

Research and Development Costs

DISCLOSURE REQUIREMENTS

The amount of research and development (R&D) costs charged to operations for each period that an income statement is presented should be disclosed.

In connection with costs incurred or to be incurred in R&D activities of a company acquired in a business combination accounted for as a purchase, the following should also be disclosed:

- The basis of valuation;
- The amount of amortization for each period presented;
- The method of amortization; and
- The amortization period.

In connection with an obligation under an arrangement accounted for as a contract to perform R&D for others, the following (information for similar types of arrangements may be aggregated) should also be disclosed:

- The terms of significant agreements under the R&D arrangements (including royalty arrangements, purchase provisions, licensing agreements, and commitments to provide additional funding) as of the date of each balance sheet presented; and
- The amount of compensation earned and the amount of costs incurred under such contracts for each period for which an income statement is presented.

Sources: [FASB ASC 730-10-50](#) and [FASB ASC 730-20-50](#).

DISCLOSURE EXAMPLES

ON THE FACE OF A MULTI-STEP INCOME STATEMENT

	<u>20x2</u>		<u>20x1</u>
Net sales		\$xxx,xxx	\$xxx,xxx
Cost of sales		<u>xx,xxx</u>	<u>xx,xxx</u>
Gross profit		xxx,xxx	xxx,xxx
Operating expenses		xx,xxx	xx,xxx
Research and development costs		<u>xx,xxx</u>	<u>xx,xxx</u>
Income from operations		<u>\$xxx,xxx</u>	<u>\$xxx,xxx</u>

ON THE FACE OF A SINGLE-STEP INCOME STATEMENT

Costs and Expenses

Research and development costs	xx,xxx	xx,xxx
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**AS A NOTE TO THE
FINANCIAL
STATEMENTS**

Disclosure of Expense in a Note Research and development costs are charged to operations when incurred and are included in operating expenses. The amounts charged in 20x2 and 20x1 were \$xx,xxx and \$xx,xxx, respectively.

Research and Development Costs Acquired in a Purchase In 20x2, the company acquired *[name of company]* in a business combination accounted for as a purchase. The purchase price of \$x,xxx,xxx exceeded the net assets of *[name of company]* at the date of acquisition by \$xxx,xxx. Of that excess, \$xx,xxx was assigned to Research Projects-in-Process, which is being amortized on the *[method used]* over the estimated remaining lives of individual projects. The amounts charged to these projects include only costs of materials, equipment, and facilities that the company deems to have future application to other research projects or can otherwise be used in the company's operations.

Purchased Research and Development Acquired and Written Off See [Section 33](#) , BUSINESS COMBINATIONS.

Research and Development Contract to Perform Services for Others The company is a party to certain contracts under which it is obligated to perform research and development activities for others. Under the terms of most of its arrangements, the company receives royalties from third parties for which it provides research and development services. In some other instances, the company will receive licensing fees at the conclusion of the services. In certain other cases, third parties can require the company to purchase their interests in the research and development. Under other contracts, third parties will automatically receive (debt and/or equity) securities of the company upon termination or completion of the research and development. The amount of such securities depends on the amount of funding by those parties during the term of the contract. Under certain other arrangements, the company must utilize its own funds, if the amount of funds provided by third parties is insufficient to complete the research and development effort.

The following schedule summarizes certain information with respect to research and development contracts:

	<u>20x2</u>	<u>20x1</u>
Royalties and other fees earned	<u>\$xxx,xxx</u>	<u>\$xxx,xxx</u>
Costs incurred charged to operations	<u>\$xx,xxx</u>	<u>\$xx,xxx</u>
Amount of additional funding commitments	<u>\$xxx,xxx</u>	<u>\$xxx,xxx</u>