

# [Accounting issues and analysis](https://assignbuster.com/accounting-issues-and-analysis/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Internal memo: Misrah Pharmaceuticals Bainsworth Forent, CFO Financial controller April 18, 2013.
Re: Misrah Pharmaceuticals R&D & IFRS case
I have received your memo regarding our ongoing diet pill project. I have gone through the three areas of your concern in regard to the incoming transition to IFRS and I would like to clarify this transition in regard to your questions presented in the memo. IFRS 1, section 4 indicates that IFRS principles apply on the first year an accounting entity adopts the standard. It does not apply to financial statements presented in previous years, where financial statements were prepared in accordance with the national standards (US GAAP). IFRS 1 section 13 prohibits retrospective application of IFRS standards. Section 14 indicates that during transition, an entity should disclose the immediate status in financial reporting in accordance with estimates made in accordance with the previous standard (national standard). R&D costs for prior years should thus be recognized under the US GAAP, and clearly indicated that they are reported under US GAAP in the first IFRS opening balances (IFRS 1, P28). Prior R&D costs should thus be expensed in accordance with SFAS 2, which limits capitalization of R&D costs.
In regard to tracking future R&D costs, there is need for our entity to adopt IFRS. Just like in US GAAP, IFRS expenses all costs incurred in the research phase of a project. Nevertheless, it will be good for our entity to clearly separate research phase costs and development phase costs. In cases where a distinction does not exist, IFRS requires expensing of such costs, eroding the entity’s R&D assets. Tracking R&D costs under IFRS ensures that cost of materials incurred in development, employee costs during development, fees and patent amortizations are recognized as an asset, enhancing the balance sheet worth of the entity. This is outlined in section (IAS 38, p66).
To account for the current project’s research and development costs, all development costs are capitalized and recognized as an asset in the balance sheet as per IAS 38R. 57. On the other hand, all research phase costs are expensed. For the development costs to be capitalized there must be proof that there is intention to complete such products and sell or use them and the entity has the right and ability to use or sell such products. These costs should equally be in a position to generate future economic benefits to the organization. The entity should equally be in a position to measure costs incurred in development in a reliable manner. This will be different from US GAAP, which limits capitalization of development costs (FASB, P1). If recognition criteria is not met, such R&D costs needs to ne expensed. When the commercial production begins, accounting entities are required under IFRS to start amortizing the costs. From our diet pill project, $ 100, 000 used in experiments on mice, with basic reason of generating knowledge, qualifies as research phase costs under IFRS and should be expensed. On the other hand, $ 2, 500, 000 spent on salaries, facilities and supplies to the research and development staff should be capitalized.$ 300, 000 used in manufacturing of the drug should be treated as a normal accounting expenditure and should thus be expensed. I hope that this information has offered relevant contribution to your enquiry. For any clarification, feel free to ask
Thank You
Works cited
FASB. Research and development. 2013. April 18, 2013.
http://www. fasb. org/summary/stsum2. shtml
IAS 38. Intangible assets. 2013. April 18, 2013, http://www. iasplus. com/en/standards/standard41
IFRS 1. First time adoption of International Financial Reporting Standard. 2013. April 18, 2013,
http://www. iasplus. com/en/standards/standard41