

The need to be “financially bilingual” US GAAP vs IFRS

XIV. RESEARCH AND DEVELOPMENT

This presentation contains information, in addition to the material prepared and provided by the professor, from:

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4. Douppnik T. and Perera H. INTERNATIONAL ACCOUNTING- CONT4029 (Custom Edition by Prof. Aida Lozada and Prof. Carmen Ríos. McGraw-Hill, 2014. ISBN 9781308235059.
5. Timothy, D., Finn M., Gotti, G. and Perera, H. 5ed. INTERNATIONAL ACCOUNTING. Mc Graw Hill 2020, New York.
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US GAAP FASB ASC 350, 805, 985

IAS 38

Research = Expense

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Development = Expense

Development = *Asset

*If can't separate R&D must treat all as expense immediately.

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RESEARCH AND DEVELOPMENT

CAPITALIZE

If Can demonstrate

1. Technical feasibility
2. Intention to complete
3. Ability to use
4. How will generate probable future economic
5. The availability of adequate, financial to complete and sell
6. Ability to reliably measure the expenditures attributable to the asset

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RESEARCH AND DEVELOPMENT

IAS 38

RESEARCH ACTIVITIES

- Activities to obtain new knowledges
- The search for application of research findings
- The search for alternatives (material, process, etc.)
- The formulation, design, evaluation and selection of possible alternatives

IAS 38

DEVELOPMENT ACTIVITIES

- The design, construction and testing of preproduction prototypes and models
- The design of tools, molds involving new technology.
- The designs construction and operation of a pilot plan.
- The design, construction and testing of a chosen alternative.

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RESEARCH AND DEVELOPMENT

CAPITALIZE

Account:

*Intangible Development Asset

Classification:

Intangible

*Amortize from the moment the asset is ready for sale

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RESEARCH AND DEVELOPMENT

In 2015, the ABC Company began the process of developing new products. ABC is an IFRS reporter. The Company applies IAS 38.

The following disbursement were classified as development costs: \$100,000 in Year 1 and \$3,000,000 in Year 2.

The product is available for sell at the beginning of Year 3.

The company revenues for Year 3 were \$5,000,000 and the ABC expects an additional \$20,000,000 for the next 9 years.

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RESEARCH AND DEVELOPMENT

JOURNAL ENTRIES

Year 1

| | | |
|--|---------|---------|
| Dr. Deferred development cost “intangible asset” | 100,000 | |
| Cr. Cash | | 100,000 |

Year 2

| | | |
|--|-----------|-----------|
| Dr. Deferred development cost “intangible asset” | 3,000,000 | |
| Cr. Cash | | 3,000,000 |

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RESEARCH AND DEVELOPMENT PRACTICE EXERCISE

Amortization Expense: *Year 3

| | | |
|---|---------|---------|
| Dr. Amortization Expense | 310,000 | |
| Cr. Deferred development cost “intangible asstes” | | 310,000 |

Straight Line Method

(\$3,100,000/10 years= \$310,000)

***Amortize from the moment the asset is ready for sale**

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Amortization Expense: *Year 3

| | |
|---|---------|
| Dr. Amortization Expense | 620,000 |
| Cr. Deferred development cost “intangible asstes” | 620,000 |

Revenue Ratio Method

Year 3: \$5,000,000 / next 9 years: \$20,000,000 = Total Expected Revenues = \$25,000,000 (Year 3 + 9 years)

Ratio for Year 3: $(\$5,000,000 / \$25,000,000 = .20 \times \$3,100,000 = 620,000)$

***Amortize from the moment the asset is ready for sale**

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ASSESSMENT ACTIVITY

9. R&D: Capitalization and Amortization