

Advertising expense versus advertising charge

The way that a form 6 letting appointment is written will make all of the difference to whether or not a manager can profit from advertising.

Traditionally, when calculating the net operating profit, it was considered by accountants, and probably valuers and banks, that a manager cannot profit from advertising levies. The rationale for this was that monies paid to the manager for advertising was to reimburse the manager for advertising expenses incurred by the manager. Previously that made sense when advertising took the form of paid advertisements in newspapers, magazines, brochures and other publications. However, in today's world advertising consists of much more than that.

Today, whilst there might be some paid advertisements, for most managers the majority of advertising will be undertaken online, where the website and social media are the critical and main tools for advertising and promoting accommodation at a complex. Developing, maintaining and utilising a website and partaking in other social media promotions and activities are just some of the labour-intensive work that a manager does to advertise, market and promote a complex.

At Mahoneys our view is that if advertising, promotion, and marketing provided by



Amy McKee
Partner, Mahoneys

the manager is a charge rather than an expense in the letting appointment then the manager can include the relevant amount as income in the letting appointment. It is the terminology used in the letting appointment that is vital in making that distinction.

In a letting appointment, if advertising is shown as an expense, then the manager may only retain the actual

expenditure of advertising and cannot retain any amount above that as payment for time and effort for organising that advertisement. For example, if the manager expends \$500 placing an advertisement on realestate.com.au or in the local paper then the manager may only recover \$500 from the owner. If the manager has collected \$600 from the owner, it must either refund \$100 to the owner or actually spend another \$100 on advertising in the future.

Conversely, if advertising is shown as a charge, then that is considered a fee for the services provided by the manager including labour, time and effort. Where advertising is treated in this way there is no need to account separately to owners for any actual expenditure. All advertising levies collected belong to the manager and any excess above what might

be actually expended should be taken into account for profit calculation purposes.

Managers need to be careful, as with any other charge, the manager can only provide proper service to owners through the labour of the manager or the manager's staff. Managers should not assume that the entire advertising or marketing charge is net operating profit as it will be necessary to deduct labour expenses from the advertising and marketing charge. How much to deduct will always be contentious.

It is important that the fee or charge be properly described, that the form 6 letting appointment is properly completed and that there is proper disclosure of these things in the letting appointment (for example in the ARAMA addendum drafted by Mahoneys). ■



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holmans.
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Call 07 5430 7600 or visit holmans.com.au

Tony Rossiter: 0414 228 607
trossiter@holmans.com.au

Lel Parnis: 07 5430 7609
lparnis@holmans.com.au

