

IAS 38 *Intangible Assets* (September 2017)

Goods acquired for promotional activities

The Committee received a request about how an entity accounts for goods it distributes as part of its promotional activities. In the fact pattern described in the request, a pharmaceutical entity acquires goods (such as refrigerators, air conditioners and watches) to distribute to doctors as part of its promotional activities. The entity and the doctors do not enter into agreements that create enforceable rights and obligations in relation to those goods. The request asked how the entity accounts for any such goods that remain undistributed at its reporting date.

Paragraph 5 of IAS 38 states that IAS 38 applies to expenditure on advertising activities. Accordingly, the Committee concluded that if an entity acquires goods solely to be used to undertake advertising or promotional activities, it applies the requirements in paragraph 69 of IAS 38. Paragraph 69 requires an entity to recognise expenditure on such goods as an expense when the entity has a right to access those goods. Paragraph 69A of IAS 38 states that an entity has a right to access goods when it owns them. The entity, therefore, recognises expenditure on those goods as an expense when it owns the goods, or otherwise has a right to access them regardless of when it distributes the goods.

In explaining the Board's rationale for the requirements in paragraph 69, paragraph BC46B of IAS 38 states that goods acquired to be used to undertake advertising and promotional activities have no other purpose than to undertake those activities. In other words, the only benefit of those goods for the entity is to develop or create brands or customer relationships, which in turn generate revenues. However, applying IAS 38, the entity does not recognise internally generated brands or customer relationships as assets.

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for an entity to account for the goods described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.