1992

Comment letters received on the June 22, 1992, exposure draft, Reporting on Advertising Costs

American Institute of Certified Public Accountants. Accounting Standards Executive Committee

Comment Letters AcSEC

Pat

MEMORANDUM

DATE: October 22, 1992

TO: Karen Neloms

FROM: Joel Tanenbaum **File 4322**

SUBJECT: Comments Letters on Advertising ED

93 pages

Attached are comment letters received on the June 22, 1992, exposure draft, Reporting on Advertising Costs. The letters should be made part of the public record and be available for inspection until November 3, 1993.

43 items

Valuation Research Corporation

3 INDEPENDENCE WAY
PRINCETON, NEW JERSEY 08540-6621
Telephone: 609/452-0900
Facsimile: 609/452-7651

ALFRED M. KING
Senior Vice President

①

July 2, 1992

Mr. Lou Bisgay
IMA
10 Paragon Drive
Montvale, NJ 07645

Dear Lou:

Ref. Your Memo June 30, 1992, AcSec Proposed SOP
Reporting on Advertising Costs

I would like to enter a strong dissent to the proposed SOP. I wrote the FASB and requested that they not assent to an AcSec SOP; rather this is a pervasive issue which the Board itself should cover.

The question goes beyond advertising. The accounting suggested here is going to be used as support for future positions that will end up expensing <u>all</u> intangibles. In short, a significant accounting issue is being decided with little input.

I believe the proposed position is being adopted because of real or perceived *auditing* problems, not because this is good financial reporting. AcSec itself, in Para. 49 states that "there must be some economic benefit to advertising activities . . .because entities incur incremental costs to undertake them [the benefits]." To me this is self-evident and persuasive. Can anyone argue that advertising does *not* provide at least anticipated benefits?

If so, we are left with the rather feeble excuse in Para. 50 that "future benefits...are not demonstrable or measurable *with the degree of precision required* [emphasis added] to recognize an asset." Has AcSec made any studies as to whether the benefits of advertising are demonstrable or measurable with a required degree of precision? I suggest we contact the American Association of Advertising Agencies. Perhaps they are aware of such studies. If this has never been researched, I am fairly confident AAAA would be interested in helping sponsor research, since in one sense they have a vested interest in demonstrating the "benefits" of advertising.

Lou, we are an association of Management accountants. Let us not have the ease of auditability controlling an accounting issue, an issue which has far-reaching implications for every company which advertises. I know it is *easier* for every one to expense advertising, and all intangibles for that matter, as they are created. But look at the fight in Congress on taxation of Goodwill and all other intangibles. The companies arguing for tax deductibility should, at least in theory, be opposed to AcSec's proposal. Have they been heard from?

I know that this train has a full head of steam and is virtually chugging out of the station. My comments, and perhaps even MAP's views, may have little impact. This remains, however, a truly pervasive issue, one which deserves serious analytic input, something I have not seen so far.

Please forward this to the MAP subcommittee right away, and to the full membership prior to the next meeting in September.

Very truly yours,

Alfred

Alfred M. King

cc. Julian Freedman, IMA
Joel Tanenbaum, AICPA

map.adv

Golf Hosts, Inc.

Post Office Drawer 1088
Tarpon Springs, FL 34688-1088
(813) 942-2000

(2)

RICHARD S. FERREIRA
Executive Vice President

July 10, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed SOP-Reporting On Advertising Costs

Dear Mr. Tanenbaum:

We have reviewed with interest the June 22, 1992 exposure draft on the captioned matter. We find it to be thoroughly researched and are in agreement with its substantive conclusions. However, we call to your attention a specific aspect that may not have been considered.

Specifically, there are sales practices concerning media placements for products that are available only on a defined seasonal basis, which may more appropriately require that related advertising costs be reflected either in the first reporting period during which such seasonal product becomes available, or be amortized over the duration of such seasonal period. More particularly, the hospitality industry customarily places media advertising for seasonal products as much as 90 days in advance of the defined availability period for such product.

For example, at Innisbrook, a conference-golf resort, our high season, which commences during January each year, is heavily advertised during the last quarter of the preceding year. What we suggest be considered is the proposition that media advertising for discrete products or pricing periods is most appropriately reflected in P & L either at the beginning of such discrete period or amortized during such period.

Your consideration is most appreciated.

Very truly yours,

Richard S. Ferreira

RSF:ca

cc: A. Stephen Herzog, Vice President & Controller

RCV'd 8-17

3

CHARTER MEDICAL CORPORATION

JOHN R. DAY
Vice President-Controller

August 12, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

I am writing to comment on the exposure draft of the proposed Statement of Position on reporting on advertising cost which was issued on June 22, 1992.

I believe the cost of yellow page advertising should be capitalized and amortized over the life of the directory, usually one year. This would provide a better matching of the cost to the period benefited similar to the accounting for prepaid insurance or prepaid rent. In my business, we track the phone calls and hospital admissions based on media sources, including yellow pages. We can use this data to prove that yellow page advertising benefits the Company over the life of the directory.

I appreciate the opportunity to comment on this proposal. Please call me if you have any questions regarding these comments.

Sincerely,

John R Day

JRD:ja

cc: Larry Drinkard
Howard McLure

P. O. BOX 209 • 577 MULBERRY STREET • MACON, GEORGIA 31293 • (912) 742-1161

Rcv'd 8-24-

4

The Knoll Group
Water Street
P.O. Box 157
East Greenville, PA 18041
Tel 215 679-7991
Fax 215 679-3904

Knoll

August 21, 1992

Robert DeAngelis
256 Barnsbury Road
Langhorne, PA 19047

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 4322
AICPA, 1211 Avenue of the Americas
New York, NY 10036-8975

Dear Mr. Tanenbaum:

What would be the treatment in an interim period? As long as the cost is expensed by the end of the year, can you continue to amortize all advertising costs during the year?

Sincerely,

Robert DeAngelis

Robert DeAngelis

lmv

Rcv'd 8-24-92

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McDonald's

McDonald's Corporation
McDonald's Plaza
Oak Brook, Illinois 60521
Direct Dial Number

August 17, 1992

Mr. Joel Tanenbaum, CPA
Technical Manager
Accounting Standards Division, File 4322
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum,

We recently read the exposure draft of the proposed Statement of Position - Reporting on Advertising Costs - dated June 22, 1992 and have two comments.

First, regarding paragraph 25 on which you specifically asked for comments, we believe that the costs of producing advertising are an integral part of the advertisement and should be treated as a prepaid. Since many of our commercials run over an extended period of time, it would be best to amortize these production costs over the period during which the commercial airs, as this is when the benefit is received. Also, this treatment would be consistent with the proposed accounting for billboard costs as described in paragraph 27 of the SOP, where the costs are amortized over the expected useful life of the billboard. To expense the cost of a commercial when it is run the first time would result in a mismatch of costs with revenues. Therefore, we suggest that paragraph 27 be expanded to include the costs of producing commercials as an example of items that could be deferred.

Second, as discussed in the excerpts from paragraphs 15 and 16 of APB Opinion No. 28 in the Appendix, we agree that annual advertising costs should be allocated among interim periods based on an estimate of the benefits received within each period. However, the proposed SOP specifically would require these costs to be expensed immediately or at first showing. We believe this could lead to serious distortions of quarterly earnings depending on air dates or spending patterns.

Please feel free to contact me at (708)575-7563 if we can be of any further assistance to you on this project.

Sincerely,

McDONALD'S CORPORATION

Michael D. Richard

Michael D. Richard
Assistant Vice President & Controller

MDR/bn

6940r/3

Rcv'd 9-8-92

6

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Richard D. Johnson, CPA
Auditor of State

September 4, 1992

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 4322
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed Statement of Position, "Reporting on Advertising Costs"

Dear Joel:

I have reviewed the proposed Statement of Position on advertising costs. Based on that review, there are two areas that I would like to comment on. The first is that I do not believe that direct-response advertising costs should be capitalized and the second is that advertising costs should be expensed as incurred without the option to delay expensing those costs until the first time the advertising takes place.

Direct-response advertising appears to qualify for capitalization rather that direct expensing only because there is historical evidence to track the results of specific advertising rather than because of any significant differences in the advertising itself. As noted in paragraphs 32 and 33, this historical evidence by itself is not sufficient to warrant capitalization of these costs. The factors to be considered in determining whether this historical evidence is still applicable appears to be highly subjective. A lack of historical evidence would also preclude entities which are newly established or which have not used significant direct-response advertising in the past from utilizing the same accounting treatment for the same costs as could other entities.

Entities do not incur costs without expecting some benefit in return. Those costs may be advertising, employee training, research and development, or numerous other costs. The future benefits of these costs are not generally recognized in financial statements, at least partly because the specific future benefits are not documentable. It seems inappropriate to single out a particular cost for capitalization, and only for particular entities, only because there is some historical evidence of future benefit which must still be evaluated for current relevance according to highly subjective factors. Consistent treatment and comparability between entities would be enhanced if capitalization of direct-response advertising costs were not permitted.

In considering when to expense advertising costs, I believe one must consider whether there is sufficient reason to defer expensing until the first time the advertising takes place rather than when costs are incurred. I have to conclude that there is not sufficient reason. After considering that the vast majority of entities which advertise probably have a continuous advertising program, there appears to be little reason to defer the expensing of advertising costs until the first time the advertising takes place and thereby provide different expense recognition criteria than for most other expenses. I encourage AcSEC to promote comparability of expense recognition among reporting entities by eliminating the option to delay the expensing of advertising costs until the first time the advertising takes place.

I hope this discussion will be of assistance.

Sincerely,

Richard D. Johnson

Richard D. Johnson

Rcv'd 9-10-92

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Colorado Society of
Certified Public Accountants

September 8, 1992

Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 4322
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

The Private Company Practice Committee of the Colorado Society of CPAs concurs in general with the proposed Statement of Position "Reporting on Advertising Costs" with the following specific comments:

> The Statement and its accompanying discussion regarding amortization of capitalized advertising costs, did not clarify whether straight-line amortization would be an acceptable alternative to the ratio method proposed in the statement. We believe that the Statement should address the acceptability of straight-line amortization. In consideration of smaller entities with limited accounting staff, the use of straight-line amortization would be a simple, straight forward calculation that would be useful and approximate the same effect of a more complex calculation.
>
> The criteria for determining which costs to capitalize are not specific in nature, and could result in a wide variance in practice. The terms "persuasive" and "high degree of correlation" may be interpreted quite differently and may yield quite dissimilar results in similar situations. The lack of specific guidance will also pose additional challenges to auditors and to smaller entities. Perhaps some practical examples could provide some additional guidance as to what ACSEC believes is "persuasive" and has a "high degree of correlation". Also the Statement appears to penalize new and smaller entities which have not developed an actual history of responses. Further guidance on these issues would assist such entities in developing the appropriate systems and records to develop suitable statistics for complying with the Statement.

77[illegible] E. B[illegible]eview Ave., Bldg. 46B, Englewood, Colorado 80111-2615
[illegible]03/77[illegible]-2877 [illegible]00/523-9082 FAX 303/773-6344

Thank you for your attention to our recommendations and we appreciate the opportunity to comment.

Sincerely,

David G. Gracey

David G. Gracey, CPA, Chairman
Private Company Practice Committee

South Carolina Association
of Certified Public Accountants
570 Chris Drive
West Columbia, SC 29169
(803) 791-4181

Rcv'd 9-14-92

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August 17, 1992

Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 4322
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

The Technical Standards Committee of the South Carolina Association of Certified Public Accountants has reviewed the Exposure Draft of the proposed Statement of Position entitled "Reporting on Advertising Costs." We believe the proposed SOP will provide useful guidance and have no objection to its issuance in present form.

Although we have no real objection to any part of the exposure draft, we would like to make one suggestion. At least a summary of the guidance in paragraph 66 of the exposure draft might be included in an earlier paragraph. For example, paragraph 40 might include the following sentence:

> "The shorter the period over which the benefits of direct-response advertising are expected to be received, the more reliable will be the accounting estimates with respect to amortization of the direct-response advertising costs."

Thank you for the opportunity to comment.

Yours truly,

James W. Litchfield

James W. Litchfield, CPA
Chairman, Technical Standards Committee
South Carolina Association of
Certified Public Accountants

JWL:TMB

cc: H. McRoy Skipper, CPA
Lollie B. Coward, SCACPA

Rcv'd 9-17-92

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MEPC

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 4322
AICPA, 1211 Avenue of the Americas
New York, New York 10036-8975

September 11, 1992

Re: SOP, Reporting on Advertising Costs

Dear Mr. Tanenbaum;

I am writing in response to the newly issued exposure draft on advertising costs.

MEPC is a national real estate company engaged in the development and management of office, retail and industrial projects. While we generally do not use mass media type advertising, we do employ certain other business promotions that appear to fall under the SOP. I am asking for your consideration of these items in your final statement.

When a real estate development or major renovation is completed, it is normal within the industry to have grand opening promotions or special events. These may be for the sale of units (e.g., a condominium project) or for leasing. Although I believe the following discussion applies to both, I am addressing only the leasing of real estate projects.

Depending on the size of the project these promotions will range from informal parties or special events where real estate brokers or prospective tenants attend to extensive media advertising and huge gala affairs where entertainment is provided and events may last for several days. In all of these situations the intent is to announce to the public the completion of the new project and to attract tenants and/or shoppers, if it is a retail development. Leasing plans and general leasing information sheets are typically distributed, but again the focus is more on the intangible aspect of promoting the new project.

I believe that the real estate industry generally capitalizes these costs, either into the cost of the building and depreciated over the life of the building or into some type of grand opening or leasing cost account and amortized over the average life of the project's leases. Based on FASB No. 67, this is generally speaking, a supportable practice. However, it would appear that the new SOP would explicitly require that they be expensed during the

MEPC American Properties Inc.
15303 Dallas Parkway • Suite 400 LB 5 • Dallas, Texas 75248 • (214) 980-5000 • Fax (214) 980-5092

period of the event. This conclusion is based on my analysis that this type of activity falls within the scope of the SOP, and that the activity does not meet the criteria of a "direct response advertising" or if it did, it would lack the persuasive evidence needed to demonstrate probable future benefit. If that is the intent, it would be helpful if the statement clarified this apparent conflict with FASB No. 67.

However, if the thought is that these types of grand opening or initial promotions are unique or do not constitute advertising as defined in the SOP and therefore the accounting treatment is different, then clarifying that FASB No. 67 still applies would also be helpful.

I believe that there is a distinction between advertising and business promotion for the introduction of new products, such as a new shopping center, and continuing advertising for an establish product. This is particularly true for real estate projects, as grand opening costs are an integral part of the development and the eventual success of a project. The benefit period is longer and quite clearly associated with the benefits of the projects initial lease up. Furthermore, since these amounts are typically disproportionate to the first year's (or for that mater, any year's) operating results, requiring that these grand opening costs be expensed in a single period would unfairly distort that year's P&L. Capitalization would more properly match the outlay with the future benefit and eliminate a huge loss in the first year of operation. As with any long-term asset, should the project not be successful, impairment analysis would be required.

I fully understand that this position may run counter to the proscribed accounting for other formation costs (e.g. research and development, computer software) and you may take a similar position that these expenditures should be expensed. Again, I would ask that this position on grand opening or other product introduction costs be clarified.

Sincerely,

Howard Garfield
Vice President

HG:kks

Rcv'd 9-18-92

10

William Daniel McCaskill
618 7th Avenue East
Covington, Louisiana 70433
504-893-6888

September 11, 1992

Mr. Alex Suffrin, Staff Liaison
Society of Louisiana CPA's
Accounting and Auditing Standards Committee
2400 Veterans Blvd, Suite 500
Kenner, La. 70062-4739

Dear Al,

Please consider the following my response to exposure drafts as follows:

800032 Advertising Costs

I disagree with the conclusion in paragraph 25 that only certain direct-response advertising costs should be considered an asset. I believe the definition of an asset in paragraph 14 includes many types of advertising. Paragraph 12 refers to new technology enabling better estimates of future economic benefit.

