

Effective for annual periods  
beginning on or after 1 January 2005

*Hong Kong (SIC) Interpretation 31*

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# Revenue — Barter Transactions Involving Advertising Services

This Standard is superseded by HKFRS 15 *Revenue from Contracts with Customers*. HKFRS 15 shall be applied for annual reporting period on or after 1 January 2018.



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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## **Hong Kong(SIC) Interpretation 31**

### ***Revenue - Barter Transactions Involving Advertising Services***

HK(SIC) Interpretation 31 *Revenue - Barter Transactions Involving Advertising Services* (HK(SIC)-Int 31) is set out in paragraph 5. HK(SIC)-Int 31 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

#### **References**

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- HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- HKAS 18 *Revenue*

#### **Issue**

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- 1 An entity (Seller) may enter into a barter transaction to provide advertising services in exchange for receiving advertising services from its customer (Customer). Advertisements may be displayed on the Internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium.
- 2 In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged.
- 3 A Seller that provides advertising services in the course of its ordinary activities recognises revenue under HKAS 18 from a barter transaction involving advertising when, amongst other criteria, the services exchanged are dissimilar (HKAS 18.12) and the amount of revenue can be measured reliably (HKAS 18.20(a)). This Interpretation only applies to an exchange of dissimilar advertising services. An exchange of similar advertising services is not a transaction that generates revenue under HKAS 18.
- 4 The issue is under what circumstances can a Seller reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

#### **Conclusion**

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- 5 Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a Seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions that:
  - (a) involve advertising similar to the advertising in the barter transaction;
  - (b) occur frequently;
  - (c) represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction;
  - (d) involve cash and/or another form of consideration (eg, marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and
  - (e) do not involve the same counterparty as in the barter transaction.

## Basis for Conclusions

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HK(SIC)-Int 31 is based on SIC Interpretation 31 *Revenue – Barter Transactions Involving Advertising Services*. In approving HK(SIC)-Int 31, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 31. Accordingly, there are no significant differences between HK(SIC)-Int 31 and SIC Interpretation 31. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 31 referred to below generally correspond with those in HK(SIC)-Int 31.

- 6 IAS 18.9 requires revenue to be measured at the fair value of the consideration received or receivable. When the fair value of the services received cannot be measured reliably, the revenue is measured at the fair value of the services provided, adjusted by the amount of any cash or cash equivalents transferred. IAS 18.26 states that when the outcome of a transaction involving the rendering of services cannot be estimated reliably (eg, the amount of revenue cannot be measured reliably), revenue should be recognised only to the extent of the expenses recognised that are recoverable. As explained in IAS 18.27, this means that revenue is recognised only to the extent of costs incurred that are expected to be recoverable and, as the outcome of the transactions cannot be estimated reliably, no profit is recognised.
- 7 Paragraph 31 of the *Framework*<sup>1</sup> states that information has the quality of reliability when it is free from material error and bias and is representationally faithful. Measuring revenue at the fair value of advertising services received from the Customer in a barter transaction is impracticable, because reliable information not available to the Seller is required to support the measurement. Consequently, revenue from a barter transaction involving advertising services is measured at the fair value of the advertising services provided by the Seller to the Customer.
- 8 IAS 18.7 defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction<sup>2</sup>. A published price of a service does not constitute reliable evidence of its fair value, unless the price is supported by transactions with knowledgeable and willing parties in an arm's length transaction. For transactions to provide a relevant and reliable basis for support, the services involved are similar, there are many transactions, valuable consideration that can be reliably measured is exchanged, and independent third parties are involved. Consequently, the fair value of advertising services provided in a barter transaction is reliably measurable only when it is supportable by reference to non-barter transactions that have these characteristics.
- 9 However, a swap of cheques, for example, for equal or substantially equal amounts between the same entities that provide and receive advertising services does not provide reliable evidence of fair value. An exchange of advertising services that also includes only partial cash payment provides reliable evidence of the fair value of the transaction to the extent of the cash component (except when partial cash payments of equal or substantially equal amounts are swapped), but does not provide reliable evidence of the fair value of the entire transaction.
- 10 Reliable measurement of the fair value of a service also depends on a number of other factors, including the industry, the number of market participants, the nature of the services, and the number of market transactions. In the case of barter transactions involving advertising, the fair value of advertising services is reliably measurable when independent non-barter transactions involving similar advertising provide reliable evidence to substantiate the fair value of the barter exchange.

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<sup>1</sup> The reference to the *Framework* is to IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*. Paragraph 31 was superseded by Chapter 3 of the *Conceptual Framework*.

<sup>2</sup> IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

**Date of issue**

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December 2004

**Effective date**

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This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

This Interpretation supersedes Interpretation 19 *Revenue - Barter Transactions Involving Advertising Service* (issued in July 2002).