

Accounting for market research activities

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Abstract

Market research activities are frequently conducted by external specialist companies rather than internally. The decision may be influenced by current accounting standards. According to IAS 38 market research should be booked as expense if it is produced in-house, whereas purchased service shall be recognized as an intangible asset.

We show that, other things equal, recognizing the expenditures for market research as expenses after internal activities leads to under-investment in market research if the firm is run by a myopic manager. This under-investment is mitigated if the research is externally procured and the expenditures are recognized as an asset. However, we also show that the result is fragile and asset recognition may even lead to over-investment. Current accounting practice, thus, may distort incentives towards “buy” in the make or buy decision for market research activities.

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