

## 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.**

	1/1/20x1	1/5/20x1	31/12/20x1
Exp. off			capitalised
	$\$0.9m \times \frac{4}{12}$ = \$0.3m	↑ intention fulfilled	$\$0.9m \times \frac{8}{12}$ = \$0.6m
		Before	Adj.
Intangible asset		2m	(1.4m)
			After
			0.6m
<u>SoPL</u>			
R&D expenses (0.3 + 0.5 + 0.4 + 0.2)		-	(1.4m)
			(1.4m)
		Correcting entry	
		Dr SoPL	1.4m
		Cr I/A	1.4m