800033 -- Recision of APB Statements

I agree with the document completely. Eliminate any clutter from this profession that we can. Paragraph 10 is very good.

Sincerely,

Rcv'd 9-18-92 SEP - 9 1992

EXPOSURE DRAFT
PROPOSED STATEMENT OF POSITION

11

FILE 800032

REPORTING ON ADVERTISING COSTS
JUNE 22, 1992

NAME AND AFFILIATION: Member of Accounting and Auditing Standards Committee for the Louisiana Society of Certified Public Accountants
Lindsay J. Calub, 504-586-8866

PARAGRAPH #	
1 - 13	Informational - no comment.
14 - 23	Good guidance
24	No comment
25	The costs of advertising should be expensed as incurred versus the first time the advertising takes place. It is my opinion that advertising costs should not be capitalized since future benefits are not measurable with the degree of precision required to report an asset in the financial statements.
26	No comment
27	It is agreed that tangible assets such as billboards or blimps should be capitalized since these items can be reused in the future.
28 - 36	See comment for paragraph 25.
37 - 39	Good guidance.
40 - 42	See comment for paragraph 25.
43 - 44	Good guidance if no changes are made with respect to previous items.
45	Good guidance.
46	Informational - no comment.
47	Good guidance.
48 - 49	See comment for paragraph 25.
50	Good guidance that entities should expense the costs of advertising that would otherwise not be capitalized under the SOP.
51	Informational - no comment.
52	Strongly agree that for most advertising future benefits are not measurable with the degree of precision required to report an asset in the financial statements.
53 - 72	Informational - no comment. See comment for paragraph 25 and 52.
APPENDIX	No comment.

RCV'd 9-18-9_

(12)

SEP - 2 1992

COMMENTS ON THE EXPOSURE DRAFT

Proposed Statement of Position

Reporting on Advertising Costs

Name: Deborah R. Zundel

Affiliation: Member, Accounting and Auditing Standards Committee

Comments: I have read the SOP and I believe that the costs of advertising that would otherwise not be capitalized under the SOP should be expensed when the advertising first takes place. This will enable the expense to be related to the revenues recognized. An entity cannot benefit from the costs of advertising activities until the advertising occurs.

Rcv'd 9-1.

13

J. M. FRIED, JR.
7444 JADE STREET
NEW ORLEANS, LOUISIANA 70124

Telephone (504) 282-0821

July 22, 1992

JUL 24 1992

TO: Accounting and Auditing Standards Committee, SLCPA

FROM: J. M. Fried, Jr. JMF

RE: Comments on Proposed Statement of Position - Reporting on Advertising Costs

General

I question whether a pronouncement of any kind on "Reporting Advertising Costs" is either necessary or advisable:

a. It seems to me that the definition of "asset" in FASB Statement No. 6, paragraph 25, clearly indicates whether expenditures for advertising result in the acquisition of an asset and that there is sufficient general guidance as to how any such asset should be amortized.

b. Paragraphs 1 and 2 of the proposed SOP states that the reason AuSec developed the exposure draft is to facilitate its agenda item project of "reporting the costs of activities as advertising, preopening, start-up, training, customer acquisitions, and similar activities . . ." These paragraphs indicate that the project is expected to result in broad guidelines that would aid in resolving issues relative to such activities. Maybe broad guidelines are needed but the exposure draft goes far beyond "broad" guidelines and would not in any way be a first step in a project to develop "broad" guidelines.

Paragraphs 25-27

1. The proposed SOP does not consider that different elements of advertising expenditures might be accounted for differently. For expample, most advertising has at least two elements - production costs and media costs. It seems logical that a reasonable estimate can be made of the future benefit of production costs and that such costs should be recorded as an asset if they are going to used in future advertisements. It is difficult to determine the benefit period a particular advertisement and, accordingly, there is a strong case for expensing media costs at the time the advertising takes place. For example, payments to actors and actresses and other production costs might be incurred for an advertisement to be presented numerous times in the future using various media. The production costs should be amortized (not necessarily on a straight-line

JUL-27-92 MON 09:55 504 460 7070 P.02

basis) over the planned number of uses. The media costs should be expensed when the advertisement takes place.

2. AcSec specifically requests that comments include a preference between expensing advertising (1) as incurred or (2) the first time the advertising takes place. Of the two alternatives, the second is the only one of the two that has any resemblance of matching expense with revenue. Certainly no revenue received before the advertising takes place can be associated in any way with the advertising. However, as discussed in the paragraph above, I do not believe that either of these alternatives is desirable.

RCV'd 9-18-9

(14)

SW M&L

Schooler, Weinstein, Minsky & Lester, P.C.

Certified Public Accountants

325 MERRICK AVENUE, EAST MEADOW, NEW YORK 11554-1560 · TEL. (516) 794-2323 · FAX (516) 794-9224

AICPA ACCOUNTING STANDARDS 9/16/92
MR. NORMAN N. STRAUSS
RE: ATTACHED ARTICLE ON ED FOR REPORTING ON ADVERTISING COSTS

HAS OUR BATTLE CRY BECOME "LETS MAKE EVERYTHING UNIFORM EVEN IF ITS UNIFORMLY INCORRECT"?

THERE IS NO REASON WHY ADVERTISING EXPENSE CAN NOT BE PREPAID IF THE PUBLICATION AND/OR MEDIA IT APPEARS IN IS CHRONOLOGICALLY VIEWED BY THE PUBLIC LONG AFTER THE SPONSORING ENTITY HAS CLOSED ITS BOOKS & RECORDS. MOST TRADE PUBLICATIONS BILL FOR ADVERTISING LONG BEFORE IT APPEARS IN THE PRINTED MEDIA.

WHAT EVER HAPPENED TO MATCHING REVENUES WITH RELATED COST BENEFITS? OR FOR THAT MATTER ACCRUAL ACCOUNTING UNDER GAAP. IF YOU TREAT ADVERTISING EXPENSE ON A "AS INCURRED BASIS", (WHICH INCIDENTALLY SMELLS ALOT LIKE OCBOA CASH BASIS ACCOUNTING) WHY NOT DO THE SAME FOR OTHER HARD TO ACCOUNT FOR EXPENSES FOR THE SAKE OF UNIFORMITY?

VERY TRULY YOURS,
DONALD SPRINGER
ADMINISTRATIVE DIRECTOR

 14 (cont.)

value," "fair value," "active market" and "foreseeable future."

Moreover, the GAO recommended the use of regulatory accounting principles as a temporary measure to strengthen generally accepted accounting principles.

AICPA responds. American Institute of CPAs President Philip B. Chenok responded to the GAO report in a letter to Senate Banking, Housing and Urban Affairs Chairman Donald W. Riegle, Jr. (D-Mich.). Chenok said, "We are confident the FASB will consider the GAO's concerns in its deliberations. We share the regulators' belief that accounting rules should be set by the FASB. We do not agree with the GAO's view that as a 'temporary measure,' regulators should exercise their authority under the FDIC Improvement Act to prescribe regulatory accounting principles that are inconsistent with generally accepted accounting principles." (A fuller text of Chenok's letter can be found in Highlights, JofA, Aug.92, page 4.)

FASB 32, MADE OBSOLETE BY SAS 69, MAY BE RESCINDED

The Financial Accounting Standards Board proposed rescinding its Statement no. 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Positions and Guides on Accounting and Auditing Matters*, and its related pronouncements.

Statement no. 32 specifies that certain American Institute of CPAs statements of position and guides are preferable for justifying a change in accounting principles, as required by Accounting Principles Board Opinion no. 20, *Accounting Changes*.

However, FASB Project Manager Judith Noë explained, "the AICPA changed the hierarchy of generally accepted accounting principles with the issuance of Statement on Auditing Standards no. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*. She added that SAS no. 69, which spells out the accounting standards and guidelines that make up GAAP, makes FASB Statement no. 32 unnecessary.

Generally, SAS no. 69 requires entities to adopt the accounting principles in AICPA pronouncements effective after March 15, 1992.

If adopted as a final statement, the FASB proposal becomes effective immediately.

AICPA ISSUES ED ON ADVERTISING COSTS

The American Institute of CPAs issued an exposure draft of a Statement of Position, *Reporting on Advertising Costs*.

Under the ED's provisions, businesses and not-for-profit organizations would have to expense the cost of all advertising as incurred, except for certain direct response advertising that would be capitalized and amortized over its expected life. In issuing the ED, Norman N. Strauss, chairman of the AICPA accounting standards executive committee, said, "Currently, no uniform guidance exists for reporting advertising costs. As a result, capitalization and expense policies vary among companies, making it difficult to compare the results of operations."

Comments are due by September 21, 1992. To obtain copies of the ED (product no. 800032), write the AICPA order department, CL 692, P.O. Box 1003, New York, New York 10108-1003. The fax number is (800) 362-5066. The first five copies are free; additional copies cost $2.50 each.

500TH ANNIVERSARY OF DOUBLE-ENTRY BOOKKEEPING TO BE CELEBRATED

Preparations are under way to celebrate the 500th anniversary of double-entry bookkeeping.

The Institute of Chartered Accountants of Scotland (ICAS) will hold a day-long celebration in Edinburgh, Scotland, on March 3, 1994, to mark the publication of a treatise by Luca Pacioli (alas, not a Scot) offering the first description of the accounting method that changed the world. As the basis of all accounting transactions to this day, Pacioli's work, *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*, is regarded as a milestone in the development of Western civilization.

The celebration will be followed on March 4 by the Festival of Accounting, focusing on accounting technology and its impact on the profession.

The granting of the Royal Charter in Edinburgh in 1854 makes ICAS the oldest accountancy body in the world. ICAS also claims the distinction of having among its antiquarian book collection copies of both the first and second editions of Pacioli's treatise.

"We believe it is particularly appropriate for these events to be held in Edinburgh," said ICAS Vice-President Nigel Macdonald, a partner of Ernst & Young, "as we pride ourselves in being pioneers of the profession of accountancy."

For further information on the celebration and festival, contact Aileen Beattie, director, accounting and auditing, the Institute of Chartered Accountants of Scotland, 27 Queen Street, Edinburgh, EH2 1LA, Scotland. Telephone: 031 479 4853.

In the United States, the Pacioli Society will be planning pilgrimages, conferences and other special projects to mark the anniversary. For more information, contact the cochairs of the society's quincentennial committee, William L. Weis, CPA, and David E. Tinius, CPA, professors of accounting, Seattle University, Seattle, Washington 98122. (See their article, "Luca Pacioli: Renaissance Accountant," JofA, Nov.91, page 95.)

Government Accounting

GASB PROPOSAL ON LANDFILL COSTS

An exposure draft on accounting for solid waste landfill costs was issued by the Governmental Accounting Standards Board. The comment deadline is September 30.

continued on page 24

HFMA®
HEALTHCARE FINANCIAL MANAGEMENT ASSOCIATION
1050 17TH STREET, NW
SUITE 700
WASHINGTON, DC 20036
TELEPHONE 202/296/2920
FAX 202/223/9771

Rec'd 9/21
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September 21, 1992

Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

File 4322

Dear Mr. Tanenbaum:

The Healthcare Financial Management Association appreciates the opportunity to comment on the proposed statement of position on "...Advertising Costs." HFMA is an association of more than 30,000 individuals engaged in financial management of healthcare organizations. We have a special interest in this proposal because it impacts subjects also addressed by HFMA's Principles and Practices Board (P&P Board).

HFMA created the P&P Board in 1975 to address accounting and financial reporting principles and practices of concern to the healthcare field that are not adequately addressed in other generally accepted accounting principles (GAAP), and to apply GAAP to healthcare providers' special circumstances. Fourteen statements have been issued, including ones on continuing care retirement communities and risk contracts. These statements deal with subjects similar to those of two of AICPA's previously issued SOPs that will be affected by this proposal on advertising costs. Neither of these P&P Board statements mention advertising costs.

While the proposal's intent seems to be to restrict deferral of advertising costs, the effect is to open the door for deferral in cases where deferral was either specifically prohibited or prohibition was implied. For example, SOP 89-5 says advertising should not be deferred in relation to prepaid healthcare services (risk contracts), but the proposed SOP would permit deferral if a direct-response approach to advertising is used.

HFMA has not performed a detailed study of the issue. However, the opportunity to defer advertising cost related to continuing care retirement communities and risk contracts must be given careful thought. For example, such a change might encourage a shift in advertising strategy with undesirable

September 21, 1992
Page 2

implications to the objectives or programs of these organizations. Calculation of statutory reserve requirements could be affected. Such a change might suggest limitations on current recognition of advertising cost in tax calculations. There may be other results of the opportunity to defer certain types of advertising costs. All these factors need to be given careful consideration in adopting new guidelines that include a significant exception to a rule that seems to be designed primarily to restrict deferral of advertising cost.

If there are question about our response to this proposal or our views expressed in this letter, please call me or Ronald Kovener at (202) 296-2920.

Sincerely,

Wendy W. Herr
Vice President

RKG:ads.1

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CapitalHolding

Capital Holding Corporation
680 Fourth Avenue
Post Office Box 32830
Louisville, Kentucky 40232
502 560-2000

September 21, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322 AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

We are pleased to comment on the AICPA's proposed Statement of Position, *Reporting on Advertising Costs*, dated June 22, 1992 (the SOP). Over the years various accounting standards have been issued which, directly or indirectly, relate to advertising costs and require differing accounting recognition for similar business practices. This divergence in standards and in resultant accounting practices for advertising costs is inappropriate and has reduced the comparability of financial statements of companies in similar circumstances. For example, a company which uses direct-response advertising methods for the acquisition of new insurance policies can capitalize such costs to the extent they vary with and are primarily related to the acquisition of new business, as permitted by Statement of Financial Accounting Standards (SFAS) No. 60, *Accounting and Reporting by Insurance Enterprises*. However, the same company would be required to expense such costs if they related to the acquisition of new loans as required by SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. For these reasons we believe this is an important project, but to achieve the desired consistency in accounting standards and comparability in financial reporting, the issues need to be addressed by the Financial Accounting Standards Board.

However, if the AICPA proceeds with the issuance of the SOP, we believe the following revisions should be made:

> Scope: We do not agree with the decision to exclude from the scope of the SOP only those pronouncements "in category (a) in paragraph 5 of SAS No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted*

Accounting Principles in the Independent Auditor's Report" which specifically "provide such guidance" (paragraph 6). While SFAS No. 60 does not specifically provide guidance on advertising costs, it does provide guidance on accounting for acquisition costs. Under SFAS No. 60, "acquisition costs are those costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts." Direct-response advertising costs generally meet this definition and are therefore capitalizable and subject to the amortization, recoverability tests and disclosure requirements of SFAS No. 60 applicable to all acquisition costs. Further supporting this premise is the AICPA Audit Guide, *Audits of Stock Life Insurance Companies*, which indicates direct-response type advertising activities are acquisition activities. We believe the SOP should be amended to indicate it does not provide guidance for advertising costs which are deemed to be acquisition costs under SFAS No. 60 because they relate to the acquisition of new business with elements of an insurance contract.

Measurement and Recognition: We believe the fundamental principle that should drive the capitalization of advertising and advertising related costs is to match the expense of activities and costs that provide probable future economic benefit over the period of and in proportion to the expected benefit derived therefrom. Such advertising and advertising related costs should meet the recognition criteria of definition, measurability, relevance and reliability required in FASB Concepts Statement No. 5, paragraph 63. Such costs should also be variable rather than fixed costs, which are more appropriately reflected as period expenses. We therefore believe that it is inappropriate to arbitrarily exclude costs such as allocated administrative costs, rent, depreciation and other occupancy costs from the population of direct-response advertising activities to the extent they vary with and are primarily related to the production of new business. These costs can be incurred in such a manner that they are similar to the payroll and payroll related costs of a unit involved in the advertising activity. For example, a unit that produces artwork can be housed in a leased facility as opposed to a portion of a building owned. The cost of this leased facility may be as variable as the payroll and payroll related costs of the unit producing the artwork. We believe the SOP should be amended to apply to all advertising and advertising related costs that vary with and are primarily related to the production of new business.

