IFRS

STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**Goods acquired for promotional activities**		
Paper topic	Initial consideration		
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Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to clarify how an entity accounts for goods that it distributes as part of its promotional activities. The submitter describes a situation in which a pharmaceutical entity acquires high value goods (such as refrigerators, air conditioners and watches) to distribute to doctors as part of its promotional activities. The submitter asks the Committee to clarify how the entity accounts for any goods that remain undistributed at the reporting date.

2. The objective of this paper is to:

   (a) provide the Committee with a summary of the matter;

   (b) present our research and analysis; and

   (c) ask the Committee whether it agrees with our recommendation not to add this matter to its standard-setting agenda.

Structure of the paper

3. This paper includes:

   (a) background information;

   (b) summary of outreach;

   (c) staff analysis; and

   (d) staff recommendation

4. There are 2 appendices to the paper:

   (a) Appendix A—Proposed wording of the tentative agenda decision; and

   (b) Appendix B—Submission.

Background information

5. The submitter describes a situation in which a pharmaceutical entity acquires high value goods (such as refrigerators, air conditioners and watches) to distribute to doctors as part of its promotional activities. The entity's objective in distributing these goods is to promote its brand and derive economic benefits through increased prescription of its medicines. The items are distributed to the doctors without any written terms and conditions. The submitter says there are diverse views on how entities account for any goods that remain undistributed at the reporting date.

6. The submitter has identified two views as follows:

   (a) **View A—***Capitalise the goods as assets when purchased and expense them when distributed*

   Entities applying this view capitalise these goods as stores and spares when purchased. These entities present any undistributed goods as current assets in the statement of financial position, and recognise an expense for the goods when they distribute them to doctors.

   Proponents of this view say that the entity could use the goods for other purposes and, accordingly, the entity should recognise the goods as assets when purchased.

Proponents of this view also say IAS 38 is not relevant when determining whether an entity recognises an asset for goods acquired, even if those goods would be used for promotional activities. They say that the goods meet the definition of an asset—this is because the entity does not have to use the goods for promotional activities. For example, the entity could use a refrigerator to store its own drugs. Assessing whether the goods are property, plant & equipment (PPE), inventory or another type of asset might require judgement. However, the entity's intention to use the asset for promotional activities is not part of the definition of an asset.

View B—*Recognise an expense in profit or loss for the goods when purchased*

Entities applying this view do not capitalise these goods. Instead, they recognise the cost of the goods as an expense in the statement of profit or loss when purchased.

Proponents of View B say that the entity's primary objective in distributing these goods is the promotion of its brand and increase in future economic benefits (ie revenue) through the prescription of the entity's medicines by doctors. Paragraph 69(c) of IAS 38 states that entities recognise any expenditure on advertising and promotional activities as an expense in profit or loss when incurred. Accordingly, proponents of this view say that the entity recognises the expenditure on these goods as an expense in profit or loss when it purchases the goods.

7. We have reproduced the submission in Appendix B to this paper.

Summary of outreach

8. In order to gather information about the matter described in the submission, we sent requests to members of the International Forum of Accounting Standard-Setters, securities regulators, and the large accounting firms.

9. The request asked those participating to provide information, based on their experience, of the prevalence of the matter, and the predominant and any other accounting treatments observed in practice.

10. We received nine responses—four from global accounting firms, two from national standard-setters and two from organisations representing groups of regulators. The views received represent informal opinions, rather than formal views of those responding.

Findings from outreach

11. Eight of the nine respondents said such transactions are not common in their jurisdiction—goods distributed by pharmaceutical entities are generally drug samples or low-value goods that have no more than an insignificant value. Some said that this is because jurisdictions often regulate the value of any distributions. One respondent said entities are required to disclose such distributions on their websites.

12. Two respondents said that in situations in which an entity had distributed such goods, the entity generally recognised an expense for the goods when purchased (ie View B). One respondent said they had observed one entity recognise the goods as assets (ie View A). However, the respondent said that this situation was not common and did not represent the predominant accounting treatment.

13. One respondent said entities generally inscribe such goods with their logos or brands, and as such the goods generally have no other use. Consequently, in its view, entities should recognise an expense for such goods when purchased.

