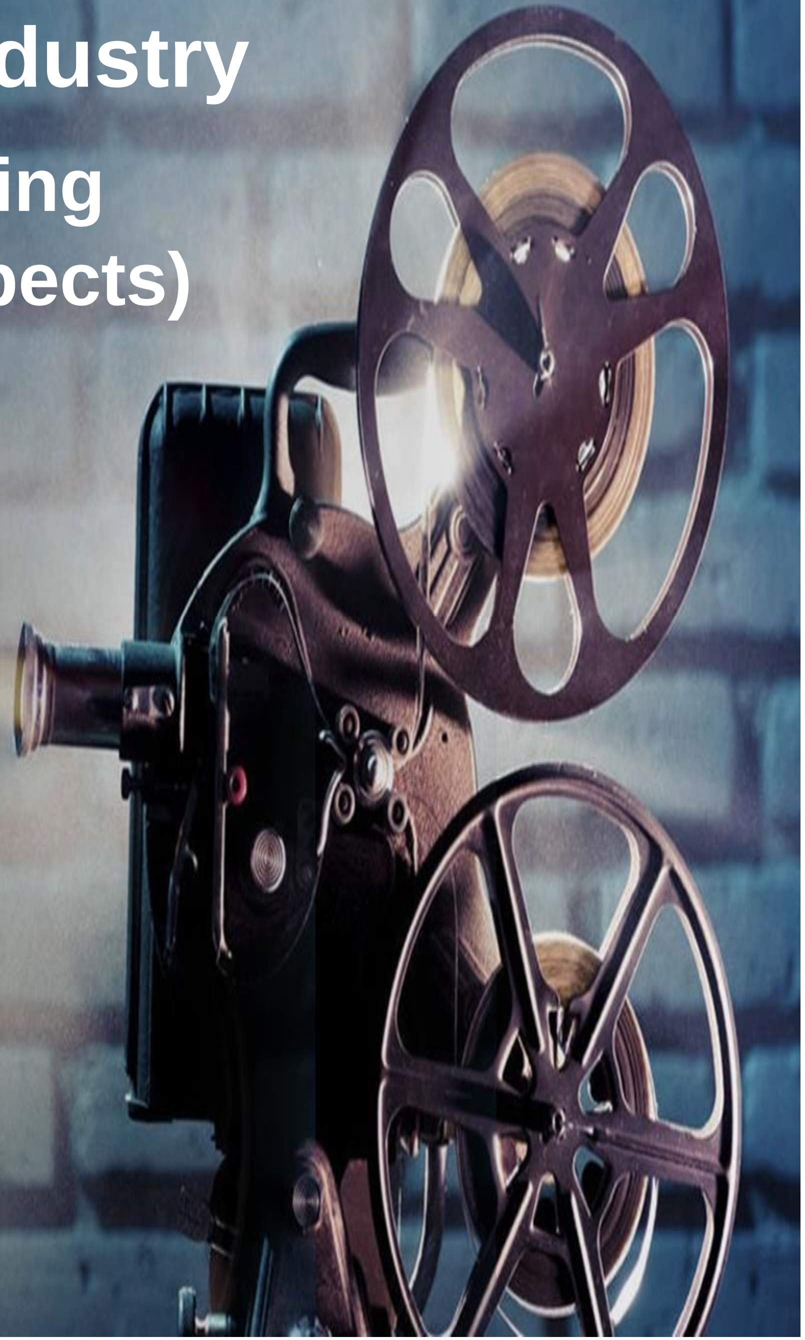
Media & Entertainment Industry

Revenue and Rights accounting (Accounting and auditing aspects)



WIRC

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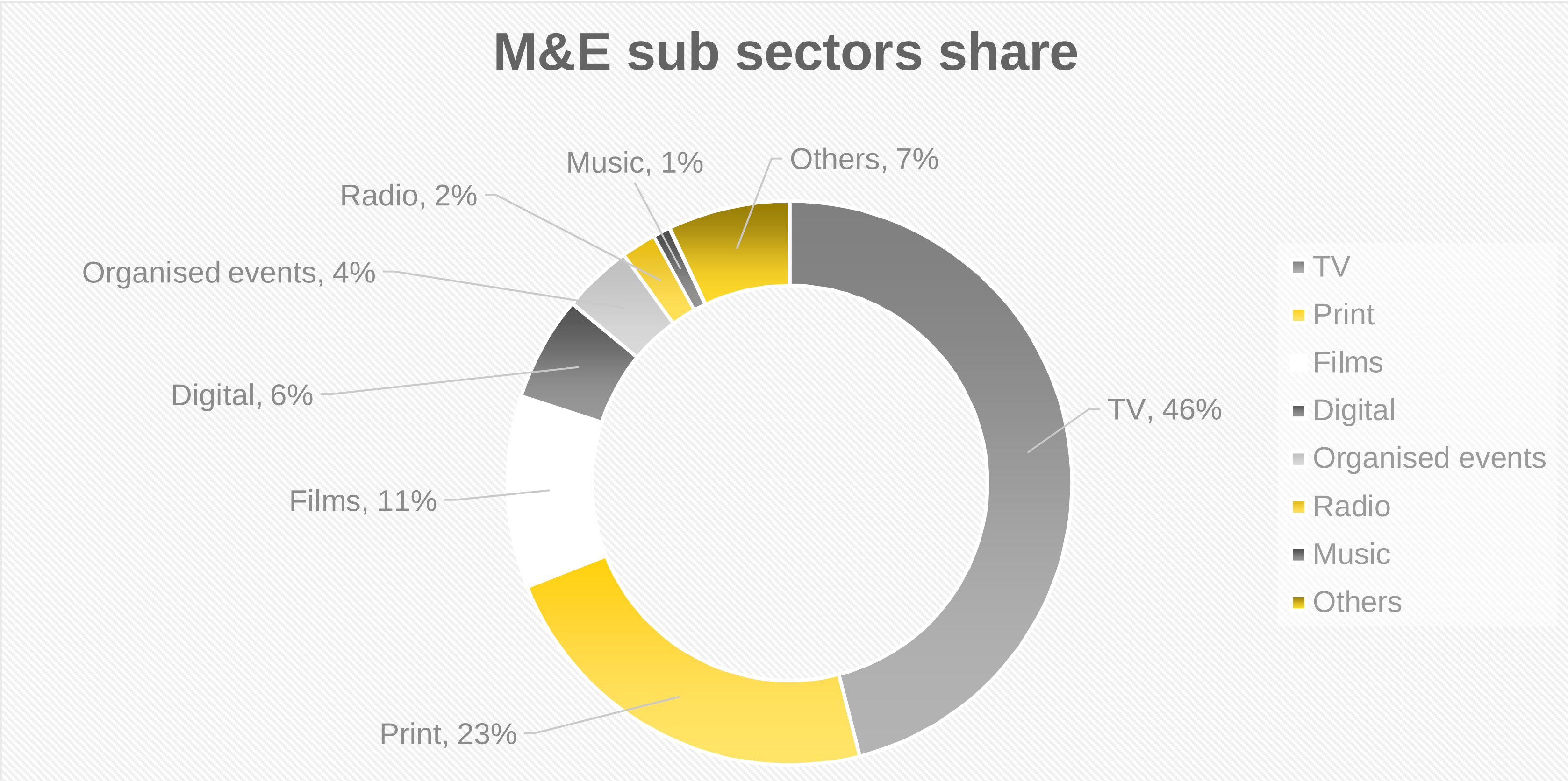
Contents

