Recognition of Expenditure Incurred on Branding and Advertisement

The following is the opinion given by the Expert Advisory Committee of the Institute in response to a query sent by a member. This is being published for the information of readers.

A. Facts of the Case

1. In times of slow-down, companies are afraid of spending money on brand building and campaigns because this directly impacts their profit and loss account and in-turn impacts their position with the investors and markets. This low spending in-turn impacts demand and therefore, further deepens the slow-down.

2. A company (hereinafter referred to as 'the company') is engaged in the business of news paper publishing and radio broadcasting. The company operates through the different brand names. The company is one of the leading media houses of the country. Being in the media industry, the brand/goodwill of the products of the company is of utmost importance as that is the major driving factor behind the growth. To become successful, it is very important to build the strong goodwill in the market, particularly in the times of slow-down in the economy.

3. The querist has stated that during the efforts to build the brand/goodwill, the company undertakes various activities such as:
   - Internal communication and promotion regarding achievements and initiatives within the company to reach mass employee base.
   - External communication and branding (For outside world): promotional branding at railway station, airports, outside office in terms of hoardings, danglers, etc.
   - Trade/business communication: - Sending of business/trade publication regularly to vendors/agencies like internally, 'Samvad' is sent to employees.
   - Corporate and state audio/visuals: - Audio/visual clips prepared like for father's day, for 'Save the water', for Corporate Social Responsibility (CSR).
   - Events, promotions, campaigns and ground level activities (for employees, readers, trade partners and CSR)
   - Self-explanatory media campaigns (Print, radio, TV, outdoor, social media, internet, etc.)
   - Self-explanatory merchandise, mailers, gifts and prizes: - Company's branded t-shirts, mailers and distributing gifts in public gatherings or events.
   - Agencies and Vendors - Creative, event, promotions, production, fabrication, printing, gifts, etc. sponsorship, alliances and tie-ups.

   The company incurs substantial amount on above-mentioned activities which are necessary to build the brand in public which is key to success in the business. The benefits of such expenses are accrued to the company for a period of more than one year and some times, these extend to longer period. The goodwill/brand developed through these activities also helps the company to attract new customers for long term.

4. The querist has also stated that according to the Guidance Note on Terms Used in Financial Statements, the term 'assets' is defined as *"Tangible objects or intangible rights owned by an enterprise and carrying probable future benefits"* (emphasis supplied by the querist). Accordingly, the company gets future benefits due to the expenditure incurred on goodwill/brand development expenses. Therefore, the management is of the view that such expenses should be amortised over the reasonable period rather than charging off in one year as there are future probable benefits arising to the company due to these expenses.

B. Query

5. In this context, the querist has sought the guidance and opinion of the Expert Advisory Committee on deferring and amortising the branding expenses over the future years instead of charging the same in the year when these were incurred.

C. Points considered by the Committee

6. The Committee notes that the basic issue raised by the querist relates to recognition of

expenditure incurred on advertisement and other promotional activities to build up brand/goodwill of the company. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case.

7. The Committee notes the definition of the term 'asset' as contained in paragraph 49 of the 'Framework for the Preparation and Presentation of Financial Statements', issued by the Institute of Chartered Accountants of India, which provides as follows:

> "An *asset* is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise."

From the above, the Committee is of the view that the expenditure incurred by an enterprise on advertisement and promotional activities does not give rise to a resource controlled by the company. The Committee further notes from the Facts of the Case that the querist has contended that such expenditure results into goodwill/ brand for the company. In this context, the Committee notes paragraphs 35, 36, 50, 51 and 56 of AS 26, reproduced as below:

> ***"35. Internally generated goodwill should not be recognised as an asset.***
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> 36. In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost."
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> ***"50. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.***
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> 51. This Standard takes the view that expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets."
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> "56. In some cases, expenditure is incurred to provide future economic benefits to an enterprise, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred. For example, expenditure on research is always recognised as an expense when it is incurred (…). Examples of other expenditure that is recognised as an expense when it is incurred include:
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> …
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> (c) expenditure on advertising and promotional activities; and
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> …"

From the above, the Committee is of the view that considering the specific provisions of the Standard, the said expenditure on branding and advertising cannot be recognised as an asset, though it may be providing furture economic benefits to the enterprise. Accordingly, such expenditure should be charged off to the statement of profit and loss of the period in which it is incurred.

D. Opinion

8. On the basis of the above, the Committee is of the opinion that the expenditure incurred on branding and advertising cannot be deferred and amortised over the future years rather it should be expensed and charged to the statement of profit and loss of the period in which it is incurred.

1	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on December 26-27, 2012. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in thirty volumes. A CD of Compendium of Opinions containing thirty volumes has also been released by the Committee. These are available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
4	Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'.
5	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.org.