# 730 - Research and Development

730-10 - Overall

730-10-**00 - Status** 

**General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

#### General

730-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting	Date
		Standards Update	
<u>Acquirer</u>	Amended	Accounting Standards	05/12/2025
		<u>Update No. 2025-03</u>	
Acquisition by a Not-	Added	Accounting Standards	01/28/2010
for-Profit Entity		<u>Update No. 2010-07</u>	
<u>Business</u>	Amended	<b>Accounting Standards</b>	01/05/2017
		<u>Update No. 2017-01</u>	
Corporate Joint	Added	<b>Accounting Standards</b>	08/23/2023
<u>Venture</u>		<u>Update No. 2023-05</u>	
Joint Venture	Added	Accounting Standards	08/23/2023
		<u>Update No. 2023-05</u>	
Variable Interest	Superseded	Accounting Standards	05/12/2025
Entity		<u>Update No. 2025-03</u>	
<u>730-10-15-4</u>	Amended	Accounting Standards	08/23/2023
		<u>Update No. 2023-05</u>	
<u>730-10-15-4</u>	Amended	Accounting Standards	01/28/2010
		<u>Update No. 2010-07</u>	
<u>730-10-25-1</u>	Amended	Accounting Standards	08/23/2023
		<u>Update No. 2023-05</u>	
<u>730-10-25-1</u>	Amended	Accounting Standards	01/28/2010
		<u>Update No. 2010-07</u>	
<u>730-10-55-1</u>	Amended	Accounting Standards	10/01/2012
		<u>Update No. 2012-04</u>	
730-10-60-5	Amended	Accounting Standards	05/28/2014
		<u>Update No. 2014-09</u>	

### 730-10-05 - Overview and Background

**General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

### General

- 730-10-05-**1** The Research and Development Topic establishes standards of financial accounting and reporting for <u>research and development</u> costs. The Overall Subtopic specifies:
  - a. Those activities that shall be identified as research and development for financial accounting and reporting purposes
  - b. The elements of costs that shall be identified with research and development activities
  - c. The accounting for research and development costs
  - d. The financial statement disclosures related to research and development costs.

- At the time most research and development costs are incurred, the future benefits are at best uncertain. In other words, there is no indication that an economic resource has been created. Moreover, even if at some point in the progress of an individual research and development project the expectation of future benefits becomes sufficiently high to indicate that an economic resource has been created, the question remains whether that resource should be recognized as an asset for financial accounting purposes. Although future benefits from a particular research and development project may be foreseen, they generally cannot be measured with a reasonable degree of certainty. There is normally little, if any, direct relationship between the amount of current research and development expenditures and the amount of resultant future benefits to the entity. Research and development costs therefore fail to satisfy the suggested measurability test for accounting recognition as an asset.
- Also, there is often a high degree of uncertainty about whether research and development expenditures will provide any future benefits. Thus, even an indirect cause and effect relationship can seldom be demonstrated. Because there is generally no direct or even indirect basis for relating costs to revenues, the principles of associating cause and effect and systematic and rational allocation cannot be applied to recognize research and development costs as expenses. That is, the notion of matching, when used to refer to the process of recognizing costs as expenses on any sort of cause and effect basis, cannot be applied to research and development costs. The general lack of discernible future benefits at the time the costs are incurred indicates that the immediate recognition principle of expense recognition should apply.

### 730-10-**10 - Objectives**

**General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

#### General

730-10-10-1 The objective of this Subtopic is to provide guidance related to <u>research and development</u> costs.

### 730-10-15 - Scope and Scope Exceptions

**General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

#### General

#### **Overall Guidance**

730-10-15-1 The Scope Section of the Overall Subtopic establishes the pervasive scope for all Subtopics of the Research and Development Topic. Unless explicitly addressed within specific Subtopics, the following scope guidance applies to all Subtopics of the Research and Development Topic.

#### **Entities**

- 730-10-15-2 The guidance in the Research and Development Topic applies to all entities, including the following:
  - a. Entities in the extractive industries whose <u>research and development</u> activities are comparable in nature to research and development activities of other entities, such as development or improvement of processes and techniques including those employed in exploration, drilling, and extraction.

#### **Transactions**

730-10-15-**3** The guidance in the Research and Development Topic applies to the following transactions and activities:

a. Those activities aimed at developing or significantly improving a product or service (referred to as product) or a process or technique (referred to as process) whether the product or process is intended for sale or use. A process may be a system whose output is to be sold, leased, or otherwise marketed to others. A process also may be used internally as a part of a manufacturing activity or a service activity where the service itself is marketed.