Capital Holding

We appreciate the opportunity to present our comments and would be happy to discuss our views in greater detail. Please do not hesitate to call me at (502) 560-2179 or Earl Baucom at (502) 560-2109, should you care to discuss our comments and recommendations.

Very truly yours,

Steven T. Downey

Steven T. Downey
Second Vice-President and
Assistant Controller

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PROPOSED STATEMENT OF POSITION

REPORTING ON ADVERTISING COSTS

JUNE 22, 1992

Respondent: Jon Flair, LSCPA Accounting and Auditing Standards Committee

1. Par 25 states the rule of expensing advertising costs (other than direct response advertising) as incurred or the first time advertising takes place. I believe neither alternative is fully acceptable, and that such advertising costs should be deferred and expensed over the term of advertising, as discussed in Par 49. Such costs should be presumed to have demonstrable benefits at the time the costs are incurred, and at least over the term of the advertising; otherwise, they would not have been incurred. In addition, because such costs should be presumed to result in demonstrable benefits, it follows that these costs should not be expensed as incurred.

2. The appendix contains excerpts from several FASB statements regarding the treatment of advertising costs, some of which seem inconsistent (FASB 13, FASB 51, and FASB 91) with the others. There should be uniform guidance at this authoritative level.

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MARS incorporated

6885 Elm Street, McLean, Virginia 22101-3883

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Phone: (703) 821-4900
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September 18, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Comments on Proposed SOP for Advertising Costs

Dear Mr. Tanenbaum:

On behalf of Mars, Incorporated, we are submitting these comments on the Exposure Draft of the Proposed Statement of Position, Reporting on Advertising Costs, dated June 22, 1992 (hereafter referred to as the "SOP").

Mars is deeply concerned with certain sweeping assertions in the SOP which imply that all or most advertising provides future economic benefits. These broad assertions are not necessary to support any of the conclusions of the SOP, yet they could have an adverse effect on the debate over the proper tax treatment of advertising. To avoid the possibility of such an adverse effect on tax policy, these broad and ultimately unnecessary assertions should be stricken from the SOP or amended.

Background

The issue addressed by the SOP is whether advertising expenditures should be expensed or capitalized. The answer to this question depends upon whether advertising yields "probably future economic benefits." An item that yields such future benefits generally must be capitalized.

The SOP contains contradictory statements about whether advertising as a general matter yields such future benefits. On the one hand, the SOP appears to take the position that advertising generally does not provide such future benefits, and therefore should not be capitalized except in special cases, such as where the advertising is placed in a catalogue that itself has a useful life of greater than one year. However, in a few instances the language of the SOP suggests that all advertising provides future benefits.

The latter assertions are not required to reach any of the SOP's conclusions and appear to have been intended primarily to support the very limited exception that the SOP provides for direct-response advertising and other special cases.

Advertising: The Economic Reality

Almost any expenditure, including the purchase of a box of pencils, yields some future benefits in the sense that benefits arise after the expenditure is made. Thus, certain types of advertising can produce a benefit tomorrow or next week by encouraging consumers to try a product or service for the first time. However, capitalization is appropriate only when an appreciable stream of benefits is realized in a different accounting period significantly beyond the time at which an expenditure is made.

With rare exceptions discussed below, advertising does not produce the type of future benefits that require capitalization. Advertising is a short-lived information source which serves to enlighten or remind consumers of the satisfaction of using a particular company, brand, product or service, or which conveys information about prices and availability. Intangible assets that generate future sales -- such as goodwill or brand loyalty -- are often mistakenly attributed to advertising. In fact, such assets are not derived from advertising. Rather, they are the result of customer satisfaction with the quality and reliability of the product or service.

Such customer satisfaction is created by expenditures for R&D, technology, equipment, trained employees and the like. Such customer satisfaction is <u>not</u> created by advertising. Advertising only provides a short-term invitation to try a new product or service, a short-term reminder of prior satisfaction with a product or service, or short-term information about prices and availability. If customers are not satisfied with a product, no amount of first-rate advertising is going to create the stream of future sales often mistakenly attributed to advertising.

Thus, while a successful advertising plan can encourage many consumers to try a product or service once, advertising will not convert an unhappy customer into a loyal customer. A product which breaks down easily, doesn't fit well, doesn't taste good or otherwise makes a customer unhappy cannot be salvaged by advertising. The deficiencies of a stereo component which breaks down or a grocery item which tastes bad or an item of clothing which comes apart cannot be overcome by advertising. In short, no amount of information or glitz or big-name talent can generate long-term sales of a product or service which consumers do not like or want.

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By contrast, a product which the customer finds satisfactory is likely to be purchased again and again by that customer. It is the quality of the product which creates these future sales. Advertising serves the essential but secondary function of reminding customers of the quality which they have already found satisfactory. Thus, advertising is the "marker" which creates a short-hand summary for the customer of the quality which is associated with the company or a particular product or brand name. The summary may come in the form of specific information in an advertisement. Or, the mere mention of a company name or brand name may serve to trigger the customer's own mental summary. In fact, many advertising initiatives which appear to provide no specific information about goods or services are actually quite effective in forcefully reminding customers that they have tried and liked such goods and services.

Although as a general proposition advertising does not yield future benefits that warrant capitalization, there are a few discreet instances where advertising expenditures should be capitalized. For example, advertising expenditures that involve the creation or acquisition of tangible assets -- such as a billboard, catalogue, blimp or similar item -- may require capitalization because the asset has a useful life greater than one year.

Still, most advertising is a short-lived information source and can be divided roughly into three general categories. The first category -- new product advertising -- urges potential customers to try a product and is intended to generate interest, attention and sales now. The second category -- time-sensitive advertising -- seeks to convey information about a product or service such as a price reduction or limited availability. It also is intended to generate sales now. The third category generally seeks to convey a company's name, a brand name or general information other than new product or time-sensitive information. It is intended to remind satisfied customers of their satisfaction.

Faulty SOP Assertions About Advertising

Many of the SOP's assertions about advertising accurately reflect the economic reality of advertising. For example, paragraph 16 of the SOP quotes Appendix B of FASB Concept Statement No. 6, paragraph 248, for the proposition that "advertising services by themselves do not quality as assets" because they do not necessarily yield probably future economic benefits. Paragraph 64 of the SOP properly observes that the "response to advertising usually occurs shortly after the advertising takes place." Paragraphs 66 and 72 of the SOP correctly note that even in the case of direct-response advertising, which is cited as one of those rare instances where capitalization is appropriate, the benefits do not extend very far into the future, usually no longer than one year. Perhaps most importantly, the SOP arrives at the proper conclusion that advertising expenditures generally should be expensed.

In reaching this conclusion, however, the SOP also offers certain observations that are inaccurate. For example, paragraph 12 of the SOP states, "Advertising is undertaken to provide or increase future economic benefits." This statement, when taken together with the SOP's definition of a capitalizable asset as "probably future economic benefits," strongly implies that all advertising would be capitalizable but for some technical difficulty in measuring the future benefit attributable to advertising. This directly contradicts the economic reality of advertising, i.e., that advertising does not create the type of future benefits that warrant capitalization. The error is compounded by broad statements such as the one in paragraph 54 of the SOP to the effect that advertising "can create [capitalizable] assets".

Potentially Adverse Effect on Tax Policy

These inaccurate characterizations of advertising are dangerous because they could be taken out of context or cited to demonstrate that the AICPA supports the notion that advertising should be capitalized for tax accounting purposes. Since the mid-1980s, proposals have been made to change the federal income tax treatment of advertising to require capitalization of part or all of such expenditures. These proposals have been based principally upon the argument that advertising generally creates future benefits worthy of capitalization. Unless the SOP is changed, supporters of these tax proposals could use certain portions of the SOP language to demonstrate that the accounting profession agrees that advertising generally should be capitalized.

Conclusion

To prevent this misuse of the SOP, Mars recommends that inaccurate and overly broad assertions in the SOP be stricken or amended to reflect the true nature of advertising. Because these broad assertions are not necessary to any conclusions reached by the SOP, changing these assertions will not affect the integrity of the SOP.

Sincerely,

E. L. Bumstead
Vice President,
Accounting and Planning

V. J. Spitaleri
Vice President and
Treasurer

rec'd 9/21 19

The Rockefeller Group

Rockefeller Group, Inc.
1230 Avenue of the Americas
New York, NY 10020-1579
212 698 8500

September 18, 1992

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division File 4322
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Proposed Statement of Position, "Reporting on Advertising Costs"
(File Reference No. 4322)

Dear Mr. Tanenbaum:

We are pleased to submit our comments on the proposed Statement of Position (SOP) referred to above. We believe that its objectives are appropriate and that it will provide needed reporting guidance for practitioners. However, we urge the Accounting Standards Executive Committee (AcSEC) to further consider the following matters.

Guidance Concerning Advertising Methods

We believe that additional consideration should be given to companies that utilize advertising methods other than direct-response advertising. Specifically, we would like the AcSEC to readdress the treatment of advertising expenses incurred by entertainment companies that specialize in promoting/presenting entertainment performances. These companies frequently incur television, newspaper, and radio advertising expenses immediately prior to the presentation of the performance(s) and have been recognizing such costs over the period that revenues are earned. In our experience, advertising costs incurred in promoting entertainment performances have future benefits lasting beyond the first time the advertising takes place. These benefits are reasonably certain and are demonstrable with sufficient precision to be appropriately recognized as an asset until the actual presentation of the entertainment performance(s).

Matching of Expenses with Revenues

Once recognized as an asset, we believe these advertising costs can be better matched with revenues rather than expensed when incurred or the first time the advertising takes place (proposed SOP paragraph 25). Statement of Financial Accounting Concepts No. 5, "Recognition and Measurement in Financial Statements of Business Enterprises", paragraph 86a, states that upon the recognition of revenue, certain deferred costs directly related to that revenue will be expensed. Advertising costs incurred by entertainment companies prior to actual performances are directly related to the revenue produced by the event.

Paragraphs 11 and 15 of this proposed SOP indicate that the uncertainty of obtaining future benefits from advertising costs prevents matching these expenses with the resulting revenue. However, the revenue earned by certain entertainment companies is generally related to specific performance dates which generally occur during the accounting period immediately following the purchase of advertising. Therefore, related expenses are easily attributed to this income. We recommend that the proposed SOP allow advertising costs incurred by entertainment companies to be recognized over the period in which the future economic benefits are obtained.

AcSEC has further stated in paragraph 50 of the SOP that it believes that diversity in practice should be limited. While we agree with the AcSEC that diversity in accounting practices is an area of concern for financial statement users, we disagree with AcSEC's implicit conclusion that eliminating diversity in practice should take precedence over the concept of matching expenses with revenues.

Expansion of Scope

We believe that AcSEC should readdress its interpretation of Financial Accounting Standards Board (FASB) Statement No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films" and provide specific guidance in this SOP for the motion picture industry and other entertainment companies. As indicated in paragraph 67 of this SOP, FASB Statement No. 53 currently permits advertising costs to be capitalized and amortized over a period using a rational method. We believe that a rational method would include the amortization of such costs over the number of related performances. Therefore, the proposed reporting provisions set forth in paragraph 25 of this SOP result in a mismatching of revenues and expenses.

We would be pleased to discuss this letter with you at your convenience.

Very truly yours,

William A. Pond
Vice President - Finance and Controller

Dr Pepper/Seven-Up Companies, Inc.
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8144 Walnut Hill Lane, Dallas, Texas 75231-8144 • 214/360-7000

rec'd 9/21

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Myron L. Semrad
Controller

September 18, 1992

Mr. Joel Tanenbaum
Accounting Standards Division
File 4322, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

This letter is to serve as the response of Dr Pepper/Seven-Up Companies, Inc. ("Company") to the exposure draft of an AICPA proposed statement of position ("SOP"), Reporting on Advertising Costs.

Paragraph 25

It is the Company's position that the context of this paragraph does not provide for the proper matching of revenues and expenses. We believe that whether or not advertising is direct-response advertising, the costs incurred should be amortized/charged to the period(s) expected to be benefitted (not to exceed one year). Following is the Company's position relative to accounting for certain categories of advertising costs.

Television/Radio

Commercial Production costs - amortize on a straight-line basis during the periods in which the related commercials are aired. Commercial production costs represent future economic benefits as they are utilized over an annual advertising schedule.

Air Time - expense as incurred.

Other

Newspaper - expense as incurred.

Billboard - cost should be expensed over the periods in which the signage remains in place.

The Company does not believe that either alternative proposed in paragraph 25 should be required to the exclusion of the other. Rather, we feel that the underlying factors pertaining to various types of advertising expense should be reviewed in determining the accounting period to which advertising costs should be charged. This methodology should be consistently applied between accounting periods.

We appreciate the opportunity to comment on this exposure draft.

Sincerely,

Myron L. Semrad

Myron L. Semrad

MLS:clm

cc: M. Buiter
I. Rosenstein
Harvey Zimmermann

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(21)

PHILIP MORRIS

COMPANIES INC.

120 PARK AVENUE, NEW YORK, N.Y. 10017-5592 · TELEPHONE (212) 880-5000

September 21, 1992

Mr. Joel Tanenbaum
Technical Manager, Accounting Standards Division
File 4322
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

We appreciate the opportunity to respond to the Exposure Draft on Proposed Statement of Position, Reporting on Advertising Costs (the "SOP"), prepared and released by the Accounting Standards Executive Committee ("AcSEC") in June 1992.

AcSEC has identified two primary issues with respect to the accounting for and reporting of advertising costs, namely : (1) whether advertising costs should be expensed as the liability is incurred or expensed the first time the advertising takes place and (2) whether direct-response advertising costs should be capitalized. Our comments with respect to these and other issues follow.

Method of Expense Recognition

At present, AcSEC has tentatively concluded that "the costs of advertising should be expensed either as incurred or the first time the advertising takes place, unless the advertising is direct-response advertising and results in probable future economic benefits (future benefits)" [paragraph 25]. Our preference would be to expense advertising costs as they are incurred. Advertising activities are conducted to create and continually promote brand image, ultimately resulting in or stimulating a consumer's desire to buy our products. Furthermore, for Philip Morris, the period over which future benefits would generally be derived is short, and, clearly, no useful purpose would be served by capitalizing such costs.

However, regardless of our preference, we believe, like AcSEC, that the difference between accounting for advertising costs on an "as incurred" basis versus the first time the advertising takes place would be negligible and the administrative costs of altering bookkeeping methods to conform to one prescribed method would not result in a noticeably improved accounting or reporting of advertising costs.

<u>Capitalization of Direct-Response Advertising</u>

Regarding the second issue, we disagree with the proposed accounting in paragraph 25 of the SOP to capitalize, and amortize over the estimated benefit period, the costs of "direct-response" advertising. In our opinion, the future economic benefits of direct-response advertising - or of any advertising - would not qualify as assets as defined in Statement of Financial Accounting Concepts ("SFAC") No. 6, <u>Elements of Financial Statements</u>. Specifically, regardless of past advertising successes, engaging in advertising activities alone does not afford an entity the ability to control others' access to those future benefits, nor are those future benefits measurable or certain of occurring with sufficient reliability. For instance, recent economic conditions have significantly heightened the need for varied advertising campaigns, promotions and other consumer incentives, but participating in these activities does not guarantee a timely occurrence of revenues or future benefits.

