

Starmedia network essay sample



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BUSTER**

Business:

For the Spanish and Portuguese speaking population, the company provides various internet based services like chat, topical portals, online shopping, business news, sports news and so on. For this, the company owns six websites.

Features:

1. Revenues are basically from advertisements on the sites. Advertisements are in 3 forms.

Per thousand impressions: Here money is charged based on per thousand impressions on the advertisements.

Sponsoring: Here the advertiser sponsors/pays a fixed amount of money for an area.

Reciprocal Advertising: Here advertisers are given space on their website in exchange for StarMedia's advertisements on their newspapers/news channels. They are nothing but reciprocal transactions

2. The websites are free for the users. Nothing is charged for the content or to be part of the community.

Answers:

1. There are two options available for recording the reciprocal transaction.

a. The company can record \$5.5 million in revenue from advertisements and \$5.5 million in expenses for advertising.

b. The company need not record the transaction in its books but can mention this as Notes to accounts in the financial statements.

2. As the CFO, I would recommend that the company choose option (a) of the previous answer. This would mean that the gross profits of the company would look better by \$5.5 million. The expense would affect only the net profit and this would be beneficial for the company because dot com companies are always evaluated based on their gross margins.

3. As a member of FASB, we would allow the barter transaction to be recorded if and only if the same type of advertisement had been sold/bought not before 6 months to parties unrelated to the buyers/sellers.

If such reliable estimates of fair value are not available then the revenue and the cost should not be allowed to be recorded.

This is on the basis of a CPA journal which says

(<http://www.nysscpa.org/cpajournal/2001/0700/features/f072601.htm>)

Some [Internet] entities record an equal amount of revenue and expense for the [advertising] space they sell and for the space they purchase resulting in no effect on net income or cash flows. To the extent that revenues include barter transactions for which there is no ultimate realization in cash and no effect on net income, the practice may lead to overstated revenues and artificially inflated market capitalization. The issue is whether Internet barter transactions that involve a nonmonetary exchange of rights to place advertisements on web sites result in recorded revenues and expenses.

At its January 2000 meeting, the EITF reached a consensus on the following:

- * That revenue and expense should be recognized in a barter transaction only if the fair value of the advertising exchanged is determinable based on a company's historical practice of cash sales of similar types of advertising with buyers unrelated to the counterparty in the barter transaction.
- * The historical practice of cash sales must have occurred no more than six months prior to the barter transaction.
- * Because previous cash sales are used to benchmark the fair value of the barter transaction, barter revenues and expenses can be recognized only up to the amount of the previous cash sale.
- * Moreover, the bartered advertisement must be essentially the same as the advertisement sold for cash (e. g., same type of advertisement, same website).