NATURAL RESOURCES AND INTANGIBLES

I. NATURAL RESOURCES

Natural Resources are known as wasting assets. They include mineral deposits, timber, oil, and gas. Recorded at purchase price plus development costs, natural resources are categorized as long-term assets until extraction, at which time they become inventory and a current asset. Costs are recovered through the process of depletion with accumulative depletion subtracted from the natural resource on the Balance Sheet. The process of calculating depletion is similar to that of calculating depreciation on a unit of production basis. Suppose 100,000 tons of a total 3,000,000 tons were extracted from a mine costing $8,500,000 with additional development costs of $500,000. Depletion would have been calculated and recorded as follows:

$$\text{Depletion/Unit} = \frac{\text{Total Cost}}{\text{Total Units}}$$

$$= \frac{\$8{,}500{,}000 + \$500{,}000}{3{,}000{,}000 \text{ tons}} = \frac{\$9{,}000{,}000}{3{,}000{,}000 \text{ tons}} = \$3/\text{ton}$$

	DR.	CR.
Depletion Expense - Mineral Deposits ($3)(100,000)	300,000	
Accumulative Depletion - Mineral Deposits		300,000
To record mineral deposit depletion.		

> Note: Plant assets to be abandoned after the removal of a natural resource would be depreciated with the units of production method.

II. INTANGIBLES

An item must be nonphysical and noncurrent in nature to be classified as an intangible asset. Valuation is based upon cost of acquisition or development cost. To be capitalized, there must be reasonable evidence of future benefit with uncertainty as to future benefit usually resulting in a direct write-off to an operating expense. Amortization is the term used to describe the write-off of an intangible with the account itself, and not an accumulation, used as an offset. Life should be based upon the expected revenue stream generated by the intangible with the maximum Useful Life being 40 years. Intangible categories include:

Patents Patents are granted for 17 years, should be capitalized to the patent account, and amortized over the expected useful life charging the patent account.

	DR.	CR.
Patents	25,000,000	
Cash		25,000,000
To record Patent Rights Purchased today.		
Amortization of Patents Expense	2,500,000	
Patents		2,500,000
To write off a patent expected to have a useful life of 10 years.		

Copyrights Copyrights are granted for the life of the holder plus 50 years, should be capitalized to the copyright account, and amortized over the expected useful life (usually much less than 50 years) charging the copyright account.

Leasehold Improvements Leasehold improvements should be capitalized to the Leasehold account and written off over the leasehold's life charging rent expense.

Goodwill Only purchased Goodwill is recorded. The value of the Goodwill may be estimated, or excess earnings may be capitalized. Capitalizing excess earnings would be to charge the present value of future earnings based upon some reasonable interest rate. Part V will explore the capitalizing of future earnings.

Trademarks and Trade Names Trademarks and Trade Names, if purchased, should be amortized; otherwise related costs should be expensed.