### 730-10-15-4 The guidance in this Topic does not apply to the following transactions and activities:

- a. Accounting for the costs of research and development activities conducted for others under a contractual arrangement, which is a part of accounting for contracts in general. Indirect costs, including indirect costs that are specifically reimbursable under the terms of a contract, are also excluded from the scope of this Topic.
- Activities that are unique to entities in the extractive industries, such as prospecting, acquisition of mineral rights, exploration, drilling, mining, and related mineral development.
- c. The acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities. A process may be intended to achieve cost reductions as opposed to revenue generation. However, (e) specifically excludes market research or market testing activities from research and development activities. Those activities were excluded because they relate to the selling function of an entity. Thus, while in the broadest sense of the word, a process may be used in all of an entity's activities, the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities shall be excluded from the definition of research and development activities. To the extent, therefore, that the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities includes costs for computer software, those costs are not research and development costs. Examples of the excluded costs of software are those incurred for development by an airline of a computerized reservation system or for development of a general management information system. See Subtopic 350-40 for quidance related to costs of computer software developed or obtained for internal use and Subtopic <u>985-20</u> for computer software intended to be sold, leased, or marketed.
- d. Routine or periodic alterations to existing products, production lines, manufacturing processes, and other ongoing operations even though those alterations may represent improvements.
- e. Market research or market testing activities.
- f. Research and development assets acquired in a business combination or an acquisition by a not-for-profit entity. If tangible and intangible assets acquired in that manner are used in research and development activities, they are recognized and measured at fair value in accordance with Subtopic 805-20, regardless of whether they have an alternative future use. After recognition, tangible assets acquired in a business combination or an acquisition by a not-for-profit entity that are used in research and development activities are accounted for in accordance with their nature. After recognition, intangible assets acquired in a business combination or an acquisition by a not-for-profit entity that are used in research and development activities are accounted for in accordance with Topic 350.

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**Transition Date:** ② January 1, 2025; ③ January 1, 2025 - **Transition Guidance** : 805-60-65-1

The guidance in this Topic does not apply to the following transactions and activities:

a. Accounting for the costs of research and development activities conducted for others under a contractual arrangement, which is a part of accounting for

- contracts in general. Indirect costs, including indirect costs that are specifically reimbursable under the terms of a contract, are also excluded from the scope of this Topic.
- Activities that are unique to entities in the extractive industries, such as prospecting, acquisition of mineral rights, exploration, drilling, mining, and related mineral development.
- c. The acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities. A process may be intended to achieve cost reductions as opposed to revenue generation. However, (e) specifically excludes market research or market testing activities from research and development activities. Those activities were excluded because they relate to the selling function of an entity. Thus, while in the broadest sense of the word, a process may be used in all of an entity's activities, the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities shall be excluded from the definition of research and development activities. To the extent, therefore, that the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities includes costs for computer software, those costs are not research and development costs. Examples of the excluded costs of software are those incurred for development by an airline of a computerized reservation system or for development of a general management information system. See Subtopic 350-40 for guidance related to costs of computer software developed or obtained for internal use and Subtopic 985-20 for computer software intended to be sold, leased, or marketed.
- d. Routine or periodic alterations to existing products, production lines, manufacturing processes, and other ongoing operations even though those alterations may represent improvements.
- e. Market research or market testing activities.
- f. Research and development assets acquired in a business combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation. If tangible and intangible assets acquired in that manner are used in research and development activities, they are recognized and measured at fair value in accordance with Subtopic 805-20, regardless of whether they have an alternative future use. After recognition, tangible assets acquired in a business combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that are used in research and development activities are accounted for in accordance with their nature. After recognition, intangible assets acquired in a business combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that are used in research and development activities are accounted for in accordance with Topic 350.

### 730-10-15-**5** The guidance in this Topic may or may not apply to the following transactions and activities:

- a. Development of computer software internally for its own use. If development of computer software is undertaken for the entity's own use, the software may be intended, for example, to be used in the research and development activities of the entity or as a part of a newly developed or significantly improved product or process. See Subtopic 350-40 for guidance related to costs of computer software developed or obtained for internal use.
- b. Costs incurred to purchase or lease computer software developed by others are not research and development costs under this Subtopic unless the software is for use in research and development activities. See also paragraph <u>985-20-25-1</u>.

### 730-10-**20 - Glossary**

**General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

#### **Acquiree**

The <u>business</u> or <u>businesses</u> that the <u>acquirer</u> obtains control of in a <u>business combination</u>. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an <u>acquisition</u> by a not-for-profit entity.

### **Acquirer**

The entity that obtains control of the <u>acquiree</u>. However, in a <u>business combination</u> in which a <u>variable</u> <u>interest entity</u> (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.



**Transition Date:** December 16, 2026; December 16, 2026 - **Transition Guidance** : 805-10-65-5

The entity that obtains control of the <u>acquiree</u>. See paragraphs <u>805-10-25-4 through 25-5</u> for guidance on determining the acquirer.

### **Acquisition by a Not-for-Profit Entity**

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a not-for-profit entity, the term business combination has the same meaning as this term has for a for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

### **Business**

Paragraphs <u>805-10-55-3A through 55-6</u> and <u>805-10-55-8 through 55-9</u> define what is considered a business.