The Indian M&E industry

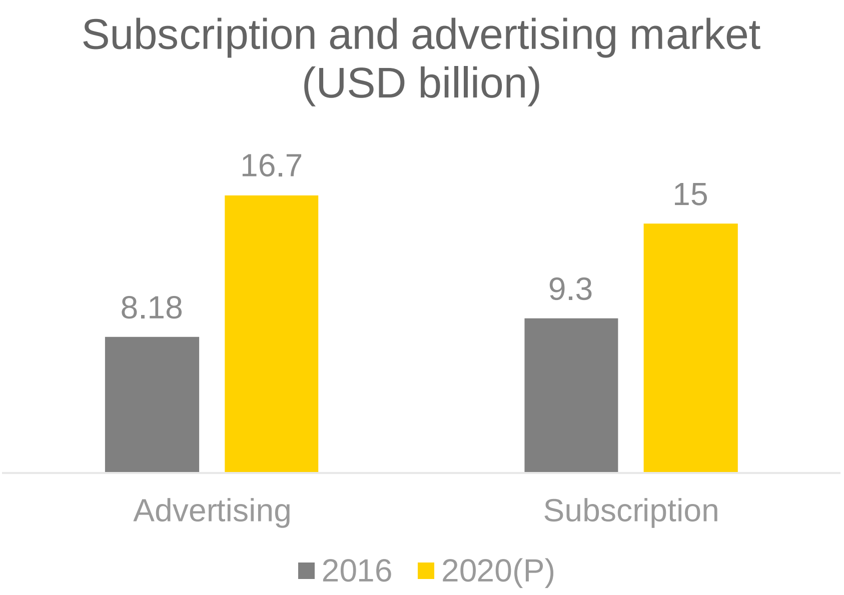
The Indian M&E industry is approx. USD 20bn in revenue (Calendar '16)

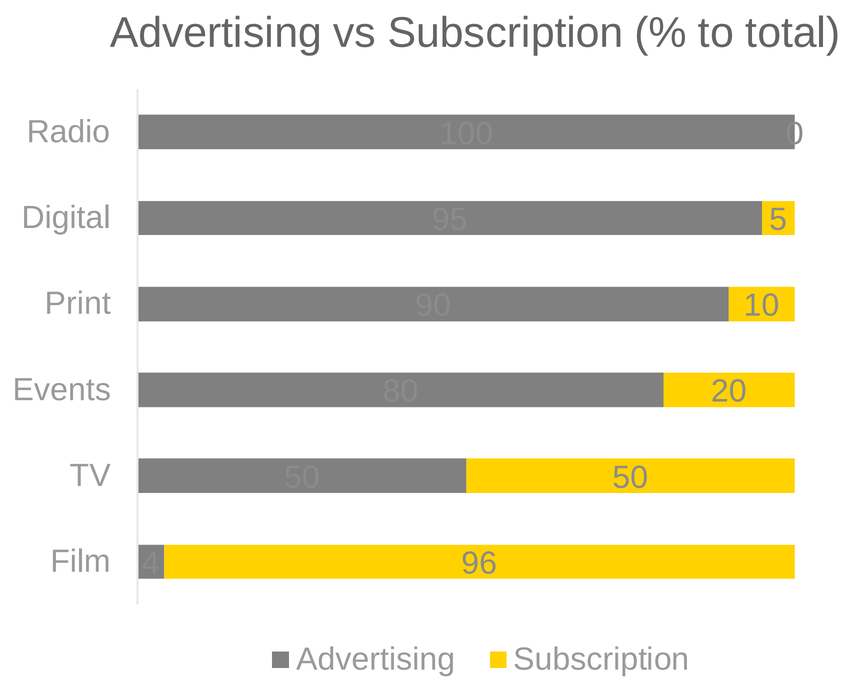


Expected to grow at a CAGR of 11.8% from 2016 - 2021

Source: Digital inflection point (FICCI-IIFA global business forum)

India is an advertising - driven market…





- Print media and TV together accounted for 76.2% of the total revenue from advertising in 2016
- Digital advertising has emerged as the third largest advertising medium in India after TV and print

M&E key players

Publishing (Print, Magazines, Books)	• Times of India, Hindustan Times, Jagran, Dainik Bhaskar, Hindu, ABP
Broadcasting (Television, Radio, DTH)	• Zee, Star, Viacom (Colors), Sony, TV Today, Times Now, Radio Mirchi, Radio City, Fever, Tata Sky, Bharti DTH, Videocon D2H
Digital media	• Facebook, Google, Just Dial, Hotstar, Liv, Ditto, Mobile advertising, gaming, portals, ad networks
Advertising agencies	• IPG (Lintas), WPP Group, Publicis, Denstu Aegis
Content Producers	• Balaji, Endemol, Adhikari Bros, OML
Movies / Films	• Eros, Yashraj, Disney, Sony, Fox Star, Red Chillies
Music Labels	• Saregama, T Series, Yashraj, Sony Music, Universal
Events	• Wizkraft, ABEC, UBM, DNA Networks

