Proceedings of ICEMGD 2026 Symposium: Rethinking Governance and Policy Innovation for Societal Challenges
DOI: 10.54254/2754-1169/2026.LH34479

Discussion on Capitalization or Expensing of Platform Enterprise Marketing Expenditure—A Case Study of Meituan

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Abstract. Platform enterprises are organizations that create open transaction interfaces for bilateral or multilateral markets. The rapid growth of platform enterprises has intensified debates over whether marketing expenditures should be capitalized rather than expensed. Using Meituan as an example, this paper explores the potential impact on financial statements if partial capitalization were permitted. It investigates the scale and composition of Meituan's marketing spending, and simulates the financial statement effects under different capitalization ratios (20% and 30%) with amortization periods of 2-3 years. The findings reveal that partial capitalization increases total assets by 5.75%- 10.76% and net profit by 7.79%–13.92%, thereby improving reported profitability metrics, such as ROE. However, these benefits come at the cost of reliability. Capitalization rates lack objective market benchmarks, user retention periods vary significantly across firms, and managerial discretion may invite earnings manipulation. This study calls for industry-specific guidance that capitalizes only when user relationships are demonstrably controllable and reliably measurable.

Keywords: Platform Enterprises, Capitalization VS. Expensing, Marketing Expenses, Meituan, User Assets

1. Introduction

In the digital environment, platform enterprises, leveraging digital technologies, can more accurately match user demands and aggregate market resources, thereby maintaining competitive advantages and emerging as typical representatives of rapid development [1]. Zheng Hong and Xu Yong [2] point out that platform enterprises in their startup phase usually rely on high-quality core products or services as a foundation, engaging in high-subsidy strategy promotions supported by their own funds and angel investments. By satisfying consumer-side user demands, they gradually achieve the construction of a bilateral market. Recently, phenomena such as the "food delivery war" and "billions of subsidies", through which platforms need to release enormous cash to attract and retain user have highlighted the issue of surging marketing investments in platform enterprises. Currently, most platform enterprises adopt the accounting treatment of fully expensing their marketing expenditures. Lev suggests that expenditures for acquiring customers should be regarded as investments if they can generate continuous future benefits [3]. Lev and Zarowin indicate that when an enterprise's core value stems from intangible assets, the mandatory expensing required by current

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accounting standards will reduce the relevance of financial information [4]. Simply expensing the marketing expenditures of platform enterprises may underestimate their value creation capability.

Therefore, whether the accounting treatment of fully expensing marketing outlays truly and reasonably reflects the operating performance of platform enterprises remains to be verified. This paper will take Meituan as a case study to explore the accounting treatment of marketing expenditures for platform enterprises. It analyzes the scale and structure of Meituan's marketing expenditures, the firm's current accounting practices, and the impacts of different capitalization-to-expensing ratios on financial statements. This study aims to provide a case study of the accounting treatment of marketing expenditures and to offer insights for improving accounting standards for platform enterprises.

2. Theoretical foundation

2.1. Theoretical rationality of capitalizing marketing expenses

Lev proposed that the core assets of internet enterprises, such as user base and brand recognition, are often not presented in financial statements, failing to adequately reflect these value drivers [3]. According to the two-sided market theory by Rochet and Tirole, the defining characteristic of platform enterprises is the creation of a market structure with two user groups and the generation of value through network effects [5]. Herbert noted that compared to traditional markets, the positive feedback of platform network effects enables platforms to achieve higher market share and value [6]. Under this business model, marketing expenditures incurred for user acquisition essentially represent investments in purchasing network effects. Since the core competitive advantages of platform enterprises are not yet reflected in existing financial statement line items, fully expensing all marketing expenditures may underestimate their profitability. Certain CPS commissions (for example, when users access Meituan for the first time through specific websites and place orders, Meituan pays commissions to these websites based on transaction amounts) are similar in nature to SaaS commissions; both represent costs incurred for user acquisition, with users expected to continue contributing revenue in future periods.

2.2. Obstacles to capitalizing marketing expenditures

When constructing the theoretical framework of accounting, Paton and Littleton proposed that whether an expenditure should be capitalized depends on the reasonable certainty of its future economic benefits [7]. However, marketing expenditures are affected by uncontrollable factors, such as market competition and shifts in consumer preferences, making future benefits difficult to reliably measure. Users generated by most marketing expenditures are not fixed and exhibit high mobility; they cannot be controlled, failing to meet the control requirement for assets under the definition. For example, when subsidy amounts decrease, users may migrate to competitors. Furthermore, abstract factors such as user value and the network effects generated by marketing expenses are difficult to measure reliably. Kothari et al. argued that allowing the capitalization of marketing expenditures could enable management to manipulate earnings through capitalization ratios, thereby affecting the reliability of accounting information [8]. Nelson, Elliott, and Tarpley found through survey research that in many earnings management cases, managers manipulate specific costs to achieve their earnings targets [9]. Based on the accounting prudence principle, marketing expenditures should be recognized in profit or loss in the current period when incurred, and expensing is more consistent with the principle of accounting conservatism.

