Marketing assets: Financial Accountant’s perspective

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Central Statistics Office, Ireland – May 2022
Agenda

• IAS 38 and Definitions
• Recognition and Measurement of Intangible Assets
• Outright acquisition of Marketing Assets
• Internally Generated Marketing Assets
• Practicalities around capturing data
International Accounting Standard (IAS) 38
IAS 38 – Intangible Assets

• Single standard developed to cover two types of assets:
  
  • Internal costs incurred by entities from which they expect to benefit
  • Assets arising from business combinations and the premiums paid by the purchasers for intangible rights

• The objective of IAS 38 is to prescribe the accounting treatment for intangible assets that are not specifically dealt with in another standard.
IAS 38 – Definitions

• IAS 38 defines an asset as:

  ‘a resource controlled by an entity as a result of past events; and from which future economic benefits are expected to flow to the entity’.

• Intangible assets are a subset of assets.

• IAS 38 defines an intangible asset as:

  ‘an identifiable non-monetary asset without physical substance’.

2008 System of National Accounts

• Paragraph 3.5 defines an asset as:

• ‘An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of carrying forward value from one accounting period to another’.
Recognition of Intangible Assets
IAS 38 – Intangible Assets

- An item that meets the definition of an intangible asset can only be recognised in the accounts if, at the time of initial recognition:
  - it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and
  - the cost of the asset can be measured reliably.
IAS 38 – Intangible Assets

- Separate recognition rules apply for intangible assets that are:
  - acquired separately
  - acquired by way of government grant
  - obtained in an exchange of assets
  - acquired as part of a business combination
  - generated internally
Intangible Assets acquired separately or as part of a business combination
IAS 38 – Intangible Assets acquired separately or as part of a business combination

- Separately acquired intangible assets will normally be recognised as assets
- IAS 38 assumes that the price paid to acquire the intangible assets is the reliably measured cost
- Measuring the fair value of intangible assets acquired in a business combination is more difficult and various valuation techniques to measure this reliably are outlined in other financial accounting standards
IAS 38 – Intangible Assets acquired separately or as part of a business combination

• IFRS 13 – Fair Value Measurement, outlines the rules and valuation methods used to value assets.

• The definition of fair value in IFRS 13 is based on an exit price notion and incorporates the following concepts:
  • Fair value is the price to sell an asset or transfer a liability and therefore represents an exit not an entry price
  • The exit price for an asset is conceptually different from its transaction (entry) price.
IAS 38 – Intangible Assets acquired separately or as part of a business combination

• Fair value is the exit price in the principal market i.e the market with the highest volume and level of activity

• Fair value is a market-based measurement not an entity-specific measurement.

• IFRS 13 recognises 3 main valuation approaches to measure fair value:
  • Market approach – based on market transactions involving identical or similar assets/liabilities
  • Income approach – based on future cash flows/income that are discounted to a single present amount
  • Cost approach – based on the amount required to replace the service capacity of an asset (current replacement cost)
IAS 38 – Intangible Assets acquired separately or as part of a business combination

- Examples of marketing related intangible assets that could be acquired may include:
  - marketing rights, trademarks, trade names, service marks and certification marks
  - internet domain names
  - trade dress (unique colour, shape or package design)
  - newspaper mastheads
  - non-competition agreements
Internally generated Intangible Assets
IAS 38 – Internally Generated Intangible Assets

- IAS 38 requires that **internally generated** intangible assets are not only tested against the general requirements for recognition and initial measurement (see previous slides) but also meet the criteria which confirm:
  - that the related activity is at a sufficiently advanced stage of development,
  - is both technically and commercially viable and
  - includes only directly attributable costs.
IAS 38 – Internally Generated Marketing Assets

• IAS 38 considers that internally generated brands, mastheads, publishing titles, customer lists and similar items to be indistinguishable from the cost of developing a business as a whole so it prohibits their recognition.

• The same applies for subsequent expenditures incurred in connection with such intangible assets even when acquired externally.

• Advertising and promotional activities are specifically identified as costs that should be expensed and not capitalised in IAS 38.
IAS 38 – Marketing Assets - Summary

• Marketing related intangible assets, if generated internally, should not be recognised as an asset in the accounts.

• If acquired separately or through a business combination, they may be recognised, if they satisfy IAS 38 recognition and initial measurement rules.
Practicalities around capturing data
Practicalities around collecting data on marketing assets

• IE experience – we collect from our respondent companies, on a quarterly basis, a full Income Statement and Balance Sheet
• Most respondents are accountants and extract the data from their financial accounting system (SAP, Oracle etc)
• The Income Statement, with expenses broken out into both the BPM6/2008 SNA services categories as well as geographies, is onerous as it is
• Impractical and burdensome to expect accountants to include assets in their Balance Sheet submission that are not recognized in their accounts
Practicalities around collecting data on marketing assets

• A very important part of the work that the Large Cases Unit does in the CSO is consistency work

• This involves the comparison of the data submitted to us by respondent companies with administrative data submitted by them to other organisations e.g. Revenue, Companies Registration Office

• One of the most important checks is the comparison of annual statutory financial statements with the quarterly data submitted to the CSO

• Recording marketing assets in statistical data that are not recognized assets in the financial statements will make this comparison difficult