



Research and development

Executive summary

US GAAP

October 2025

kpmg.com/us/en/frv



The many connections of R&D accounting

US GAAP covers two distinct areas of accounting related to R&D: how to account for costs an entity incurs in its R&D activities, and how parties to an R&D funding arrangement account for that arrangement.

The FASB's guidance has been around a long time – the guidance on R&D costs dates back to 1974 and FASB Statement No. 2, while the guidance on R&D funding arrangements dates back to 1982. Since then, the guidance has remained largely – although not entirely – unchanged.

As businesses look for new ways to innovate and finance their R&D activities, application questions continue to emerge. There are also many connections to other accounting topics, such as business combinations, consolidation, software and website costs, debt and equity financing, and derivatives and hedging.

This executive summary provides an overview of the principles of R&D accounting under Topic 730. Our related Handbook, [Research and development](#), provides a roadmap to resolving the many varied issues that can arise with R&D activities.

R&D activities

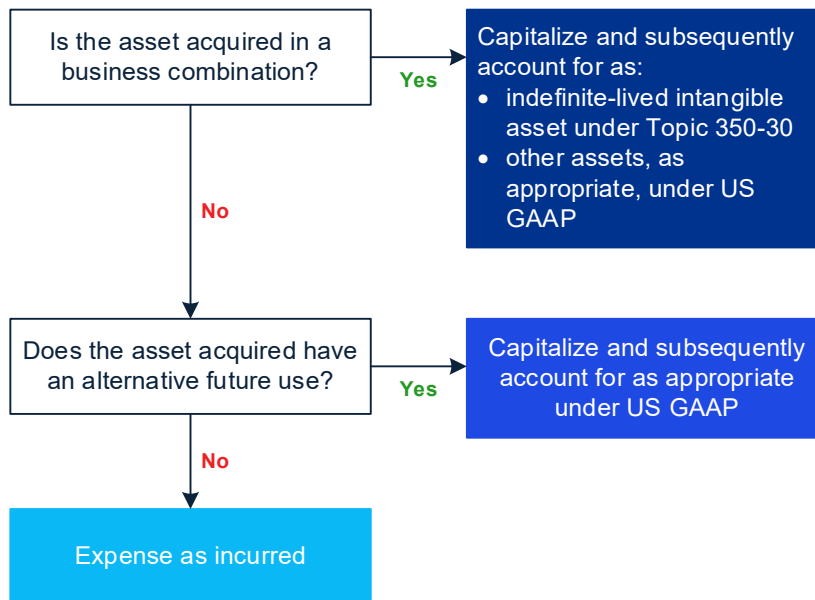
Subtopic 730-10 has a single accounting model for accounting for research and development activities that are in its scope.

Research & Development	
Activities to develop or significantly improve a product or service, or a process or technique, whether those items are intended for sale or use.	
Research	Development
The planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing or significantly improving a product or process, and the translation of that research into a plan or design for a new product or process or improvements to an existing product or process.	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 plans.
Example: Laboratory research aimed at discovering new knowledge	Example: Design, construction and testing of preproduction models
Scope exceptions	
• R&D conducted for others under a contractual arrangement • Activities unique to entities in the extractive industries • The acquisition, development or improvement of a process by an entity for use in its selling or administrative activities • Routine or periodic alterations to existing products, production lines, manufacturing processes and other ongoing operations even though those alterations may represent improvements • R&D assets acquired in a business combination or an acquisition by a not-for-profit entity • Marketing research or testing • Certain software development costs	

R&D costs

R&D costs in the scope of Subtopic 730-10 are expensed as incurred. However, the cost of acquired assets (tangible or intangible) to be used in R&D activities may be capitalized in certain circumstances. When capitalized assets are subsequently consumed or used in R&D activities, the asset or related depreciation or amortization is charged to R&D expense.

The following decision tree outlines the considerations for acquired assets to be used in R&D.

