



Solution 100.2

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| Component | Cost of sales |
| Index | Classification of expenses within cost of sales |
| Short title | Promotional costs |

Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

Issue

An entity may classify expenses according to nature or function. Functions are defined as cost of sales, distribution activities or administrative activities [IAS1R.92].

How should management classify costs of a “buy one get one free” sales transaction?

Background

An entity is a manufacturer of chocolate and has a sales promotion campaign to attract new customers. During the campaign customers are entitled to an offer of “buy one get one free”. The sales price of one bar of chocolate is 5 and the production costs are 2.

Solution

Management should record revenue of 5 and cost of sale of 4. The purchase or production cost of a free product is always a cost of sale.

However, the costs of relatively insignificant promotional give-aways are classified as distribution or marketing expenses if they are not part of the vendor’s normal product offerings.