# BUSINESS COMBINATIONS GOODWILL AND INTANGIBLE ASSETS

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**NEW RULES**

FOR BUSINESS COMBINATIONS, GOODWILL, AND INTANGIBLE ASSETS

IN STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

SFAS 141 AND 142

SFAS 141 deals with Business Combinations

- All business combinations are to be accounted for in the same manner

SFAS 142 deals with Goodwill and Intangible Assets

- Accounting for Goodwill and Intangible Assets to reflect Economic Realities

The two Standards intertwine and are effectively one as with their forerunners, APB Opinions 16 and 17.

**Summary of SFAS 141 and SFAS 142**

- Eliminates Pooling of Interests and puts United States on the same basis as most of the world
- Modifies Purchase Method by:
    - Determination of the Purchaser
    - Establishing criteria for recognition of Intangible Assets
    - Eliminating Negative Goodwill
    - Enhancing disclosure requirements
- Scope is the same as that of APB Opinions 16 and 17, except for Not-for-Profit Enterprise
- Abandons amortization of Goodwill
- Bases Purchase Price Allocations on Fair Value
- Requires Allocation of Goodwill and Intangible Assets to Reporting Units
- Mandates Annual Testing of Goodwill for Impairment

## What is Goodwill?

Goodwill is defined by FASB as:

> "The excess of the cost of an acquired entity over the net of the amounts (Fair Values) assigned to the assets acquired and liabilities assumed. The amount recognized as Goodwill includes acquired Intangible Assets that do not meet the criteria for recognition as Intangible Assets (apart from Goodwill)".

Goodwill's five components:

- The Fair Values of net assets that were not recorded on the books of the acquired entity
- The Fair Value of the "going concern element" of the acquired entity
- The Fair Value of the synergies expected from combining the acquired entity's net assets and businesses with those of an operation carried on by the Purchaser
- Changes in the value of the consideration paid by the Purchaser
- Overpayment or underpayment by the Purchaser

## Criteria for Intangible Assets

An intangible item must be recorded as an Intangible Asset other than Goodwill, if it meets either of the following tests.

*Contractual or Legal*

Assets that arise from contractual or other legal rights:

- Licences
- Patents
- Copyrights
- Contracts
- Trademarks

*Separable*

Assets that can be separated from the entity and sold or transferred either alone or with other assets:

- Databases
- Core Technology

## A Summary of Criteria

| | | Contractural of Other Legal Rights | |
|---|---|---|---|
| | | Yes | No |
| Separable | Yes | Intangible Asset | Intangible Asset |
| | No | Intangible Asset | Intangible Goodwill |

## Determining the Useful Life of an Intangible Asset

The useful life of an Intangible Asset:

- Is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of its owner
- To an entity shall be based on analysis of all pertinent factors, in particular:
    - The expected use of the asset by the entity
    - The level of maintenance expenditures required to obtain the expected future cash flows from the asset (for example, a material level of required maintenance in relation to the Carrying Amount of the asset may suggest a very limited useful life)
- Shall be considered indefinite, if no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an Intangible Asset to the reporting entity.

The term **INDEFINITE** does <u>not</u> mean **INFINITE**

## Categories of Intangible Assets - I

*Marketing-related*

- Trademarks, trade names
- Service marks, collective marks, certification marks
- Trade dress (unique colour, shape or package design)
- Newspaper and magazine mastheads
- Internet domain names
- Non-competition agreements

Trademarks are words, names, symbols, or other devices used to indicate the source of the product and distinguish it from the pro-ducts of others. A service mark identifies the source of a service rather than a product. Collective marks are used to identify goods or services of members of a group. Certification marks verify the geographic origin or other characteristics of a good or service. Trademarks, service, collective and certification marks may be protected legally through registration with government agencies, continuous use in commerce or by other means.

