

Introduction and Invitation to Comment

In this exposure draft the International Accounting Standards Board proposes to amend IAS 38 *Intangible Assets*. IAS 38 requires expenditure on advertising or promotional activities, training activities and start-up activities, and on relocating or reorganising part or all of an entity, to be recognised as an expense as incurred. Divergent interpretations have developed about when such expenses are incurred. This proposed amendment clarifies the meaning of ‘as incurred’ in this context. It also makes clear that an entity may recognise a prepayment as an asset only until that entity has access to the goods or has received the services.

The Board invites comments on the proposed amendments to IAS 38. It would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 38 not addressed in the exposure draft.

Questions

1. Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?
2. Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

Proposed Amendments to IAS 38 *Intangible Assets*

In the Standard, paragraphs 69 and 70 are amended (new text is underlined, deleted text is struck through). Paragraph 68 has been included for ease of reference but is not proposed for amendment.

Recognition of an expense

68 Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:

- (a) **it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 18–67); or**
- (b) **the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, this expenditure (included in the cost of the business combination) shall form part of the amount attributed to goodwill at the acquisition date (see IFRS 3).**

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 these cases, of the supply of goods, the entity recognises such expenditure is recognised as an expense when it is incurred, it has access to those goods. In the case of the supply of services, the entity recognises such expenditure as an expense when it receives those services. For example, except when it forms part of the cost of a business combination, expenditure on research is recognised as an expense when it is incurred (see paragraph 54). Other examples of expenditure that is recognised as an expense when it is incurred include:

- (a) expenditure on start-up activities (ie 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 (ie pre-opening costs) or expenditures for starting new operations or launching new products or processes (ie pre-operating costs).
- (b) expenditure on training activities.
- (c) expenditure on advertising and promotional activities.
- (d) expenditure on relocating or reorganising part or all of an entity.

70 Paragraph 68 does not preclude an entity from recognising a prepayment as an asset when payment for the delivery of goods or services has been made in advance of the entity gaining access to those goods, delivery of goods or the rendering of services. 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.

Basis for Conclusions on Proposed Amendments to IAS 38 Intangible Assets

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Recognition of an expense

- BC1 IAS 38 paragraph 68 states that expenditure on an intangible item shall be recognised as an expense when it is incurred. The Board noted that it was unclear 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’.
- BC2 The Board noted that advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. Internally generated brands or customer relationships are not recognised as intangible assets. 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 that 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.
- BC3 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 of IAS 38, 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 access to 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 access to the related goods or has received the related services.