

Research Question

During the current year, Alpha Software Company began and completed the creation of the new Houdini computer software program for sale to customers. Alpha incurred a total project cost of \$10 million prior to marketing the software to consumers. Of this amount, \$7 million was spent creating the product design and working model of Houdini that provided certainty that the software could be produced as designed. The remaining \$3 million was spent performing final testing, debugging, minor coding adjustments, fine-tuning, and creating master copies. You are asked for your advice about how to account for the \$10 million of research and development costs – expense it, capitalize it, or some combination of both.