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Accounting for Trade or Barter Agreements in Radio and Television

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As accountants I know that you correlate your everyday experiences and encounters with goods and services with their place on the owner's balance sheet.

In this connection you may have wondered about the prizes given to contestants on quiz shows or the "give aways" handed to a studio audience member interviewed by a master of ceremonies.

These seemingly simple transactions are actually part of much larger complex of trade or barter agreements entered into by broadcasters with suppliers or trade brokers.

The single characteristic which sets these "trades" apart is that the station buys prizes, give aways or other merchandise it may need with commercial air time rather than with cash.

For example: Station KKK-TV wishes to award a new car to the winner of a quiz show and to acquire this car by a trade agreement. The station may approach a local car dealer with a proposal that commercial time will be made available to the dealer. The dealer is interested because he acquires advertising time based on the retail value of the car (and sometimes even more) to be traded without having to pay out cash for it and, in addition, his firm is mentioned at the time the car is awarded and, in many cases, also in the promotional announcements the station makes for the show itself.

The reason these trade agreements are so common in broadcasting is that the inventory a radio or television station has for sale consists of seconds and minutes of air time available for commercials. If these are not sold prior to broadcast time, the inventory is worthless and gone forever. Trade transactions traditionally involve flexible scheduling of commercials by the station to allow for accommodation, first, of all spots purchased for cash. Naturally, if the advertiser trading merchandise for time is willing to accept a flexible schedule, to be pre-empted on short notice, and to wait for the slack broadcasting hours, he may demand more total time than if he were spending cash and had a firm schedule in prime time. Depending on the market factors in effect at the time each trade agreement is negotiated the ratio of the value of air time given to the value of the merchandise received may vary from 1-1 to 4-1 or higher.

We will discuss the accounting implications of the ratio after the other variables in these trades have been explored.

There are many types of merchandise or services for which a station may trade time. The types cover almost every category on the asset side of the balance sheet.

Cash is the first one and may surprise you but, when traded on a ratio, it really approaches a normal loan transaction.

Programs on film or tape are traded by the stations principally from the large time brokers who barter programming, electronic equipment, or bulk purchases of prize merchandise.

Programs (except for nationally originated shows) in broadcasting are generally purchased on a license basis. The station buying the program enters into a contract for the license to broadcast a particular program, or series of programs, over a specified period of time and generally for a specified number of repeat runs. A station's program inventory is not an income-producing one in the usual accounting sense but is more in the nature of a deferred charge to be amortized as the program is broadcast.

Supplies and other rights to services are traded, among others, for:

- Home appliances
- Cars
- Hotel accommodations
- Airplane travel
- Clothing
- Carpeting
- Houses
- Swimming pools
- Cameras
- Boats
- Monthly rental of cars or trucks
- Newspaper advertising space

Television and radio stations require a quantity of electronic equipment for their studios and transmitters. This equipment needs to be expanded or replaced as the program needs of the station change or as the equipment becomes obsolete. Most of this could be traded if the station is interested.

From this analysis you can see that a station could fulfill many of its requirements by trade agreements.

Now you will ask, "But do all these suppliers really want to use the air time available to them for advertising their own products?" The answer is "No." Wholesalers of film or electronic equipment, for instance, generally find the best use of their advertising dollar to be in their own trade press. Therefore, the time broker enters the picture. He acts as the middle man between the advertiser whose product is not subject to a large trade demand, e.g. cosmetics, and the trader who does not need television or radio time. This middle man frequently deals on one hand with advertising agencies and on the other with the broadcaster; whereas in a cash transaction the broadcaster generally deals directly with the advertising agency.

Up to this point, what I have described is common to most stations. The items needed, the negotiations on a ratio basis and the middle man entering into some large transactions. The differences in the accounting treatment and control arise because there are presently no generally accepted methods of recording these agreements nor have they been fitted into the internal control procedures applied to all other transactions in cash or by check at the station.

I will discuss some of the accounting factors involved in these agreements:

- Contract terms
- Recording of contracts
- Period used for picking up income or expense
- Statement presentation
- Internal control of income and expense

and give you my recommendations in each case.

Contract terms may include a specified length of time within which the commercial air time is to be used. If not used, it should be specified that it will be forfeited. Commission to an advertising agency may be included—although this is not the rule. If it is included, it should be specified whether it is to be paid in cash or in more air time. A contract may be one with no specified ending date where both parties render services on a recurring basis—such as rental of equipment for a specified amount of air time monthly. In these cases it is important to agree upon a notice period where either party may terminate. The merchandise to be delivered or the service to be rendered should be clearly specified and a dollar value assigned. If a ratio is involved, it should be clearly specified. In some contracts the services rendered will be accompanied by cash obligations for auxiliary facilities or labor. These should be clearly described.

In actual practice the contracts described above range anywhere from a discussion and a handshake to lengthy, specific documents. The accountant is charged with the job of getting all the facts whether the contract is written or oral. My recommendation is to have a written contract, or at the least a simple memo form, of agreement in all cases.