M&E revenue streams

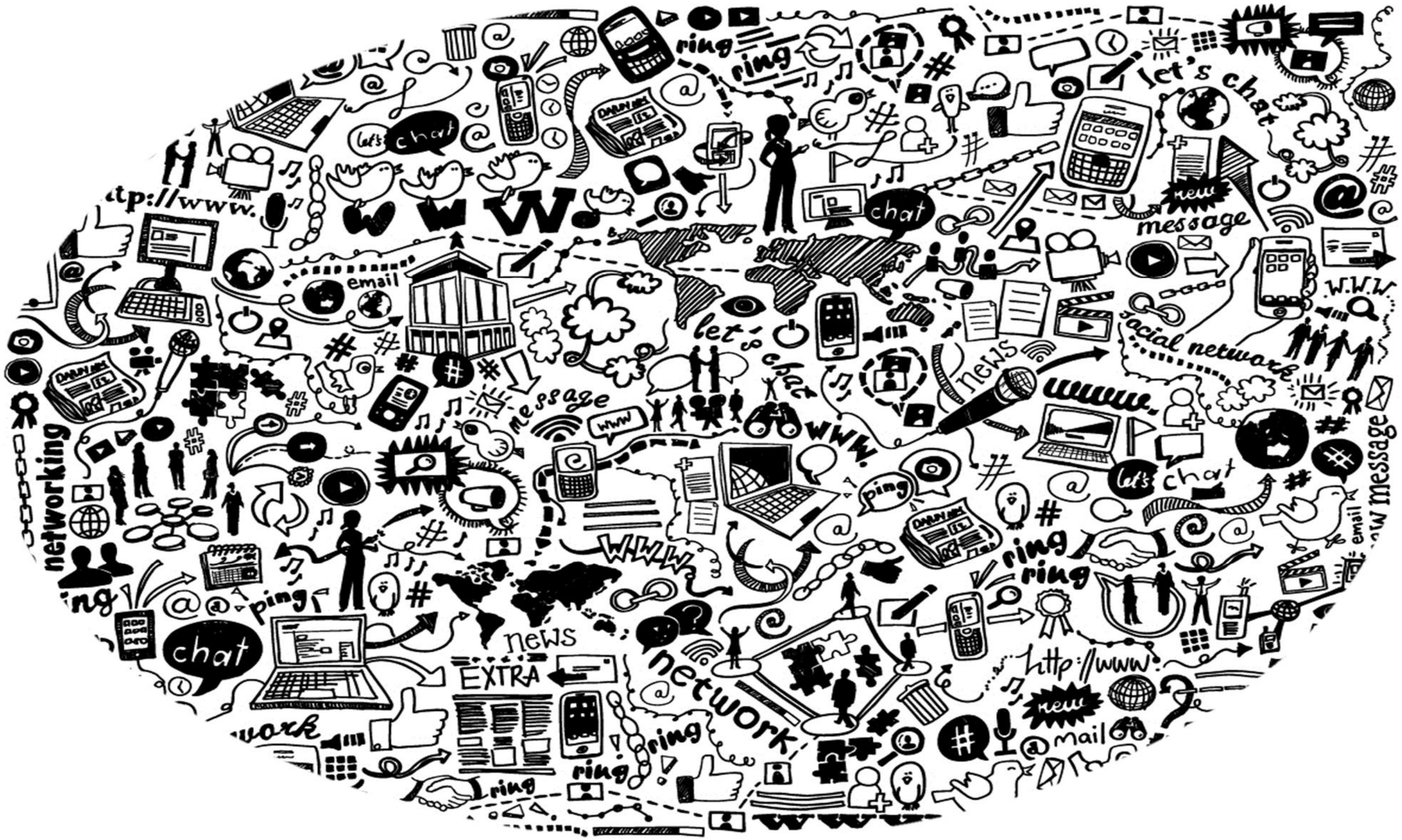
Publishing (Print, Magazines, Books)	• Advertising revenue, sponsorship revenue, circulation revenue (stand sales and subscriptions)
Broadcasting (Television, Radio, DTH)	• Advertising revenue (sale of spots, slot sales), sponsorship revenue, subscription revenue (Pay TV channels), content integration (ad sponsored) revenue
Digital media	• Targeted advertising (pay per clicks), sponsorship revenue, editorial content revenue, subscription fees
Advertising agencies	• Media agency commission, retainership fees, creative service fees, volume incentives
Content Producers	• Sale of content rights
Movies / Films	• Exhibition revenue (Revenue share, Minimum guarantee revenue), licensing of rights, merchandising, content integration, in-cinema advertising
Music Labels	• Music royalty, sale of content (physical)
Live Events	• Ticketing, Sponsorship revenue, In-venue branding

Revenue

Measurement principles

- Revenue is measured at the **fair value** of the consideration received or receivable
- If the inflow of cash or cash equivalents is deferred, fair value of the consideration receivable may be less than nominal amount
- When an arrangement effectively constitutes a financing arrangement, consideration receivable is discounted to reflect market participants' assumptions about the time value of money and the risk associated with the financing arrangement.
- Trade discounts, **cash discount** and volume rebates – to be reduced from revenue

Accounting Issues - Revenue



Typical accounting issues - revenue

- Revenue from sale of rights
- Revenue from multiple element contracts
- Barter transactions
- Gross / net reporting of revenue

Sale of rights

Sale of content rights/ movie rights/ music rights/ satellite rights

Indian GAAP	Ind-AS
► Revenue recognized when : ► All the significant risks and rewards are transferred ► There is certainty of collection ► Seller retains no effective control of the goods/ services transferred	► Similar revenue recognition criterion under Ind As

- Sometimes, revenue is recognized at the time of the delivery of the content irrespective of the restriction on telecast / commencement of rights

- For example, satellite rights of movies are sometimes sold even before the release date with a condition that the broadcaster can recognize the revenue only after a certain time period after the theatrical release date.

