



INTRODUCTION

1. This chapter provides an overview of commission based middleman services, barter transactions and the appropriate accounting procedures.

MIDDLEMAN/PROMOTER SERVICES OVERVIEW/OPERATIONAL MODEL

2. The “Promoter”, i.e. companies such as Groupon® or WagJag, act as a middleman and marketing agent, offering discounted goods and/or services provided by third party merchant partners through its local commerce marketplace; connecting merchants to consumers enabling customers to make an online purchase of a voucher redeemable for the applicable discounted good or service.
3. The Promoter is responsible for selling the vouchers and collecting the proceeds. In essence, by placing the deal on its website, the Promoter provides the merchant with “exposure” to a large number of potential customers. In return, the Promoter charges the merchant a fee, which is usually in the 50% range of the value of the transaction and is negotiable.

GENERAL

4. While use of a Promoter such as Groupon® or WagJag can result in an overall increase in customer traffic in the long term, each scenario/proposal deal should be carefully analyzed to determine if it is in the best interests of the entity to enter into an agreement with a Promoter.

PROMOTER GREEN FEE VOUCHER SCENARIO/EXAMPLE FOR GROUPON (TWO INSTALMENT PAYMENTS)

- a. [Annex A](#): “Deal Terms”, a Base Golf Club has entered into a merchant agreement with the Promoter whereby the Promoter offers/promotes a deal to potential customers to purchase a Voucher redeemable for 18 Holes for 2 (\$112.00 CAD value) for \$49.00 (a 56% discount);
- b. As per [Annex B](#): “Payment Terms” as an example for Groupon, of the \$49.00 paid by the customer the promoter pays the Golf Club in two instalments (80% and subsequently 20%); the after tax and after credit card fees, net remittance amount of \$26.27 per valid Voucher; and
- c. As per [Annex C](#): “Promoter Green Fee Voucher Accounting Instructions”, the net remittance amount is recorded as unearned revenue upon receipt. This annex provides the calculation and journal entries required from receipt of cash to recognition of revenue.

ACCOUNTING RULES

5. As per Canadian Public Accountant (CPA) Handbook, section 3400, para 3, revenues are “net of items such as trade or volume discounts” accordingly \$49.00 is recorded as the

Promoter Green Fees.

6. As per Canada Revenue Agency GST/HST Policy Statement P202 “Example 7 – Deal-based vouchers”, [Policy Statement P-202 “Example 7 – Deal-based vouchers”](#), no GST/HST is payable on the issuance of the voucher and, upon redemption, any GST/HST applicable to the supply should be accounted for by the merchant by reference to the promotional price of the deal. If a GST/HST registrant, the web based company is required to account for tax based on amounts retained as consideration for the supply of the service of marketing/promotion of the voucher.

RECONCILIATION OF UNEARNED REVENUE

7. Unearned revenue for promoter services must be reconciled on a monthly basis and should not normally be in a debit balance. In the example (see [Annex B](#)) provided the payment from the 1st of the month should be recognized as unearned revenue (offsetting entry to accounts receivable) in the previous accounting period.

BARTER TRANSACTIONS

8. A barter transaction takes place when any two persons (suppliers) agree to an exchange of goods or services without the exchange of money. Suppliers calculate the fair market value (FMV) of the goods or services at the time of the transaction. The FMV of applicable revenues and expenses shall be recorded in each entity’s books of account. Failure to do so understates both revenues and expenses. Sample journal entries can be found at [Annex D](#).

GST/HST APPLICATION ON BARTER TRANSACTIONS

9. For all intent and purposes a barter transaction is treated like any other - a barter transaction is two supplies (one from each party) with two suppliers and two recipients, a supply could be exempt, taxable, or zero-rated. For that reason, each supplier/recipient must deal with the transactions from their own point of view to find out whether they have to charge, collect, or pay GST/HST on the supply, and whether any input tax credit is available in connection with any GST/HST payable on the supply.

[Annex A](#) - Deal Terms

[Annex B](#) - Payment Terms

[Annex C](#) - Promoter Green Fee Voucher Accounting Instructions

[Annex D](#) – Sample Journal Entries