The point to be covered in recording of contracts is whether they are recorded at all. Some stations take the position that there is no need to record the contracts because they represent the utilization of otherwise valueless air time and therefore are of no monetary value worth recording. Other stations record trade agreements for assets only, such as filmed programs or equipment, and do not record contracts for current expense items, such as prizes to be given away. In my opinion, all of these contracts have a monetary value, or else they would never have been negotiated, and, therefore, they should be recorded on the books.

This leads us to the question of valuation of contracts. If the contract is on a 1-1 ratio, is it realistic even so? Or could the item have been purchased for less by paying cash? Car trade agreements, for example, are generally negotiated at list, but it is well known that a cash customer may get a substantial discount. Therefore, it seems reasonable to use the cash value as a recording basis. Some stations take the position that they will record the value of the air time given at its published rate. Therefore, if a contract is on a ratio basis, they will record the top dollar, e.g. a car purchased on a 1½-1 ratio may be booked at $4,500 if its list price is $3,000. The reasoning here is that the air time used is listed at $4,500 and if sold for cash would have brought that much money to the station.

My recommendation here is based on the conservative accounting approach which calls for pricing at the lower of cost or market—therefore, I would value all contracts at the market or cash value of all goods or services received by the station.

Income from trade agreements is derived from the broadcasting of the commercials contracted for and the expense comes from the use or amortization of the items received in the contract. Strong differences of opinion are held in the industry over the period for recording income and expense. Some stations record the income and expense in the same month (either when the service is used or when the air time is run) and other stations record the income when the time is used

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It is not only the jobs and careers of today's women that are at stake. They are the women who will set the pattern. If they are not up to obtaining and holding professional, supervisory and executive positions today, then those positions will surely be filled by men. If young women in college see men dominating certain fields they will ignore those areas because they will assume that there are no opportunities for them there; and this assumption will probably be correct. It is a vicious circle of the simplest sort and the next few years are the crucial period.

It has taken many years for women to attain the acceptance in the business world that they enjoy today. No one can predict the future, but it is certainly the responsibility of women individually and collectively to do their best to *keep pace* thereby assuring to future business women the same opportunities and advantages that they have had.

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and the expense in a different period, if that is properly where it belongs. As accountants become more knowledgeable and more persuasive in explaining to management the merits of properly assigning income and expense to their respective periods, I hope to see more stations adopt this method.

Statement presentation (for those contracts recorded) varies considerably. The income may or may not be separated from regular sales. Expenses and amortization should logically be allocated by departments or to cost of sales—but this is not always the case. Sometimes trade expenses are combined into one figure, and in some companies trade income and expenses are netted against each other and the difference is shown as either income or expense for the month or period.

If a company followed the practice of recording the income and expense from each contract in the same month and then netted these figures the result would be zero and, therefore, never mentioned on a statement. My recommendation is to allocate income and expenses by type and department and record each in its proper period. Management then has a complete picture of operations and furthermore one that is comparative to other periods when comparable income or expense may have been on cash terms.

Irregardless of whether trade contracts are recorded on the books, the internal control procedures applied should be complete. If the control is lax, the station may never receive the benefits for which it is running a sponsor's commercials.

Prizes, promotional materials, accommodations available at hotels and on planes should be inventoried exactly and issued only upon written authority of an authorized member of management.

The air time contracted for should be inventoried just as carefully and identified with a specific contract before it is run to be sure it is authorized. Contract numbers should be assigned and used for all transactions until the contract is completed.

Independent auditors reviewing a station's books should be very aware of this type of contracts for material misstatements of income or serious defalcations may arise from improper handling or control.

It is clear from my presentation to you that the broadcasting industry is not settled in its treatment of trade agreements, and, therefore, accountants are not either. I would welcome comments from other accountants experienced in this field, with the goal in mind of developing more uniform accounting treatment of trade or barter agreements.

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"A word is probably in order about the personal qualifications necessary for the work of an accountant. This is certainly no occupation for a person who doesn't like to attend to details. Order is the watchword of the accountant. He must have a strong capacity for analytical reasoning and a knack for quick and accurate classification. He should be interested in organizational and operational aspects of all kinds of business firms, and he should be able to describe financial functions in words and figures. He should have a facility for numbers and figures, and he must be able to understand complex documents such as contracts and tax forms. Of all his physical assets, his eyes are perhaps the most important, for he is required to spend long hours checking numbers and figures." William F. Loflin, C.P.A. "Qualifications of the Accountant," THE WOMAN CPA, October 1949.

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IN MEMORIAM

Katherine E. Pfeifer, C.P.A., a member of the Editorial Advisory Board, passed away in Cleveland, Ohio, on September 9, 1963. She was on the audit staff in the Cleveland office of Lybrand, Ross Bros. and Montgomery. Her Ohio C.P.A. certificate was granted in 1946. She was president of AWSCPA in 1959-1960 and was both a past president and honorary member of the Cleveland ASWA Chapter.