Marketing assets: Financial Accountant’s perspective

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Agenda

- IAS 38 and Definitions
- Recognition and Measurement of Intangible Assets
- Outright acquisition of Marketing Assets
- Internally Generated Marketing Assets
- Practicalities around capturing data

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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’.

https://www.iasplus.com/en/standards/ias/ias38

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'.

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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**

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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

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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.

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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

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