Staff analysis

Application of IFRS requirements

14. Paragraph 69(c) of IAS 38 states that an entity recognises expenditure on advertising and promotional activities as an expense when it incurs the expenditure. In June 2006, the Committee received a request to clarify the meaning of 'incurred' for advertising and promotional costs. In particular, the Committee was asked to clarify

how an entity accounts for costs incurred to develop and print mail order catalogues that the entity has received but has not yet delivered to the customer.

15. The submission resulted in the Board amending IAS 38 in May 2008 as part of *Improvements to IFRSs* to clarify the meaning of 'incurred'. The Board amended paragraph 69 of IAS 38 and added paragraph 69A of IAS 38. Paragraph 69 of IAS 38 states:

> In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods…

16. Paragraph 69A of IAS 38 states:

> An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment…

17. Paragraphs BC46B-BC46D in the Basis for Conclusions of IAS 38 state [emphasis added]:

> BC46B The Board noted that advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. *Goods or services that are acquired to be used to undertake advertising or promotional activities* have no other purpose than to undertake those activities. In other words, the only benefit of those goods or services is to develop or create brands or customer relationships, which in turn generate revenues. Internally generated brands or customer relationships are not recognised as intangible assets.

> BC46C The Board concluded that it would be inconsistent for an entity to recognise an asset in respect of an advertisement that it had not yet published if the economic benefits that might flow to the entity as a result of publishing the advertisement are the

> same as those that might flow to the entity as a result of the brand or customer relationship that it would enhance or create. Therefore, the Board concluded that *an entity should not recognise as an asset goods or services that it had received in respect of its future advertising or promotional activities*.
>
> BC46D In reaching this conclusion the Board noted that, if an entity pays for advertising goods or services in advance and the other party has not yet provided those goods or services, the entity has a different asset. That asset is the right to receive those goods and services. Therefore, the Board decided to retain paragraph 70, which allows an entity to recognise as an asset the right to receive those goods or services. However, the Board did not believe that this paragraph should be used as a *justification for recognising an asset beyond the point at which the entity gained a right to access the related goods or received the related services*. Therefore, the Board decided to amend the paragraph to make clear that a prepayment may be recognised by an entity only until that entity has gained a right to access to the related goods or has received the related services.

18. The submission specifies that the entity acquires the goods (ie refrigerators, air-conditioners and watches) for promotional activities. In that situation, applying paragraph 69 of IAS 38, the entity recognises the expenditure as an expense in profit or loss when it has the right to access these items. Paragraph 69A of IAS 38 says that the entity has a right to access these goods once it owns them. Accordingly, the entity recognises the expenditure as an expense when it owns the goods, regardless of when it distributes these goods to doctors.

19. One of the board members at the time of issuing the amendments, James J Leisenring, dissented from the amendments. Paragraph DO4 of his dissenting opinion states:

> Mr Leisenring believes that if an entity acquires goods, including items such as catalogues, film strips or other materials, the entity should determine whether those goods meet the definition of an asset. In his view, IAS 38 is not relevant for determining

whether goods acquired by an entity and which may be used for advertising should be recognised as an asset.

20. Mr Leisenring's dissenting opinion sets out views similar to those held by proponents of View A in the submission (see paragraph 6 of this paper). Nonetheless, we think that the dissenting opinion further supports our view of the requirements in IAS 38, ie that the entity applies the requirements in paragraph 69 and 69A of IAS 38 to account for these goods if it acquires them for promotional activities. Applying these paragraphs, the entity recognises an expense for these goods when it has the right to access them.

21. Proponents of View A (ie recognising the items as an asset) say that an entity can use the goods for other purposes. For example, the entity might use a refrigerator to store its own drugs. Accordingly, in their view, the entity should recognise these goods as assets until it distributes them to doctors.

22. If an entity acquires any of these goods for a purpose other than for advertising and promotional activities, we think the entity applies the requirements of other applicable IFRS Standards when accounting for these goods. For example, if the entity acquires a refrigerator to store its own drugs, the refrigerator might meet the definition of PPE in IAS 16 *Property, Plant and Equipment*. If it does, the entity applies the requirements in IAS 16 to account for the refrigerator. However, the entity would have to assess the purpose for which it acquired the refrigerator.

Staff Conclusion

23. Paragraphs 69 and 69A of IAS 38 specify that if an entity acquires goods for promotional activities, it recognises any expenditure on the goods as an expense in profit or loss when it has a right to access the goods—ie when it owns the goods—regardless of when it distributes these goods.

