Issue No. 99-17

Title: Accounting for Advertising Barter Transactions

Dates Discussed: November 17–18, 1999; January 19–20, 2000

References: FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*
FASB Statement No. 53, *Financial Reporting by Producers and Distributors of Motion Picture Films*
FASB Statement No. 63, *Financial Reporting by Broadcasters*
FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*
FASB Concepts Statement No. 6, *Elements of Financial Statements*
APB Opinion No. 20, *Accounting Changes*
APB Opinion No. 29, *Accounting for Nonmonetary Transactions*
AICPA Statement of Position 75-5, *Accounting Practices in the Broadcasting Industry*

ISSUE

1. It has become increasingly popular for Internet companies to enter into transactions in which they exchange rights to place advertisements on each others' web sites. In some of these transactions, no cash is exchanged between the parties. In other transactions, similar amounts of cash are exchanged between the two parties. Some entities record an equal amount of revenue (for the web space they own and "sell") and expense (for the web space they "purchase" from the other entity). There is no overall effect on net income or cash flows, although the timing of the revenue and expense may differ. Although this Issue is written in the context of Internet companies, it also applies to advertising barter transactions in other industries.

2. Currently, many Internet companies report net losses and net operating cash outflows and there is a belief that the market capitalization of many Internet companies is based on revenues. To the extent that revenues include barter transactions for which

there is no ultimate realization in cash and no overall effect on net income, the practice may lead to overstated revenues and artificially inflated market capitalization.

3. The issue is whether barter transactions that involve a nonmonetary exchange of advertising should result in recorded revenues and expenses at the more readily determinable fair value of the advertising surrendered or received in the exchange, or book value, because fair value cannot be determined within reasonable limits.

EITF DISCUSSION

4. The Task Force reached a consensus that revenue and expense should be recognized at fair value from an advertising barter transaction only if the fair value of the advertising surrendered in the transaction is determinable based on the entity's own historical practice of receiving cash, marketable securities, or other consideration that is readily convertible to a known amount of cash for similar advertising from buyers unrelated to the counterparty in the barter transaction. An exchange between the parties to a barter transaction of offsetting monetary consideration, such as a swap of checks for equal amounts, does not evidence the fair value of the transaction. If the fair value of the advertising surrendered in the barter transaction is not determinable within the limits of this Issue, the barter transaction should be recorded based on the carrying amount of the advertising surrendered, which likely will be zero.

5. A period not to exceed six months prior to the date of the barter transaction should be used to determine whether a historical practice exists of receiving cash or marketable securities for similar advertising. If economic circumstances have changed such that prior (but not more than six months old) transactions are not representative of current fair value for the advertising surrendered, then a shorter, more representational period should be used. In addition, it is inappropriate to consider cash transactions subsequent to the

barter transaction to determine fair value (that is, there is no look back allowed to value and record past barter transactions).

6. For advertising surrendered for cash to be considered "similar" to the advertising being surrendered in the barter transaction, the advertising surrendered must have been in the same media and within the same advertising vehicle (for example, same publication, same web site, or same broadcast channel) as the advertising in the barter transaction. In addition, the characteristics of the advertising surrendered for cash must be reasonably similar to that being surrendered in the barter transaction with respect to:

a. Circulation, exposure, or saturation within an intended market
b. Timing (time of day, day of week, daily, weekly, 24 hours a day/7 days a week, and season of the year)
c. Prominence (page on web site, section of periodical, location on page, and size of advertisement)
d. Demographics of readers, viewers, or customers
e. Duration (length of time advertising will be displayed).

7. The quantity or volume of advertising surrendered in a qualifying past cash (or near-cash) transaction can only evidence the fair value of an equivalent quantity or volume of advertising surrendered in subsequent barter transactions. In other words, a past cash transaction can only support the recognition of revenue on advertising barter transactions up to the dollar amount of the cash transaction. When the cash transaction has been used to support an equivalent quantity and dollar amount of barter revenue, within the limits of this Issue, that transaction cannot serve as evidence of fair value for any other barter transaction.

8. Entities should disclose the amount of revenue and expense recognized from advertising barter transactions for each income statement period presented. In addition, if an entity engages in advertising barter transactions for which the fair value is not determinable within the limits of this Issue, information regarding the volume and type of

advertising surrendered and received (such as the number of equivalent pages, the number of minutes, or the overall percentage of advertising volume) should be disclosed for each income statement period presented.

9. The Task Force observed that the consensus described above should be applied either prospectively to transactions after January 20, 2000, or as a change in accounting principle in accordance with Opinion 20 and Statement 3.

STATUS

10. No further EITF discussion is planned.