The terms "brand" and "brand name" are often used as synonyms for trademarks and trade names. However, the former are general marketing terms typically used to refer to a group of complementary assets, such as the trademark (or service mark) and its related trade name, formulae, recipes and technological expertise, which may or may not be patented. An enterprise may recognize, as a single asset apart from Goodwill, a group of complementary Intangible Assets commonly referred to as a brand, when the items making up that group have similar useful lives.

An Internet domain name is a unique alpha-numeric symbol used to identify a particular Internet address. Registration of a domain name associates it with a designated computer on the Internet for the period during which the registration is in effect.

**Categories of Intangible Assets - II**

*Customer-related*

- Customer lists
- Order or production backlog
- Customer contracts and the related relationships
- Non-contractual customer relationships

A customer list consists of information about a product's or service's buyers, such as their name and contact information; it may be in the form of a database that includes other information, such as order history and demographics. Such customer lists do not relate to any contractual or other legal rights, but are valuable, and are frequently leased or exchanged. For that reason, an acquired customer list meets a criterion for recognition as an Intangible Asset; however, it does not meet it, when the terms of confidentiality or other agreements prohibit an enterprise from selling, leasing, or otherwise exchanging information about its customers.

If an acquired order or production backlog arises from contracts, such as purchase orders, it meets a criterion for recognition as an Intangible Asset, even if the purchase orders are cancellable.

When an enterprise establishes relationships with its customers as a result of regular contact, and the customer has the ability to deal directly with the enterprise through contracts, the customer relationships become contractual rights. Those customer contracts and the related relationships are

Intangible Assets, even when confidentiality or other contractual terms prohibit the sale or transfer of the contract separately from the acquired enterprise. If a customer relationship does not arise from a contract, but can be transferred with some other asset, it also meets the criteria to be an Intangible Asset.

Exchange transactions for the same asset or a similar type of asset provide evidence of separability of a non-contractual customer relationship; they may also give price information that is helpful when estimating Fair Value. For example, relationships with bank depositors may be transferred together with the related deposits and thus meet a criterion for recognition as an Intangible Asset.

An acquired customer base is an Intangible Asset; however, it generally does not meet a criterion for recognition apart from Goodwill, as it does not arise from contractual or other legal rights, nor can it generally be bought and sold separately from the acquired enterprise other than as a customer list or database.

### Categories of Intangible Assets - III

*Artistic-related*

- Plays, operas, ballets
- Books, magazines, newspapers, literary works
- Musical works, such as compositions, lyrics, jingles
- Pictures, photographs
- Video and audio-visual material, including motion pictures, music videos and television programmes
- Sports logos and players' promotional arrangements

Artistic-related items meet a criterion for recognition as Intangible Assets when they arise from legal rights, such as copyright, which can be transferred either in whole through assignment, or in part through license. The Fair Value of a copy-right requires consideration be given to all outstanding assignments or licenses. An acquirer may recognize a copyright and any related assignments or licenses as a single Intangible Asset.

### Categories of Intangible Assets - IV

*Contract-based*

- Licenses, royalties, standstill agreements
- Advertising, construction management, service or supply contracts
- Leases
- Approvals
- Franchises

- Airport landing slots
- Servicing rights, such as for mortgages
- Employment contracts

Servicing rights are one type of contract-based Intangible Asset. While servicing is inherent in the ownership of any financial asset, it becomes a distinct item only when contractually separated from the underlying assets; this may be through their sale, by securitization with the servicing rights retained, or through the separate purchase and assumption of the servicing.

When mortgage loans, credit card receivables, or other financial assets are acquired in a business combination with servicing retained, the inherent servicing rights are not separately recognized as an Intangible Asset; their Fair Value is included in that of the related financial asset. However, a contract representing servicing rights is an Intangible Asset.

When the terms of a contract give rise to a liability or commitment, such as when an operating lease or customer contract is unfavourable, that liability or commitment must be recognized immediately.

