Title: Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities

Dates Discussed: March 15, 2007; June 14, 2007

References:
- FASB Statement No. 2, Accounting for Research and Development Costs
- FASB Statement No. 154, Accounting Changes and Error Corrections
- FASB Concepts Statement No. 6, Elements of Financial Statements
- AICPA Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use
- AICPA Statement of Position 98-5, Reporting the Costs of Start-up Activities
- International Accounting Standard 38, Intangible Assets
- EITF Issue No. 99-16, "Accounting for Transactions with Elements of Research and Development Arrangements"

ISSUE

1. Entities involved in research and development activities (R&D entities) may make advance payments for goods or services that will be used in future research and development activities. These arrangements often involve one specific research and development project (for example, the development of a drug compound), and the activities to be performed under these arrangements generally do not have an alternative future use at the time the arrangements are executed. Often times, a portion of the advance payment may be refundable; however, it is common for at least some portion of the advance payment to be nonrefundable (that is, if the R&D entity is not able to advance the project to the stage at which the goods or services paid for in advance are necessary, the R&D entity will not be reimbursed for the advance payments). Questions have arisen about how an R&D entity should account for the nonrefundable portion of an advance payment made for future research and development activities.
2. The issue is whether nonrefundable advance payments for goods or services that will be used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed.

Scope

3. The scope of this Issue is limited to nonrefundable advance payments for goods and services to be used or rendered in future research and development activities pursuant to an executory contractual arrangement. 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) should be recognized in accordance with the guidance in Statement 2. Refundable advance payments for future research and development activities are excluded from the scope of this Issue. Entities should not apply the consensus in this Issue by analogy to other types of advance payments.

EITF DISCUSSION

4. The Task Force reached a consensus that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. Entities should continue to evaluate whether they expect 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 capitalized advance payment should be charged to expense.
**Transition**

5. The consensus in this Issue is effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier application is not permitted. Entities should report the effects of applying the consensus in this Issue prospectively for new contracts entered into on or after the effective date of this Issue.

**Board Ratification**

6. At its June 27, 2007 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

**STATUS**

7. No further EITF discussion is planned.
Suggested Index Entries for Issue No. 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities”

RESEARCH AND DEVELOPMENT
Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities

RESEARCH AND DEVELOPMENT ARRANGEMENTS
Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities

Superseded by the FASB Accounting Standards Codification on July 1, 2009