

**Illustration**

During the year ended 31 December 20X1, an entity spent \$2 million on researching and developing a new product. The full \$2 million has been capitalised as an intangible asset. A breakdown of the expenditure is provided below:

	\$m
Research into materials	0.5
Market research	0.4
Employee training	0.2
Development activities	0.9

The expenditure on development activities was incurred evenly over the year. It was not until 1 May 20X1 that market research indicated that the product was likely to be profitable. At the reporting date, the product development was not yet complete.

**Discuss the correct accounting treatment of the research and development expenditure in the year ended 31 December 20X1.**