**Categories of Intangible Assets - V**

*Technology-based*

- Patents
- Computer software and programme formats
- Non-patented technology
- Databases
- Trade secrets, such as formulae, processes, recipes

Technology-based Intangible Assets relate to innovations or technological advances. In many cases, their future economic benefits are protected through contractual or other legal rights and as such meet a criterion.

Databases are collections of information, often stored in electronic form, such as on computer disks. An acquired database that includes original works of authorship is entitled to copyright protection and meets a criterion. However, a database often includes information created as a result of an enterprise's normal operations, such as a customer list, or specialized data, like scientific or credit information. Databases that are not protected by copyright can be (and often are) exchanged, licensed, or leased to others, in part or in their entirety. Even when the future economic benefit of a database does not arise from legal rights, it normally meets a criterion.

A trade secret is information, including a formula, pattern, compilation, algorithm, device, method, technique, or process, that de-rives independent economic value, actual or potential, from not being generally known, and is the subject of efforts that are reasonable in the circumstances to maintain its secrecy. Such protected information is recognized as an Intangible Assets only when a criterion is met, which is likely to be the case, in particular, when laws or regulations legally protect its future economic benefits.

## Categories of Intangible Assets - VI

*Statute-based*

- Broadcasting licenses
- Cable TV municipal franchises
- Taxi medallions
- Construction permits
- Hospital operating permits
- Medical licenses
- User rights, such as drilling, water, air, mineral, timber cutting and route authorities

Licences, franchises, approvals and permits are granted under various statutes by all levels of government, Federal, State, county, municipal as well as their duly appointed agencies.

This category is included with contract-based items in Appendix A of SFAS 141.

## Other Comments on Goodwill and Intangible Assets

*Carrying Values*

- Purchased intangible assets are to be recorded at their established fair values

*Internally Created*

- The costs of internally creating, developing, or maintaining Intangible Assets are recognized as expenses when incurred and not capitalized. Although an assembled workforce can be transferred with a plant and thus meet the separability criterion, it is not an Intangible Asset according to SFAS 141, although it was under APB Opinion 17. Any remaining balances are now to be grouped with Goodwill
- Internally generated intangibles are not Intangible Assets but are implicitly considered in Step 2 of the Goodwill Impairment Test, as they are reflected in the Fair Value of a Reporting Unit
- A Goodwill shield exists when the Fair Value of the Reporting Unit exceeds its Carrying Amount

 

## Amortization

- Goodwill is not amortized, but tested for Impairment at least annually at the Reporting Unit level
- Recognizes reductions in value when they occur
- Intangible Assets are to be amortized over their useful lives to the Reporting Unit, unless that life is determined to be indefinite. Recognized Intangible Assets that are no longer in use, should be allocated a limited life or considered part of Goodwill. Indefinite-lived Intangible Assets are also tested for Impairment at least annually.

## A Reporting Unit

- A Reporting Unit is either an Operating Segment under SFAS 141, which may be Functional or Geographic, or a component of an Operating Segment, if it:
  - Constitutes a business with separate Financial Statements (Even if a Balance Sheet may have to be created)
  - Is subject to regular reviews of operating results by segment management
  - Has dissimilar economic characteristics

Guidance in EITF (Emerging Issues Task Force) - Topic D-101

*Determining Reporting Units*

Rattlesnake Electronics

| **Operating Segments** | | | | |
|---|---|---|---|---|
| Calibration Division | | Telecom Division | | |
| 3 US Offices | 2 Canadian Offices | Cable Department | Power Department | Instrument Department |

Questions

1. Which are the Reporting Units?
2. Why is the determination important?

## Allocations to Reporting Units

- In addition to recorded assets and liabilities
- All Goodwill must be allocated to a Reporting Unit
  - Other assets and liabilities are assigned if they will be
  - Employed in or relate to its operations
  - Considered in determining its Fair Value

THIS IS A FUNDAMENTAL CHANGE IN THINKING
GOODWILL NOW DOES NOT RELATE SOLELY TO THE CORPORATE ENTITY

 

Goodwill is to be allocated to Reporting Units that are expected to benefit from anticipated synergies, even if other assets or liabilities of an acquired business are not allocated to the same Reporting Unit.

