

Week 3 - DQ 4

Why are research and development costs expensed?

Is this consistent with how other similar costs are handled? Explain why or why not.

Should research and development costs be expensed? Explain why or why not.

Response #1 Research and development costs are expensed because these are costs that are used in the creation of intangible assets within the company. This is consistent with how similar costs are handled, either through expenses or amortization. Research and development costs should be expensed because the company would have other fees and they cost the company money because of the creation. These fees may include architectural, attorney, laboratory, designing, and pre-production costs.

Response #2 Research and development costs are expensed because they are used to create intangible assets for an organization. This is consistent with how similar costs are handled because costs are expensed or amortized with the exception of costs that are capitalized. Research and development cost should be expensed because intangible assets have costs and fees that are associated with the intangible asset, such as design costs and registration or attorney fees.

Response #3 Research and development costs are expensed because of the uncertainties involved. Companies spend money on research and development to come up with something the company can copyright or patent. The problem is that the costs associated with each activity and project must be identified, and determining how long the time period will be before benefits will be realized is very difficult to do. This is consistent with how other similar costs are handled. Start-up costs for a new operation, advertising costs, and computer software costs, are also expensed as incurred. Start-up costs are necessary if a company expects future revenues. They must be expensed to determine the amount and time period for future benefits. For advertising costs, billboards, blimps, and other types of ads are considered to have different possibilities for uses in the future. Companies record any tangible assets used in advertising. Yes, research and development costs should be expensed. There are many fees such as registration fees and design costs in the creation of any intangible asset. Another reason is because the FASB says so. The FASB stated that research and development costs should be expensed in the period they are incurred because not many such projects actually result in a product to be marketed. In this uncertainty, the method with the least favorable effect on assets and net income should be chosen.

Reference: Kieso, D.E., Weygandt, J.J., & Warfield, T.D. (2007). Intermediate Accounting (12th ed.). Hoboken, NJ: John Wiley & Sons.

Response #4 Research and development costs are expenses because they result in a development of something that the company patents or copyrights. Similar to start-up fees or advertising/marketing costs, R&D is being handled the same way. I think that research and development costs should be expensed because it is a cost associated with obtaining an asset. I would treat it the way all the other expenses are handled.