Measurability and uncertainty are issues critical to asset recognition and warrant further discussion. In our opinion, the quantification of "future benefits" with an adequate degree of precision is neither practical nor reliable. Due to the timing of our offers, receipts of proofs of purchase, and the preferences of brand-loyal consumers, it is very difficult to determine the extent to which future economic benefits result from an individual promotion. Redemption patterns and fulfillment periods vary by offer. Similarly, the identification of incremental volumes resulting from specific advertising campaigns is also difficult. Unresolved issues with respect to uncertainty (paragraph 15), in our view, provide support for the immediate recognition of advertising costs. While the intent of advertising is unquestionable, a demonstrable relationship between advertising expenditures and related future benefits generally remains doubtful - particularly when advertising is provided on a continual basis and assessments of future economic benefits are plagued by timing and measurement issues.

Other

In addition, we have the following specific comments which cover a variety of topics presented in the SOP, including cost/benefit considerations, the proposed definition of the costs of direct-response advertising, the proposed accounting for sponsorship events, guidance on amortization periods, and bookkeeping difficulties.

- The documentation costs of demonstrating that a "customer responded to specifically identifiable direct-response advertising" would not be justified by the benefits derived from the proposed changes in accounting. Accordingly, we suggest that footnote eight of the March 16, 1992 draft, which discusses the costs/benefits of documentation, be reinstated in its entirety to paragraph 28 of the current draft SOP.

- Paragraph 38 indicates that the costs of sponsoring events should be expensed over the period that the sponsorship is exploited. This may suggest that sponsorship expenses should be capitalized until the event occurs. Because brand recognition is received over a period, we believe that the appropriate accounting is to recognize advertising costs as the costs are incurred. We would encourage AcSEC to either clarify or reconsider this position.

- Paragraphs 40 and 41, which briefly describe the amortization of capitalized advertising costs, could include additional specific guidance on the acceptable methods of identifying and determining the appropriate amortization periods.

- The segregation and separate recordkeeping of direct- and non-direct-response advertising costs, as currently proposed, would require substantial administrative and bookkeeping efforts, which, due to the imprecise nature of the proposed accounting, would yield no discernible benefits (paragraphs 36 and 40-42).

Disclosures

As stated earlier, our preference would be to expense advertising costs as they are incurred, and, as such, do not believe that disclosures on policy are necessary. Also, the last proposed disclosure in paragraph 44, which would disclose amounts capitalized in the current period that would not have been capitalized in prior periods, should not be required. We understand the need for comparability of financial information, but we believe that this disclosure would effectively communicate amounts eligible for retroactive capitalization, which is expressly prohibited in paragraph 34.

Conclusion

In summary, we support the expensing of advertising costs as incurred. Uncertainty and measurement issues are significant obstacles, and in our opinion, should preclude asset recognition.

Finally, we would like to emphasize that, regardless of the SOP's intent, this document will be looked to as relevant guidance (especially in light of the recent elevation of SOPs in the GAAP hierarchy) by all entities that engage in activities to create future economic benefits through the development of intangible assets, and by other interested parties. While we appreciate AcSEC's desire to improve the financial reporting process, we are very concerned that harmful and objectionable precedents are being established . Therefore, we urge your extreme caution and, once again, thoughtful deliberation in the completion of this project.

If you have any questions on our comments, we would be pleased to discuss them with you.

Very truly yours,

H. G. Storr

Hans G. Storr
Executive Vice President and
Chief Financial Officer

INSTITUTE OF MANAGEMENT ACCOUNTANTS
10 PARAGON DRIVE
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September 21, 1992

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 4322
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

The Management Accounting Practices (MAP) Committee of the Institute of Management Accountants is pleased to offer its comments on the June 22, 1992, Exposure Draft, "Proposed Statement of Position, Reporting on Advertising Costs."

<u>Paragraph 8</u>
The scope of the Proposed SOP includes, under paragraph 6, annual financial statements. The MAP Committee understands that it is reasonably common for enterprises to employ accounting methods that adjust for seasonality but are adjusted at year end. The Committee believes that these seasonal approaches should be evaluated on their individual merits. We believe that interim accounting should be excluded explicitly from the SOP, and recommend language to that effect in paragraph 8.

<u>Paragraph 11, first bullet</u>
This bullet makes what appears to be an unsupported and unnecessary assertion about presumptions of financial statement preparers; the MAP Committee recommends that it be removed as unnecessary. The Committee is unaware of evidence indicating widespread preparer consideration of any sort about these benefit periods.

<u>Paragraph 25</u>
The MAP Committee understands AcSEC's inability to reach consensus on the alternatives in paragraph 25, and encountered similar difficulty in its deliberations. The AcSEC solution, permitting companies to select and disclose their method, is a resonable position and the MAP Committee believes that it should be adopted in the final SOP.

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The MAP Committee believes that there are circumstances in which neither of the alternatives in paragraph 25 provides the most logical recognition of cost. One example is shipments of product to distributors in advance of a committed advertising campaign. The Committee believes that recognition of the advertising commitment concurrent with the product sales is appropriate, but observes that such accounting would be prohibited by paragraph 25. The MAP Committee therefore believes that the first sentence of paragraph 25 should be revised to read as follows:

> The costs of advertising should be expensed either <u>(a) no later than</u> as such costs are incurred, or <u>(b) no later than</u> the first time the advertising takes place....(changes underscored).

<u>Paragraphs 26 and 43</u>
(editorial) It is appropriate to select <u>between</u> (not "among") alternatives.

<u>Paragraph 27</u>
It is unclear why brochures are relevant "beyond a single advertising campaign."

It is also unclear, having concluded that brochures are prepaid supplies, how one should account for such supplies.

The MAP Committee believes that the SOP should clarify that brochures should be charged to expense <u>no later</u> than the date on which they are used.

<u>Paragraph 32-33</u>
The MAP Committee does not find persuasive the arguments in paragraph 33 that restrict the experience base to the "specific entity."

At one extreme, an entity that acquired a well-established direct-reponse product line (as opposed to acquiring the entity to which the product line belongs) seems to be prohibited from cost capitalization.

Similarly, a start-up entity with market research sufficient to attract venture capital would be barred from capitalization, even though those market data were sufficiently persuasive to cause an independent party to invest in the enterprise.

The MAP Committee believes that measuring and reporting similar direct-response campaigns should be similar. We believe that sufficiency of data should be judged by applicability to the costs in question, not the identity of the enterprise from which the experience was gathered. Thus, we would be willing to accept relevant, qualifying industry statistics, and would remove the restriction against use of data not generated by the entity.

Institute of Management Accountants • 10 Paragon Drive • Montvale, New Jersey 07645-1760 • (201) 573-9000

Paragraph 39
Consider a one-time payment by, say, Converse(tm) of $25 million to, say, Larry Bird in exchange for which Larry commits to wear Converse(tm) every time he steps onto the court for the next 100 years. Surely that payment should be amortized over less than "that period of time" (100 years?) and should be subject to an impairment test for events like retirement or career-ending injuries. The Committee notes that the impairment test in paragraph 42 relates only to direct-response advertising, and thus, as written, does not apply to activities addressed in paragraph 39.

Paragraph 41
Acknowledging that the basis for the amortization method in paragraph 41 is conceptually sound, the MAP Committee would endorse conforming that approach by setting a straight-line minimum so that it is entirely consistent with Statement No. 86. The basis of the SOP's proposal, that benefits of advertising are sometimes greater in future than in current periods (par. 71), is surely as true for SFAS No. 86 software costs; the proposed position causes the MAP Committee concern about different amortization practices for similar events.

Paragraph 72, the basis for the paragraph 41 position, contains the following statement:

> Under current generally accepted accounting principles (GAAP), the future benefits of direct-response advertising are not monetary assets, and discounting therefore should not be used.

The MAP Committee agrees that discounting would not enhance the presentation of advertising costs in financial statements.

However, the Committee believes very strongly that the conclusion as stated in the cited sentence of paragraph 72 is inappropriate for this SOP. The MAP Committee observes that

- the statement is incorrect (under SFAS No. 97, acquisition costs, nonmonetary assets, are amortized on an interest method);

- discounting is currently the subject of an active FASB project and that project should be referred to in the SOP; and

- the most compelling reason for the SOP position, immateriality, is sufficiently made in the last sentence of paragraph 72.

We note that SFAS No. 86, the conceptual precedent for the amortization accounting to which paragraph 72 relates, makes no reference to discounting. That reference is not needed in the SOP.

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Paragraph 44, bullet 5
The MAP Committee believes that the disclosure criteria for this bullet are likely to be susceptible to widely differing interpretations, may be very costly to implement as the disclosure requires reconstruction of data that may not have been retained, an will provide data that are of no appreciable use. If the SOP's accounting approach is correct, results should not require restatement at a later date. Thus, the Committee believes that this disclosure should be eliminated.

Paragraph 45
The MAP Committee questions the SOP's presumption that enterprises will be unable to determine the cumulative effect of adopting this SOP. MAP urges AcSEC simply to adopt familiar provisions of APB No. 20, perhaps by reference thereto, and to permit each reporting enterprise to determine practicability of determining the cumulative effect.

The MAP Committee will be pleased to respond to any questions that AcSEC may have on the positions stated herein.

Sincerely,

Stanley A. Ratzlaff (11)

Stanley A. Ratzlaff
Chairman
Management Accounting
Practices Committee

SAR:11

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J. Michael Kelly
Vice President - Controller

GTE

GTE Corporation

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23

September 18, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

GTE appreciates the opportunity to respond to your request for comments on the proposed Statement of Position ("SOP"), "Reporting on Advertising Costs".

We support the action taken by the AICPA in attempting to clarify the accounting for advertising costs. We believe that, because of the divergence in practice in accounting for advertising costs, there is a need for additional guidance. However, we do not completely agree with the proposed accounting.

We generally agree that advertising costs in most instances should be expensed as incurred. However, we believe that the proposed standard, in providing an exception for only direct response advertising, is too restrictive, and fails to recognize that other types of advertising costs under certain circumstances may also result in identifiable future economic benefits, and thus qualify for deferral. The AICPA's proposal that the documentation to support the future economic benefits derived from the advertising expenditures must be in the form prescribed by the SOP appears to reject the premise that various other objective means of support exist. Although direct-response advertising certainly provides strong identifiable support via a coupon or response card, we feel that there are other instances in which a stream of revenues that directly corresponds to an advertisement can be identified.

FASB Concepts Statement 6 defines assets as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events". Pursuant to that definition, it is our opinion that certain costs, including advertising costs, can be deferred or capitalized under certain circumstances. In order to qualify for capitalization, we believe, it should be necessary to demonstrate that those costs will produce a stream of clearly identifiable future revenues. In those instances, the costs should be amortized over the period during which the revenues will be generated.

Further, it would appear that the FASB recognized and supports this practice in specific instances. One such example can be found in FASB Statement No. 53. This statement requires that the probable future economic benefit of activities, such as pre-release and early-release advertising of films that will benefit the film in future markets, be recorded as inventory and amortized over the film's useful life.

To further illustrate this point, GTE Corporation, through its subsidiary GTE Directories Corporation, publishes yellow-pages directories throughout the United States and abroad, publishing more than 1,200 directories with a total circulation of 52 million copies. GTE Directories advertises to stimulate the placement of advertisements in the directories it publishes. These costs are currently treated as a product cost, a practice that we believe is common and generally accepted in the industry. Here again, there is an identifiable relationship between these advertising expenditures and the revenue generated from the publication of the directory. The advertising clearly increases the value of the product by causing businesses to increase the size of their advertisements, promoting the use of various colors, etc. and generally stimulating the "probable future economic benefit" to be obtained at the date of publication. The costs are demonstrably recoverable - as product costs they are subject to periodic net realizable value assessments. The costs are deferred for only a short period until the date of publication. Therefore, we have concluded that it is proper for these costs to be deferred until the publication date of the directory.

In conclusion, GTE believes the proposed SOP resorts to criteria that are much too specific and thus exclude certain advertising costs which should be subject to the same accounting standard. Accordingly, we would prefer a more judgmental approach on this issue. The proposed SOP, while achieving objectivity, does so to an extreme, and in the process sacrifices flexibility in interpretation. Moreover, GTE believes that application of the proposed SOP can contradict the FASB's definition of an asset as contained in Concepts Statement 6, by restricting deferral of advertising costs to the direct-response type.

GTE is pleased to have had the opportunity to express its opinions regarding the proposed SOP.

Very truly yours,

J. Michael Kelly

J. Michael Kelly

JMK:ab

SARA LEE CORPORATION

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September 18, 1992

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Chicago, Illinois 60602-4260
312 558 8613

Richard G. Rademacher
Senior Vice President-
Chief Accounting Officer

Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
American Institute of
Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

RE: File #4322

Dear Mr. Tanenbaum:

This letter contains the views of Sara Lee Corporation regarding the Accounting Standards Executive Committee's (AcSEC) proposed Statement of Position (SOP) entitled "Reporting on Advertising Costs." Sara Lee Corporation is a diversified manufacturer and processor of food and consumer products with annual sales of over $13 billion, and annual advertising and promotion expenditures in excess of one billion dollars.

We agree with the following aspects of the proposed SOP:

- Costs of sponsoring events, such as athletic events, should be expensed over the period that the sponsorship is exploited, but not beyond the occurrence of the event.

- Costs of product endorsements, such as paying an athlete to wear a brand of sportswear for a period of time, should be expensed over the period of time the services are received.

- Costs of communicating advertisements that have been produced, such as the cost of magazine or billboard space, and television airtime, should be expensed the first time the space or airtime is utilized.

- Advertising activities that result in tangible assets, such as point of sale displays and fixtures which have use beyond a single advertising campaign, should be accounted for as prepaid supplies and amortized over the useful life of the asset.

- Advertising costs which clearly do not provide future benefits should be expensed either as incurred or the first time the advertising takes place. We believe this is a practical approach for the cost effective recognition of assets and expenses. It allows entities to exercise necessary judgement in determining the period in which significant advertising benefits are earned, as well as limiting the administrative costs of identifying and tracking each expenditure until the related advertisement is shown or aired. Disclosure of the entities' accounting policy, as well as the amount of advertising expenditures, will provide the information necessary for financial statement users to make informed decisions.

We believe that the conclusions reached on the above items are practical, conceptually sound and consistent with existing criteria for the recognition of assets and expenses. In addition, we believe the "logic" inherent in the first two bullet points on page one may be contrary to the AcSEC conclusion that the recognition of assets is contingent upon demonstrating a direct customer response from prior advertising of a similar nature. In our view, the form of an advertisement and the documentation of customer responses should not be primary factors in the recognition of an asset.

We are particularly troubled by the impact of the proposed AcSEC criteria upon the recognition of advertising production and catalog costs. Under the proposal, costs of producing advertisements (such as the cost of idea development, writing advertising copy, artwork, printing, audio and video crews, actors and similar costs) would be expensed no later than the first time the advertising takes place, unless it results in a demonstrable direct customer response. The costs of producing catalogs would be recognized in a similar manner. This accounting is neither practical nor conceptually sound and is inconsistent with existing criteria for the recognition of assets and expenses.

- Advertisements are frequently utilized over extended periods of time and the utility of the related production costs does not diminish to zero after the first showing or airing. We air commercials over periods of time which cover several quarters, and seasonal commercials are sometimes repeated more than one year. Similar patterns can be found in other companies.

- Our businesses use a variety of catalogs to advertise and promote products, and solicit customer responses. However, only certain of these catalogs are currently designed to provide the documentation necessary to support asset recognition under the proposed SOP. Under the AcSEC proposal, two catalogs with equal sales and marketing content, producing an equivalent number of sales, would be accounted for differently simply because of the form of the customer response.

- The current conceptual framework does not require a demonstrable customer response as a condition for the recognition of assets. The costs of acquiring trademarks or production equipment, for example, are recognized as assets without demonstrating that customers made their purchase decision of the related product directly as a result of the name affixed to the product or the process used to manufacture it.

- Under the proposal, asset recognition decisions would also be dependent upon demonstrating that an advertisement or catalog had similar attributes (audience demographics, advertising method, products and economic conditions) to a previous effort. Asset recognition could not take place unless current advertisements or catalogs had attributes similar to prior efforts which produced positive results. This asset recognition criteria is not consistent with the current conceptual framework, as we do not expense the cost of inventory, property, or other assets simply because they are not similar to previous acquisitions. In addition, this criteria is not realistic in an environment in which products, economic conditions, advertising techniques, and targeted customers change rapidly.