  In such a scenario, the revenue recognition should be deferred until the satellite rights become active, irrespective of whether the content is delivered and collection is received.

Multiple element contracts/ Bundled deals

Indian GAAP	Ind-AS
► No specific guidance. ► Transactions recorded more basis the form of document rather than the substance	► Separate fair valuation of each element is required ► Total consideration for the services should be allocated to each of the deliverables being provided to the client based on their 'relative fair values' or 'residual value method' (valuation of undelivered component). ► If separate elements have a stand alone value to the client, then allocation of revenues to each of the different elements is required, irrespective of whether they form a part of a single contract or a lump sum consideration. ► **Free spots/ Bonus spots**: Revenue relating to the fair value of the bonus spots to be delivered post period end should be deferred
► Completed contract method allowed	► Revenue to be recognized basis percentage completion

Multiple element contracts / Bundled deals

Composite contract for ad space across programmes / channels and sponsorships

- MediaCo is into publishing business and publishes various newspapers across the country and also conducts awards every year for recognize industry players.
- MediaCo has entered into a composite agreement customer whereby along with sponsorship of the awards to be held in Feb 2018, it will also provide free advertisement space in all publications from Mar 2018 to June 2018 for Rs.1 crore
- The advertisement space offered is otherwise sold for Rs.40 lacs to other customers.
- The Company would generally expect sponsorship of Rs.80 lacs and proposes to recognise Rs 80 lacs as revenue as sponsorship has been delivered

How does the Company record revenue for this arrangement for FY 2018?

How does it measure the fair value of each of the components in the composite contract?

Multiple element contracts / Bundled deals

Composite contract for ad space across programs / channels and sponsorships

- As per the principles of ‘Residual value” the value of undelivered component is measured and balance value is allocated to the delivered component – more so as the sponsorship is only an expectation and not sold on a standalone basis

- The revenue for the ads to be published in newspaper is valued based on the rates at which the same space in the same publication is sold to an unrelated party and is recognised as and when the ads are actually published.

- Balance portion of the agreement is assigned to the sponsorship revenues and recognised once the awards event is aired.

Deliverable	Year End Status at Mar 2018	Stand-Alone Value	FV reliably measurable?	Allocated Value
Event sponsorship	Delivered	8,000,000	Yes	6,000,000 (i.e.10-4)
Advertisement	Undelivered	4,000,000	Yes	4,000,000
		12,000,000		10,000,000

Multiple element contracts / Bundled deals

Composite contract for ad space and services

- Green FM is in the radio broadcasting business. Fragrant Co is a FMCG company which manufactures a beauty soap “Panache”
- Green FM also conducts events for music awards which are subsequently also telecast on a Hindi GEC. Fragrant Co has contracted with B for ‘Panache’ to be the title sponsors of the music awards events for a consideration of Rs.2 crores.
- Along with the title sponsorship of the event, Fragrant Co also receives other deliverables such as Panache standees in the on-ground event, Panache gift hampers to be given to the winners, etc.
- Besides this, Panache will be advertised as a title sponsor during the on-air radio promotions for the event, its logo will be displayed on hoarding promoting the event and during TV promos and advertisements of Panache will also be played during the telecast on TV
- The event was conducted on Mar 29th and has been telecast on 5th April.

Considering that the event was already held before Mar 31, Green FM has recognized Rs.1.5 crores of sponsorship revenue and has deferred Rs.50 lacs which is the value of the advertisements to be played during the telecast. Is this revenue recognition appropriate?

Multiple element contracts / Bundled deals
Composite contract for ad space and services

- The allocation derivation is also dependent on the value perceived by the customer for each deliverable vis-à-vis the value for the entire contract value.
- Considering that Panache will be advertised the most during the telecast of the event which will have millions of viewers as opposed to the few thousands during the on-ground event, the perceived advertising value of the on-ground event is lesser.
- In this case Green FM allocates values to each deliverable as follows:

Deliverable	Year End Status	Stand-Alone Value	FV reliably measurable?	Allocated Value
On ground standees/ Gift hampers	Delivered	1,000,000	Yes	5,000,000 (Balance revenue recognized)
Title sponsor logo on hoardings/ mentions during on-air spots	Delivered	7,000,000	Yes	
Advertisements on TV	Un-delivered	5,000,000	Yes	5,000,000
Title sponsor name during event telecast	Un-delivered	15,000,000		15,000,000
		28,000,000		**20,000,000**

Multiple element contracts / Bundled deals

Composite contract for own and acquired ad space

- MediaCo is in the publishing business and prints several publications across the country
- MediaCo has various subsidiaries which are engaged in providing media services on other media platforms viz. Radio, Outdoor, Internet, etc.
- It has enters into a single composite agreement with a customer for the sale of advertisement space across various media such as print, radio, outdoor, internet, etc.
- For servicing this agreement, MediaCo purchases the advertising space from its group companies and sell it to its customers as a ‘bundled deal’.

How does the Company measures the fair value of its own and acquired space in the composite contract?

Multiple element contracts / Bundled deals
Composite contract for own and acquired ad space

- MediaCo calls for the quotes from the respective group companies and the value quoted by them for the sale of their advertising space is allocated as fair values to those deliverables. Balance portion of the agreement is assigned to the print component.

- Revenues are recognized as and when the advertising space is delivered on each of these media.

- MediaCo recognizes an equal revenue and cost for the advertisement space purchased and sold relating to other group companies (Gross accounting) since MediaCo is the primary obligor in this agreement.

Barter transactions

<table>
<tr><th>Indian GAAP</th><th>Ind-AS</th></tr>
<tr><td>No guidance under AS 9.