Question 1 for the Committee
Does the Committee agree with our analysis of the requirements in IFRS Standards that if an entity acquires goods for promotional activities, it recognises any expenditure on the goods as an expense in profit or loss when it has a right to access those goods?

Should the Committee add this matter to its standard setting agenda?

Is the matter widespread and expected to have a material effect on those affected?[1]

24. Based on findings from the outreach, the matter is not widespread. However, according to the submitter, it could have a material effect on the statement of financial position for entities undertaking these activities.

Is it necessary to add to or change IFRS Standards to improve financial reporting?[2]

25. Based on our analysis, we think that the requirements in existing IFRS Standards—in particular, the requirements in paragraphs 69 and 69A of IAS 38—provide an adequate basis for the entity to account for the goods.

Staff recommendation

26. Based on our assessment of the Committee's agenda criteria in paragraphs 5.16-5.17 of the *Due Process Handbook* (discussed in paragraphs 24- 25 above), we recommend that the Committee does not add this matter to its standard-setting agenda. Instead, we recommend publishing an agenda decision that outlines how an entity applies the relevant requirements in IAS 38 to the promotional goods.

[1] Paragraph 5.16(a) of the *Due Process Handbook*.

[2] Paragraph 5.16(b) of the *Due Process Handbook*.

27. Appendix A to this paper outlines the proposed wording of the tentative agenda decision.

Questions 2 and 3 for the Committee
2. Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda? 3. Does the Committee have any comments on the proposed wording of the tentative agenda decision outlined in Appendix A to this paper?

Appendix A – Proposed wording of the tentative agenda decision

IAS 38 *Intangible Assets*—Goods acquired for promotional activities

The IFRS Interpretations Committee (the Committee) received a request to clarify how an entity accounts for goods that it distributes as part of its promotional activities. The submitter described a situation in which a pharmaceutical entity acquires goods (such as refrigerators, air conditioners and watches) to distribute to doctors as part of its promotional activities. The submitter asked how the entity accounts for any such goods that remain undistributed at its reporting date.

The Committee observed that if the entity acquires the goods for promotional activities, it applies the requirements in paragraph 69 of IAS 38 to account for these goods. Paragraph 69 of IAS 38 requires an entity to recognise any expenditure on the goods as an expense when the entity has a right to access the goods. Paragraph 69A of IAS 38 states that an entity has a right to access goods when it owns them. Accordingly, the entity recognises any expenditure on these goods as an expense when it owns the goods, or otherwise has a right to access them regardless of when it distributes the goods.

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for an entity to account for the goods described in the submission. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Appendix B – Submission

B1. We have reproduced the submission below. We have deleted details that would identify the submitter of this request.

Submission

1. THE ISSUE:

The International Financial Reporting Interpretations Committee (the Interpretations Committee) of International Accounting Standards Board (IASB) is requested to clarify the accounting treatment of undistributed promotional/ marketing items, available with the pharmaceutical company at the year-end.

2. CURRENT PRACTICE:

There are divergent practices for the accounting of high value promotional/ marketing items (such as fridge, air-conditioners and watches etc.) undistributed at the year-end. The pharmaceutical companies procure and distribute these items for distribution among the doctors. The underlying objective of this business activity is to promote the pharmaceutical company's brand and derive economic benefits through prescription of their manufactured medicines. However, the items are distributed to the doctors without any written terms and conditions.

In relation to the divergent accounting treatment of the above mentioned promotional/ marketing items, some pharmaceuticals companies are initially recognizing these items as current assets, under the category of "stores and spares". Subsequently, at the time of distribution of items among doctors the cost of distributed items is charged to income statement. Consequently, at the period end, the undistributed items (if any), are reflected in the statement of financial position as 'stores and spares". The above treatment is explained in detail as View A in below section.

Other pharmaceutical companies follow a different accounting treatment to the above, explained in detail as View B below. These companies charge out the above mentioned promotional items, when they have a right to access those items/goods, irrespective of their onward distribution among doctors. Accordingly, at the period end, the undistributed items, if any, are not reflected in the financial statements, as the entire expenditure has already been expensed out.