We do not believe asset and expense recognition should be based upon the narrow documentation standards being proposed. Costs of producing advertisements should be expensed over the estimated period over which the advertisement will be shown or aired. Catalog costs should be expensed over their estimated useful life but no longer than one year.

We would be pleased to discuss any of our comments with the members of AcSEC.

Very truly yours,

Richard G. Rademacher
Chief Accounting Officer

RGR:MAG

Division for CPA Firms

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(25)

September 22, 1992

Mr. Norman N. Strauss, Chairman
Accounting Standards Executive Committee
File 4322
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft on Proposed Statement of Position "Reporting on Advertising Costs" - File 4322

Dear Mr. Strauss:

One of the objectives that Council of the American Institute of CPAs established for the Private Companies Practice Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee ("TIC"). This communication is in accordance with that objective.

TIC members have reviewed the guidance in the proposed statement of position on reporting on advertising costs. We recognize and concur that the lack of comprehensive financial reporting guidance for such costs has led to some diversity in practice. TIC members believe that advertising costs should be expensed as incurred unless it can be clearly demonstrated that such costs will yield benefits over future periods. Because this view seems to correspond with existing practice, we do not believe there is a need for a further refinement of the standards.

We believe the proposed guidance would not result in improved financial reporting. For example, the guidance would prohibit the deferral of advertising costs in instances where such costs clearly benefit a future period. The following examples, derived from the existing circumstances of two TIC member clients, illustrate how implementation of the proposed guidance would distort the matching of revenue and expenses.

The first situation involves a retailer with a September 30 year end. This company generates over half of its sales during the November and December holiday season. The company's holiday season advertising campaign always begins in September. If this retailer were required to adopt the proposed guidance, the advertising costs incurred in September would have to be expensed during that fiscal year, even though the advertising is intended to generate sales during the upcoming holiday season that falls into the next fiscal year. The inability to establish that customers have responded specifically to the advertising, as would be required by the proposed statement for capitalization, results in an improper matching of revenue and expenses, which is certainly not the intent of the document.

The circumstances of a cruise line company further illustrate how the proposed guidance would distort the matching principle. This company has a December 31 year end. It provides virtually all of its cruise line services in the spring and summer months. During the off-peak season (fall and winter), it advertises and accepts reservations for events that are scheduled to occur during the spring and summer of next year. Accordingly, all deposits received are recognized as revenue in the following year when the services are provided. The advertising is directed towards a broad audience; therefore, a decision to use the company's services cannot be specifically associated to the advertising. These facts clearly indicate the advertising is intended to generate sales in the spring and summer months of the following year. However, if this company were required to adopt the proposed guidance, it would have to expense most of the advertising costs incurred during the fall and winter months during a year in which those expenses are not expected to provide benefits.

These examples corroborate our belief that the proposed statement would not accomplish its desired objective. Most practitioners would tend to agree that in both instances the revenue and advertising costs are directly related to each other and should be recognized simultaneously. The proposed guidance would effectively prohibit the accounting needed to address these conditions.

Although TIC members believe the statement is unnecessary, we offer the following suggestions for your consideration should the statement be issued.

Scope of Statement

Paragraph 6 states that this statement provides reporting guidance for the annual financial statements of all entities. It does not specifically address the interim financial reporting of advertising activities. Although the Appendix points out that APB Opinion 28 allows deferral of advertising costs within a fiscal year, we believe the statement should incorporate this language in its text, not in the Appendix. We also believe it should provide specific guidance on interim financial reporting. These enhancements would facilitate use of the statement.

Footnote 1 in paragraph 6 contains a reference to the guidance in SAS No. 69. Again, we suggest that the final statement incorporate the relevant portion(s) of SAS No. 69 within its text to facilitate use of the document.

Evidence of Future Benefits of Direct-Response Advertising

Paragraph 33 does not provide guidance on how a newly formed entity, without an operating history, obtains historical evidence to justify capitalization of direct-response advertising costs. Because the use of industry statistics is precluded, TIC members believe the final statement should provide specific guidance as to what constitutes sufficient "verifiable historical patterns of results" for a new entity. Also, the guidance should indicate whether evidence obtained from the first year of operations provides a sufficient basis for capitalization in the second year.

Amortization of Capitalized Advertising Costs

Paragraph 41 states that at each reporting date the entity must review the future revenue streams associated with deferred advertising costs to reevaluate the appropriate period of amortization. It is unclear whether the reference to "reporting date" relates to the date of the financial statements or the reporting date of the independent auditors' report. Perhaps the phrase "balance sheet date" should be used instead of "reporting date."

Method of Amortization

The proposed statement of position does not clearly state whether the revenue stream method is the only acceptable methodology that can be used to amortize capitalized advertising costs. If this is the only acceptable methodology, this fact should be clearly stated in the document. If other methods can be applied, the statement should identify them.

* * *

We appreciate this opportunity to present these comments on behalf of the Private Companies Practice Section. We would be pleased to discuss our comments with you or representatives of the Accounting Standards Division at your convenience.

Sincerely,

Judith H. O'Dell, Chair
PCPS Technical Issues Committee

JHO:al
File 2220

cc: Arleen K. Rodda, AICPA Director, Accounting Standards (for AcSEC)
Joel Tanenbaum, Technical Manager, AICPA Accounting Standards Division
PCP Executive and PCPS Technical Issues Committees

rec'd 9/24/92

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AMERICAN EXPRESS COMPANY
AMERICAN EXPRESS TOWER, WORLD FINANCIAL CENTER, NEW YORK, NY 10285-4610

DANIEL T. HENRY
SENIOR VICE PRESIDENT
AND COMPTROLLER

September 22, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division, File 4322
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Subject: **PROPOSED STATEMENT OF POSITION - REPORTING ON ADVERTISING COSTS**

Dear Joel:

American Express Company welcomes the opportunity to respond to the AICPA's Exposure Draft - Proposed Statement of Position (SOP), "Reporting on Advertising." In general, we acknowledge that there may be inconsistencies in practice; however, designating accounting principles to specific industries when they should be designated to apply to the economics of transactions does not conceptually appeal to us.

We believe the recognition of advertising costs should be based on measurable, reliable and verifiable information of future benefits to be derived. Different practices may be more conceptually justifiable in various situations as a proper matching of revenues and expenses. Current accounting concepts provide an adequate basis for proper recognition and measurement of advertising costs; therefore, we believe the SOP is not necessary.

If, however, the SOP is issued paragraph 25 should be changed to read, "The costs of specific advertisements should be expensed either as incurred or not later than the first time the advertisement takes place." We do not believe it is the intent of the proposed SOP to limit a company's option to expense or defer in different situations, or to limit its ability to recognize costs between the time they are incurred or the first time an advertisement is used.

Furthermore, the proposed SOP should not apply to interim periods because the cost of accumulating detailed information during interim periods may outweigh the benefits. A reasonableness test would be appropriate.

We welcome the opportunity to further discuss our comments.

Very truly yours,

Daniel T Henry

ARBOR

Arbor Drugs, Inc.
3331 West Big Beaver Road
P.O. Box 2510
Troy, Michigan 48007-2510

rec'd 9/24/92

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September 21, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322 AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Dear Mr. Tanenbaum,

We have read the proposed Statement of Position on Reporting Advertising Costs and would like to make the following observations for consideration in the final statement.

Paragraph 25 stipulates that "Costs of advertising should be expensed as incurred or the first time the advertising takes place...". In our opinion, either of these methods may negatively impact the comparability of financial statements between companies, where companies, such as ourselves, incur significant costs at one time, for numerous ads which are to be released over an extended period. We, and it is our belief that other companies of our size, produce ads in this manner in order to realize the cost benefits of economies of scale and yet, if the statement is adopted in its present state, comparability of our financial statements to companies who have differing production schedules will be diminished.

This issue is further compounded in the reporting of interim results, where one period may be charged for significant production costs of ads not yet released. In my opinion some systematic recognition of expense over the planned campaign would provide a better measure of expense.

Interim Reporting:

The proposed statement provides little, if any, guidance for interim reporting. This is generally a shortcoming of all official pronouncements and as the financial community places the same degree of importance on interim financial information as they do annual information, these issues should be addressed by the board.

We appreciate the opportunity to respond to this draft. If we may be of further assistance, please contact Rob Fekaris, our Corporate Controller at (313) 637-1554.

Very truly yours,

Gilbert C. Gerhard

Gilbert Gerhard
Chief Financial Officer

GG/ne

WSCPA
WASHINGTON SOCIETY OF
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902 140th Ave. N.E. Bellevue, WA 98005 206.644.4800

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Joel Tanenbaum, Technical Manager
Accounting Standards Division
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

RE: File 4322

Dear Mr. Tanenbaum:

This letter sets forth the comments and recommendations of the Accounting Principles and Auditing Standards Committee of the Washington Society of Certified Public Accountants (WSCPA) regarding the exposure draft on the proposed statement of position (SOP), "Reporting on Advertising Costs." The comments and recommendations do not necessarily represent the opinions of the Board of Directors or the membership at large of the WSCPA.

We are in agreement with the guidance set forth in the proposed SOP for reporting the cost of advertising as expense unless the advertising is direct-response advertising that results in probable future economic benefits. The costs of the future benefits of direct-response advertising should be reported as advertising assets and amortized over the estimated period of the benefits.

We believe the costs of advertising to be recognized as expense should be expensed the first time the advertising takes place. This reporting alternative should provide the most consistent method of recognizing the costs during the period in which the economic benefits are realized. We would also emphasize the importance of consistent application of this accounting policy.

Certain forms of advertising such as company and product catalogs are useful over longer periods ranging up to two to three years. Our committee feels the cost of this kind of advertising should be expensed over the period it is used rather than the first time advertising takes place. We recommend that the SOP provide guidance relative to the expensing of this form of advertising.

We appreciate this opportunity to comment.

Sincerely,

William R. Kauppila

William R. Kauppila, Chairman
Accounting Principles and
Auditing Standards Committee

rec'd 9/29/92

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T.RowePrice
T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD 21202 301-547-2384

Joseph P. Croteau
Vice President and
Director of Financial Reporting

September 28, 1992

Accounting Standards Executive Committee
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Attention: Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 4322, Task Force on Reporting on Advertising Activities and Certain Other Activities Undertaken to Create Intangible Assets

Gentlemen:

I appreciate the opportunity to comment on the AcSEC proposed Statement of Position "Reporting on Advertising Costs" (the "SOP"). I fully recognize that this will be received after the comment deadline of September 21, 1992, but hope that due process will allow for full consideration of my thoughts.

The prevalent practice in the mutual fund industry is to expense advertising costs as incurred. This position has long stemmed from the guidance in the opinion paragraph (no. 24) of APB Opinion 17 and the guidance of ARB 43, superseded chapter 5, para. 1. In the APB, "the costs of developing, [and] maintaining ... intangible assets which ... are inherent in a continuing business and related to an enterprise as a whole ... should be deducted from income when incurred." ARB 43 set the stage when it clearly established that advertising results in an intangible asset "developed in the ordinary course of business."

The proposed SOP would impact our organization in that as a direct marketer of mutual fund investment products, we may be expected to measure and capitalize as an asset certain of our advertising and promotion costs. However, unlike direct marketers of specific products which generate sales, our business generates customer deposits into a mutual fund complex. These deposits then generate a fee-based advisory revenue stream paid by the mutual fund, not the customer. The costs to be measured for potential capitalization would represent only a small portion of the costs of making mutual fund sales and obtaining and preserving expected advisory fee revenue streams. Because of the unpredictable nature of the customer relationship and the small portion of sales which can be directly linked to a particular advertisement, the amount to be capitalized would likely be small and the period of amortization short. Advertising costs associated with maintaining our client (and future revenue) base and those other advertising and customer acquisition costs which cannot be linked directly to a customer deposit represent the largest portion of selling costs and would still be expensed. To arbitrarily segregate this one component of the cost of obtaining and maintaining a client relationship without due consideration to these others is unreasonable. This SOP would not provide the investing public with a clearer picture of financial position; rather, it will confuse analysts and investors by capitalizing "...discretionary operating expenses such as expenses related to advertising... (last paragraph of SEC Codification of FRPs 501.03a)."

In summary, the current practice of expensing advertising costs works for our industry. It stems from the ordinary course of our continuing business and the underlying economics of that business taken as a whole. Therefore, we find little reason to support the SOP and its prescribed accounting treatment.

Attached are exhibits providing (1) background information on T. Rowe Price Associates and (2) my detailed comments on the particular paragraphs in the SOP.

Sincerely,

Joseph P Croteau

Joseph P. Croteau, CPA

cc: Mr. James S. Riepe, Managing Director
Mr. George A. Roche, Managing Director and Chief Financial Officer
Mr. Alvin M. Younger, Jr., Managing Director and Treasurer
Mr. Edward C. Bernard, Vice President
Mr. Charles E. Vieth, Vice President
Mr. Jay B. Shipowitz, Price Waterhouse

Exhibit 1

T. Rowe Price Associates, Inc.
Response to Proposed SOP - Advertising Costs
Background Information

T. Rowe Price Associates, Inc. is a public company that through itself and its subsidiaries (the "Company") is engaged primarily in the investment management business. The Company serves as investment adviser to the T. Rowe Price Family of No-Load Mutual Funds (the "Price Funds"), other sponsored investment products, and private accounts of other institutional and individual investors, including defined benefit and defined contribution retirement plans, endowments, foundations, trusts, and other mutual funds. Secondary sources of revenue include various administrative services provided primarily to our investment advisory clients. Those services include mutual fund transfer agent, accounting, and shareholder services; participant record keeping and transfer agent services for defined contribution retirement plans; discount brokerage; and trust services. At June 30, 1992, the company managed $38.4 billion including $24 billion (62%) in the Price Funds. Operating revenues for 1991 were $196 million including $104 million (53%) from investment advisory services to the Price Funds.

Investment advisory revenues are contractually determined based upon the total value and composition of assets under management and agreed-upon fee rates. Contracts for advisory services to the Price Funds are for one year and are subject to annual review and approval by the independent directors of the funds. Administrative services follow from the assets under management and vary more on volume and types of services performed.

Once a customer buys mutual fund shares, he may exchange to other funds in the family with different fee rates or redeem out. Further, market volatility will cause fund asset values to change and therefore revenue streams to fluctuate. For us, a customer's revenue stream is confirmed at the close of each business day as his investment remains in the funds. No further investor contact may occur. That is, unlike the examples cited in para. 65, a customer does not have to mail in the next year's subscription fee or payment for the next chess piece in the series. Year-to-date 1992 has seen record advertising and record mutual fund sales due to the interest rate drop and the quest for higher investment returns. The long range revenue impact is not highly predictable over the long term as shareholder retention studies have proven to be an inconclusive basis for revenue predictions.

Advertising and promotion dollars are only a portion of the substantial costs of acquiring assets under management. A direct sales force as well as investor centers for walk-ins and telephone calls also add significant costs. Many of our competitors operate without direct sales forces and marketing efforts. These companies generally sell through a broker network which receives a commission for their sales efforts. Often these sales commissions are classified as deferred assets and appropriately amortized to future periods to match the expected receipt of distribution fees and redemption charges. Direct marketers as well as these broker-based sales entities have, however, consistently charged advertising, promotion and other selling costs to income as incurred. In our case, direct advertising and promotion expenses as reported on the face of the 1991 statement of income were $17.3 million or 9% of operating revenues and 11.5% of total operating expenses.

Exhibit 2

T. Rowe Price Associates, Inc.
Response to Proposed SOP - Advertising Costs
Comments as to specific paragraphs

Para. 1 - Advertising for us is the primary cost of customer acquisition. Customer acquisition costs should not be segregated for purposes of defining accounting treatment. Therefore, when the SOP speaks only to advertising, the real issue of customer acquisition cost is ignored.