Some insights available under the 'Guidance note for accounting for Dot-com companies' which is in line with IFRS</td><td>► Exchange of dissimilar goods and services, where revenue can be reliably measured is considered as ‘Barter’
► Exchange of goods or services of a similar nature and value is not regarded as a sale
    ► For example- Print advertisement exchange for another print advertisement is not a barter transaction.
    ► However, print advertisement exchanged for a radio advertising space is a barter transaction as the advertising media involved as ‘dissimilar’
► Barter transaction to be recorded at the fair value of assets given up/ services delivered- based on ‘similar, comparable’ transaction.
► If the same is not identifiable- cost of services received/ asset received can be used for measurement.
► Comparable & similar transactions imply transactions with third parties, in the recent past for similar case facts (for example, similar duration, placement, timing of the advertisement)</td></tr>
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- Barter transactions are not tax neutral since withholding tax, GST needs to be paid on the same

Barter transactions

Advertising services for goods:

- Entity AB Corp is in the creative advertising services business.
- Entity CD Corp is engaged in manufacturing and supplying of office lights, LED lamps, lighting fixtures etc.
- Both the entities have entered in to a contract whereby, AB Corp will produce a television advertisement (TVC) for advertising home lights of CD Corp and in turn CD Corp will supply the office lighting fixtures to AB Corp.
- AB Corp charges other customers- Rs.50 lacs for making a TVC and CD Corp has given a quote of Rs.85 lacs to provide similar fixtures to another office of a similar size
- Both the services are rendered in June 2017.

How should this transaction be recorded by AB Corp in June 2017?

Barter transactions
Ad space for goods and services

Recording of barter transactions:

- Given the transaction involves goods and services, revenue from barter can be recorded by both.
- The transaction is accounted by reference to the value of **advertising service provided** and **not** by reference to the value of goods received
- Therefore AB Corp recognises revenue of Rs.50 lacs and assets of Rs.50 lacs (and not Rs.85 lacs) in June 2017. Appropriate TDS and indirect tax to be recorded and paid both transactions.

Barter transactions

<u>Ad space for services</u> –

- Entity OOH is in the outdoor hoardings business.
- Entity FilmCo is mainly engaged in production of films and music videos and has recently produced a movie named “Super hit”.
- The entities have entered into an arrangement wherein OOH will provide outdoor hoardings to promote “Super hit” and in turn OOH will be named as the Outdoor promotion partner in the movie of “Super hit”. Both value the services at Rs.25 lacs.
- Super hit movie hoardings are displayed in the last week of June 2017 and the movie releases on July 3rd 2017

How should this transaction be recorded by OOH in June 2017?

Barter transactions
Ad space for goods and services

Recording of barter transactions:

- The medium of advertisement (Outdoor v/s film promotion) is dissimilar in nature and revenue can be reliably measured-hence this barter transaction will be recorded by both.
- Revenue is to be recognized only on the basis of actual services received and services provided, till the period end. Therefore OOH should recognise revenue at Rs.50 lacs in June 2017 and do the indirect tax compliance.
- The corresponding barter cost will be recognized only after the movie release which falls in July 2017.

Barter transactions
Pay channel subscription for carriage

- A television channel charges cable operators a per subscriber fee for its pay channel.
- The cable operator charge placement or carriage fees to television channel to carry their channel on its network.
- If a television channel and cable operator agree not to charge each other for pay channel and carriage respectively, is there a transaction involving barter?
- We have to understand the substance of the transaction of whether there is indeed a service involved for either party.
  - In case the television channel is not popular and does not earn pay channel revenue from all cable operators, it could be possible to argue that there is no pay channel revenue
  - Likewise, if the cable operator does not charge carriage to some other television channels, there could be no carriage fee involved.
  - In both of the above situations, it will be important not to have conflicting documentation

Gross v/s Net reporting of revenue

Indian GAAP	Ind-AS

No specific guidance	► Subjective matter requiring consideration of all facts and circumstances
	► An entity is acting as a 'principal' when it has exposure to the significant risks and rewards associated with the sale of goods or rendering of services.
	► Indicators include:
	  ► primary responsibility for providing the goods or services to the customer or for fulfilling order,
	  ► inventory risk before/after the customer order, during shipping/ on return;
	  ► latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
	  ► customer's credit risk on the receivable due from the customer

Gross v/s Net
Broadcasting – presentation of agency commission

- CreativePro Ltd is the business of providing creative as well as media agency services to various corporates.
- It enters into agreement with Fragrant Co to produce a TVC for its soap ‘Panache’, put together a media plan for marketing Panache across various GECs and to buy ad space for Panache ads from these GECs as well.
- The TV media buy should be Rs.60 lacs and no separate commission is payable on the same. Average media buy commission is usually 5% for CreativePro. Total consideration is Rs.1 crore.

How will the Company account for this revenue?

Gross v/s Net
Broadcasting – presentation of agency commission

- There are three deliverables here – the TVC, the media plan and the actual media buy.
- Considering that Rs.60 lacs is the media buy value, the fair value of commission is included in the total contract value.

Deliverables	Agreement Value	Revenue	Gross or Net?
Media buy Revenue & Cost	6,000,000	-	Net
Media buy-Commission recorded @ 5%		300,000	Net
Revenue from TVC production & Media planning- Creative service revenue	4,000,000	4,000,000	Gross
	10,000,000	**4,300,000**	

Gross v/s Net
Broadcasting – presentation of agency incentives

- Moon TV is into television broadcasting business and broadcasts 40+ channels across the country.
- It enters into ad sales agreements with various agencies fixing the ad rates and also the target incentives to be paid to these agencies at a certain pre-defined percentage on meeting the target sales.
- Incentives are paid in the form of cash and the same are paid only after all the dues are cleared by the agencies within the due date.

How will the Company account for the incentives to be paid to the agencies?

Gross v/s Net
Broadcasting – presentation of agency incentives

- The incentives are in the nature of volume rebates and are directly linked to the revenues
- Ind As requires that ‘revenue shall be measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity’
- Thus, the incentives are netted off from the revenues and disclosed on a net basis.