#### **Business Combination**

A transaction or other event in which an <u>acquirer</u> obtains control of one or more <u>businesses</u>. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also <u>Acquisition by a Not-for-Profit Entity</u>.

### **Corporate Joint Venture**

A corporation owned and operated by a small group of entities (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A noncontrolling interest held by public ownership, however, does not preclude a corporation from being a corporate joint venture.

#### **Joint Venture**

An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a corporate joint venture, a joint venture is not limited to corporate entities.

#### **Legal Entity**

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

#### **Not-for-Profit Entity**

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- b. Operating purposes other than to provide goods or services at a profit
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities
- Entities that provide dividends, lower costs, or other economic benefits directly and proportionately
  to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and
  rural electric cooperatives, and employee benefit plans.

#### **Research and Development**

Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process. Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

### **Variable Interest Entity**

A <u>legal entity</u> subject to consolidation according to the provisions of the Variable Interest Entities Subsections of Subtopic <u>810-10</u>.

### 730-10-25 - Recognition

**General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

#### General

730-10-25-1 Research and development costs encompassed by this Subtopic shall be charged to expense when incurred. As noted in paragraph 730-10-15-4(f), this Topic does not apply to tangible and intangible assets acquired in a business combination or in an acquisition by a not-for-profit entity that are used in research and development activities.

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**Transition Date: ②** January 1, 2025; **③** January 1, 2025 **- Transition Guidance :** 805-60-65-1

<u>Research and development</u> costs encompassed by this Subtopic shall be charged to expense when incurred. As noted in paragraph <u>730-10-15-4(f)</u>, this Topic does not apply to tangible and intangible assets acquired in a business combination, acquired in an <u>acquisition by a not-for-profit entity</u>, or recognized by a <u>joint venture</u> upon formation that are used in research and development activities.

### Elements of Costs to Be Identified with Research and Development Activities

- 730-10-25-**2** Elements of costs shall be identified with research and development activities as follows (see Subtopic <u>350-50</u> for guidance related to website development):
  - a. Materials, equipment, and facilities. The costs of materials (whether from the entity's normal inventory or acquired specially for research and development activities) and equipment or facilities that are acquired or constructed for research and development activities and that have alternative future uses (in research and development projects or otherwise) shall be capitalized as tangible assets when acquired or constructed. The cost of such materials consumed in research and development activities and the depreciation of such equipment or facilities used in those activities are research and development costs. However, the costs of materials, equipment, or facilities that are acquired or constructed for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise) and therefore no separate economic values are research and development costs at the time the costs are incurred. See Topic 360 for guidance related to property, plant, and equipment; the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 for guidance related to impairment and disposal; and paragraphs 360-10-35-2 through 35-6 for guidance related to depreciation.
  - b. Personnel. Salaries, wages, and other related costs of personnel engaged in research and development activities shall be included in research and development costs.
  - c. Intangible assets purchased from others. The costs of intangible assets that are purchased from others for use in research and development activities and that have alternative future uses (in research and development projects or otherwise) shall be accounted for in accordance with Topic 350. The amortization of those intangible assets used in research and development activities is a research and development cost. However, the costs of intangibles that are purchased from others for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise) and therefore no separate economic values are research and development costs at the time the costs are incurred.
  - d. Contract services. The costs of services performed by others in connection with the research and development activities of an entity, including research and development conducted by others in behalf of the entity, shall be included in research and development costs.
  - Indirect costs. Research and development costs shall include a reasonable allocation of indirect costs. However, general and administrative costs that are not clearly related to research and development activities shall not be included as research and development costs.

#### **Computer Software**

- 730-10-25-**3** When software for use in research and development activities is purchased or leased, its cost shall be accounted for as specified by (c) in the preceding paragraph and paragraph 730-10-25-1. That is, the cost shall be charged to expense as incurred unless the software has alternative future uses (in research and development or otherwise).
- 730-10-25-4 Development of software to be used in research and development activities includes costs incurred by an entity in developing computer software internally for use in its research and development activities, are research and development costs and, therefore, shall be charged to expense when incurred. The alternative future use test does not apply to the internal development of computer software; paragraph 730-10-25-2(c) applies only to intangibles purchased from others. This includes costs incurred during all phases of software development because all of those costs are incurred in a research and development activity.

#### 730-10-**50 - Disclosure**

**General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

#### General

730-10-50-1 Disclosure shall be made in the financial statements of the total <u>research and development</u> costs charged to expense in each period for which an income statement is presented. Such disclosure shall include research and development costs incurred for a computer software product to be sold, leased, or otherwise marketed.

