The GASB Standards For Intangible Assets

Posted on March 20, 2019

Introduction

Governmental Accounting Standards Board Statement No. 51 establishes how U.S. state and local governments identify, recognize, measure, and amortize intangible assets. The original essay correctly lists easements, water rights, patents, trademarks, and computer software, but it calls the 2007 pronouncement “recent,” confuses some recognition conditions, and does not explain how later standards affect technology arrangements. Statement 51 treats qualifying intangible resources as capital assets because they provide service capacity beyond one reporting period even though they lack physical substance. The standard’s purpose is comparability: similar resources should not be expensed immediately by one government and capitalized indefinitely by another. Sound application requires understanding scope, useful life, internally generated projects, impairment, disclosures, and the difference between ownership of software and access through a service contract. (Governmental Accounting Standards Board, Statement No. 51)

What Counts as an Intangible Asset

Statement 51 describes an intangible asset as lacking physical substance, being nonfinancial in nature, and having an initial useful life extending beyond one reporting period. Examples include easements, water and timber rights, patents, trademarks, copyrights, and computer software. The definition focuses on a controlled resource that can provide service capacity, not on whether citizens can touch it or whether it produces revenue. Cash, receivables, and investments are financial assets and therefore outside this definition. A prepaid one-year license normally does not meet the useful-life condition. Governments should identify the legal or contractual rights that create control, the period of benefit, and whether the resource is separable or arises from enforceable rights. The accounting label follows the substance of the arrangement rather than the name used by a vendor.

Intangible Assets as Capital Assets

Qualifying intangible assets are generally reported as capital assets and follow the recognition and financial-reporting principles applicable to governmental capital assets. This classification means the resource is recognized at historical cost or another measurement required for the method of acquisition, then amortized over its useful life when finite. Capitalization does not imply that the asset has a physical location or that it can be sold easily. It indicates that cost should be allocated across periods receiving service capacity rather than charged entirely to the acquisition period. Governments still need a capitalization policy that is reasonable and consistently applied. Small software licenses or minor rights may be expensed under a threshold even though they conceptually meet the definition, provided the policy does not distort financial statements.

Scope Exclusions

Statement 51 does not govern every nonphysical item. Goodwill created through an acquisition, assets arising from certain leases, and resources held primarily for income or profit may fall under other guidance. An intangible asset held as an investment should be reported according to investment standards rather than automatically as a capital asset. The original essay correctly recognizes this distinction but should explain the reason: accounting follows the government's purpose and the applicable measurement model. A patent used to deliver public services differs from a patent acquired only for resale or investment return. Arrangements that provide access to software without transferring control may also be service or subscription contracts rather than owned intangible assets. Scope analysis should occur before measurement because applying the wrong standard can change recognition, amortization, and disclosures.

Historical Cost and Donated Assets

Purchased intangible assets are initially measured using acquisition cost, including amounts directly attributable to placing the asset into service. Relevant costs may include purchase price, legal fees, implementation, and necessary testing, depending on the arrangement and applicable guidance. General administration, training, maintenance, and costs incurred after the asset is ready for use are commonly expensed unless another standard requires capitalization. Donated intangible assets require the measurement basis specified for donated capital assets, which has changed under later GASB guidance from older fair-value language to acquisition value in relevant circumstances. The important principle is faithful representation of the resource obtained and the cost of preparing it for service. Governments should document invoices, contracts, internal labor, and the date when service capacity begins.

Internally Generated Intangible Assets

Statement 51 provides special guidance for internally generated intangible assets because research and development activities often begin before a government knows whether a usable resource will result. Costs are capitalized only after the government determines the specific objective and service capacity, demonstrates technical or technological feasibility, and shows an intention and ability to complete or continue development. Costs incurred before these criteria are met are expensed and are not later restored to the asset. This rule prevents capitalization of exploratory work whose future benefit remains uncertain. Once the recognition point is reached, direct project costs can be capitalized according to policy. Documentation should show the date and evidence for each criterion because a vague management intention is insufficient to support an asset.

Internally Generated Computer Software

Computer software may be developed internally, modified extensively, or obtained commercially and configured for government use. Statement 51 divides internal software projects into preliminary, application-development, and post-implementation stages. Preliminary evaluation and alternative analysis are generally expensed. Qualifying application-development costs, such as coding, installation, and testing, are capitalized after the recognition criteria are met. Training and routine maintenance after implementation are expensed. Upgrades and enhancements are capitalized only when they increase functionality, not merely because they repair defects or maintain current performance. Project teams should track time and invoices by phase because one vendor contract may include capitalizable and noncapitalizable activities. Reliable accounting depends on project governance and evidence rather than a single total labeled “software.”

Useful Life

An intangible asset has a finite useful life when legal, contractual, technological, functional, or other factors limit the period of service capacity. The useful life should not exceed a contractual or legal term, including renewal periods only when renewal is reasonably assured and relevant conditions are satisfied. Technological obsolescence may produce a shorter useful life than the legal right. A perpetual software license can become unusable when security support ends, while an easement may continue indefinitely unless law or circumstances impose a limit. Management should estimate the period over which the asset will serve operations and review that estimate when conditions change. Useful life is an accounting estimate supported by evidence, not a default copied from another government’s schedule.