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3. Accounting treatment of Meituan's marketing expenditures: current status analysis, financial impact, and standards discussion

3.1. The scale and trends of Meituan's marketing expenditures

Figure 1. Selling and marketing expenses and marketing expenses ratio from 2021 to 2024 [10]

As shown in Figure 1, in the first half of 2022, Meituan proposed to reduce costs and increase efficiency by decreasing marketing subsidies. In 2023, Douyin entered the local services market by launching group buying initiatives, directly competing with Meituan. Therefore, Meituan increased its marketing investments, with selling expenses surging by 47% to RMB 58.62 billion, and the expense ratio rising back to 21.2%. In 2024, competition with Douyin became normalized, with no further indiscriminate subsidy wars or cash-burning behavior. The selling expense ratio decreased to 18.9%, indicating improved marketing efficiency. This may also suggest that a portion of the substantial marketing expenditures from the earlier period has contributed to building a user base and brand equity, supporting the rationale for partial capitalization.

3.2. Composition of marketing expenditures and accounting treatment

Table 1. Selected expenses classified by nature [10]

Item	2024	2023	2022	2021
Logistics Expenses	1241.50	1062.09	801.90	720.64
Transaction Cost	507.15	389.06	333.33	263.52
Employee Compensation Expenses	452.19	430.94	416.20	247.68
Promotion Advertising and User Incentives	391.18	364.75	205.70	232.01
Outsourcing Costs	133.53	146.67	225.63	186.58

This table1 presents selected expenses classified by nature. Advertising, promotion, and user incentives constitute major components of marketing expenses, which increased consistently from 232.01 to 391.18 between 2021 and 2024. Fees paid to platforms, such as advertising and promotion costs, are recorded as marketing expenses. However, user incentives fall into two categories. When platforms offer discounts, spending thresholds, or coupons as price concessions to facilitate product sales, such incentives represent consideration payable to customers and are typically recorded as a reduction of revenue. In contrast, expenditures such as trade-in subsidies or rewards for referring

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new users, aimed at product promotion and customer acquisition, where customers do not provide consideration for such incentives, should be classified as marketing expenses. A blurred boundary exists between these two categories of user incentives, enabling management to affect both gross profit margin and selling expense ratio by exploiting this definitional ambiguity.

4. Simulation of financial impacts: capitalization versus expensing of marketing expenditures

4.1. Simulation scenario design

According to *Accounting Standards for Enterprises-Basic Standard*, an asset is defined as a resource formed by past transactions or events, owned or controlled by an enterprise, from which future economic benefits are expected to flow to the enterprise [11]. Three scenarios are designed as follows.

Table 2. Assumption of capitalization

Scenario	Capitalization Ratio	Amortization Period	Description
Scenario 1 (Status)	0%	-	Full expensive or revenue deduction
Scenario 2	20%	2 years	Assuming capitalization of cost per sale
Scenario 3	30%	3 years	Assuming capitalization of both cost per sale and red pocket costs for first-time new users acquisition

Based on industry research and inferences from various studies, the average retention period for platform e-commerce users is approximately 2-3 years. Accordingly, the amortization period is set at approximately 2 to 3 years [12]. Regarding the proportion of marketing expenditures eligible for capitalization, no relevant research or analysis has been identified to date. Therefore, based on the principle of prudence, the assumed proportions are 20% and 30%, representing conservative capitalization and aggressive capitalization scenarios, respectively.

4.2. Impact of statement under the capitalization assumption

4.2.1. Impact on the balance sheet

Table 3. Assumed that capitalization begins in 2021. (unit: RMB billion)

items	Scenario 1 (0%)	Scenario 2 (20%)	Scenario 3 (30%)
Total Asset(Original Reported)	3244	3244	3244
Add:Accumulated Capitalized Amount	0	406.06	609.14
Less:Accumulated Amortization	0	-219.48	-260.1
Net increase in User Assets	0	186.58	349.04
Total Asset(Adjusted)	3244	3430.58	3593.04
Asset Growth Rate	-	5.75%	10.76%

There are changes in the asset section of the balance sheet for 2024 under different capitalization ratios. It can be observed that with a 20% capitalization ratio, intangible assets increase by 186.58, while with a 30% capitalization ratio, intangible assets increase by 349.04. Under partial

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capitalization treatments, total assets increase by 5.75% and 10.76%, respectively. Capitalization treatment enables the balance sheet to more accurately reflect certain overlooked intangible assets.

