**ABSTRACT 27*****UITF abstract 27***
Revision to estimates of the useful economic life of goodwill and intangible assets*(Issued 8 December 2000)***The issue**

Paragraph 19 of FRS 10 states that “There is a rebuttable presumption that the useful economic lives of purchased goodwill and intangible assets are limited to periods of 20 years or less.” Paragraph 33 states that “The useful economic lives of goodwill and intangible assets should be reviewed at the end of each reporting period and revised if necessary. If a useful economic life is revised, the carrying value ... should be amortised over the revised remaining useful economic life.” 1

An entity may rebut the presumption because there is evidence that its goodwill (or intangible asset) has an indefinite life: in these circumstances no amortisation is charged. In a subsequent year, the entity may decide that it no longer wishes or is now unable to rebut the presumption. Amortisation over a period of up to 20 years from the date of acquisition would be necessary. The issue is whether such a change should be treated as a change of accounting policy (with a consequential prior period adjustment) or a change of useful economic life (and thus accounted for prospectively in accordance with paragraph 33 of FRS 10). 2

The UITF took the view that a decision not to rebut the presumption is not a change of accounting policy but rather a change in the way in which useful economic life is estimated. This is because the FRS does not allow a choice of policies; goodwill should be amortised unless its life is indefinite. What the FRS does allow is two different sets of assumptions for estimating useful economic life. The change referred to in paragraph 2 above is simply from one permitted way of estimating useful economic life to another, more prudent, one. 3

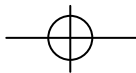
Application to smaller entities

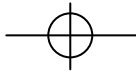
Reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt from this Abstract. 4

UITF consensus

The UITF reached a consensus that, other than on the initial implementation of FRS 10: 5

- (a) where estimates of the useful economic lives of goodwill or intangible assets are revised, the carrying value should be amortised over the revised remaining useful economic life, as required by paragraph 33 of FRS 10; and





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- (b) this requirement applies equally where the presumption of a 20-year life has previously been rebutted, as it does to other revisions of estimates of the useful economic lives of goodwill and intangible assets.

Date from which effective

- 6 The accounting treatment required by this consensus should be adopted with immediate effect. Where applicable, corresponding amounts should be restated.

References

FRS 10 'Goodwill and Intangible Assets' - paragraphs 19 and 33