Amortization

Finite-lived intangible assets are amortized systematically over their estimated useful lives, usually beginning when the asset is placed into service. Straight-line amortization is common because service capacity is often consumed evenly or because another pattern cannot be demonstrated reliably. The residual value is normally limited unless a government expects a measurable amount at disposal. Indefinite-lived assets are not amortized while no legal, contractual, regulatory, technological, or other factor limits their service capacity. “Indefinite” does not mean immortal. If circumstances later establish a finite life, the asset begins to be amortized prospectively over the revised estimate. Governments should distinguish an indefinite right from a right whose end date is simply unknown because records are incomplete.

Impairment and Abandonment

Intangible assets can lose service capacity before the end of their expected life through legal change, technological obsolescence, project cancellation, cyber incidents, vendor failure, or replacement. GASB impairment guidance applies when evidence indicates that the magnitude of decline is significant and unexpected. A software system abandoned before implementation may require a write-down or expense, while a project paused temporarily may still retain service potential. Management should document whether the condition is temporary, whether restoration is possible, and which measurement method applies. Continuing to report a nonfunctional system at full carrying amount overstates resources. Conversely, writing off an asset merely because a newer product exists may understate value when the government continues to use the existing system effectively. (Governmental Accounting Standards Board, Statement No. 42)

Subscription-Based Information Technology Arrangements

Modern governments frequently pay for cloud software or other subscription-based information technology arrangements instead of buying a perpetual license. GASB Statement No. 96, issued after Statement 51, provides guidance for qualifying SBITAs and generally recognizes a subscription liability and an intangible right-to-use subscription asset. This accounting differs from ownership of internally generated or purchased software under Statement 51. The contract term, options, implementation costs, and combination of subscription and nonsubscription components affect measurement. A vendor's description of "software as a service" does not settle the accounting; the government must analyze whether the arrangement conveys control of the right to use the vendor's IT software. Later guidance should therefore be considered alongside Statement 51. (Governmental Accounting Standards Board, Statement No. 96)

Easements and Other Rights

Easements, water rights, timber rights, and similar arrangements can be difficult because legal form and operational purpose vary. A permanent easement may have an indefinite life, while a right limited to twenty years has a finite life even if the underlying land lasts indefinitely. The government must establish that it controls the right and that the right will provide service capacity beyond one reporting period. Records may be old, incomplete, or embedded in land acquisition documents, requiring coordination among legal, engineering, property, and finance staff. Costs also need separation from the related tangible asset where possible. A water system, for example, may include land, pipelines, equipment, software, and water rights that follow different useful lives and disclosure requirements.

Financial Statement Presentation and Disclosures

Intangible assets are generally presented within capital assets rather than as a separate universal category on the face of every statement. Notes should provide information required for capital assets, including beginning balances, additions, reductions, ending balances, and accumulated amortization where material. Significant accounting policies should explain capitalization thresholds, useful-life methods, and treatment of internally generated software. Governments may disclose important commitments, impairment, or projects in progress when necessary for users to understand financial position. Transparency is especially important because intangible resources are less visible than buildings and vehicles and may depend on contracts that users cannot infer from a balance. Disclosures should connect reported amounts with the nature and service role of the assets.

Controls and Implementation

Applying Statement 51 requires more than year-end journal entries. Procurement should route software, licenses, easements, and development contracts for accounting review before signing. Project managers should identify phases, track internal labor, document the placed-in-service date, and report abandonment or enhancement. Legal staff should confirm rights and terms, while information-technology personnel assess functionality and obsolescence. A centralized asset register can record description, owner, location or system, cost, useful life, amortization, restrictions, and supporting contracts. Regular reconciliation with the general ledger and project records reduces omissions and duplicate capitalization. Internal controls are particularly important when departments purchase cloud tools independently, because decentralized subscriptions can create unrecorded obligations, cybersecurity risk, and inconsistent accounting.

Conclusion

GASB Statement No. 51 improved governmental reporting by defining intangible assets and requiring qualifying resources to be treated consistently as capital assets. The standard addresses purchased and internally generated assets, computer-software development, useful life, amortization, and indefinite-lived rights. Application begins with scope: governments must distinguish owned intangible resources, investments, services, leases, and subscription-based IT arrangements governed by later standards such as GASB 96. Accurate reporting depends on evidence about control, service capacity, project stage, legal term, technological life, and impairment. The original essay identified several important examples but treated the standard as recent and left major recognition rules unexplained. A complete approach combines technical accounting with procurement, legal, IT, and asset-management controls.

References

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3. Governmental Accounting Standards Board. *Statement No. 96: Subscription-Based Information Technology Arrangements*. 2020.
4. Governmental Accounting Standards Board. *Statement No. 42: Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. 2003.
5. Governmental Accounting Standards Board. *Codification of Governmental Accounting and Financial Reporting Standards*.
6. Government Finance Officers Association. Resources on capital assets and technology accounting.