### 730-10-55 - Implementation Guidance and Illustrations

**General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

#### General

#### **Implementation Guidance**

#### **Examples of Activities Typically Included in Research and Development**

- 730-10-55-**1** The following activities typically would be considered <u>research and development</u> within the scope of this Topic (unless conducted for others under a contractual arrangement-see paragraph 730-10-15-4[a]):
  - a. Laboratory research aimed at discovery of new knowledge
  - b. Searching for applications of new research findings or other knowledge
  - c. Conceptual formulation and design of possible product or process alternatives
  - d. Testing in search for or evaluation of product or process alternatives
  - e. Modification of the formulation or design of a product or process
  - f. Design, construction, and testing of preproduction prototypes and models
  - g. Design of tools, jigs, molds, and dies involving new technology
  - h. Design, construction, and operation of a pilot plant that is not of a scale economically feasible to the entity for commercial production
  - i. Engineering activity required to advance the design of a product to the point that it meets specific functional and economic requirements and is ready for manufacture
  - j. Design and development of tools used to facilitate research and development or

components of a product or process that are undergoing research and development activities.

#### **Examples of Activities Typically Excluded from Research and Development**

- 730-10-55-**2** The following activities typically would not be considered research and development within the scope of this Topic:
  - a. Engineering follow-through in an early phase of commercial production
  - b. Quality control during commercial production including routine testing of products
  - c. Trouble-shooting in connection with break-downs during commercial production
  - d. Routine, ongoing efforts to refine, enrich, or otherwise improve upon the qualities of an existing product
  - e. Adaptation of an existing capability to a particular requirement or customer's need as part of a continuing commercial activity
  - f. Seasonal or other periodic design changes to existing products
  - g. Routine design of tools, jigs, molds, and dies
  - h. Activity, including design and construction engineering, related to the construction, relocation, rearrangement, or start-up of facilities or equipment other than the following:
    - 1. Pilot plants (see [h] in the preceding paragraph)
    - 2. Facilities or equipment whose sole use is for a particular research and development project (see paragraph 730-10-25-2[a]).
  - i. Legal work in connection with patent applications or litigation, and the sale or licensing of patents.

#### **Scope Application to Certain Nonrefundable Advance Payments**

730-10-55-3 Nonrefundable advance payments for future research and development activities for materials, equipment, facilities, and purchased intangible assets that have an alternative future use (in research and development projects or otherwise) are within the scope of this Subtopic. Subtopic 730-20 provides guidance on accounting for nonrefundable advance payments for goods or services that have the characteristics that will be used or rendered for future research and development activities pursuant to an executory contractual arrangement.

### 730-10-**60 - Relationships**

**General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

#### General

#### **Other Assets and Deferred Costs**

730-10-60-**1** For guidance regarding design and development costs for products to be sold under long-term supply arrangements, see Subtopic <u>340-10</u>.

### **Intangibles-Goodwill and Other**

730-10-60-**2** For guidance related to the costs of internal-use computer software, see Subtopic <u>350-40</u>.

- 730-10-60-**2A** For quidance related to website development costs, see Subtopic 350-50.
- 730-10-60-**3** Paragraph not used.

#### **Software**

- 730-10-60-**4** For guidance regarding costs incurred to establish the technological feasibility of a computer software product to be sold, leased, or otherwise marketed, see paragraph <u>985-20-25-1</u>.
- 730-10-60-**5** For guidance related to a funded software-development arrangement, see paragraphs <u>730-20-15-1A</u> and <u>985-20-25-12</u>.

# 730-20 - Research and Development Arrangements

730-20-**00 - Status** 

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Paragraph	Action	Accounting Standards Update	Date
<u>Acquirer</u>	Amended	Accounting Standards	05/12/2025
		<u>Update No. 2025-03</u>	
Acquisition by a Not-	Added	<b>Accounting Standards</b>	01/28/2010
for-Profit Entity		<u>Update No. 2010-07</u>	
<u>Business</u>	Amended	Accounting Standards	01/05/2017
		<u>Update No. 2017-01</u>	
Variable Interest	Superseded	Accounting Standards	05/12/2025
Entity		<u>Update No. 2025-03</u>	
730-20-05-8	Amended	Maintenance Update	03/17/2014
		<u>2014-07</u>	
730-20-15-1A	Added	Accounting Standards	05/28/2014
		<u>Update No. 2014-09</u>	
<u>730-20-15-4</u>	Amended	Accounting Standards	05/28/2014
		<u>Update No. 2014-09</u>	
730-20-25-9	Amended	<b>Accounting Standards</b>	01/28/2010
		<u>Update No. 2010-07</u>	

# 730-20-05 - Overview and Background

**General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

#### General

730-20-05-1 This Subtopic provides guidance on <u>research and development</u> arrangements. Research and development arrangements have been used to finance the research and development of a variety of new products, such as information processing systems, medical technology, experimental drugs, electronic devices, and aerospace equipment. Entities may enter into arrangements for any of the following reasons:

- a. To transfer all or part of the uncertainty and risk involved with the research and development to others
- b. To obtain the benefit of funds that are made available because of tax incentives for

