

SIC 31

Revenue - barter transactions involving advertising services

REFERENCES

- IAS 8 Accounting policies, changes in accounting estimates and errors
IAS 18 Revenue

ISSUE

A company providing advertising services may enter into a barter transaction with a customer (client) in exchange for receiving advertising services from that customer (client). Revenue from that transaction may only be recognized or booked in situations where the services exchanged are, dissimilar.

For example, an advertising company may place paid advertisements in a car rental company's magazine in exchange for the rental company distributing its magazine in its rental vehicles.

If the services exchanged are similar and/or cannot be measured reliably, the services provided should not be recognized in revenue.

Example 1: Radio company X (whose station's trade name is A) agrees with radio company Y (whose station's trade name is B) to broadcast radio advertisements for station B on A's airwaves. In exchange, company Y will broadcast radio advertisements for station A via B's airwaves.

In the above example, these are regarded as similar operations and therefore may not be recognized in revenue under any circumstances (it is regarded effectively as a service provided indirectly by the company to itself).

The issues raised by SIC 31 have resulted in defining the criteria to be satisfied for situations where the fair value of the advertising services rendered can be recognized as revenue.

POSITION ADOPTED

Generally, revenue from barter transactions involving advertising services cannot be measured reliably at the fair value of the advertising services provided.

However, in some cases a reliable measurement of barter transactions for advertising services may be derived from a comparison with similar advertising services other than bartering, provided that these services satisfy all of the following five requirements:

- they involve advertising similar to that involved in the barter transaction;
- they occur frequently;
- they represent a predominant number of transactions and amount when compared to all advertising transactions that are similar to those covered by the barter transactions;
- they involve a cash consideration or consideration of another nature (for example, in the form of non-monetary assets), whose fair value can be measured reliably;
- they do not involve the same counterparty as in the barter transaction.

Example 2: Radio company X agrees with company Y (a company which provides cleaning services) to broadcast 100 advertisements lasting 30 seconds each on its airwaves. In exchange, company X will pay for this service by providing 2,000 hours of cleaning at a unit market value of 20. The cost for an advertising campaign over the radio would be billed at 40,000. In the end, the radio broadcasts approximately 500 radio advertisements over the relevant broadcasting period of company Y's advertisements.

In the above example, these are dissimilar transactions which may be analyzed as follows:

Criteria under SIC 31	Application to this situation
Similar services exist outside of the barter transaction	The promotion of a cleaning service company on the radio is frequent and results in the payment of consideration in cash
Sufficiently frequent service	
Significant amount and proportion of the transactions	Advertising campaigns carried out outside of the promotion of company Y account for 80% of the advertisements over the period (400 / 500)
Consideration measured reliably	In this case, the consideration corresponds to 2,000 hours of cleaning services at 20 (i.e., 40,000)
Different consideration	The consideration for the advertising is a cleaning service

Radio company X is thus able to recognize income amounting to 40,000.