



Solution 100.4

Component	Cost of sales
Index	Classification of expenses within cost of sales
Short title	Depreciation, amortisation and impairment losses

Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

Issue

Other costs are included in the cost of inventories only if they relate to bringing inventories to their present location and condition [\[IAS2R.15\]](#).

To what extent should non-production type costs be included in the costs of sales?

Background

Entity A is involved in the production of pharmaceutical products. The entity incurs significant research and development costs. Research costs are expensed as incurred, and development costs are capitalised where the recognition criteria of IAS 38.45 are met.

Solution

The requirement to expense research costs as incurred precludes classification of them as part of cost of sales.

Where development costs have been capitalised as an intangible asset, they are amortised over the best estimate of the asset’s useful life; the amortisation method should reflect the pattern in which the entity consumes the asset’s economic benefits. The amortisation should be included in cost of sales because the intangible asset concerned is used to generate revenues.