**Goodwill Impairment Test - I**

- A Goodwill Impairment Test is required:
- Immediately after SFAS 141 and 142 are adopted
- At least once a year on the same date; this does not have to be the year-end; each Reporting Unit may choose its own time
- When one of the following occurs, if the event is likely to reduce the Fair Value of the Reporting Unit:
    - A significant adverse change in a legal situation or in the business climate
    - An adverse action or assessment by a regulator
    - Unanticipated competition
    - A loss of key personnel
    - A more-likely-than-not expectation that a Reporting Unit or a significant portion of a Reporting Unit will be sold or otherwise disposed of
    - The testing for recoverability under SFAS 144 of a significant asset group within a Reporting Unit
    - Recognition of a Goodwill Impairment loss in the Financial statements of a subsidiary that is a component of a Reporting Unit

**The Goodwill Impairment Test – II**

This is a two-step process.

*Step 1 - Determining Potential Impairment*

- Compares Fair Value of Reporting Unit with its Carrying Amount (accounting book value including recorded Goodwill)
- If Fair Value is greater than its Carrying Amount, then there is no impairment
- If the Carrying Amount is greater than Fair Value, then Step 2 is undertaken to measure the amount of impairment
- Any testing for impairment of the Carrying Amounts of long-lived assets under SFAS 144 must be completed before Goodwill may be tested under SFAS 142

## The Goodwill Impairment Test - III

*Step 2 - Measuring the Impairment Loss*

This step compares the implied Fair Value of the Goodwill of the Reporting Unit's Carrying Amount:

- The implied Fair Value of the Goodwill is determined in the same manner as the amount of Goodwill in a business combination
- To determine the implied Fair Value of the Goodwill, all other assets and liabilities must be valued
- If the Carrying Amount of a Reporting Unit's Goodwill exceeds the implied Fair Value of that Goodwill, then an Impairment Loss must be recognized for an amount equal to the excess
- Only the value of Goodwill is adjusted through this process; no other assets are affected
- The Impairment Loss cannot exceed the Carrying Amount of the Goodwill
- The reduced Carrying Amount of the Goodwill will be its new accounting basis. Goodwill cannot be increased to its original Carrying Amount in the future. Once written down, it remains at that level.
- An impairment charge cannot be avoided by reorganizing Reporting Units, as they are dependent on the managerial structure of the firm

## SFAS 144 Impairment Test

This applies to all long-lived assets, especially Intangible Assets; it also has two steps.

*Step 1 - Determining Potential Impairment*

| **Cash Flows** | **$'000** |
|---|---|
| Year 1 | 12,500 |
| Year 2 | 14,000 |
| Year 3 | 11,000 |
| Year 4 | 7,000 |
| Year 5 | 3,000 |
| Sum of Cash Flows (undiscounted) | 47,500 |
| Carrying Amount of Asset | 60,000 |
| Shortfall | 12,500 |

*Step 2 - Measuring the Impairment Loss*

| | |
|---|---|
| Carrying Amount of Asset | 60,000 |
| Less: Fair Value of Asset (based on DCF) | 35,000 |
| Amount of Impairment Loss | 25,000 |

## Financial Statement Adjustments

| Income Statement | | Balance Sheet | |
|---|---|---|---|
| Original Operating Income | 16,000 | Carrying Amount of Asset | 60,000 |
| Less: Asset Impairment | 25,000 | Less Asset Impairment | 25,000 |
| Loss from Operations | (9,000) | New Carrying Amount | 35,000 |

