

Technical Accounting Alert

Advertising and promotional costs

Introduction

The purpose of this alert is to provide guidance when accounting for expenditure on advertising and promotional activities, including:

- promotional catalogues and brochures; and
- media advertising.

This TA alert does not address website content development costs. The specific guidance in SIC-32 (AASB Interpretation 132) should be followed for these costs.

Relevant Australian standards

References in this TA alert are made to standards issued by the International Accounting Standards Board. The Australian equivalent to each standard included in this alert is shown below:

| International Standard reference | Australian equivalent standard |
|----------------------------------|-----------------------------------|
| IAS 38 <i>Intangible Assets</i> | AASB 138 <i>Intangible Assets</i> |

Overview

There has been some inconsistency in the application of the following requirement in IAS 38:

“Expenditure on advertising and promotional activities should be written off as incurred (IAS 38.69).”

IAS 38 has been amended to clarify when an entity shall recognise advertising and promotional expenditure (including mail order catalogues and other expenditures covered by IAS 38 paragraph 68).

In the case of the supply of goods, the entity recognises such expenditure when it has a right to *access the goods*, which is defined as the time where an entity owns the goods or when the goods have been constructed and the entity could demand delivery of the goods. For services, an expense is recognised on *receiving the services*. These requirements, however, do not preclude recognising a prepayment as an asset, when prepayments have been made in advance of obtaining the right to access the goods or receiving the services.

This means that:

- **promotional catalogues and brochures** are **not** recorded as inventory or other assets; and
- costs incurred in **developing an advertising campaign** are recorded as expenses as the development activities are performed.

It is therefore **not** appropriate to defer expensing advertising and promotional costs until:

- the advertising or promotional matter is consumed; or
- the period(s) in which the entity expects to generate sales.

Costs are incurred when the related development services or activities are performed. Services and activities are often performed before the advertising or promotional campaign is deployed. For example, an entity might use an external advertising agency to develop an advertising campaign. Costs associated with developing the campaign are incurred as those services are provided, not (for example) when the advertisement is broadcast. Hence, an expense is recorded as the agency provides the development services.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au