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# ACCOUNTING

## Accounting for Transactions Involving Barter Credits

*By Joel Steinberg CPA, American Express Tax and Business Services*

Commercial barter transactions have been increasing in recent years, and there are currently a number of commercial barter websites. A barter transaction can involve an exchange of goods or services for other goods or services or barter transaction can involve an exchange of goods or services for other goods or services or barter credits. In a transaction involving barter credits, a company exchanges an asset such as inventory for barter credits. The transaction might be done directly with another entity that will provide goods or services, or it might be done through a barter network, goods or services or it might be done through a barter broker or network. In a barter network, goods or services are exchanged for barter credits or trade dollars that can be used to purchase goods or services from either the barter broker or members of the network. The goods and services to be purchased may be specified in a barter contact or may be limited to items made available by members of the network. Credits for advertising are the most common items received in barter transactions. This is because advertisers can often run additional spots with little additional overhead and are therefore willing to exchange such services for nonmonetary consideration.

### Recording the Exchange Transaction

Guidance on accounting for the exchange transaction is provided in FASB Emerging Issues Task Force (EITF) Issue No. 93-11, *Accounting for Barter Transactions Involving Barter Credits*. The task force reached a consensus that No. 29, *Accounting for Non-monetary Transactions*, should be applied to an exchange of a nonmonetary asset for barter credits. The basic principle of APB No. 29 is that accounting for nonmonetary transactions should be based on the fair values of the assets or services involved. (This excludes situations where the exchange is not the culmination of an earning process, in which case the recorded amount of the asset surrendered should be used.) The transaction is generally measured based on the fair value of the asset surrendered. The fair value of the asset surrendered becomes the cost basis of the asset acquired. A gain or loss should be recognized based on the difference between the fair value of the asset surrendered and its carrying amount.

The fair value of the asset received in an exchange should be used to record the transaction only if it is more clearly evident than the fair value of the asset surrendered. In the case of the barter credits, it should be presumed that the fair value of the asset exchanged is more clearly evident than the fair value of the barter credit it's received. Accordingly, the barter credits received should be recorded at the fair value of the asset exchanged. That presumption might be overcome if the barter credits can be converted into cash in the near term or if independent quoted market prices exist for items to be received in exchange for the barter credits.

Which determining the fair value of the asset surrendered, it should be presumed that the fair value of the asset does not exceed its carrying amount, unless there is persuasive evidence supporting a higher value. When determining the value of inventory or other assets exchanged in a barter transaction, skepticism should be used. The reality is that the company would prefer to sell the inventory for cash rather than barter credits. The fact that the company is bartering with inventory could indicate that the company's normal selling price may not be an accurate measure of fair value. This could also raise lower-of-cost-or-market valuation questions about any items remaining in inventory.

The EITF also concluded that if the fair value of the asset exchanged is less than its carrying amount, impairment should be recognized prior to recording the exchange. For example, inventory exchanged in a barter transaction should be adjusted to the lower of cost or market prior to recording the barter transaction. In the case of long-lived assets, impairment should be measured and recognized in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-lived Assets to Be Disposed Of.

## Evaluating the Recorded Amount of Barter Credits

At each balance sheet date, the recorded amount of barter credits should be evaluated for impairment. An impairment loss should be recognized if the fair value of any remaining barter credits is less than the carrying amount or if it is probable that the company will not use all of the remaining barter credits.

The first step in evaluating the realizability of barter credits is to evaluate the likelihood that the counterparty will perform. If the credits are directly with another entity that will provide goods or services that the entity should be evaluated. This can be done by investigating the credit rating of that entity and obtaining references from other companies that have been involved in similar transactions with the entity. If the credits are with a barter broker or network, the creditability and history of the broker or network should be evaluated. This can be done by contacting the International Reciprocal Trade Association (www.irta.net) or similar organizations.

The next step is to evaluate, based on current and future operations, whether the company is expected to fully utilize the recorded amount of the credits. For example, if a company has available $100,000 of advertising credits, but typically spends only $5,000 on advertising each year, it might take 20 years to fully utilize the credits. Similarly, credits may allow the company to purchase whatever goods or services happen to be available from members of the network, and it may be uncertain whether the company will ever need them. Barter credits may also have a contractual expiration date, at which time they become worthless. Finally, some arrangements may require the payment of cash in addition to barter credits, in which case the ability of the company to use the credits may be limited. ■

### Editors

- Douglas R. Carmichael, PhD, CFE, CPA
- Stan Ross, Department of Accounting Zicklin School of Business Baruch College
- John F. Burke, CPA