Para. 2 - Further to the above comment, separating accounting for advertising into a distinct pronouncement and then not allowing the guidance to "be used to account for the costs of other kinds of activities" (i.e., the broader issue of customer acquisition costs) is troublesome.

Para. 3 - The prevalent practice in our industry is to expense advertising as incurred. The industry, SEC and analysts have had no problem with this accounting. We advertise on a daily basis in the ordinary course of business to increase the awareness level of T. Rowe Price products. The results of any effort are not predictable.

Para. 4 - Quite the contrary, authoritative financial reporting literature does provide "broad guidance on reporting the costs of advertising." Consider the references on page 23 of the SOP. As one example, in the first and oldest of those references listed, the Accounting Principles Board provided guidance in Opinion 17 of August 1970 that our industry finds very reasonable. Paragraph 24 states: "...Costs of developing [or] maintaining ... intangible assets which are inherent in a continuing business and related to an enterprise as a whole ... should be deducted from income when incurred." It should be noted that ARB 43, in superseded chapter 5, para. 1, correctly affirmed that intangible assets are "...developed in the regular course of business by [among other things] advertising." When taken together, ARB 43 and the successor APB Opinion 17 clearly demonstrate the line of reasoning that supports fully expensing advertising costs in a business such as ours.

Para. 8 - The Company distributes its mutual funds on a direct marketing basis with no loads or 12b-1 distribution fees. Since such 12b-1 fees are designed to recover the costs of distribution (one assumes that advertising is a component), it may be that, by excluding "contractual arrangements," dissimilarities in accounting for advertising costs will arise within our industry.

Para. 11 - Much more to the point of our present accounting is the application of APB Opinion 17. One can readily see from our Company background data that advertising and promotion is material and that developing and maintaining clients is critical to the ordinary course of our continuing business.

Para. 12 - As to being able to "better estimate" future benefits, this is a question of degrees and really strikes to cost/benefit decisions. The fact that new technology (microcomputers?) exists does not create a new class of recordable assets.

Para. 13 - Agreed.

Para. 14 thru 20 - The Concept Statements follow category (d) of the GAAP hierarchy as defined in para. 10 of SAS 69. This section on "authoritative pronouncements" is written from the viewpoint that no higher level, broad guidance exists in the GAAP hierarchy. Contrary to the SOP's presentation, our argument would include the GAAP hierarchy category (a) APB Opinion 17 reference (and the predecessor ARB 43 guidance) as the most relevant pronouncement on which the SOP's conclusions should be drawn.

Para. 22 - Why exclude other types of customer acquisition costs?

Para. 25 thru 44 - General - Because we disagree with the fundamental thrust that the conclusions draw from Concepts, we take exception to the guidance provided herein.

Para. 25 - Direct response advertising is singled out as the only type of advertising which can result in an asset. Para. 60 and 61 state that "AcSEC believes that only direct-response advertising can meet the recognition criteria of reliability." This standard is far greater than that used in determining useful lives of goodwill and other acquired intangibles. The fundamental question should be: Do customer acquisition costs result in an asset or are they a "discretionary operating expense (SEC Codification of FRPs 501.03a)?" We believe that, at least in our case, the answer is that they are discretionary operating expenses associated with our continuing business.

I find little merit in the option to expense non-response advertising the "...first time advertising takes place." As an example, the costs of producing a TV spot could be deferred until it airs the first time and then would have to be expensed - even though it may be used during the balance of the year and into the next. Logically, if it was an asset before it was shown, a time when it did not generate revenues, then how did it suddenly lose value now that it was shown the first time? Why isn't there value at least until it is shown the last time?

Para. 35 - The first two sentences are very good. However, it should be pointed out that they apply just as surely to all forms of advertising and other customer acquisition costs.

Para. 36 - Payroll related costs would be very hard to accumulate with the same specificity required of measuring direct response to an advertisement. This is because the communications group is large and works on many projects, only some of which may be related to direct response advertising. Further, people assigned will vary. Consistent with the concept of an ordinary business, these costs are not incremental ones and should not be capitalized.

Para. 59 - Because assets under management result in future revenues, we long ago deemed assets under management to be a relevant disclosure item. This measure is a far greater indicator of future operating flows than past advertising. Future advertising brings new customers but more importantly ensures others leave their money on deposit in the funds - but that is a cost for future periods.

The premise of the last sentence of para. 59, if extended, makes it seem that the balance sheet should be viewed standing alone as the only "helpful" source of information. Disclosures in the other primary statements, the footnotes and the MD&A all provide our readers with helpful information. The totality of our disclosure is more than adequate for analysts and other readers. The creation of an intangible asset would only confuse our readers away from the assets under management information which is the best indicator of future operations. Further, the balance sheet is not the place for "prospective" disclosures.

Para. 66 - Once a mutual fund sale occurs, the value of a customer's mutual fund account will almost immediately vary due to market price fluctuations and dividend income. Further, the account's (except for money funds) life is almost always expected to exceed one operating cycle. Knowing that future revenues must be predicted to capitalize any asset and that future revenues will vary due to market valuations, will most certainly make future revenue projections on which to base amortization very costly, if not impossible, with any degree of reliability. To further evidence our dilemma, our industry must make certain performance disclosures in all advertisements. Certain disclaimers must be added, such as "past performance is no guarantee of future results."

In summary, advertising costs (whether direct-response or not) are inherent in our continuing business and should be deducted from income when incurred as a discretionary periodic operating expense. If AcSEC persists in adopting this standard and it believes that data as to future benefits cannot be reasonably projected beyond one year or operating cycle, then maybe we are better served fixing one operating cycle as the maximum deferral period. At least then, it will be very easy to see company expenditures on a comparative basis.

Rcv'd 9/30/92

Coopers
&Lybrand

certified public accountants

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September 30, 1992

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1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

We are pleased to submit our comments on the June 22, 1992 Exposure Draft of the AICPA's Proposed Statement of Position (SOP), Reporting on Advertising Costs.

We have not supported this project since it was added to AcSEC's agenda and we continue to oppose it. We believe that AcSEC should terminate its deliberations on the project.

This proposed SOP is the first step in a project on reporting the costs of activities undertaken to create future economic benefits through the development of intangible assets. The advertising project will establish the foundation for the treatment of a number of similar activities such as preopening, start-up, training, and customer acquisition. We believe the overall project is so significant that it should be dealt with by the Financial Accounting Standards Board instead.

If AcSEC decides to continue this project, we have the following comments.

Paragraph 25 permits certain advertising costs to either be expensed as incurred or the first time the advertising takes place. Until AcSEC develops a conceptual basis that one method is preferable to the other, we believe both alternatives should be retained in the final statement.

Paragraph 25 requires the costs of future benefits, if any, of direct-response advertising to be reported as an asset. Direct-response advertising is often only one element of a larger advertising campaign that might also include media, promotions, and other kinds of advertising listed in paragraph 23 of the exposure draft. In these situations, even though documentation exists to show that a customer responded specifically to identifiable direct-response advertising (e.g., a coded order form), the direct-response advertising may not be the primary reason a customer purchased the product. We believe the direct-response asset requirement should be limited to situations where it is the primary, or only, advertising activity.

We appreciate the opportunity to express our views. If you have any questions concerning our comments, please contact Frank J. Tanki at 212-536-2221 or Dennis E. Peavey at 212-536-3286.

Very truly yours,

Coopers & Lybrand

Warner-Lambert Company
201 Tabor Road
Morris Plains, NJ 07950
201 540-2592

William F. Gilroy
Vice President & Controller

rec'd 10/1/92

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WARNER LAMBERT

September 23, 1992

Mr. Joel Tanenbaum
Technical Manager,
Accounting Standards Division,
File 4322,
AICPA,
1211 Avenue of the Americas,
New York, New York 10036-8775

Dear Mr. Tanenbaum,

Warner-Lambert welcomes the opportunity to comment on the Proposed Statement of Position, Reporting on Advertising Costs. We agree it would be beneficial to all interested parties to narrow diverse accounting practices for advertising costs thereby enhancing comparability among companies. Our comments are as follows:

Paragraph 25 Alternative Accounting Treatments

This paragraph offers an alternative to either expense advertising costs the first time the advertising takes place or as incurred (except for Direct Response advertising).

We support expensing advertising costs as incurred generally within the following guidelines:

- o Advertising production costs - expense as the service is received. However, when introducing a significant new product, such costs should be amortized over the "sell-in" period, which typically precedes the advertising campaign.

- o Advertising media or communication costs - expense when the advertising event is communicated. However, for major new product launches, there should be an option to allow media costs to be expensed before the advertising event takes place. As wholesalers purchase a new product in anticipation of a major advertising campaign, the expensing of the cost of an advertising campaign before the media event will better match costs and revenues but should be permitted only if the advertising is prepaid or a firm commitment exists which meets the characteristics of a liability under FASB Concepts Statement No. 6 (i.e. the obligation leaves the company with little or no discretion to avoid future sacrifice).

- Tangible assets - as stated in the SOP draft, advertising activities that result in tangible assets that have uses beyond a single advertising campaign should be capitalized and amortized.

We do not favor the alternative mentioned in the draft SOP of capitalizing and amortizing advertising costs (except for Direct Response Advertising discussed below). While we recognize that capitalizing and amortizing may better match costs with related revenues, we don't view this as a compelling enough reason when it may result in assets for which it is difficult to measure value and determine an amortization period. FASB Concept Statement No. 6 supports this view of not capitalizing costs citing that business and economic uncertainty often clouds whether an asset might provide future economic benefits. A parallel can also be drawn from FASB Statement No. 2, Accounting for Research and Development costs which prohibits capitalizing R&D costs because of uncertainty of probable future benefits.

We are also concerned that tax authorities may view capitalizing costs as a more accurate measure for income tax purposes and require conformity which may increase a company's current tax liability.

Paragraph 30 Direct Response Advertising

The draft mentions capitalizing and amortizing Direct Response Advertising over the period benefitted not to exceed a year or operating cycle with assessment each reporting period. We agree in principle that costs of Direct Response Advertising should be capitalized and amortized over the period benefitted.

Paragraph 43 Disclosure

The objective of the Draft was to provide disclosure complete enough so that an investor/analyst could adjust the financial statements to compare with other companies' financial statements. However, if the SOP were to narrow the alternatives for accounting for advertising, the only disclosure needed would be for companies which capitalize and amortize Direct Response Advertising.

Paragraph 50 Future Benefits beyond first-time advertising

We agree with your conclusion that there is no demonstrable or measurable way to recognize an asset with any degree of precision to carry a capitalized advertising cost to future years.

We hope these comments will be helpful in refining the SOP. Please call if you would like to discuss further.

W F Gilroy

W. F. Gilroy

NJSCPA

New Jersey Society of Certified Public Accountants

32 rec'd 10/1/92

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Roseland, New Jersey 07068
(201) 226-4494
Fax (201) 226-7425

September 25, 1992

AICPA
Joel Tanenbaum, Technical Manager
Auditing Standards Division
File 4322
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement of Position entitled "*Reporting on Advertising Costs*"

Dear Mr. Tanenbaum:

The Auditing and Accounting Standards Committee (the "Committee") of the New Jersey Society of Certified Public Accountants ("NJSCPA") is pleased to submit its comments on the AICPA's proposed Statement of Position entitled "*Reporting on Advertising Costs*." The views expressed in this letter represent the majority of the members of our Committee and are not necessarily indicative of the full membership of the NJSCPA.

On an overall basis, a large majority of the Committee is against the issuance of a SOP that addresses only one type of intangible asset. The Committee does not believe that the AICPA should view the advertising SOP as a "first step" in addressing the accounting for intangible assets; rather, the AICPA or the FASB should address the accounting for all intangible assets in one pronouncement. Otherwise, inconsistencies in the accounting for assets having probable future economic benefits will develop. Companies would be faced with having to capitalize the costs of certain "soft" assets, such as direct-response advertising, while being required to expense other similar costs, such as research and development costs. Therefore, the Committee believes that the AICPA should issue one SOP which addresses the accounting for all intangible assets.

Rec'd 10/6

FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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33

September 30, 1992

Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Sir:

The Accounting Principles and Auditing Standards committee of the Florida Institute of Certified Public Accountants is pleased to present the following response to the exposure draft (ED) dated June 21, 1992 of a proposed Statement of Position titled "Reporting on Advertising Costs".

Concerning paragraph 2, the committee believes there should be consistency in treating costs enumerated in paragraph 1 (pre-opening, start-up, training, and customer acquisition). The committee believes there would be much merit in first developing a broad framework before addressing specific costs such as advertising.

However, since the ED has been issued, the committee would like to stress the need to expedite guidance on the balance of the costs mentioned in paragraph 1 as well as developing a broad framework.

Non Direct-Response Advertising

In considering the alternatives in paragraph 25, the committee found it necessary to separately consider the two component costs enumerated in paragraph 37:

- Communication expense. (Paragraph 37 (b) "Communicating advertisements that have been produced, such as the costs of magazine space, television airtime, billboard space, endorsement contracts, sponsorship agreements, and distribution (postage stamps, for example)".)
- Production costs. (Paragraph 37 (a) "Producing advertisements, such as the costs of idea development, writing advertising copy, artwork, printing, audio and video crews, actors, and other costs.")

Concerning communication expense, the committee unanimously agreed these items should be expensed when the respective service has been received, for example, when the airtime is used.

The committee did not reach a consensus on production costs. The responses of the committee were as follows:

Should there be an option on expensing as indicated in paragraph 25?

7 NO
2 YES

What method should be used to account for these costs if no options are available?

- One member thought all should be expensed as incurred as there are no certain future benefits.

- Four members believed the costs should be capitalized until the advertising takes place, i.e., when first used.

- Four members thought two additional options should be considered:

    - Amortize the costs over the expected future life of the campaign, for example, four monthly magazine advertisements.

    - Amortize the costs over the expected life of the communication such as defined in a contract.

All of the members who believed the costs should be capitalized and expensed at a future date believed this method provided a better matching of revenues and expenses.

The committee believed that paragraph 25 was unclear as to the component costs which may be deferred. Paragraph 25 should separately list and consider production and communication expenses. Specifically, if communication costs are to be expensed as the services are received, then the provisions of paragraph 25 can only apply to production costs.

<u>Direct-Response Advertising</u>

- Eight committee members were in favor of the ED as written. They believed the strict guidelines would curb potential abuse in this area.

- One member disagreed as conceptually there was no difference between direct response and other advertising. The only difference was the ability to capture the results with more precision.

Internal Costs

- The committee strongly agreed with the guidance in paragraph 36 concerning internal costs, especially the last sentence. "For the purposes of this SOP, allocated administrative costs, rent, depreciation, and other occupancy costs are not costs of direct-response advertising activities."

- Paragraph 37 should be clarified to indicate that this refers to both internal and external costs. This paragraph should also be clarified with the above sentence "For the purposes of this SOP, allocated administrative costs, rent, depreciation, and other occupancy costs are not costs of direct-response advertising activities" to emphasize that internal cost capitalization should be limited for non direct-response advertising as well as direct-response advertising.

Regarding paragraph 43, the committee believes it should be clarified if changes are made to paragraph 25.

Our committee appreciates the opportunity to comment on this proposed Statement of Position. Members of our committee are prepared to discuss any questions members of the Division might have concerning our response.

Sincerely,

Edward Leonard

COMMITTEE ON ACCOUNTING PRINCIPLES AND
AUDITING STANDARDS - FLORIDA INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

Edward J. Leonard, Chairman
(813) 748-1040

Task force to respond to exposure draft:

Edward Leonard, C.P.A.
Michael O'Rourke, C.P.A.
Michael Wells, C.P.A.

