Unit 11 Natural Resources and Intangibles

I. Natural Resources

A. Natural resources are known as wasting assets.
B. They include mineral deposits, timber, oil, and gas.
C. Recorded at purchase price plus development costs, natural resources are categorized as long-term assets until extraction, at which time they become inventory.
D. Costs are recovered through the process of **depletion** with **accumulated depletion** subtracted from the natural resource on the balance sheet. Calculating depletion is similar to calculating depreciation using the unit of production method.
E. Plant assets to be abandoned upon removal of a natural resource are depreciated with the units of production method.
F. Suppose 100,000 tons of a total 3,000,000 tons were extracted from a mine costing $8,500,000. Additional development costs were $500,000. Depletion would be calculated as follows:

$$\text{Depletion Per Unit} = \frac{\text{Total Cost}}{\text{Total Units}} = \frac{\$8{,}500{,}000 + \$500{,}000}{3{,}000{,}000 \text{ Tons}} = \$3 \text{ Per Ton}$$

$$\text{Depletion Expense} = \text{Depletion Per Unit} \times \text{Units} = \$3 \times 100{,}000 = \$300{,}000$$

II. Intangibles

A. Intangible assets are nonphysical and noncurrent.
B. Valuation is based on cost of acquisition and/or development costs.
C. The cost[1] of an intangible asset is recovered with the processes of **amortization**.
   1. The value of the intangible asset and not an accumulation is decreased.
   2. Useful life should be based on the expected revenue stream generated by the intangible. The maximum useful life is 40 years.
   3. When immaterial, intangible assets may be expensed.

D. Examples[2]

   1. **Patents** are exclusive 17-year rights related to a product or process.

   2. **Copyrights** are exclusive rights related to artistic material. They are granted for the life of the holder plus 50 years.

   3. **Leaseholds** relate to the right to occupy land and buildings. They are amortized to rent expense over the life of the lease.

   4. **Goodwill** relates to the excess earning capabilities of a company. Only purchased goodwill is recorded.

   5. **Trademarks and trade names** relate to the exclusive right to use symbols or names.

   6. **Franchise** is an exclusive right to conduct business in a specific area.

[1] Often questions arise as to whether an expenditure should be capitalized (recorded as an asset) or expensed. To be capitalized, there must be reasonable evidence of future benefit. Uncertainty as to future benefit usually results in a direct write-off to an operating expense.

[2] Research and development costs are not intangibles and should be expensed when incurred.