



Solution 122.41

Component	Telecommunication entities
Index	Intangible assets – Subscriber acquisition costs
Short title	Revenue share arrangements

Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

Issue

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity [IAS32R.11]. IAS 32R does not apply to executory contracts, i.e. contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non financial item in accordance with the entity’s purchase, sale or usage requirements [IAS32R.8].

How should an operator account for commitments to share customer revenues with dealers?

Background

When a customer connects to its network on tariff AAA, Operator B agrees to make payments to dealers of 12% of the gross billings to the customer over the life of the contract. Typically, the revenue share payments are calculated monthly and paid quarterly in arrears. The subscriber signs a 12-month contract. Operator B expects that each AAA customer will generate gross billings of 1,000 over the contract period. The dealer has no further service to render to the operator (such as billings, customer care etc). Therefore, the contract between the dealer and operator B is not an executory contract.

Solution

The contract represents a financial liability for Operator B. Operator B should recognise a financial liability of 120 when the customer is connected, being the fair value of the expected cash outflows to the dealer which are dependent on future gross billings. The estimated costs are directly related to the acquisition of the customer, so Operator B should record subscriber acquisition costs of 120 as an intangible asset. The financial liability will be re-measured each month when the revenue share payments are calculated and as the expected gross billings vary.

The intangible asset is not re-measured but is amortised over the life of the contract and reviewed for impairment when necessary. The asset is measured at the amount that management estimates as its expected cost per customer.