U.S. GAAP vs. IFRS: Intangible assets other than goodwill

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February 2020

Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared a series of comparisons dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for intangible assets other than goodwill.

The guidance related to accounting for intangible assets other than goodwill in U.S. GAAP is primarily included in the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 350, *Intangibles—Goodwill and Other*. Additional guidance related to specific types of intangible assets can be found in ASC 340-20, *Other Assets and Deferred Costs – Capitalized Advertising Costs*, and ASC 985-20, *Software – Costs of Software to Be Sold, Leased, or Marketed*. In IFRS, the guidance related to intangible assets other than goodwill is included in International Accounting Standard (IAS) 38, *Intangible Assets.*

Comparison

The significant differences between U.S. GAAP and IFRS with respect to the accounting for intangible assets other than goodwill are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 340-20, 350 and 985-20	IAS 38
Revaluations other than impairment considerations	Revaluations of intangible assets to fair value are prohibited.	Subsequent to their initial recognition, intangible assets (other than goodwill) may be revalued to fair value as an accounting policy election. However, because adoption of this election requires that fair value be determined by reference to an active market, it is rarely used.
Internally developed intangible assets	Costs of internally developing, maintaining or restoring intangible assets should be expensed as incurred when one or more of the following are true about the intangible asset: (a) it is not specifically identifiable, (b) it has an indeterminate life or (c) it is inherent in a continuing business or nonprofit activity and relates to an entity as a whole. Given these restrictive criteria, the recognition of internally developed intangible assets is rare and usually only seen in the areas of patents and trademarks. With limited exceptions, research and development costs are expensed as incurred.	Costs in the research phase are expensed as incurred. Costs in the development phase are capitalized if the entity can demonstrate all of the following: • The technical feasibility of completing the intangible asset so that it will be available for use or sale. • The intention to complete the intangible asset and use or sell it. • The ability to use or sell the intangible asset. • How the intangible asset will generate probable future economic benefits (the entity should demonstrate the existence of a market or, if for internal use, the usefulness of the intangible asset). • The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. • The ability to measure reliably the expenditures attributable to the intangible asset during its development.

These are the significant differences between U.S. GAAP and IFRS related to accounting for intangible assets other than goodwill, except for differences related to impairment accounting (which are covered in another of our comparisons, U.S. GAAP vs. IFRS: Impairment of long-lived assets). Refer to ASC 340-20, 350 and 985-20 and IAS 38 for all of the specific requirements applicable to accounting for intangible assets other than goodwill. In addition, refer to our U.S. GAAP vs. IFRS comparisons series for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

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U.S. GAAP vs. IFRS: Intangible assets other than goodwill resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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