UTS 142.13 APPENDIX 1: EXAMPLE 2 FROM GASB STATEMENT NUMBER 51

The following illustration was published as part of Statement No. 51.

Illustrations – Example 2 Recognition of an Internally-Generated Patent

Assumptions

Through its College of Medicine, Douglass State University conducts research on developing medical instruments and supplies that improve the effectiveness and efficiency of surgical procedures. A general area of the university’s research is in the area of supplies used to close surgical incisions, such as stitches and staples. After months of exploratory research in this area, university researchers discover a combination of microfibers that when applied in the form of a stitch proved in initial tests to be significantly more durable than existing stitches and would dissolve upon the natural healing of the wound. The university researchers believed that these new stitches would be especially effective in surgeries requiring large incisions.

In February 2013, the data accumulated from the research described above were presented to the research committee of the board of the College of Medicine. Based on the presentation, the committee formally authorized 5 full-time researchers and $12 million to fund personnel and other outlays for a project to develop the new material for the stitches. The goal of the project would be to acquire a patent for the new stitch material. Based on other patents that the college has acquired in the past and the type of stitches currently used in practice, the committee believes that the technological advancements of the new stitch supported by the patent would improve the quality of services provided to patients of the hospital operated by the College of Medicine.

Recognition

The university should begin to capitalize outlays associated with the development of the project and acquisition of the related patent in its statement of net assets upon the authorization of resources by the research committee (February 2013). At this point, the specified-conditions criteria for recognizing internally-generated intangible assets appear to be met. The objective of the project has been identified as the acquisition of a patent related to the creation of a new stitch material formed from a combination of specific microfibers. The university has determined that the patent would provide service capacity through the improvement of services provided to patients of its hospital. The initial tests and other general research performed provide a basis for the technical feasibility of the creation of the new stitch material. Lastly, the research committee’s commitment of personnel and the $12 million to fund the outlays of the project demonstrate the university’s current intention, ability, and presence of effort to continue or complete the work needed to acquire the patent. No outlays associated with the project incurred prior to meeting the specified conditions in February 2013 should be capitalized; those outlays should have been expensed as incurred.