ACCOUNTING in the headlines

How does Nike recognize the costs of suing 31 companies over Chuck Taylor trademark infringement?

In October 2014, Nike filed suit against 31 companies, claiming these companies have infringed on Nike's Converse Chuck Taylor All Star sneakers trademark.

Chuck Taylor All-Star sneakers have been made since 1917 when Converse first produced them (Nike purchased Converse in 2003). It is an iconic shoe, with black stripes and a rubber toe topper. The shoes have been worn by stars in many movies, including Sylvester Stallone in "Rocky" and John Travolta in "Grease."

Now Nike claims that other companies are producing sneakers that infringe on its Chuck Taylor trademark. Some of the 31 companies being sued include Walmart, Skechers, Ralph Lauren Corp, FILA, and others.

Questions

1. How will Nike recognize the legal costs of defending its trademark infringement? Will it expense the legal costs? Or will it capitalize the legal costs? Explain.
2. Do you think the outcome of the lawsuits affects whether Nike will expense or capitalize the costs? Why or why not?
3. If Nike does capitalize the legal costs, what type of asset is this?
4. Would the capitalized legal costs be depreciated or amortized over time? What condition must be met in order for these legal costs to be depreciated/amortized?