

# **Characteristics of Firms which Capitalise Research and Development Expenditures**

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## **Abstract**

This project investigates the characteristics of firms in New Zealand who choose to expense versus capitalise expenditures for internally generated development projects. Using a sample of 315 NZ firm-year observations, I find that the decision to expense versus capitalize is influenced by profitability, financial health and the intensity of a firm's research and development (R&D) programme. Firms which capitalise R&D are smaller, less profitable, more likely to be in financial distress, and have higher intensity R&D programs. These results suggest that New Zealand firms are similar to firms in other countries who seem to make choices among accounting alternatives in a way to manage reported earnings.

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