4.2.2. Impact on the income statement

Table 4. The income statement for 2024

Items	Scenario 1 (0%)	Scenario 2 (20%)	Scenario 3 (30%)
Selling Expenses(Original Report)	639.8	639.8	639.8
Less:Capitalized amount	0	127.96	191.94
Selling Expenses(Adjusted)	639.8	511.84	447.86
Add:Amortization Expenses	0	98.37	139.05
Total Profit(Original report)	379.9	379.9	379.9
Impact on Total Profit	0	+29.59	+52.89
Total Profit(Adjust)	379.9	409.49	432.79
Net profit Growth Rate	-	7.79%	13.92%

From the perspective of the income statement, according to Table 4, 20% capitalization increases pre-tax profit by 7.79%, while 30% capitalization increases pre-tax profit by 13.92%. The partial capitalization of marketing expenditures enhances overall profits, with higher capitalization ratios leading to greater profit improvements. This indicates that capitalization treatment has a significant impact on the profitability of platform enterprises, suggesting that the current full-expensing practice may underestimate their earning capacity.

However,capitalized shift expenses will be amortized over subsequent years. While total profits increase substantially in the initial year, subsequent ears adopt capitalization accumulate. This may delay the recognition of current financial issues and could impose significant burdens on the enterprise in future periods.

4.2.3. Analysis of key financial indicators

With varying degrees of capitalization, the asset base expands while revenue remains unchanged, resulting in a decline in turnover ratios. The net profit margin increases from 10.61% to 11.27% and further to 11.78%, demonstrating that capitalization can alleviate the burden on the current-period income statement and enhance reported profitability. Meanwhile, return on equity rises from 20.74% to 22.04% and then to 23.04%, benefiting from the increase in net assets. This indicates that capitalization treatment improves the perception of corporate profitability from the perspective of equity investors.

Table 5. Key financial indicators under different capitalization scenarios

Indicator	Scenario 1	Scenario 2	Scenario 3
Net Profit Margin	10.61%	11.27%	11.78%
Total Asset Turnover	1.04	0.98	0.94
Return on Equity	20.74%	22.04%	23.04%

Note: Based on Meituan's 2024 annual revenue.

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4.3. Theoretical re-examination based on simulation results

4.3.1. Assumption outcome

The above simulation analysis reveals the quantitative impact of marketing expenditure capitalization on asset scale, profit levels, and key financial indicators from the perspective of financial reporting. The simulation results show that under the 30% capitalization scenario, total assets increase by 10.76%, and net profit increases by 13.92%. From the perspective of accounting information quality, this adjustment enhances relevance by incorporating user resources into the asset category, providing a more faithful representation of the platform-based enterprise's business model essence, namely, that "the user base is the core asset."

However, reliability faces challenges: the capitalization ratios (20%, 30%) lack an objective market basis, and while the amortization period (2-3 years) is based on industry reports, individual enterprises may exhibit significant differences in user retention. In the pursuit of information relevance, the subjectivity of accounting estimates may undermine the reliability of that information.

The simulation also shows that capitalization improves reported profitability metrics such as ROE. From the perspective of resource allocation, the capitalization treatment reclassifies marketing expenditures originally charged to current period profit or loss as assets, creating a divergence between the apparent efficiency of assets generating revenue and the actual efficiency of resource utilization. If investors focus solely on the improvement in ROE, they may overestimate the enterprise's operational efficiency. Therefore, multiple indicators should be considered to present a true picture of operational efficiency.

Current Chinese accounting standards for business enterprises provide no clear guidance on capitalizing marketing expenditures. The simulation uses a 2-3-year amortization period, reflecting the characteristics of the platform economy's "user lifecycle." The simulation demonstrates that even moderate capitalization assumptions (20-30%) materially affect total assets (by up to 10.8%) and net profit (by up to 13.9%), highlighting the sensitivity of financial statements to managerial discretion in the absence of clear guidance.

4.3.2. Theoretical analysis and case examination

Paton and Littleton pointed out that whether an expenditure should be capitalized depends on the reasonable certainty of its future economic benefits [7]. This criterion is relatively clear in traditional manufacturing industries, but the rise of platform-based enterprises has challenged it. According to the two-sided market theory of Rochet and Tirole, platform-based enterprises create value by building a two-sided user structure and leveraging network effects [5]. Under this business model, marketing expenditures incurred to acquire users are essentially "purchasing network effects", their economic substance transcends traditional selling expenses and represents a long-term investment oriented toward future returns. Lev further argued that the core assets of internet enterprises, such as user base and brand recognition, are often not presented in financial statements, and mandatory expensing leads to a significant decline in the relevance of financial information [3].