## Treatment of Negative Goodwill

- Negative Goodwill can be created when the Fair Value of the Net Assets acquired in a business combination exceeds the purchase price
- In the past, this excess was allocated on a pro-rata basis to reduce certain acquired non-current assets. When these assets were reduced to zero, any remaining balance was negative Goodwill; it was amortized over its useful life with a recurring benefit to the income statement
- Under SFAS 141, after the same specific assets are reduced to zero (including acquired in-process research and development), the remaining amount is still negative Goodwill; it is now to be reported as a one-time gain, shown as an extraordinary item
- Upon adoption of SFAS 142, companies that were recognizing a recurring benefit to the income statement from the amortization of negative Goodwill acquired in the past, must write off the remaining balance as a one-time change in accounting principle

## Previous Business Combinations

- Under SFAS 142, there is no requirement to restate previous purchase price allocations
- Intangible Assets should be removed from Goodwill if they:
    - Meet the new separate recognition criteria
    - Were assigned a Fair Value at the time of acquisition
    - Keep separate accounting records, such as an amortization schedule
- The SEC has indicated it may require financial service companies to transfer certain Intangible Assets from Goodwill, even if there was no formal valuation of them when they were acquired
- From an impairment vulnerability perspective, companies required to reclassify Intangible Assets may get hit with a charge in Step 2 of the Goodwill Impairment Test. These reclassified Intangible Assets would be included in the Goodwill's book value, but not in its implied Fair Value. FASB understands these unintended consequences but accepts them because there is no obvious workable solution

## Fair Value

FASB uses the following definition:

> "The Fair Value of an asset (or liability) is the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale".

Thus the Fair Value of a Reporting Unit is the amount at which the unit as a whole would be bought or sold in a current transaction between willing parties.

- Fair Value is not the same as Fair Market Value, as it takes into account:
    - Special purchasers
    - Expected synergies
- It must be obtained using the best information available and the most appropriate methodologies; FASB recognizes them in this order:
    - Quoted market prices if available
    - Prices for similar assets
    - Present value techniques
- SFAS 142 acknowledges that:
    - Market capitalization of a Reporting Unit using quoted prices may not be representative of the Fair Value of the Reporting Unit as a whole. Therefore, this is not the sole measurement basis of the Fair Value of a Reporting Unit

## Present Value Techniques

- When using a present value technique, which is often the best available:
    - Cash Flow projections must reflect assumptions that marketplace participants would use in their estimates of Fair Value. If that information is not readily available without undue cost and effort, the entity may use its own assumptions
    - All assumptions must be reasonable and supportable, considering all available evidence
- A valuation method based on multiples of earnings, revenue or similar performance measures may be applied, if consistent with the objective of measuring Fair Value. Use of multiples would not be appropriate in situations in which the operations or activities of an entity, for which the multiples are known, are not of comparable nature, scope, or size as the Reporting Unit for which Fair Value is being estimated

## Bases for Allocating Goodwill

Some possible bases for allocating Goodwill to Reporting Units:

- Net Tangible Assets using the assets other than cash less the liabilities, after the acquisition, for each Reporting Unit

- Net Income using the expected contributions of each Reporting Unit after the acquisition

- Estimated Fair Value applying a multiple of the expected Net Income, based on anticipated growth and risks
- Implied Goodwill using the differences between the Estimated Fair Value and the Net Tangible Assets
- Acquired Net Tangible Assets using the amounts to be transferred to each Reporting Unit
- Sales of Acquired Entity using the sources of revenue of the Acquired Entity
- Net Income of Acquired Entity using the sources of Net Income of the Acquired Entity

**Asset Acquisitions**

- Total cost of acquired assets is allocated to individual items based on their relative Fair Value
- No Goodwill arises or is recorded in an asset acquisition
- Criteria in SFAS 141 relating to Intangible Assets do not apply to such items obtained in an asset acquisition other than a Business Combination. For example, a trained workforce is an Intangible Asset in an asset acquisition, but not in a Business Combination

