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## HMRC internal manual

# Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)  
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## CIRD99150 - R&D tax relief: accountancy: FRS102 s18

FRS102 is a UK accounting standard which has been adopted by entities applying UK GAAP in accounting periods commencing on or after 1 January 2015.

Section 18 of FRS102 deals with the accounting treatment of intangible assets other than goodwill, which includes guidance on the accounting treatment of R&D.

How FRS102 s18 treats the expenditure

FRS102 s18 considers R&D expenditure in the context of internally generated intangible assets. It considers whether expenditure on R&D should be recognised as an intangible asset on the balance sheet or whether it should be written off as incurred.

The standard distinguishes between two distinct phases in the generation of an intangible asset: a research phase and a development phase.

### Research phase

Research is defined as ‘original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding’. Examples of activities are given as:

- Activities aimed at obtaining new knowledge
- The search for, evaluation and final selection of, applications of research findings and other knowledge
- The search for alternatives for materials, devices, products, processes, systems or services
- The formulation, design, evaluation and final selection of possible alternatives for new or improved material, devices, projects, processes, systems or services

FRS102 s18 requires all expenditure on research to be written off as incurred.

### Development phase

Development is defined as ‘the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use’. Examples of activities are given as:

- The design, construction and testing of pre-production or pre-use prototypes and models

- The design of tools, jigs, moulds and dies involving new technology
- The design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production
- The design, construction and testing of chosen alternatives for new or improved materials, devices, products, processes, systems and services

FRS102 s18 permits, but does not require, expenditure on development to be recognised as an intangible asset provided certain conditions are met.

If it is not possible to distinguish between the research phase and the development phase of a project, all of the expenditure should be treated as if it had been incurred during the research phase and, hence, written off as incurred.

R&D expenditure incurred before adoption of FRS102 written off through the profit and loss account

If R&D revenue expenditure which has previously been expensed is written back to the balance sheet as an intangible asset as a result of adoption of FRS102, only to be amortised over a greater period under this standard, this change of accounting practice will fall within the provisions of CTA09/S183(1) - with the uplift being exempt from tax and the subsequent amortisation not being allowed.

HMRC officers with questions concerning accountancy should consult an HMRC advisory accountant.

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