The two views for consideration in relation to the accounting of promotional/ marketing items are as under:

VIEW A:

Paragraph 46 of the Basis of conclusion of IAS 38 '*Intangible Assets'* says that (underline is ours):

BC46A. "Paragraph 68 states that expenditure on an internally developed intangible item shall be recognised as an expense when it is incurred. The Board noted that it was unclear to some constituents how this should be interpreted. For example, some believed that an entity should recognise expenditure on advertising and promotional activities as an expense when it received the goods or services that it would use to develop or communicate the advertisement or promotion. Others believed that an entity should recognise an expense when the advertisement or promotion was delivered to its customers or potential customers. Therefore, the Board decided to amend paragraph 69 to clarify the meaning of 'incurred'."

BC46B. "The Board noted that advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. Goods or services that are acquired to be used to undertake advertising or promotional activities have no other purpose than to undertake those activities. In other words, the only benefit of those goods or services is to develop or create brands or customer relationships, which in turn generate revenues. Internally generated brands or customer relationships are not recognised as intangible assets."

The above paragraphs clarify the intent behind the inclusion of paragraph 69 of IAS 38. The use of the words 'advertising and promotional activities' is in relation to enhance or create brands or customer relationships which in turn generate revenues. However, the query is in relation to free promotional/ marketing items or gifts (air conditioners, watches, etc.) that are not company's products or having promotional connection with the company's products provided to doctors.

Further, promotional/ marketing items neither fall in the definition of Property, Plant & Equipment (PPE) under IAS 16 'Property, Plant and Equipment' nor in inventory (as stores and spares) under IAS 2 'Inventories', reproduced below for reference.

Inventories are assets:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

Additionally, free promotional/ marketing items are specific nature valuable items and can be used by the pharmaceutical company for their use as well. These items are given with no terms and conditions attached, therefore, these items should be initially recognised by the pharmaceutical company as 'Other Assets' and accordingly, at year end, all undistributed promotional/ marketing items should also be recognised as 'Other Assets' and expensed out when distributed to the doctors.

(Relevant Paragraphs of IAS 38 'Intangible Assets' are enclosed as Annexure)

VIEW B:

Proponents of View B give the following reasons:

Proponents of View B emphasize that the primary objective of distribution of free items (fridge, air-conditioners, watches etc.) by the pharmaceutical companies is the promotion of company's brand and increase in the economic benefits (revenue through the prescription of the company's medicines by the doctors). Therefore, in substance the items are procured by the pharmaceutical company for the promotion of their business and should be charged out in accordance with IAS, 38, *Intangible Assets.*

The relevant paragraph 69, 69A and BC 46B, of IAS 38 '*Intangible Assets'* are reproduced below:

69. "In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognises the expenditure as an expense when it receives the services. For example, expenditure on research is recognised as an expense when it is incurred (see paragraph 54), except when it is acquired as part of a business combination. Other examples of expenditure that is recognised as an expense when it is incurred include:

(a) expenditure on start-up activities (i.e. start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with IAS 16. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (i.e. pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e. pre-operating costs).

(b) expenditure on training activities.

(c) **expenditure on advertising and promotional activities (including mail order catalogues).**

(d) expenditure on relocating or reorganizing part or all of an entity."

69A "An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver an advertisement to customers."

The above, paragraph 69, outlines that in certain cases expenditure is incurred to provide future economic benefits to an entity, however, no intangible asset or other asset is acquired or created that can be recognised.

Further, the expenditure on advertising and promotional activities (including mail order catalogues), as given in paragraph 69(c) above is one of such condition/example where no intangible asset or other asset is acquired or created that can be recognised. Paragraph 69 also prescribes that if such expenditure involves supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. Accordingly, the promotional items should be expensed out to income statement at the time the cost is incurred on them.

In the context of recognition of asset, IAS 38 explains, “asset” as a resource, (a) controlled by the entity as a result of past events; and (b) from which future economic benefits are expected to flow to an entity.”

The Conceptual Framework for Financial Reporting broadly requires four conditions for the recognition of Assets, which include:

i. It results from the past events/past transactions;
ii. It has potential to provide future economic benefits;
iii. Cost or value can be measured reliably; and
iv. The entity has capacity to control the future economic benefits.

In view of the above discussion, the high value promotional items (fridge, air-conditioners, watches etc.) meet the condition (i), (ii) and (iii) above. However, the pharmaceutical companies have no control over the future economic benefits that are expected to flow from this promotion activity, owing to the fact that the promotional items are distributed among doctors without any written terms and conditions, and pharmaceutical companies cannot control the doctors to prescribe their manufactured medicines.