**Newark Morning Ledger - I**

- A 1991 Supreme Court Tax Case relating to Customer Relations
- Differentiating between an Intangible Asset and Goodwill is inherently subjective
- Dispute between IRS and purchaser over amount to be ascribed for tax purposes to a newspaper's subscription list
- Key conclusion: it is essential to distinguish between a Customer List and Customer Relationship; the latter includes the economic benefits of renewals
- In particular, the correct valuation method must be applied to the right asset
- The IRS contended the subscriber list should be valued at its current replacement cost, the amount required to obtain and record the names and addresses of the subscribers; that was a relatively nominal sum. It asserted that the remaining value the taxpayer had ascribed to the list was Goodwill

Under common law, Goodwill is the value of the expectation of continued customer patronage (i.e. of the current customer returning to the newspaper for business). Therefore, the IRS argued that the "expectancy of future income" from the current subscribers and the anticipated renewals was clearly Goodwill.

- The taxpayer held that the list was worth much more, because it incorporated the value of expected repeat customers. The Supreme Court decided in favour of the taxpayer, noting that the historical behaviour of the subscribers was sufficiently known to form a basis for expectation of a continuing stream of business. In essence, the Court concluded that the IRS had erred by valuing "the wrong asset by the wrong method"

**Newark Morning Ledger - II**

- The judgement stated that the value of the list was not so much that of the list itself, but of the relationships with the customers in the list; these relationships that were expected to continue through subscription renewals. Therefore, the use of replacement cost was inappropriate; as to the common law definition of Goodwill, the Court concluded it was inapplicable.

The decision reflected the standard that any asset capable of being valued separately and with a reasonably estimated limited economic life was depreciable as a matter of law. While this is somewhat different from the criteria adopted by FASB, they are conceptually very similar.

- This case should not be quoted as authority in interpreting FASB's criteria. However, under SFAS 141, an unidentifiable customer base is deemed to be part of Goodwill:

  "One must distinguish between a galaxy of customers who may or may not return, whose frequency is unknown, and whose quantity and future purchases cannot be predicted, against subscribers who can be predicted to purchase the same item, for the same price on a daily basis".

## Required Disclosure - I

Note X: Acquired Intangible Assets

| **As of June 30, 2002** | | | **$'000** |
|---|---|---|---|
| | **Gross Carrying Amount** | **Accumulated Amortization** | **Net Book Value** |
| **Amortized Intangible Assets** | | | |
| Trademark | 1,078 | (66) | 1,012 |
| Unpatented Technology | 475 | (380) | 95 |
| Other | 90 | (30) | 60 |
| Total | 1,643 | (476) | 1,167 |
| **Unamortized Intangible Assets** | | | |
| Broadcast Licenses | | 1,400 | |
| Trademark | | 600 | |
| Total | | 2,000 | |
| **Aggregate Amortization Expense** | | | |
| For year ended July 31, 2002 | | 319 | |
| *Estimated Future Amortization Expense* | | | |
| For year ended July 31, 2003 | | 199 | |
| For year ended July 31, 2004 | | 74 | |
| For year ended July 31, 2005 | | 74 | |
| For year ended July 31, 2006 | | 64 | |
| For year ended July 31, 2007 | | 54 | |
| | | 465 | |
| Future Periods | | 702 | |
| Total | | 1,167 | |

## Required Disclosure - II

Note Y: The changes in the Carrying Amount of Goodwill for the year ended July 31, 2002, are as follows:

| | | | **$'000** |
|---|---|---|---|
| | **Technology Segment** | **Communications Segment** | **Total** |
| Balance August 1, 2001 | 1,413 | 904 | 2,317 |
| Goodwill acquired in year | 189 | 115 | 304 |
| Impairment losses | - | (46) | (46) |
| Goodwill written off on sale of business unit | (484) | - | (484) |
| Balance at July 31, 2002 | 1,118 | 973 | 2,091 |

The Communications Segment was tested for impairment in the third quarter, after the annual forecasting process. Due to increased competition in the cable TV industry, operating profits and Cash Flows were lower than expected in the fourth quarter of fiscal 2001, and in the first and second quarters of 2002. Based on that trend, the earnings forecast for the next five years was revised.

