IAS 38 ***Intangible Assets*** (May 2009)

Accounting for sales costs

The IFRIC was asked to clarify how a real estate developer should account for selling and marketing costs incurred during construction that relate to the specific real estate construction project. Following the guidance in IFRIC 15 *Agreements for the Construction of Real Estate*, revenue from the construction project described in the request will be recognised as a 'sale of goods' in accordance with IAS 18 *Revenue* rather than in accordance with IAS 11 *Construction Contracts*. Examples of such selling and marketing costs include:

- advertising costs for the project
- sales commissions paid for selling the units
- fees paid to the bank to list the property to enable buyers to get mortgages.

The IFRIC noted that IAS 2 *Inventories* does not permit selling costs to be capitalised as inventory if the real estate units are considered to be inventory. Similarly, IAS 16 *Property, Plant and Equipment* does not permit these costs to be capitalised as property, plant and equipment unless they are directly attributable to preparing the asset to be used. The IFRIC also noted that paragraph 20 of IAS 11 excludes selling costs from the costs of a construction contract. However, the IFRIC noted that other standards conclude that some direct and incremental costs recoverable as a result of securing a specifically identifiable contract with a customer may be capitalised in narrow circumstances. For example, IAS 11 (paragraph 21 on pre-contract costs) and IAS 18 (Appendix paragraph 14(b)(iii) on investment management fees), among others, may include relevant guidance. In those narrow circumstances, if additional requirements are met, capitalised costs may represent an identifiable intangible asset arising from contractual or other legal rights in accordance with IAS 38 *Intangible Assets*. (The IFRIC noted that no standards permit an entity to capitalise advertising or other costs incurred in attempting to obtain customer contracts.)

Because the accounting for such costs varies depending on specific facts and circumstances, the IFRIC noted that it is not possible to reach a conclusion on the appropriate accounting for broad categories of selling and marketing costs in all circumstances. Therefore, the IFRIC decided not to add this issue to the agenda.