Gross v/s Net

Broadcasting – presentation of topline

- Entity A & B are both in the radio broadcasting business.
- A has entered into an Advertising sales agreement (ASA) with B to render sales support services to B whereby it solicits the advertisements for B along with its own stations.
- B has set the floor rates per 30 sec spots for each of the stations. A cannot sell ads on B's radio channels for rates, lower than this floor price. Further, A earns a commission of 10% percent on the collections of the ad sales facilitated by A on B's radio channels.
- For placing advertisements on B's radio channels, A's customers can issue release orders either directly in the name of entity B or they can be in the name of A.
- Where A receives a RO in its name, it raises a PO for an equivalent amount on B for purchase of radio ad space.
- In case the release orders are in the name of A, the risk of collection lies with A

Particulars	Value
Revenue from release orders received in the name of A	7,500,000
Revenue from release orders received in the name of B	3,500,000
Collections relating to sales solicited by A for B	5,000,000

How and when should the commission and advertisement revenue be recorded by A?

Gross v/s Net
Broadcasting – presentation of topline

- Considering that the base prices are determined by B and the risk of collection continues to be with B- B is the primary obligor in the cases where release orders are in the name of B.
- In these cases, the advertisement revenue will not be recorded in the books of A as the ROs are in B's name and only the sales commission will be recorded.
- Further, commission should be accrued only based on the actual collections
- In cases where ROs are received in the name of A , A has to purchase the radio advertisement space from B for selling the same to the end customer and records a corresponding cost for servicing this revenue.
- In such cases, one may conclude that A acts as the primary obligor since the risk of collection lies with A only. Thus, both –the advertisement revenue and cost will be recorded on a gross basis.

		Recorded in the books of A:	
Particulars	**Value**	**Ad Revenue**	**Commission**
Revenue from release orders received in the name of A	7,500,000	7,500,000	Nil-will be recorded on collection
Revenue from release orders received in the name of B	3,500,000	No- as this is B's revenue	Nil-will be recorded on collection
Collections relating to sales solicited by A for B	5,000,000	N.A	Yes @10%=500,000

Gross v/s Net

Films – exhibitor, distributor and producer accounting

Company A (Producer/Studio): Acquires / Produces movies and distributes directly
Company B (Distributor) : Pays Minimum guarantee to acquire the rights
Company C (Distributor): Distribution and marketing is done on behalf of producer

	Producer	**Distributor**	
	Company A	Company B	Company C
Theatrical revenues	100	100	100
Non-theatrical revenues	50	50	10
Total revenues (A)	150	150	110
Cost of production	90	90	-
Printing and Marketing costs	20	20	20
Distribution cost	10	10	20
Producer's share (assume 10% of net revenues)	3	3	7
Total costs (B)	123	123	47
Accounting in the books	Gross	Gross	Net
Revenue	150	150	63
Costs	123	123	-

Typical auditing issues - revenue

- Availability of contract (business practice of release orders, term sheets, contracts with cable operators, etc)
- Separate values for each deliverable not specified in a multiple element contract – allocating values to different components in a multiple element contract
- Gross / net presentation of revenue for an entity earning commission, however, it takes credit risk
- Ultimate revenue depending on achievement of target performance

Rights

Intangible rights
Types of rights

- **Movie Rights**
  - Produced/Co-produced (rights retained)
  - Acquired for perpetuity (Intellectual property right acquired)
  - Acquired for single broadcast (intellectual property not acquired)
  - Acquired for limited license period or for limited number of runs (intellectual property not acquired)

- **Program Rights**
  - General Entertainment programs
  - Reality shows

- **Music Rights**

- **Event Rights** (Live telecast rights/ Re run rights)
  - Sports events
  - Live events (Film awards/ Movies/ Concerts)

Intangible rights
Program rights/ movie rights/ music rights/title rights

Licensing of copyrights

- Various ways in which copyrights are licensed in M&E industry:
  - For a limited period – either for a limited number of airings or unlimited airings
  - Perpetual rights
  - Rights restricted to a specific media of specific geographical territory

- Accounting for copyrights is complex given the multiplicity of the rights licensed/ significance of the costs/ acquired rights v/s internally generated copyrights (in house production)

Recognition of a intangible asset

- Criterion for recognition of an intangible asset
  - Control over resources
  - Future inflow of economic benefits expected
  - Cost can be reliably measured

