

**Task**

- What is the appropriate method of measurement in Case A and Case B
- Be prepared to give reasons for your response
- You have *5 minutes*

**Case A:**

Random LLC has pharma operations that incur significant research and development expense. The relevant tax law allows specific defined R&D expenses to be claimed as deductions in the year they are incurred, irrespective of whether those expenses have been capitalised.

Random has incurred £5 million of research expenses on a new project. The tax law does not cover this new expense, so it is not clear whether it will be deductible in the year in which it is incurred. However, Random has claimed a deduction on its tax return

Tax lawyers have advised that the probable outcome is that Random's claim for a deduction will not be accepted by the tax authorities due to legal precedents in similar cases. Random has therefore decided that its current tax liability should include an amount that assumes the deduction will be disallowed.

Which method should be used to measure the liability – the most likely amount or the expected value?

**Case B:**

Random LLC also has pharma operations that incur significant research and development expense in another country. The relevant tax laws also allow specific R&D expenses to be claimed as deductions in the year when they are incurred.

Random has incurred £5 million of new research expense. The tax law covers this expense, but it is not clear all of the expense will be deductible.

Tax lawyers have advised that the laws in this area are unclear due to the mixed outcome of precedents in similar cases. However, it is probable that some of the expenses will be deductible

The lawyers have advised that the amount that will be deductible is subject to the following probability:

Amount that will be allowed as deduction	Probability
£5 m	15%
£3.75m	30%
£2.5m	20%
£2m	20%
£1.25m	15%

Which method should be used to measure the liability – the most likely amount or the expected value?