#### investors

- c. To attract qualified research and development personnel who otherwise might be concerned that funding might not be assured
- d. To avoid expanding the ownership of the entity and the impact on earnings per share (EPS) that would result from issuing equity securities
- e. To avoid debt service expenditures and the impact on the entity's debt-to-equity ratio that would result from issuing debt securities
- f. To avoid the impact on the entity's near-term earnings that would result if it incurred the related research and development expenses.
- 730-20-05-2 Many arrangements are formed as limited partnerships. In some, the entity or a <u>related party</u> is the general partner who manages the research and development activities. Sometimes, the limited partners are related to the entity. In some arrangements, the entity has the basic technology needed for the research and development and has performed preliminary research and development work to determine the attractiveness of further work. The entity might contribute the preliminary research and development work and basic technology to the partnership for a minor equity interest or might license or give the rights to the preliminary work and basic technology to the partnership.
- 730-20-05-3 The terms of the arrangement usually contemplate, but do not guarantee, that the funds provided by the limited partners will be sufficient to complete the intended research and development. However, some agreements permit or require the general partner to sell additional limited-partnership interests or to use its own funds if the funds provided are insufficient to complete the research and development effort. The entity sometimes provides additional funds through loans or advances to the partnership. Repayment of the loans or advances sometimes is guaranteed by the partnership although repayment sometimes is contingent on realization of future economic benefits of the research and development; for example, repayment might be made through offsets against the purchase price for the results of the project or against royalty payments.
- 730-20-05-4 The entity or a related party of the entity usually performs the research and development work under a contract with the partnership. The compensation under the research and development contract usually is either a fixed fee or reimbursement of direct costs plus a fixed fee or fixed percentage of those costs. The work is performed on a best-efforts basis with no guarantee of either technological or commercial success. The partnership retains legal ownership of the results of the research and development and sometimes retains legal rights to the basic technology provided by the entity.
- 730-20-05-**5** Either as part of the partnership agreement or through contracts with the partnership, the entity usually has an option either to purchase the partnership's interest in or to obtain the exclusive rights to the entire results of the research and development in return for a lump sum payment or royalty payments to the partnership. Some arrangements contain a provision that permits the entity to acquire complete ownership of the results for a specified amount of the entity's stock or cash at some future time. In some of those purchase agreements, the partnership has the option to receive either the entity's stock or cash; in others, the entity makes the decision. Sometimes, warrants or similar instruments to purchase the entity's stock are issued in connection with the arrangement.
- An entity that is a party to an arrangement through which research and development is funded by other parties usually incurs an obligation when it enters into the arrangement. The nature and extent of the entity's obligation are sometimes difficult to determine and can range from an obligation to perform contract research and development work to an obligation to repay the other parties, with a return, for the funds provided.
- 730-20-05-**7** If the results of the research and development are determined to have sufficient future

economic benefit, the entity probably will exercise its option either to purchase the partnership's interests in or to obtain the exclusive rights to the entire results. If the results do not have future economic benefit, the entity usually is not legally required to exercise its option; however, there may be valid business reasons for the entity to acquire the results even though the original objectives of the research and development are not met. For example, the entity may want to obtain ownership of results that have value to the entity even though they do not meet the original objectives.

- 730-20-05-8 Other reasons to acquire the results of research and development may be:
  - a. To maintain the ability to enter into another arrangement with the same parties or similar arrangements with other parties
  - b. To recover the ownership of or rights to the entity's basic technology or to prevent the partnership from providing that technology to others
  - c. To avoid any potential future claim against the use of the results
  - d. To fulfill a moral obligation (for example, the entity is the general partner and due to a conflict of interest feels compelled to exercise its option).
- 730-20-05-**9** Although the entity's legal liabilities will be specified in the various contracts and agreements under the arrangement, accounting representations should not necessarily be limited to legal requirements. Depending on the facts and circumstances involved in a particular research and development arrangement, future payments by the entity to the other parties ostensibly for royalties or to purchase the partnership's interests in or to obtain the exclusive rights to the research and development results might actually be any of the following:
  - a. The settlement of a borrowing
  - b. The purchase price of an asset
  - c. The royalties for the use of an asset.

The financial reporting of an entity that is a party to a research and development arrangement should represent faithfully what it purports to represent and should not subordinate substance to form.

- 730-20-05-**10** The legal structure of a research and development arrangement may take a variety of forms and often is influenced by federal and state income tax and securities regulations. An entity might have an equity interest in the arrangement, or its legal involvement might be only contractual (for example, a contract to provide services and an option to acquire the results of the research and development).
- 730-20-05-**11** For guidance on consolidation of a research and development arrangement, see Subtopic 810-30. An overview can be found in Section 810-30-05.

#### 730-20-**10 - Objectives**

**General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

### General

730-20-10-**1** The objective of this Subtopic is to provide guidance related to <u>research and development</u> arrangements.

#### 730-20-15 - Scope and Scope Exceptions

**General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some

cases, the Section may contain definitional or other text to frame the scope.