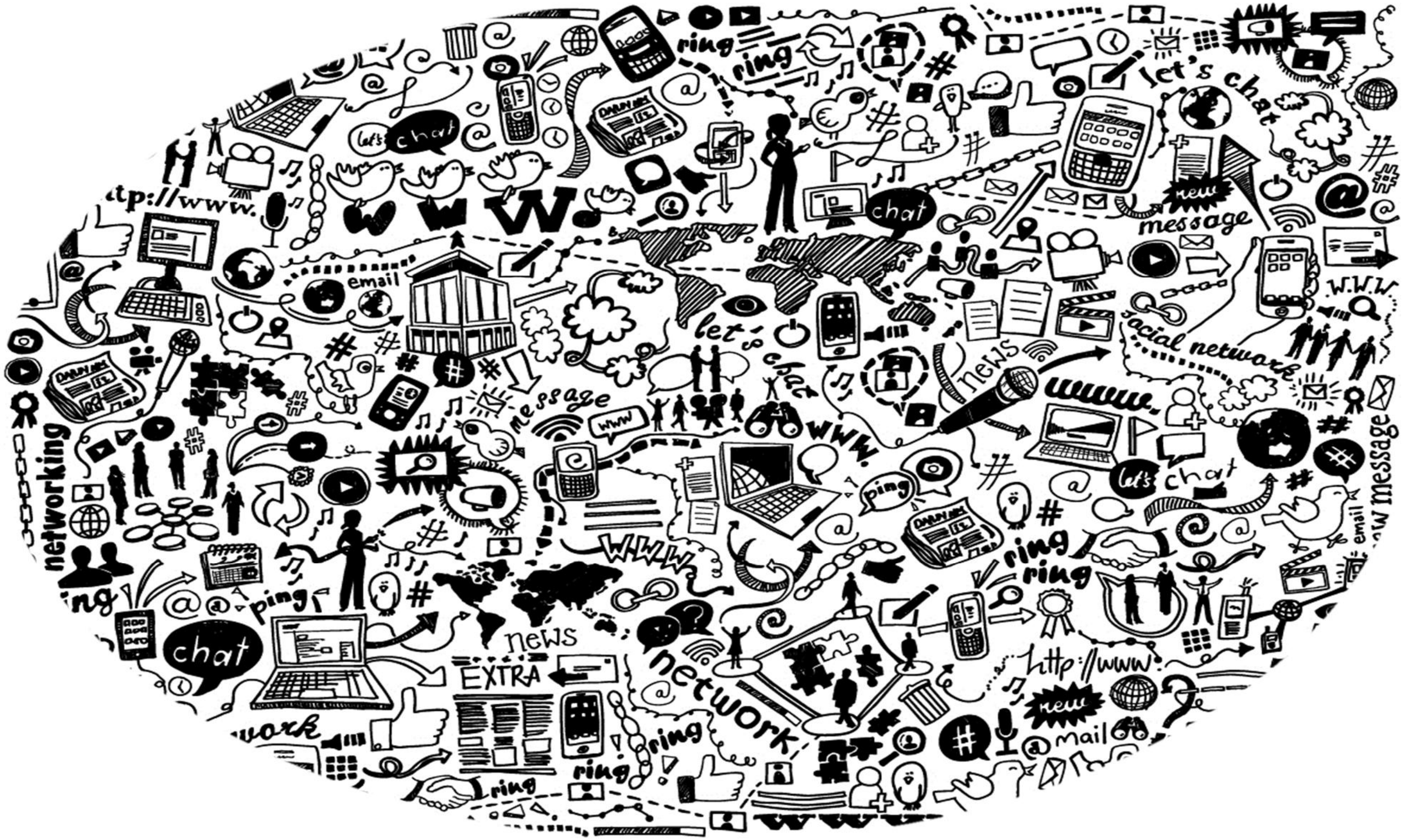
- Cost to be recognized as intangible asset included purchase / production cost along with directly attributable costs required to exploit these rights

Intangible rights
Program rights/ movie rights/ music rights/title rights

Copyrights: Intangible asset or cost to be expensed off?

- Whether the cost of a copyright right is recognized as an intangible asset or expensed off as cost depends on the probability of future economic benefits (revenue earning capacity) using reasonable and supportable assumptions that represent best estimate of the economic conditions that will exist over the useful life of the asset

Accounting issues - Intangible assets



Typical accounting issues - rights

- Manner of accounting of rights
- Amortization
- Impairment assessment
- Onerous contracts
- Straight lining of cost incase of year on year increase in a non-cancellable contract

Accounting treatment - Broadcasters

Channel	Treatment	Programs		Films		Music
		Reality shows, events	**Others**	**Acquired rights**	**Own production**	
A large TV network	Inventory	On telecast	On telecast	SLM basis over license period or 60 months - whichever is shorter	NA	License period
A large TV network	Inventory	On telecast	On telecast	Management estimates of future revenue potential	Individual-film-forecast method*	NA
Zee	Inventory	On telecast	Over a period of 3 years from telecast	SLM basis over license period or 60 months - whichever is shorter	NA	Over 3 years from date start of the license term-basis management estimate of future revenue potential.
A large TV network	Inventory – Films/programs Intangibles - Music	License period	License period	Individual-film-forecast method*	NA	Amortised as intangibles over 10-40 years

Sports – Amortised based on telecast across all channels

** based on the ratio of current period actual revenues to the estimated remaining total revenues*

Accounting treatment – Other

Producer	Treatment	Programs	Films
Balaji Telefilms	Inventory	Expensed as cost of production basis actual costs incurred	Amortised in the ratio of current revenue to expected total revenue
A large film productio n house	Intangible	NA	Amortised on a systematic basis the revenue earning capacity of the asset. Individual-movie-forecast method -by analysing whether revenue and consumption of the economic benefits of the intangible assets are 'highly co-related'
Eros	Intangible	NA	Fresh content - stepped method of amortisation on first release film content: writing off more in year one which recognizes initial income flows and then the balance over a period of up to nine years. Library content - amortisation is spread evenly over the lesser of 10 years or the license period

Music label	Treatment	Music Copyrights
Saregama	Intangible	Straight line basis over a period of 1-10 years. The Company reviews the expected future revenue potential at the end of each accounting period and recognises impairment loss, where required

Intangible rights

Amortisation

Indian GAAP	Ind-AS
► Useful life is always finite. There is a rebuttable presumption that the useful life shall not exceed 10 years. ► Revaluation of intangible assets is prohibited.	► Useful life of an intangible asset can be finite or indefinite. No such rebuttable presumption ► Choose either cost model or revaluation model as its accounting policy. The revaluation model permitted only where there is an active market
Amortisation ► No specific literature- for amortisation of content in M&E. Generally, amortization is charged over the useful life of the asset.	► Finite life- Amortised over its useful life on a systematic basis. ► Indefinite life- Shall not be amortized but tested for impairment at least annually and whenever there is indication of impairment.
Revenue based amortisation ► For movie rights/ television program rights a revenue based amortisation is followed whereby generally higher amortisation is recorded in the initial years as rights are expected to realise higher revenues in the initial years, considering that usually highest value is realised on the first telecast/broadcast and dips thereafter.	► Ind As 38 contains a rebuttable presumption that **revenue-based amortisation method is inappropriate** and this presumption can be overcome only in the limited circumstances. This presumption can be overcome only of the revenue and consumption of the economic benefits of the intangible assets are **'highly co-related**'.

Intangible rights

Accounting in the books of a content producer – where rights are retained

- FilmCo is a film production studio and records the cost of the movies acquired/produced by is as ‘intangible assets’. It owns the intellectual property rights for the movies produced/co-produced/acquired by it.