MEituan, from 2021 to 2024, its selling and marketing expenses were RMB 40.02 billion, RMB 38.00 billion, RMB 58.62 billion, and RMB 63.98 billion, respectively, with marketing expense ratios ranging between 19% and 22% [10]. Among these, the "promotions, advertising, and user incentives" item reached RMB 39.118 billion in 2024, accounting for 66.3% of total marketing expenses [10]. The economic substance of such expenditures is to attract users to complete their first transaction through subsidies and incentives, with the expectation that they will continue to

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contribute revenue in the future. From an economic substance perspective, such expenditures satisfy the three elements of the definition of an asset: they arise from past transactions, are expected to generate future economic benefits, and, with the support of digital technology, enterprises can achieve continuous user relationship lock-in through account systems and membership programs. Full expensing treatment may undervalue the value-creation capability of platform-based enterprises. Although users are fluid and may churn when subsidies are reduced, Meituan has built user stickiness through mechanisms such as account systems, data accumulation, and membership benefits. If the user retention cycle is stable (e.g., the average retention cycle for platform e-commerce is 2-3 years), the "control" factor is satisfied to some extent. The accounting treatment of marketing expenditures by platform-based enterprises is essentially a concentrated manifestation of the boundary issues of asset definition, the trade-off between relevance and reliability of information quality, and the application of the prudence principle in the context of the digital economy. The Meituan case demonstrates the coexistence of rationality and obstacles: marketing expenditures have investment attributes, but measurement uncertainty and earnings management risks constrain the feasibility of capitalization.

5. Discussion

5.1. Limitations

This study conducts a single-case analysis using Meituan as the subject. As a leading platform in the local lifestyle services sector, Meituan has unique characteristics in its marketing expenditure scale, user base, and business model. Therefore, the generalizability of the research conclusions to other types of platform enterprises requires cautious validation. The capitalization assumptions in this paper have been simplified. Although the 20% and 30% capitalization ratios and the 2-3 year amortization period adopted in the simulation analysis are based on industry reports and the prudence principle, there are significant differences in user retention cycles and customer acquisition cost structures across actual enterprises. The simplified assumptions may not fully capture the complexity of real-world situations. Furthermore, the simulation analysis does not incorporate the effects of capitalization treatment on deferred tax assets and income tax expenses, nor does it consider potential impairment testing of user assets.

5.2. Implications

Allowing capitalization can enhance the relevance of financial information, but strict recognition conditions should be established, such as verifiability of user retention periods and regular impairment testing, to prevent accounting policy choices from becoming tools for earnings management. If an enterprise chooses capitalization treatment, it should be required to disclose its capitalization policies, amortization periods, impairment testing methods, and key assumptions , such as user lifetime value and customer acquisition cost payback periods, thereby enhancing the transparency and comparability of financial information.

6. Conclusion

Meituan's marketing expenditures have continued to rise amid intensifying competition, with the selling expense ratio remaining between 18% and 23%, which is relatively high. Although marketing expenditures contribute to building user relationships and brand value, due to the

DOI: 10.54254/2754-1169/2026.LH34479

enterprise's inability to control users and the difficulty of reliably measuring such value, the current 0% capitalization treatment complies with accounting standards and truthfully reflects the rising trend in customer acquisition costs. If aggressive capitalization were adopted, current-period profits might be excessively inflated, potentially sacrificing future periods and concealing risks. It is undeniable that the expensing treatment results in an understatement of current-period profits, which may affect the relevance of accounting information. However, current research has not yet established a precise metric to quantify, with relative accuracy, the portion of platform enterprises' marketing expenditures that generates long-term revenue through intangible assets. Therefore, based on the principle of prudence in accounting standards, full expensing represents the optimal treatment approach under current circumstances.

This study is limited by disclosures in annual reports, as user incentives recorded as reductions to revenue remain unknown, potentially leading to an underestimation of marketing expenditures. The hypothetical analysis section involves subjectivity, and due to limitations in the quarterly user data disclosed in annual reports, a specific model could not be constructed to explore the relationship between Meituan's marketing expenditure and user or revenue growth. Future research could conduct multi-case comparisons and attempt to quantify abstract factors, such as partial user value and the network effects generated by marketing expenditures, into measurable assets.

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