#### General

#### **Overall Guidance**

- 730-20-15-**1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 730-10-15, with specific qualifications and exceptions noted below.
- 730-20-15-**1A** This Subtopic also applies to software-development arrangements that are fully or partially funded by a party other than the vendor that is developing the software and for which technological feasibility of the computer software product in accordance with the provisions of Subtopic 985-20 on software has not been established before entering into the arrangement. Those arrangements typically provide the funding party with some or all of the following benefits:
  - a. Royalties payable to the funding party based solely on future sales of the product by the software vendor (that is, reverse royalties)
  - b. Discounts on future purchases by the funding party of products produced under the arrangement
  - c. A nonexclusive sublicense to the funding party, at no additional charge, for the use of any product developed (a prepaid or paid-up nonexclusive sublicense).

#### **Entities**

- 730-20-15-**2** This Subtopic establishes standards of financial accounting and reporting for an entity that is a party to a <u>research and development</u> arrangement through which it can obtain the results of research and development funded partially or entirely by others.
- 730-20-15-**3** The guidance in this Subtopic applies whether the research and development is performed by the entity, the funding parties, or a third party. Although the limited-partnership form of arrangement is used for illustrative purposes in this Subtopic, the guidance also applies for other forms.

### **Transactions**

- 730-20-15-4 The guidance in this Subtopic does not apply to the following transactions and activities:
  - a. Government-sponsored research and development.
  - b. Funded software-development arrangements in which the technological feasibility of the computer software product, in accordance with the provisions of Subtopic <u>985-20</u> on software, has been established before the arrangement has been entered into (see paragraph <u>985-20-25-12</u>).

### 730-20-**20 - Glossary**

**General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

### **Acquiree**

The <u>business</u> or <u>businesses</u> that the <u>acquirer</u> obtains control of in a <u>business combination</u>. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an <u>acquisition</u> <u>by a not-for-profit entity</u>.

#### **Acquirer**

The entity that obtains control of the <u>acquiree</u>. However, in a <u>business combination</u> in which a <u>variable</u> <u>interest entity</u> (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

# ( PENDING CONTENT

**Transition Date:** 

■ December 16, 2026; 
■ December 16, 2026 - **Transition Guidance** : 805-10-65-5

The entity that obtains control of the <u>acquiree</u>. See paragraphs <u>805-10-25-4 through 25-5</u> for guidance on determining the acquirer.

### **Acquisition by a Not-for-Profit Entity**

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a not-for-profit entity, the term business combination has the same meaning as this term has for a for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

#### **Business**

Paragraphs <u>805-10-55-3A through 55-6</u> and <u>805-10-55-8 through 55-9</u> define what is considered a business.

#### **Business Combination**

A transaction or other event in which an <u>acquirer</u> obtains control of one or more <u>businesses</u>. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also <u>Acquisition by a Not-for-Profit Entity</u>.

#### **Legal Entity**

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

### **Not-for-Profit Entity**

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- b. Operating purposes other than to provide goods or services at a profit
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities
- Entities that provide dividends, lower costs, or other economic benefits directly and proportionately
  to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and
  rural electric cooperatives, and employee benefit plans.

#### **Probable**

The future event or events are likely to occur.

#### **Related Parties**

#### Related parties include:

- a. Affiliates of the entity
- b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the <u>Fair Value Option Subsection</u> of Section 825-10-15, to be accounted for by the equity method by the investing entity
- c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
- d. Principal owners of the entity and members of their immediate families
- e. Management of the entity and members of their immediate families
- f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
- g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

### **Research and Development**

Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process. Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

#### **Sponsor**

An entity that capitalizes a research and development arrangement.

### **Variable Interest Entity**

A <u>legal entity</u> subject to consolidation according to the provisions of the Variable Interest Entities Subsections of Subtopic <u>810-10</u>.

### 730-20-25 - Recognition

**General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

### General

- 730-20-25-**1** This Subtopic deals with transactions in which the issue is whether, at the time an entity enters into a <u>research and development</u> arrangement:
  - a. The entity is committed to repay any of the funds provided by the other parties regardless of the outcome of the research and development.
  - b. Existing conditions indicate that it is likely that the entity will repay the other parties regardless of the outcome.
  - c. The entity is obligated only to perform research and development work for others.

arrangement with other parties who fund its research and development. The factors discussed in paragraphs <u>730-20-25-3 through 25-9</u> and other factors that may be present and relevant to a particular arrangement shall be considered when determining the nature of the entity's obligation.