- FilmCo may adopt a revenue based amortisation policy by adopting an ‘individual-movie forecast’ method by analysing whether revenue and consumption of the economic benefits of the intangible assets are ‘highly co-related’ under Ind AS 38.

- Though the standard does not define what is meant by ‘**highly correlated**’ it describes situations where the asset is ‘expressed as a measure of revenue’.

Intangible rights

Accounting in the books of a content producer – where rights are retained

- FilmCo earns approximately 85-90% of its total estimated revenues from each movie in the year of release itself, in form of :
  - Theatrical revenues
  - Syndication of 1st run of the non-theatrical rights-music, cable and satellite rights, VOD rights.

- 2nd run of these non-theatrical rights will syndicated only after expiry of the first run, which could be approximately 10%-15% of the revenues from the first run.

- Since FilmCo has earned the most significant portion (85-90%) of the estimated lifetime revenues/ benefits in the 1st year of the release, it may be evident that the revenue and consumption of the economic benefits of the intangible asset are highly correlated and amortisation using revenue based model can be adopted. Using a straight lined method or other systematic method of amortization, may distort the profits for each of the years.

Movie Rights

FilmCo - Producer of movies earning revenues from theatrical release or sale of non-theatrical rights (retaining the IP) (Accounting treatment - Intangible)							
Particulars		**Total**	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**
Cost of production/intangible asset on release		100	-	-	-	-	-
Estimated life time revenues	**(A)**	**200**	**180**	**-**	**-**	**15**	**5**
Theatrical		120	120	-	-	-	-
Non-theatrical revenues		80	60	-	-	15	5
Accounting treatment							
Amortisation cost in the ratio of revenues/economic benefits (Only if highly correlated under Ind AS 38)	(B)	100	90	-	-	8	2
Net Impact in PL	**(A)-(B)**	**100**	**90**	**-**	**-**	**7**	**3**

Movie Rights

Moon TV - Broadcaster/Digital Platform who acquires movies only for right to broadcast/publish (Accounting treatment - Inventory)							
Particulars		**Total**	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**
Content/Rights acquisition (assume for 5 years)		100	-	-	-	-	-
Advertisement revenues	(A)	145	50	60	20	5	10
Accounting treatment							
Amortisation cost on straight-line basis over license period	(B)	100	20	20	20	20	20
Net Impact in PL	**(A)-(B)**	**45**	**30**	**40**	**-**	**(15)**	**(10)**

Programs and Events (including sports)

Moon TV - Broadcaster/Digital Platform who acquires programs (with IP)
CreativeCo - Producer who produces the programs for selling it to a broadcaster

In both cases, content cost is recorded as **inventory.** Amortisation pattern of Moon TV :

Moon TV		Programs				Sports/ Live events*			
Particulars		**Total**	**Yr 1**	**Yr 2**	**Yr 3**	**Total**	**Yr 1**	**Yr 2**	**Yr 3**
Content/Rights acquisition		100	-	-	-	90	-	-	-
Advertisement revenues			-	-	-	10	-	-	-
Total Costs	**(A)**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**
Advertisement		196	180	8	8		200	-	-
Sale of program		4	-	2	2		-	-	-
Estimated lifetime revenues	**(B)**	**200**	**180**	**10**	**10**	**200**	**200**	**-**	**-**
% of revenue earned in each year to total estimated revenue	(C)		90%	5%	5%		100%	0%	0%
Amortisation cost in the ratio of revenues/economic benefits	**(D=A*C)**		**90**	**5**	**5**		**100**	**-**	**-**
Net Impact in PL	**(B)-(A)**		**90**	**5**	**5**		**100**	**-**	**-**

***Sports/ Live events-** amortised fully on 1st telecast since revenue earning capacity beyond 1st telecast is negligent.

CreativeCo - records the cost and revenues in the year in which the program/event is produced and sold to the broadcaster/other licensor

Intangible rights

Impairment assessment –TV broadcasters

- Television broadcasters acquire high cost content (movies, sports, live event rights) which necessarily does not earn advertising revenue commensurate the cost of the right

- Generally, such programs are marketed individually and not in conjunction with other programs
  - If at the outset, the program cost is not recovered through advertising, is there a risk of impairment?

- To determine
  - Impact on subscription revenue
  - Revenue potential of a channel / network given that this channel / network has unique programing
  - the Cash Generating Unit

In practice, broadcasters review their business as a network of channels and not by an individual channel or program. As such, the CGU is generally the entire channel or network as the Company is able to earn pay channel revenue for the entire year – examples being sports channels where the sports events are not held evenly through the year

Intangible rights
Impairment assessment – film producers

- Film producers produce multiple films in a year which are exploited in theatres, television, digital, etc

- New films are ggenerally sold individually while old films are sold individually or as a package (bundled with other films). When sold as a bundle, there is specific value attributed to each film

- If at the outset, the film cost is not recovered as per plan, is there a risk of impairment?

- To determine
  - Performance of the film on the box office
  - Rights available with the film producer

In practice, film producers review the performance of each film separately. As such, the CGU is generally each film as the Company is able to track earnings from each exploitation by film.

Intangible rights
Onerous contracts

- As per Ind AS 37 ‘An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it’
- The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it
- If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Intangible rights
Onerous contracts

- Examples of onerous contracts in the media industry:

  - Green FM is producing a music awards event. Green FM perceives this event as a means to publicise its awards

  - It has outsourced the production to a outside company- FilmCo, the cost of production is Rs.1.2 crores and the cost of buying a slot on Moon TV to telecast the event is Rs.2 crores. Total cost- Rs.3.2 crores

  - The estimated total revenues from the awards event is Rs.1.8 crores

  - Event has been produced in Mar 2017 and is expected to be aired in Apr 2017.

  - Since the unavoidable costs to produce and telecast the event exceeds the expected revenue, the loss from the event Rs.1.4 crores should be recorded in the month of Mar 2017 itself, irrespective of the timing of airing and earning revenues.

Typical auditing issues - rights

- Reasonability of revenue assumptions used to amortise rights
- Impairment assessment when the film / program does not perform well
- Identification of Cash Generating Unit


Thank You
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