

■ Public Company Financial Executive Briefing ■

FASB INTENDS TO CLARIFY ACCOUNTING FOR R&D ACQUIRED IN A PURCHASE OF ASSETS

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By Jim Pitrat, CPA, Practice Leader - Assurance & Advisory Practice

Research and Development Assets Acquired as Part of an Asset Acquisition and Contingent Consideration Issued in an Asset Acquisition

EXECUTIVE SUMMARY

The FASB has proposed to amend existing accounting standards to require that:

- All research and development (R&D) assets acquired in an asset acquisition are to be capitalized, even if such assets had no alternative future use, and
- Contingent consideration issued in an asset acquisition continues to be accounted for under relevant GAAP and, if recognized, included as part of the cost of the asset acquisition.

The proposed ASU would be effective (and applied prospectively) for asset acquisitions occurring in fiscal years beginning on or after December 15, 2009.

Early adoption would not be allowed under the proposed standard update.

ANALYSIS

Currently, accounting rules require the following:

- Research and development assets acquired as part of an asset acquisition that doesn't qualify as a business combination, are recognized

only if the assets have a future alternative use.

- Consistent with R&D costs incurred in operations, R&D assets that don't have alternative future use are charged to operations at the date of acquisition.

The proposed update would amend the current rules as follows:

- All tangible and intangible R&D assets acquired in an asset acquisition would be capitalized, even if those assets have no future alternative use.
- All intangible assets acquired for use in R&D activities would be considered indefinite lived until the completion or abandonment of the associated R&D activities.

In addition, the following additional changes and clarifications would be made by the update:

- Existing guidance regarding contingent consideration in business combinations would be modified to clarify that contingent consideration arrangements related to the acquisition of an asset (or asset group) continue to be accounted for in accordance with existing GAAP and recognized as part of the cost of the acquired assets, as follows:

- If the contingent consideration qualifies as a derivative, it should be recognized at fair value.

- Recognition required as a contingent liability if it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated.

- Recognition required as part of the cost of the acquisition of an equity method investment.

- The amount of contingent consideration recognized initially or subsequently when the contingency is resolved is to be included in the cost of the acquired asset or asset group, except that adjustments related to the carrying value of a derivative instrument related would not be included in the cost of the acquired asset or asset group.

- The Software accounting rules would be amended to require that the cost of purchased computer software to be sold, leased, or otherwise marketed be capitalized, regardless of whether technological feasibility has been established at the time of purchase.

FOR FURTHER INFORMATION, PLEASE CONTACT ONE OF THE FOLLOWING:

■ **Jim Pitrat:**
JPitrat@singerlewak.com
310.477.3924
Practice Leader - Assurance & Advisory

■ **Harmeet Singh:**
HSingh@singerlewak.com
408.294.3924
Business Combinations Subject Matter Expert
Los Angeles, Silicon Valley

■ **Gale Moore:**
GMoore@singerlewak.com
949.261.8600
Business Combinations Subject Matter Expert
Orange County, San Diego