### **Obligation to Repay the Other Parties**

- 730-20-25-**3** If the entity is obligated to repay any of the funds provided by the other parties regardless of the outcome of the research and development, the entity shall estimate and recognize that liability. This requirement applies whether the entity may settle the liability by paying cash, by issuing securities, or by some other means.
- 730-20-25-4 To conclude that a liability does not exist, the transfer of the financial risk involved with research and development from the entity to the other parties must be substantive and genuine. To the extent that the entity is committed to repay any of the funds provided by the other parties regardless of the outcome of the research and development, all or part of the risk has not been transferred. The following are some examples in which the entity is committed to repay:
  - a. The entity guarantees, or has a contractual commitment that assures, repayment of the funds provided by the other parties regardless of the outcome of the research and development.
  - b. The other parties can require the entity to purchase their interest in the research and development regardless of the outcome.
  - c. The other parties automatically will receive debt or equity securities of the entity upon termination or completion of the research and development regardless of the outcome.
- 730-20-25-**5** Even though the written agreements or contracts under the arrangement do not require the entity to repay any of the funds provided by the other parties, surrounding conditions might indicate that the entity is likely to bear the risk of failure of the research and development. If those conditions suggest that it is probable that the entity will repay any of the funds regardless of the outcome of the research and development, there is a presumption that the entity has an obligation to repay the other parties. That presumption can be overcome only by substantial evidence to the contrary. In this context, <u>probable</u> means that repayment is likely.
- 730-20-25-**6** Examples of conditions leading to the presumption that the entity will repay the other parties include any of the following:
  - a. The entity has indicated an intent to repay all or a portion of the funds provided regardless of the outcome of the research and development.
  - b. The entity would suffer a severe economic penalty if it failed to repay any of the funds provided to it regardless of the outcome of the research and development. An economic penalty is considered severe if in the normal course of business an entity would probably choose to pay the other parties rather than incur the penalty. For example, an entity might purchase the partnership's interest in the research and development if the entity had provided the partnership with proprietary basic technology necessary for the entity's ongoing operations without retaining a way to recover that technology, or prevent it from being transferred to another party, except by purchasing the partnership's interest.
  - c. A significant <u>related party</u> relationship between the entity and the parties funding the research and development exists at the time the entity enters into the arrangement.
  - d. The entity has essentially completed the project before entering into the arrangement.

development costs to expense as incurred. The amount of funds provided by the other parties might exceed the entity's liability. That might be the case, for example, if license agreements or partial buy-out provisions permit the entity to use the results of the research and development or to reacquire certain basic technology or other assets for an amount that is less than the funds provided. Those agreements or provisions might limit the extent to which the entity is economically compelled to buy out the other parties regardless of the outcome. In those situations, the liability to repay the other parties might be limited to a specified price for licensing the results or for purchasing a partial interest in the results. If the entity's liability is less than the funds provided, the entity shall charge its portion of the research and development costs to expense in the same manner as the liability is incurred. For example, the liability might arise as the initial funds are expended, or the liability might arise on a pro rata basis.

#### **Obligation to Perform Contractual Services**

- 730-20-25-8 To the extent that the financial risk associated with the research and development has been transferred because repayment of any of the funds provided by the other parties depends solely on the results of the research and development having future economic benefit, the entity shall account for its obligation as a contract to perform research and development for others.
- 730-20-25-**9** If the entity's obligation is to perform research and development for others and the entity subsequently decides to exercise an option to purchase the other parties' interests in the research and development arrangement or to obtain the exclusive rights to the results of the research and development, the nature of those results and their future use shall determine the accounting for the purchase transaction or business combination (or an <u>acquisition by a not-for-profit entity</u>).
- 730-20-25-**10** The accounting for the cost of an item to be used in research and development is specified by paragraphs <u>730-10-25-1 through 25-2</u>. The accounting for recognized intangible assets acquired by the entity is specified in Topic <u>350</u>.

### **Loan or Advance to Other Parties**

730-20-25-**11** If repayment to the entity of any loan or advance by the entity to the other parties depends solely on the results of the research and development having future economic benefit, the loan or advance shall be accounted for as costs incurred by the entity. The costs shall be charged to research and development expense unless the loan or advance to the other parties can be identified as relating to some other activity, for example, marketing or advertising, in which case the costs shall be accounted for according to their nature.

#### **Issuance of Warrants or Similar Instruments**

730-20-25-**12** If warrants or similar instruments are issued in connection with the arrangement, the entity shall report a portion of the proceeds to be provided by the other parties as paid-in capital. The amount so reported shall be the fair value of the instruments at the date of the arrangement.

### **Certain Nonrefundable Advance Payments**

- 730-20-25-**13** Nonrefundable advance payments for goods or services that have the characteristics that will be used or rendered for future research and development activities pursuant to an executory contractual arrangement shall be deferred and capitalized. The guidance in this paragraph does not apply to refundable advance payments for future research and development activities. An entity shall not apply the guidance in this paragraph by analogy to other types of advance payments.
- 730-20-25-**14** Paragraph 730-10-55-3 states that nonrefundable advance payments for future research and development activities for materials, equipment, facilities, and purchased intangible assets that have an alternative future use (in research and development projects or otherwise) shall be recognized in accordance with Subtopic 730-10.