Based on the above, the promotional / marketing items (fridge, air-conditioners, watches etc.) do not meet the basic criteria of an **‘Asset’** given in the Conceptual Framework of IFRS; hence these items cannot be initially recognized as Assets.

It is also relevant to refer the definition of ‘Property, Plant & Equipment’ under IAS 16 and ‘Inventories’ under IAS 2, which are reproduced above in View A.

Based on above, Proponents of view B consider that the promotional/ marketing items should be charged to the income statement at the time the pharmaceutical company takes control of the items, irrespective of their onward distribution. However, at the end of a reporting period, if the pharmaceutical manufacturing company intends to use the undistributed promotional/ marketing items for alternative purposes (internal use as PPE or resale in the market), it may recognise cost of such items in accordance with the IAS 16 or IAS 2, as the case may be.

RESEARCH:

In relation to accounting of promotional costs, above scenario of a pharmaceutical company along with its guidance as per ***Statement of Position 93-7*** (**AICPA Technical Practice Aid**) is stated below:

Background	Relevant Guidance	How should these costs be accounted for and presented in the income statement?
A pharmaceutical company has developed a new drug that simplifies the long-term treatment of kidney disease. The company's commercial department has incurred significant costs with a promotional campaign, including TV commercials and presentations in conferences and seminars for doctors.	The costs of advertising should be expensed either as incurred or the first time the advertising takes place except for direct response advertising or expenditures for advertising that are made subsequent to recognizing revenues related to such costs **[SOP 93-7R. 26].** **Para 26 is reproduced as below:** ***26*** *The costs of advertising should be expensed either as incurred or the first time the advertising takes place (paragraphs .42 to .44 elaborate on component costs of advertising), except for—* *a) Direct-response advertising (1) whose primary purpose is to elicit sales to customers who could be shown to have responded specifically to the advertising and (2) that results in probable future economic benefits (future benefits). (Paragraph .37 discusses the conditions that must be met in order to conclude that direct-response advertising results in probable future benefits.) Examples of the first time advertising takes place include the first public showing of a television commercial for its intended purpose and the first appearance of a magazine advertisement for its intended purpose.* b) *Expenditures for advertising costs that are made subsequent to recognizing revenues related to those costs, as discussed in paragraph .27.*	The company should not recognize its advertising and promotional costs as an intangible asset, even though the expenditure incurred may provide future economic benefits; it should charge all promotional costs to the income statement as incurred or the first time the advertising takes place based on the policy it has selected pursuant to **SOP 93-7.** The presentation of promotional costs in the income statement will depend on the analysis of expenses preferred by management (by nature or by function). Promotional costs should be classified as advertising and promotional costs if the analysis of expenses is presented by nature; however, more detailed analysis may be provided. Promotional costs should be included within marketing expenses if the analysis of expenses is presented by function.

Paragraphs 27 and 37 of the Statement of Position as referred above are reproduced here for consideration:

> **27**. *Expenditures for some advertising costs are made subsequent to recognizing revenues related to those costs. For example, some entities assume an obligation to reimburse their customers for some or all of the customers' advertising costs (cooperative advertising). Generally, revenues related to the transactions creating those obligations are earned and recognized before the expenditures are made. For purposes of applying this SOP, those obligations should be accrued and the advertising costs expensed when the related revenues are recognized.*
>
> ***37*** *Demonstrating that direct-response advertising will result in future benefits requires persuasive evidence that its effects will be similar to the effects of responses to past direct-response advertising activities of the entity that resulted in future benefits. Such evidence should include verifiable historical patterns of results for the entity. Attributes to consider in determining whether the responses will be similar include (a) the demographics of the audience, (b) the method of advertising, (c) the product, and (d) economic conditions.*

