement is considered significant.