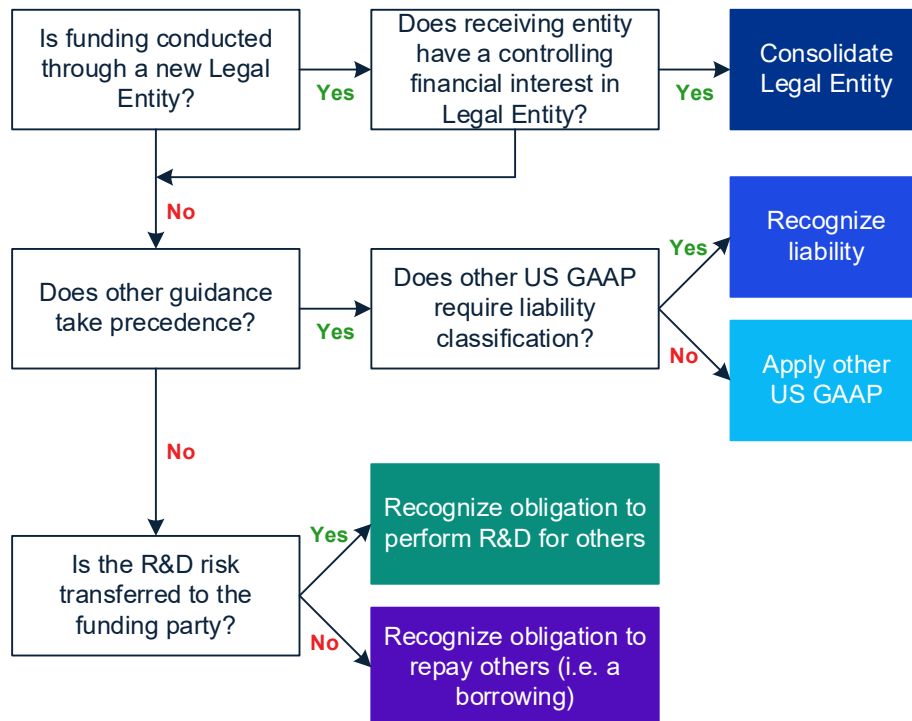


R&D funding

R&D funding arrangements are used to finance the R&D for a variety of items such as technology, new pharmaceutical products and aerospace equipment. Subtopic 730-20 provides guidance for such arrangements for both the party receiving the funding and the party providing the funding (the funding party).

The more complex analysis under this Subtopic relates to determining the accounting for the party receiving the funding. The objective of the Subtopic is to determine if the substance of the arrangement is an obligation to repay others (i.e. a borrowing) or an obligation to perform R&D for others. However, Subtopic 730-20 is not the only relevant literature and in some cases other US GAAP that requires debt classification or recognition of another financial liability (e.g. a derivative) may take precedence.

The following decision tree highlights the various ways the entity receiving funding could account for an R&D funding arrangement.



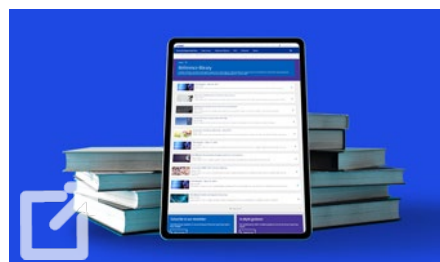
KPMG Financial Reporting View

Delivering guidance and insights, KPMG Financial Reporting View is ready to inform your decision making. Stay up to date with us.



Defining Issues

Our collection of newsletters with insights and news about financial reporting and regulatory developments, including Quarterly Outlook and FRV Weekly.



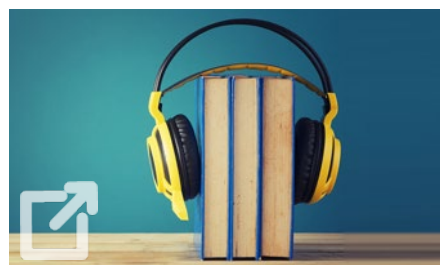
Handbooks and Hot Topics

Our discussion and analysis of accounting topics – from short Hot Topics that deal with a topical issue, to our in-depth guides covering a broad area of accounting.



CPE opportunities

Register for live discussions of topical accounting and financial reporting issues. CPE-eligible replays also available.



Financial Reporting Podcasts

Tune in to hear KPMG professionals discuss major accounting and financial reporting developments.



Access our in-depth **handbook on research and development** on frv.kpmg.us, and **sign up** for news and insights

Learn about us:



kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2025 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

The FASB *Accounting Standards Codification*® material is copyrighted by the Financial Accounting Foundation, Norwalk, Connecticut.