AICPA\exposure.dft

ILLINOIS CPA SOCIETY & FOUNDATION

Rcv'd 10-8-92

34

September 22, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

The Retail Organizations Committee and the Accounting Principles Committee of the Illinois CPA Society (Committee) are pleased to have the opportunity to comment on the Proposed Statement of Position - Reporting on Advertising Costs (SOP). The organization and operating procedures of the Committee are reflected in the Appendix of this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than any of the members of the Committee and of the organizations with which they are associated.

The Committee disagrees with paragraph 25 of the SOP. We believe that production costs related to advertising campaigns should be amortized over the period of time the campaign will run, in essence be treated as prepaid expenses. Further, the Committee believes that the amortization period must be demonstrable and should generally not exceed one year. We concur, however, that media costs, e.g. radio or TV time, should be expensed as incurred.

The Committee also disagrees with paragraph 33 of the SOP. As written, direct marketing costs for a new product which have no correlation to a company's existing product line would have to be expensed, despite the existence of test market results. We suggest that this paragraph be clarified to allow costs related to new products which have positive test market results to be amortized over the period the revenues will be earned. The Committee expects this would be a relatively short period of time, and, similar to production costs, should generally not exceed one year. Further, the Committee believes the concept of a new product is too vague. The Committee was uncertain if AcSEC would include as a new product, for purposes of this SOP, a newly offered product that is an extension of an existing product line. The Committee believes there is some justification for doing so, as a company arguably has some experience with such a product. The Committee suggests AcSEC define this term further.

Certain other paragraphs in the direct-response advertising section of the SOP also need to be clarified. As an example, paragraph 31 is very broad, perhaps intentionally so. Nonetheless, we suggest that this paragraph be defined as making profit at a gross margin level. We also were surprised by paragraph 36b. which would allow deferral of internal costs. While there is consistency between paragraphs 36a. and b., the paragraph 36b. approach is inconsistent with existing industry practice.

222 SOUTH RIVERSIDE PLAZA
CHICAGO, IL. 60606-6098
TEL: 312-993-0393

Certain members of the Committee were also concerned about the potential conflict between this document and SFAS No. 91, as it relates to the costs of direct response advertising. SFAS No. 91 requires that advertising and costs to solicit potential borrowers be expensed as incurred, while this document would allow deferral under the context that the loan making process is a discrete event. The Committee suggests this issue be resolved before the SOP is issued, since the SOP would be in direct conflict with a standard of a higher rank in the accounting hierarchy. A similar problem may also exist with SFAS No. 53, which allows for deferral of some advertising costs. The Committee would therefore recommend that AcSEC also address this conflict.

We would be pleased to discuss our comments and recommendations with members of the staff.

Very truly yours,

Bernard W. Revsine

Bernard W. Revsine, Chairman
Committee on Accounting Principles

APPENDIX

ILLINOIS CPA SOCIETY
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES

1992-1993

The Accounting Principles Committee of the Illinois CPA Society (the Committee) is composed of 25 technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to 15 years. The Committee is a senior technical committee of the Society and has been delegated the authority to issue written positions, representing the Society, on matters regarding the setting of accounting principles.

The Committee usually operates by assigning a subcommittee of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting principles. The subcommittee ordinarily develops a proposed response which is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which, at times, includes a minority viewpoint.

American Institute of Certified Public Accountants

Pennsylvania Institute of Certified Public Accountants
Delaware Society of Certified Public Accountants

QUALITY review ADMINISTRATORS

Rcv'd 10/14/92

35

October 12, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Exposure Draft (ED), Proposed Statement of Position, Reporting on Advertising Costs

Dear Mr. Tanenbaum:

The Pennsylvania Institute of CPA's Committee on Accounting and Auditing Procedures would like to comment on the above mentioned ED.

The committee did not reach a consensus on the underlying basic principle of whether advertising costs should be expensed or capitalized. However, we did agree that if advertising costs are capitalized, the limiting of such treatment to one or two cases (e.g., direct-response and blimp advertising) would be inappropriate. There may be other facts and circumstances that equally justify the deferral of advertising costs. An example was presented by a committee member whose client relies almost solely on non-direct response sales from the distribution of product catalogues which are printed once every three years.

In addition, the committee believes that the option of expensing advertising as incurred or when the advertising first takes place is too broad. We feel that the costs should be expensed when the advertising first takes place.

The committee appreciates this opportunity to comment on the ED. Please direct any questions on our comments to the undersigned at (215) 466-7600.

Very truly yours,

James D. Giannantonio

James D. Giannantonio, CPA
Chairman
Committee on Accounting and
Auditing Procedures

A program administered for the AICPA and DSCPA by the PICPA

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ERNST & YOUNG

277 Park Avenue
New York, New York 10172

Phone 212 773 3000
Fax: 212 773 1996/1997
Telex: 177704

rec'd 10/15/92

36

October 8, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division File 4322
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Proposed Statement of Position,
"Accounting for Advertising Costs"

Dear Mr. Tanenbaum:

We are pleased to submit our comments on the proposed Statement of Position (SOP) referred to above. We support the objectives of the SOP, which are to provide guidance with respect to accounting for advertising costs and reduce the diversity that exists in practice. Pursuant to the proposed SOP, costs of advertising, other than direct-response advertising, would be expensed either as incurred or the first time the advertising takes place. We support permitting both alternatives as a practical and reasonable solution. Direct-response advertising, determined to have a probable future economic benefit, would be capitalized and amortized over the expected period of benefit. We agree that costs meeting the criteria are appropriately capitalizable.

Notwithstanding our overall support of the proposal, we believe certain refinements should be incorporated into the final SOP. Our recommendations are summarized below:

- In accordance with the proposal, it is acceptable to defer advertising costs and expense such costs the "first time" the advertising takes place. Further guidance on the term "first time" would be beneficial and would help reduce diversity in the application of this concept from developing in the future. For example, an advertising campaign may utilize various different media. It is uncertain whether such costs should be expensed the first time the promotion is made public or whether such costs should be allocated to the various media, such as television or magazines, and the allocated portion expensed at the time of the "first showing" for each format.

- Companies which retain an obligation to fund customer advertising (co-operative advertising) in periods subsequent to the sale and shipment of their product, may actually recognize revenue prior to incurring this type of advertising cost. For example, a manufacturer may sell products to a distributor in December 1992 and incur costs of advertising for those products in the spring of 1993. We believe the accrual of such costs should be made at the time of sale, which would be prior to the period in which the SOP requires expensing. Presumedly, this was not the intended result and the SOP should be clarified in this regard.

- The SOP should clarify the accounting for advertising costs as it relates to product catalogues. While some catalogues will meet the criteria to be accounted for as direct-response advertising, others will not. For catalogues not qualifying as direct-response advertising, additional guidance would be helpful regarding when is the "first showing" and whether, as we believe, such catalogues could be accounted for as "prepaid supplies" as discussed in paragraph 27 of the Exposure Draft. In addition, the SOP should provide examples of direct-response advertising, including catalogues, which could meet the capitalization criteria.

- The SOP should require that the annual amortization of capitalized direct-response advertising costs shall be the greater of the amount computed using 1) the method described in paragraph 41 of the Exposure Draft (i.e., in proportion to estimated revenue streams) or 2) the straight-line method over the remaining period of future economic benefit. This approach is similar to the way software costs are to be amortized in accordance with SFAS No. 86 and we believe would be an improvement over the proposed amortization approach. Adding the straight-line requirement takes into account the uncertainties involved in estimating revenues.

* * * * *

We would be pleased to discuss our comments and recommendations with you or the Task Force.

Very truly yours,

Ernst + Young

rec'd 10/16/92

CITICORP CITIBANK

37

Citibank, N.A.
A subsidiary of
Citicorp
Accounting
Policy &
Advisory
399 Park Avenue
New York, NY
10043

Marjorie B. Marker
Vice President

October 15, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

Citicorp welcomes the opportunity to comment on the exposure draft of the AICPA's proposed statement of position (SOP), *Reporting on Advertising Costs*. We support the SOP with its much needed approach to direct-response advertising. However, we do not agree with the position in the SOP which restricts the deferral of advertising production costs to beyond the first time the advertising takes place.

The SOP limits capitalization of such costs, stating that future benefits beyond the first time the advertising takes place are too uncertain and are not demonstrable or measurable with the degree of precision required to recognize an asset in the financial statements. The requirement that an identifiable future income stream be present before advertising can be capitalized is unduly restrictive, and is inconsistent with the general concept of prepaid expenses, the purpose of which is to match the expense with the period benefitted. We believe entities should defer advertising costs if they can demonstrate that the advertising will give rise to future economic benefits over a specified period, even when the benefit cannot be explicitly quantified. This specified period would be the duration of the advertising campaign. The duration of the campaign should be supportable, for example with documentary evidence such as media contracts.

Moreover, we also believe an argument can be made that camera ready copy or a television advertisement "in the can" is as much a tangible asset as is a billboard or a blimp, and thus, should be amortized to advertising expense over its estimated useful life (i.e. the length of the advertising campaign).

We are available to discuss our responses with you at your convenience.

Very Truly Yours,

Marjorie Marker

RCV 10-19-

38

October 15, 1992

Mr. Joel Tanenbaum, CPA
Technical Manager
Accounting Standards Division
American Institute of CPAs
1211 Avenue of the Americas
New York, New York 10036-8775

California Society Certified Public Accountants

Re: File 4322 "Reporting on Advertising Costs"

Dear Mr. Tanenbaum:

The Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants has discussed the exposure draft of the proposed Statement of Position "Reporting on Advertising Costs" and has developed certain comments on that exposure draft.

The APAS Committee is a senior technical committee of the California Society of Certified Public Accountants. The 1992/93 Committee comprises 44 members, of which 16 per cent are from national CPA firms, 46 per cent are from local or regional firms, 30 per cent are sole practitioners in public practice, 4 per cent are in industry, and 4 per cent are in academia. In addition, five current or former members of the Accounting Standards Executive Committee serve on the APAS Committee.

The following comments represent the results of the Committee's deliberations on the AcSEC exposure draft.

The Committee does not support the exposure draft. It generally prefers that the costs of all advertising be expensed as incurred.

For advertising other than direct response advertising, a majority of the Committee believes that such costs of advertising should be expensed as incurred, and therefore does not agree with the alternatives permitted in paragraph 25 of the ED. A minority of the Committee would support continuation of existing practice.

As to direct response advertising, the Committee also believes that it's costs should be expensed as incurred.

The Committee recognizes that some improvement in existing practice in accounting for advertising costs might be possible and that there might be certain types of advertising costs that might appropriately be not expensed as incurred. It also recognizes that the costs of advertising frequently create a future economic benefit. However, it does not believe that the criteria in the exposure draft are

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appropriate and generally prefers expensing advertising costs as incurred on the basis of practicality.

They appreciate the opportunity to comment on the exposure draft and will be available to discuss the issues, if needed.

Very truly yours,

Richard A. Clark, Chairman
Accounting Principles & Auditing Standards Committee

555 California Street
San Francisco, CA 94104

Telephone 415 393 8500
FAX Number 415 393 8644

rec'd 10/20/92

Price Waterhouse

39

October 19, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of
Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Tanenbaum:

File 4322

We appreciate the opportunity to comment on the Exposure Draft, Proposed Statement of Position, Reporting on Advertising Costs (the "ED").

The conclusions of the ED can be separated into those that deal with the costs of two groups of advertising activities: (1) direct response and (2) all others. We support the conclusions reached with respect to the first group of costs, but do not support the conclusions reached with respect to the second group. Following are our specific comments.

Costs For Direct Response Advertising Activities

We generally support the practice of capitalizing certain of the costs of direct response advertising activities and believe the ED provides reasonable bases for measuring the asset and determining its subsequent amortization. The provisions of the ED should help reduce the diversity that presently exists in practice. However, we believe the ED's definition of direct response advertising (¶28) should be limited to advertising whose primary purpose is to obtain a directed response from a potential consumer to buy the entity's products or services.

Assume the scenario where the primary purpose of an advertising campaign is to sustain or increase the levels of the advertiser's name recognition and consumer awareness of its products and services, but such advertising also includes a direct response solicitation as an incidental element. Directed responses are expected and responses would likely be documented, at least as a matter of good business practice to help determine what advertising medium is the more cost-effective. Assume that, as a result of such documentation, the future benefits of the advertising would be able to be demonstrated.

The ED would seem to require capitalization of the advertising costs in that situation. Is this the result intended?

The ED indicates that the cost of premiums, gifts, etc. that are directly related to direct response advertising activities are a component of the cost of such activities (¶30). Consider the situation where a direct response advertisement indicates that if the customer purchases five catalog items, the lowest priced item is "free". Is the ED's intent that the "free" item is viewed as a gift, with its cost to be deferred? We believe that the cost of the "free" item is not a gift, but is a component of the cost of sales of the other four items purchased.

The ED provides no basis for its exclusion of rent expense, depreciation, etc. as components of direct response advertising costs in ¶36. We believe circumstances could exist which would justify the inclusion of these types of cost is a component of the deferrable costs.

<u>Advertising Costs For Other Than Direct Response Activities</u>

The ED requires that advertising other than direct response be expensed either: 1) as incurred, or 2) the first time it takes place. The ED would not change interim reporting practices (¶6). Accordingly, financial statement preparers would continue to defer the costs of other than direct response advertising activities in those instances where they have concluded that its benefits clearly extend beyond the interim period in which the expenditure is made pursuant to the provisions of APB 28. Thus, the ED would require that costs for advertising that had already taken place and was appropriately deferred at the end of the third quarter must now be written off at the fiscal year end, despite the possibility that there has been no significant changes in the circumstances that justified deferral at the end of the earlier quarter. FAS 53, *Financial Reporting by Producers and Distributors of Motion Picture Film*, requires the capitalization of advertising at the fiscal year end in certain circumstances. Presumably, the Board believed that the criteria for recognition of an asset was demonstrable. The ED would not change practices supported by APB 28 and FAS 53. Do we really need any more conflicting literature?

The ED does not provide a persuasive argument to justify the optional accounting it prescribes. The ED specifically rejects capitalization of the cost of advertising activities the moment <u>after</u> the advertising takes place. Notwithstanding practice supported by APB 28 and FAS 53, AcSEC indicates that the benefits of such advertising activities "... are not demonstrable or measurable with the degree of precision required to recognize an asset" (¶50). Further, the ED states that AcSEC believes the costs of <u>only</u> certain direct response advertising meet the recognition criteria in FASB Concepts Statement No. 5 (¶52). AcSEC's beliefs, as articulated in the ED, simply do not square with long-standing practice.

While the ED requires the expensing of advertising costs no later than the moment <u>after</u> the advertising takes place, it notes the corollary argument that there is then no substantive basis for concluding that there is an asset the moment <u>before</u> the advertising takes place (¶47). This inevitably leads to the conclusion that advertising costs should be expensed as incurred. This despite the conclusion of FAS 53 and interim practices under APB 28.

The distinction raised in ¶27 of the ED regarding tangible assets that have uses beyond a single campaign (and therefore are capitalizable) creates further confusion. How different is a message on a billboard that is seen repeatedly by the same group of commuting motorists day after day than is an advertisement in a monthly or quarterly magazine that is seen repeatedly by the magazine reader every time the magazine is opened. Yet the costs of the billboard can be capitalized, while the costs of the magazine advertisement must be expensed when incurred or when the magazine is first issued.

We also foresee other implementation questions. For example, consider a long-term advertising campaign that comprises 15 different one minute advertising spots. Each separate one minute spot repeats the same opening 45 second segment. Are the costs of that opening 45 second segment to be expensed no later than the first time the advertising is aired, or ratably over each of the fifteen new one minute advertisements in which it is repeated?

We are also concerned with the application of ¶39 re executory contracts. For example, if an athlete under a long-term, noncancellable product endorsement contract sustains a career-ending injury early in the contract period, we would question whether recognition of the cost of his/her product endorsement contact should continue to be deferred.

In the end, the ED simply retreats to practicality as justification for its optional accounting (¶50). In our view, the ED does not present sufficient justification to support its conclusions.