### 730-20-35 - Subsequent Measurement

**General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

#### General

### **Certain Nonrefundable Advance Payments**

730-20-35-1 Nonrefundable advance payments capitalized under paragraph 730-20-25-13 shall be recognized as an expense as the related goods are delivered or the related services are performed. An entity shall continue to evaluate whether it expects the goods to be delivered or services to be rendered. If an entity does not expect the goods to be delivered or services to be rendered, the advance payment capitalized under paragraph 730-20-25-13 shall be charged to expense. The guidance in this paragraph does not apply to refundable advance payments for future research and development activities. An entity shall not apply the guidance in this paragraph by analogy to other types of advance payments.

### 730-20-**50 - Disclosure**

**General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

#### General

- 730-20-50-1 An entity that under the provisions of this Subtopic accounts for its obligation under a research and development arrangement as a contract to perform research and development for others shall disclose both of the following:
  - a. The terms of significant agreements under the research and development arrangement (including royalty arrangements, purchase provisions, license agreements, and commitments to provide additional funding) as of the date of each balance sheet presented
  - b. The amount of compensation earned and costs incurred under such contracts for each period for which an income statement is presented.
- 730-20-50-**2** Topic <u>850</u> specifies additional disclosure requirements for <u>related party</u> transactions and certain control relationships.
- 730-20-50-**3** An entity that is a party to more than one research and development arrangement need not separately disclose each arrangement unless separate disclosure is necessary to understand the effects on the financial statements. Aggregation of similar arrangements by type may be appropriate.

## 730-20-**60 - Relationships**

**General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

#### General

### **Contingencies**

730-20-60-**1** For guidance related to loss contingencies, see Subtopic  $\underline{450-20}$ .

### Consolidation

730-20-60-**2** For guidance on whether and how a <u>sponsor</u> should consolidate a research and development arrangement, see Subtopic <u>810-30</u>.

### 730-20-65 - Transition and Open Effective Date Information

**General Note:** The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

#### General

730-20-65-1 Paragraph superseded on 03/23/2010 after the end of the transition period stated in EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities."

### 730-20-**S00 - Status**

**General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

#### General

730-20-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards	Date
		Update	
730-20-	Amended	Accounting Standards Update	08/27/2012
<u>S99-1</u>		No. 2012-03	
<u>730-20-</u>	Amended	Accounting Standards Update	08/24/2009
<u>S99-1</u>		No. 2009-03	

### 730-20-**S20 - Glossary**

**General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

**Editor's Note:** All glossary terms have been removed from this Subtopic. See this Subtopic's Status Section (Section 00) and/or this Section's archive for more information.

### 730-20-S55 - Implementation Guidance and Illustrations

**General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

#### General

### Obligation Is a Liability to Repay the Other Parties

730-20-S55-**1** See paragraph <u>730-20-S99-1</u>, SAB Topic 5.O, for SEC Staff views on determining whether an entity is able to repay funds provided by other parties in a research and development arrangement.

### 730-20-**S99 - SEC Materials**

**General Note:** As more fully described in <u>About the Codification</u>, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

#### General

#### **SEC Staff Guidance**

#### **Staff Accounting Bulletins**

#### SAB Topic 5.0, Research and Development Arrangements

730-20-S99-1 The following is the text of SAB Topic 5.O, Research and Development Arrangements.

Facts: FASB ASC paragraph 730-20-25-5 (Research and Development Topic) states that conditions other than a written agreement may exist which create a presumption that the enterprise will repay the funds provided by other parties under a research and development arrangement. FASB ASC subparagraph 730-20-25-6(c) lists as one of those conditions the existence of a "significant related party relationship" between the enterprise and the parties funding the research and development.

Question 1: What does the staff consider a "significant related party relationship" as that term is used in FASB ASC subparagraph 730-20-25-6(c)?

Interpretive Response: The staff believes that a significant related party relationship exists when 10 percent or more of the entity providing the funds is owned by related parties. FN14 In unusual circumstances, the staff may also question the appropriateness of treating a research and development arrangement as a contract to perform service for others at the less than 10 percent level. In reviewing these matters the staff will consider, among other factors, the percentage of the funding entity owned by the related parties in relationship to their ownership in and degree of influence or control over the enterprise receiving the funds.

FN14 Related parties as used herein are as defined in the FASB ASC Master Glossary.

Question 2: FASB ASC paragraph 730-20-25-5 states that the presumption of repayment "can be overcome only by substantial evidence to the contrary." Can the presumption be overcome by evidence that the funding parties were assuming the risk of the research and development activities since they could not reasonably expect the enterprise to have resources to repay the funds based on its current and projected future financial condition?

Interpretive Response: No. FASB ASC paragraph 730-20-25-3 specifically indicates that the enterprise "may settle the liability by paying cash, by issuing securities, or by some other means." While the enterprise may not be in a position to pay cash or issue debt, repayment could be accomplished through the issuance of stock or various other means. Therefore, an apparent or projected inability to repay the funds with cash (or debt which would later be paid with cash) does not necessarily demonstrate that the funding parties were accepting the entire risks of the activities.

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