In April 2002, a Goodwill Impairment loss of $46,000 was recognized in the Communications Segment. The Fair Value of that Reporting Unit was estimated using the expected present value of future Cash Flows.

**Required Disclosure - III**

Note Z: Goodwill and Other Intangible Assets - Adoption of SFAS 142

| | | **$'000** (except for per-share | |
|---|---|---|---|
| **For the Year Ended July 31** | **2002** | **2001** | **2000** |
| *Reported Income* | 1,223 | 1,450 | 1,360 |
| Add back: Goodwill Amortization | - | 40 | 40 |
| Add back: Trademark Amortization | - | 20 | 20 |
| Adjust: Copyright Amortization | - | 3 | 3 |
| Adjusted Net Income | 1,223 | 1,513 | 1,423 |
| | | | |
| *Base Earnings per Share* | | | |
| Reported Net Income | $ 2.45 | $ 2.90 | $ 2.92 |
| Goodwill Amortization | $ - | $ 0.08 | $ 0.08 |
| Trademark Amortization | $ - | $ 0.04 | $ 0.04 |
| Copyright Amortization | $ - | $ 0.01 | $ 0.01 |
| Adjusted Net Income | $ 2.45 | $ 3.03 | $ 2.85 |
| *Diluted Earnings per Share* | | | |
| Reported Net Income | $ 2.23 | $ 2.64 | $ 2.47 |
| Goodwill Amortization | - | $ 0.07 | $ 0.07 |
| Trademark Amortization | - | $ 0.04 | $ 0.04 |
| Copyright Amortization | - | $ 0.01 | $ 0.01 |
| *Adjusted Net Income* | $ 2.23 | $ 2.76 | $ 2.59 |

**Grouping Intangible Assets**

EITF Meeting March 2002 recommended:

- Separately recorded indefinite-lived Intangible Assets should be combined into a single unit of accounting, if operated as a single asset (essentially inseparable from one another)
- Determination is a matter of judgement and application of certain indicators

*Indicators to Combine*

- The Intangible Assets were purchased in order to construct or enhance a single asset and will not be used independently

- Had the Intangible Assets been acquired in a single transaction, they would have been recorded as one asset
- The Intangible Assets as a group represent the highest and best use of the assets (for example, they yield the highest price if sold as a group)
- The marketing or branding strategy provides evidence that the Intangible Assets are complementary

*Indicators not to Combine*

- Generates Cash Flows independent of any other Intangible Asset (e.g., an Intangible Asset licensed to another entity for its exclusive use)
- Each Intangible Asset would likely be sold separately
- The entity has adopted or is considering a plan to dispose of one or more Intangible Asset separately
- Factors that might limit the useful life of one of the Intangible Assets would not similarly limit those of other Intangible Assets combined in the unit of accounting

**SFAS 144 - Long-Lived Assets**

Establishes Accounting Standards for:

- Impairment of long-lived assets to be held and used
- Long-lived assets to be disposed of by sale or otherwise
- Broadens the reporting of discontinued operations
- Retains the two-step Impairment Test on long-lived assets to be held and used:
    - Step 1: Identifies if an asset (asset group) is impaired; it uses undiscounted Cash Flows to determine if the Carrying Amount of the asset (asset group) is recoverable over its useful Life. If the undiscounted Cash Flows are less than the Carrying Amount, there is an impairment
    - Step 2: If an asset (asset group) is impaired, the impairment loss is the difference by which the Carrying Amount of the asset (asset group) exceeds its Fair Value; this is normally determined by discounting the Cash Flow.