UITF abstract 26
Barter transactions for advertising

(Issued 9 November 2000)

The issue

An entity such as a publisher or broadcaster may agree to provide advertising in exchange for advertising services provided by its customer, rather than for a cash consideration. For example, it has recently become common for companies that provide commercial Websites to display advertisements in exchange for advertising of their own services on another Website. Such an exchange gives rise to the question of what amount, if any, should be included in reported turnover and expense. 1

Although this issue has no overall effect on the total profit or loss, it does affect the amount of turnover, which is often cited as a significant measure of performance for Internet companies. 2

The recognition criteria in the Statement of Principles for Financial Reporting require (a) sufficient evidence and (b) measurement at a monetary amount with sufficient reliability. Where advertising services are provided for a cash consideration, the transaction evidences the value of the services provided. In contrast, where advertising is provided in exchange for advertising received, the arrangement provides little or no evidence of the value of the services provided. 3

The UITF decided that it would be appropriate to recognise turnover and costs in respect of barter transactions for advertising only if there is persuasive evidence of the value at which, if the advertising had not been exchanged, it would have been sold for cash in a similar transaction. The UITF believed that such circumstances would be rare. 4

The UITF noted that this conclusion is consistent with a recent consensus of the Emerging Issues Task Force in the USA (Accounting for Advertising Barter Transactions - Issue No 99-17). 5

This Abstract applies to barter transactions for advertising, whether on the Internet, or on television, in magazines, on poster sites or by another medium. 6

FRS 5 ‘Reporting the Substance of Transactions’ requires that, in determining the substance of a transaction to be reported, all its aspects and implications should be identified and greater weight given to those more likely to have commercial effect in practice. Accordingly, an arrangement should be regarded as a barter transaction where that fairly reflects its substance. This may be the case where a contract to provide advertising for a cash consideration is made on the understanding that a similar reciprocal contract is entered into. It may also be the case where the purchaser of advertising agrees to procure advertising services from another party in exchange rather than provide them itself. 7

8 This Abstract has been developed in the context of barter transactions for advertising. A distinctive feature of such transactions is that they involve little or no marginal cost. Application of this Abstract is not mandatory for barter transactions for services other than advertising, although its principles may be relevant to such transactions.

Application to smaller entities

9 Reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt from this Abstract.

UITF consensus

10 The UITF reached a consensus that turnover and costs in respect of barter transactions for advertising should not be recognised unless there is persuasive evidence of the value at which, if the advertising had not been exchanged, it would have been sold for cash in a similar transaction. In these circumstances, that value should be included in turnover and costs.

11 Persuasive evidence of the value of advertising exchanged will exist only where it can be demonstrated that similar advertising has been sold for cash. This will be the case only where the entity has a history of selling similar advertising for cash, and where substantially all of the turnover from advertising within the accounting period is represented by cash sales.

12 To provide evidence of the value of advertising exchanged, cash sales of advertising must be similar in all significant respects. This requires that the cash sales are of advertising space in the same vehicle (for example, the same Website or magazine) as that exchanged, and must have taken place within a reasonably short period of the exchange transaction (in no case more than six months before or after it). There must also be no other factors that would be expected to make the value of the advertising sold for cash significantly different from that exchanged. Specific factors to consider include:

- circulation, exposure, or saturation within an intended market
- timing (time of day, day of week, daily, weekly, 24 hours a day/7 days a week, and season of the year)
- prominence (page on Website, section of periodical, location on page, and size of advertisement)
- demographics of readers, viewers, or customers
- duration (length of time advertising will be displayed).

The above list is not intended to be exhaustive.

Even where similar advertising has been sold for cash, it is necessary to consider whether in the light of all available information there is persuasive evidence of the value at which the advertising exchanged would have been sold if not exchanged. Specific factors that may be relevant include: 13

- the entity's practice in setting prices for the advertising it provides, and the circumstances in which discounts are offered
- the probability that, if the advertising were not exchanged, a cash sale would have taken place
- the value to the entity of the advertising received in exchange, and the evidence that the entity would have been willing to buy that advertising for cash if it had not been able to obtain it through an exchange transaction.

Entities should disclose in the notes to the financial statements the total amount of barter transactions for advertising that is included in turnover. Entities are encouraged to disclose information on the volume and type of such transactions and other kinds of barter transaction (whether or not included in turnover). 14

Date from which effective

The accounting treatment required by the consensus should be adopted in financial statements relating to accounting periods ending on or after 23 December 2000, but earlier adoption is encouraged. 15

References

ASB pronouncements

FRS 5 'Reporting the Substance of Transactions' - paragraph 14

ASB Statement of Principles for Financial Reporting - Chapter 5

Other pronouncements

EITF Consensus (USA) 'Accounting for Advertising Barter Transactions' (Issue No 99-17)

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