<u>**Transition**</u>

We do not understand why the cumulative effect principles embodied in APB 20, Accounting Changes, with respect to reporting a change in accounting principle are disregarded. We note that the ED provides no explanation.

* * * * *

If you wish to discuss our comments further, please contact H. John Dirks at (415) 393-8735. Thank you.

Yours very truly,

Price Waterhouse

Rec'd 10/22/92

40

FINANCIAL EXECUTIVES
INSTITUTE

Joseph A. Sciarrino
Vice President and Technical Director

September 16, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

Re: AcSEC File Number 4322

Dear Mr. Tanenbaum:

The Committee on Corporate Reporting (CCR) of the Financial Executives Institute (FEI) appreciates the opportunity to comment on the Exposure Draft of the Proposed Statement of Position (SOP) entitled "Reporting on Advertising Costs" (ED). Although the CCR has offered its comments herein, we are not convinced that there is a compelling need for an SOP on advertising costs.

The CCR believes that the ED places too much emphasis on direct response advertising and the related capitalization rules. It is the CCR's view that direct response advertising should clearly be "the exception rather than the rule" for application of the ED. Alternatively, since direct-response advertising is concentrated in the direct solicitation, catalogue and mail order business, a more appropriate place for capitalization guidance could be in a separate Industry Guide for such businesses--to better recognize its narrow and limited application.

With regard to the definition of Advertising, the CCR believes the wording in the ED is much too broad and vague. For example, costs normally associated with selling expense, especially sales promotion expense, rather than advertising expense, would fit the proposed "Advertising" definition outlined in paragraphs 21 through 23. CCR recommends that the Task Force seek a generally accepted definition for Advertising from trade association groups, such as the Association of National Advertisers and/or similar groups. A parallel can be drawn with the FASB's definition of Research and Development costs in FASB Statement #2 which draws heavily on the National Science Foundation definition of R&D.

The CCR is also concerned that there is no explicit exception in the ED to the applicability of the SOP to interim (quarterly) financial reporting. While we agree that the SOP should be limited to annual financial statements, we question whether the specific guidance of paragraph 25; i.e., the requirement to expense advertising costs as incurred or the first time the advertising takes place, might contravene the guidance of paragraphs 15 a. and 16 d. of APB No. 28, Interim Financial Reporting. Accordingly, the CCR recommends that the ED specify that the interim reporting guidance of APB 28 is not modified by the provisions of the ED.

The CCR's other specific comments on the ED are as follows:

Paragraph Reference	Comment
12.	Recommend last sentence to read, ". . . to better estimate the future economic benefits that could result from certain types of advertising". As revised, this sentence better describes the present limited ability to measure the future economic benefits of advertising.
21.	As previously stated, the definition of "Advertising" needs improvement, preferably from trade sources in order to endorse a generally accepted definition. Specifically, it may be confusing to define "advertising as the promotion . . .". For example, in some industries the term Advertising is restricted to media expenditures, while Promotion expenses apply to non-media, mutually-exclusive activities.
22.	This paragraph is confusing; i.e., the term "customer acquisition" is awkward and non-specific. The other kinds of "customer acquisition" activities "outside the scope of the ED", besides discounts and rebates from the redemption of coupons, should be listed. For example, are samples, premium items attached to a regular product excluded or included? This further points up the need for a better advertising definition.

In addition, CCR objects to the "split accounting" for coupon redemption programs suggested in Footnote 5. Although CCR agrees in concept that there is an element of advertising involved in coupon programs, we feel it is minor in relation to the overall costs of the coupon program. However, it is integral to the coupon program as it provides information about the promotion. Consequently, we think that the proposed requirement in its current form will result in accounting that:

- is contrary to business intentions and the objectives of the coupon program;
- is an unnecessary burden on affected companies; and
- will not result in improved accounting and reporting for users of financial statements.

Paragraph Reference	Comment
22. (Cont.)	Accordingly, the CCR recommends that the entire cost of a coupon program, including the costs of the advertising portion if the advertising benefits are ancillary, should be excluded from the scope of the SOP.
25.	The CCR supports the provisions of this paragraph and suggests that this section be modified to read ". . . expensed either as incurred or no later than the first time the advertising takes place . . .". The purpose of this modification is intended to indicate that advertising costs should not be amortized over the advertising period, but as of its first showing.
27.	This paragraph is confusing since it is not clear whether the blimp, billboards and point of sales materials fall under the definition of advertising outlined in paragraphs 21 through 23 and are accounted for under the rules outlined in paragraph 25, or are exceptions to that rule. This question also arises because of seeming deficiencies in the definition of advertising costs. For example, a filmed commercial can be considered a "tangible asset". In turn, this paragraph would suggest that it could be capitalized and amortized over its expected useful life, rather than be subject to the paragraph 25 rule?
28.	Recommend the following documentation example be expanded as follows: ♦ A coded coupon used as a product order form and turned in by the customer. This will clearly delineate an "order form" coupon from the discount or rebate coupons discussed in Footnote #5 at the bottom of page 12 which are outside the scope of the ED.
29.	Assuming the AICPA continues to include direct response advertising in this SOP despite our suggestion above, we recommend the following exclusion be added to this paragraph. It deserves mention since it is widely applicable to firms in the household products industry and other industries in which advertising is directed at individual consumers, but entity sales are made to wholesale or retail businesses (which in turn sell to individual consumers): "Product advertising directed at individual consumers by manufacturers and/or distributors selling to intermediaries; i.e., wholesalers, retail stores, etc., does not qualify as direct response advertising."

We would be pleased to discuss any aspect of our comments, should you desire. The CCR representative responsible for summarizing the views of members for this response is Robert D. Reisman of American Cyanamid Company. Please feel free to contact Bob or Andy Davidson at (201) 831-2000.

Sincerely,

Joseph A. Sciarrino/afc

Joseph A. Sciarrino

JAS/afc

Rcv'd 10-22-92

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Evan M. Bush
189 Rowayton Woods Drive
Norwalk, Connecticut 06854

September 29, 1992

Mr. Joel Tanenbaum
Technical Manager
Accounting Standards Division
File 4322
American Institute of Certified
Public Accountants
New York, NY 10036-8775

Subject: Proposed SOP *Reporting on Advertising Costs*

I believe that the applicability of the SOP to accounting in interim periods needs to be clarified. The SOP (paragraph 6) clearly indicates that it pertains only to annual financial statements. However, the language of the conclusion section and the references to APB Opinion 28, *Interim Financial Reporting* in the Appendix imply the SOP may be applicable to interim periods.

The conclusion section states the accounting in terms of when an event occurs. For example, the SOP states that the cost of a television commercial, other than direct response advertising, is to be expensed the first time the commercial is aired. An alternative method would be to state the accounting in terms of the status of events at the end of the annual period (i. e. the cost of all television commercials where the commercial has been aired prior to the end of the year). Although, the alternative method would avoid any inferences as to accounting in interim periods, I do not recommend it. The current method of stating the conclusions is easier to read. I suggest adding either a statement to the scope section referring to APB 28 or a separate section repeating the language of APB 28 about advertising costs.

The references to APB 28 in the Appendix cause the following two difficulties:

> The quotes from APB 28 justify the deferral of advertising costs when "the benefits of an expenditure clearly extend beyond the interim period in which the expenditure is made." As the SOP defines the period of benefit for an expenditure, including the paragraphs implies that the SOP clarifies when the benefits of advertising expenditures extend beyond the interim period in which they are made.
>
> The SOP quotes only the first sentence of paragraph 16 d of APB 28, the paragraph dealing with deferral of an expenditure. It omits the second sentence, which covers accrual of advertising costs prior to the time they are incurred. As paragraph 38 of the SOP prohibits expensing advertising cost before the item or service has been received, omitting the second sentence creates an inference that advertising costs should not be accrued in interim periods if the item or service has not been received.

Since paragraphs 15 and 16 of APB 28 deal with the allocation within a fiscal year of costs, it is difficult to use the concepts in those two paragraphs to justify year-end accounting. Costs which may be appropriate to defer at an interim date may not be appropriate to defer at year end. I believe that the Appendix should not refer to APB 28. If the Appendix does refer to APB 28, paragraph 16 d should be quoted in its entirety.

Very truly yours,

Evan M Bush

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October 23, 1992

rec'd 10/27

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Mr. Joel Tanenbaum, Technical Manager
Accounting Standards Division
File 4322
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement of Position: "Reporting on Advertising Costs"

Dear Mr. Tanenbaum:

We are enclosing the comments of the New York State Society of Certified Public Accountants in response to the above Proposed Statement of Position. These comments were prepared by the Society's Financial Accounting Standards Committee.

If you have any questions regarding the comments, please call me and I will arrange for someone from the committee to contact you.

Thank you for your consideration.

Very truly yours,

Walter M. Primoff /dr.
Walter M. Primoff, CPA
Director of Professional Programs

WMP/dr
Enclosure

cc: Accounting & Auditing Committee Chairmen

COMMENTS OF THE FINANCIAL ACCOUNTING STANDARDS COMMITTEE OF THE NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS ON THE EXPOSURE DRAFT, DATED JUNE 22, 1992, OF A PROPOSED STATEMENT OF POSITION TITLED "REPORTING ON ADVERTISING COSTS"

The Financial Accounting Standards Committee has considered the guidance on financial reporting of advertising costs as proposed in the subject Exposure Draft. Based on that consideration, the Committee offers the following comments.

General comments

The threshold question raised in this proposal is essentially whether advertising costs can, under appropriate circumstances, be deferred or whether all such costs should be expensed. This has always been a contentious issue, as evidenced by the authoritative pronouncements excerpted in paragraphs 14 to 20.

The Committee was almost unanimous in their opinion that the existing range of current practices has rarely encouraged abuse. Advertising is a complex phenomenon, but it is clearly undertaken to provide or increase economic benefits, either in the short run or for some reasonable future period. As noted in paragraph 11 of the Draft, costs incurred in anticipation of the probable future economic benefits of advertising have not generally been reported as assets. Thus, current practices appear to be responsible and logical, yet leaving it as an option to defer such costs and placing the obligation on the entity to justify any deferral.

For these reasons, the members believe that the proposed statement of position should <u>not</u> be issued. To impose the requirements set forth in the Draft would be arbitrary at best and not significantly improve current reporting in this area.

Whether it would be helpful to issue a statement of position <u>codifying current practice</u> was discussed. Some contended that such a codification would be most helpful in the area of specified disclosures. However, the Committee was almost evenly divided on whether such a document was needed.

Specific comments

The Committee nevertheless recognizes the concerns of AcSEC in resolving issues about the financial reporting of the costs of these activities. Accordingly, the comments which follow specifically address the proposed guidance.

Paragraph 25 proposes that the costs of advertising should be expensed either as incurred or at the first time the advertising takes place. A majority of the Committee feel strongly that if advertising is to be expensed it should be expensed as incurred. To extend expensing to the first showing is arbitrary and untenable, given the broad concept of expensing that is being espoused.

On the same basis as expressed in the preceding paragraph, the Committee would not carve out direct-response advertising for different treatment. Direct-response advertising provides future benefits in no more or less a degree than many regular (and therefore expensed) advertisements programmed to run over several months in different markets or magazine layouts which use the same material over an extended period.

Accordingly, the Committee would, but only if it is determined that the statement of position should proceed to be issued, require all advertising to be expensed as incurred without exception. Again, note that, overall, this is not the preferred position of the Committee as indicated under the general comments above.

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D S Norris
Executive Vice President
and Controller

Rec'd 11/2/92
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SIGNET

October 23, 1992

American Institute of Certified Public Accountants
Joel Tanenbaum, Technical Manager
Accounting Standards Division, File 4322
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Tanenbaum:

This letter is submitted in response to the American Institute of Certified Public Accountant's request for comments on the proposed Statement of Position (SOP), "Reporting on Advertising Costs". Signet Banking Corporation appreciates the opportunity to comment on the SOP. Signet is a multi-state bank holding company headquartered in Richmond, Virginia with assets of $11 billion.

We are pleased to see that the Accounting Standards Executive Committee is working on this complex issue. Signet agrees that certain advertising costs create assets which have a future life and should be amortized to expense over this life. Signet offers the following comments for your consideration:

- The types of advertising costs that can be capitalized should be expanded beyond direct-response advertising if the reporting entity can provide evidence of the benefits derived from the advertising. For example, a financial institution should be allowed to capitalize the costs associated with a deposit promotion if it can demonstrate from past experience that future benefits will be derived from the promotion.

- For financial institutions and other lending institutions that use various advertising campaigns to solicit prospective borrowers, even direct-response advertising costs meeting the capitalization criteria of the SOP could not be capitalized because of the stringent guidance on solicitation costs in Statement of Financial Accounting Standards No. 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and the Initial Direct Costs of Leases." We feel that the accounting rules should allow for capitalization of these costs where the realization of future benefits from these costs can be demonstrated. We encourage the committee to discuss this with the Financial Accounting Standards Board so that an amendment to Statement No. 91 can be proposed.

- In cases where advertising costs do not create an asset, we believe that the accounting literature should allow costs to be expensed over the life of the specific advertising activity. This will more appropriately match expenses to the period the advertising takes place.

- We believe that disclosures related to capitalized advertising costs should follow those required for "Intangible Assets" under Accounting Principles Board Opinion No. 17 and Section 5-02 .15 and .16 of the Securities and Exchange Commision Regulation S-X.

Even if the AICPA decides to address advertising costs in a separate project, the Committee strongly disagrees with the capitalization of certain direct-response advertising while all other advertising costs are required to be expensed. Based upon the difficulty and impracticality in assessing probable future economic benefits, the Committee believes that all advertising, including direct-response expenditures, should be expensed in the period incurred. Expensing all advertising costs is a more conservative approach and eliminates the subjectivity involved in assessing the probability of future economic benefits.

If the AICPA decides to proceed with the issuance of a final SOP that requires direct-response advertising costs to be capitalized (if certain criteria are met) while other advertising costs must be expensed, the Committee offers the following specific points:

1. The Committee believes that the wording in paragraphs 25 and 28-34 should emphasize that direct-response advertising should be expensed <u>unless</u> certain specified criteria are met. While the specific criteria should be linked to the FASB Statement of Concepts No. 6 definition of an asset, the general rule should apply the convention of conservatism as referred to in FASB Statement of Concepts Statement No. 2. The standard should be written to state that all advertising, including direct-response advertising, should be expensed unless probable future economic benefits are expected as a result of the direct-response advertising expenditures. Then, the direct-response advertising costs should be capitalized.

2. Paragraph 6 states that this proposed SOP would apply to all advertising costs other than those which are covered by pronouncements included in category (a) of SAS No. 69. Category (a) of SAS No. 69, which includes all FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins, covers a substantial amount of accounting literature. If there are references in the category (a) accounting literature requiring the expensing of advertising costs, they should be referred to specifically in this SOP. (Note: The Committee acknowledges that the Appendix to the SOP provides a listing of other pronouncements regarding advertising; however, the specific accounting, if different from what will be included in the SOP, should be specifically referred to in the scope of the pronouncement.)

3. Paragraph 25 of the SOP states that advertising costs should be expensed either as incurred or the first time that the advertising takes place. The Committee believes that following the principle of conservatism, advertising costs should be expensed when incurred. The timing of when the first time that the advertising takes place is not necessarily linked to the receipt of future economic benefits.

   Not expensing such costs until the first time that the advertising occurs is inconsistent with the philosophy in the SOP which states that the capitalization of advertising costs would not provide reliable information. Such an approach appears to be an attempt to allocate the costs of advertising to some future periods. If AcSEC has concluded that the capitalization of advertising does not meet the FASB Statement No. 5 recognition criteria, then why is it justifiable to capitalize such costs for any period of time?

We appreciate your consideration of our comments and would be pleased to discuss any aspect of our letter with your or your staff at your convenience.

Sincerely,

Joseph F. Yospe
Chairman
Auditing and Accounting
Standards Committee