JURISDICTION WISE RESEARCH ON ACCOUNTING OF PROMOTIONAL/ MARKETING ITEMS

	Paragraph reference of applicable accounting standard	**Requirement**
US GAAP	***Relevant extracts from US – GAAP 720-35 are accessible at:*** https://asc.fasb.org/section&trid=2122658	This Subtopic provides guidance for annual financial statements on the following: • Reporting the costs of advertising, which shall be expensed either as incurred or the first time the advertising takes place • The financial statement disclosures that shall be made about advertising. This Subtopic does not provide guidance for direct-response advertising (see Subtopic 340-20) whose primary purpose is to elicit

		sales to customers who can be shown to have responded specifically to the advertising and that results in probable future benefits. If future economic benefits do result from advertising, they generally would be in the form of revenue. New technology, sources of information, and measurement techniques have given some entities the ability to better estimate the future economic benefits that could result from certain kinds of advertising.
United Kingdom	Para 69 of **IAS 38 - Intangible Assets**	No specific accounting treatment for valuable undistributed promotional items at year end
Sri Lanka	**LKAS 38 – Intangible Assets,** similar to IAS 38 - Intangible Assets	No specific accounting treatment for valuable undistributed promotional items at year end
India	**Indian AS 38 - Intangible Assets,** similar to IAS 38 - Intangible Assets	No specific accounting treatment for valuable undistributed promotional items at year end
Australia	**AASB 138 - Intangible Assets,** similar to IAS 38 - Intangible Assets	No specific accounting treatment for valuable undistributed promotional items at year end
Singapore	**FRS 38 - Intangible Assets,** similar to IAS 38 - Intangible Assets	No specific accounting treatment for valuable undistributed promotional items at year end

'Annexure'

RELEVANT PARAGRAPHS OF IAS 38 'INTANGIBLE ASSETS'

69 In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognises the expenditure as an expense when it receives the services. For example, expenditure on research is recognised as an expense when it is incurred (see paragraph 54), except when it is acquired as part of a business combination. Other examples of expenditure that is recognised as an expense when it is incurred include:

(a) expenditure on start-up activities (i.e. start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with IAS 16. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (i.e. pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e. pre-operating costs).

(b) expenditure on training activities.

(c) expenditure on advertising and promotional activities (including mail order catalogues).

(d) expenditure on relocating or reorganising part or all of an entity.

69A An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity uses them to deliver another service, for example, to deliver an advertisement to customers.

70 Paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

BC46A Paragraph 68 states that expenditure on an internally developed intangible item shall be recognised as an expense when it is incurred. The Board noted that it was unclear to some constituents how this should be interpreted. For example, some believed that an entity should recognise expenditure on advertising and promotional activities as an expense when it received the goods or services that it would use to develop or communicate the advertisement or promotion. Others believed that an entity should recognise an expense when the advertisement or promotion was delivered to its customers or potential customers. Therefore, the Board decided to amend paragraph 69 to clarify the meaning of 'incurred'.

BC46B The Board noted that advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. Goods or services that are acquired to be used to undertake advertising or promotional activities have no other purpose than to undertake those activities. In other words, the only benefit of those goods or services is to develop or create brands or customer relationships, which in turn generate revenues. Internally generated brands or customer relationships are not recognised as intangible assets.

BC46C The Board concluded that it would be inconsistent for an entity to recognise an asset in respect of an advertisement that it had not yet published if the economic benefits that might flow to the entity as a result of publishing the advertisement are the same as those that might flow to the entity as a result of the brand or customer relationship that it would enhance or create. Therefore, the Board concluded that an entity should not recognise as an asset goods or services that it had received in respect of its future advertising or promotional activities.

BC46D In reaching this conclusion the Board noted that, if an entity pays for advertising goods or services in advance and the other party has not yet provided those goods or services, the entity has a different asset. That asset is the right to receive those goods and services. Therefore, the Board decided to retain paragraph 70, which allows an entity to recognise as an asset the right to receive those goods or services. However, the Board did not believe that this paragraph should be used as a justification for recognising an asset beyond the point at which the entity gained a right to access the related goods or received the related services. Therefore, the Board decided to amend the paragraph to make clear that a prepayment may be recognised by an entity only until that entity has gained a right to access to the related goods or has received the related services.

BC46E The Board noted that when the entity has received the related goods or services, it ceases to have the right to receive them. Because the entity no longer has an asset that it can recognise, it recognises an expense. However, the Board was concerned that the timing of delivery of goods should not be the determinant of when an expense should be recognised. The date on which physical delivery is obtained could be altered without affecting the commercial substance of the arrangement with the supplier. Therefore, the Board decided that an entity should recognise an expense for goods when they have been completed by the supplier in accordance with a contract to supply them and the entity could ask for delivery in return for payment—in other words, when the entity had gained a right to access the related goods.