This paper explores some of the accounting complexities related to joint ventures which can arise for media companies both under existing IFRS and in the future.

Making sense of a complex world
Accounting for joint ventures – issues for media companies
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Introduction to MIAG

PwC’s Media Industry Accounting Group (MIAG) brings together our specialist media knowledge from across our worldwide network. Our aim is to help our clients by addressing and resolving emerging accounting issues which affect the entertainment & media sector.

With more than 3,575 industry-dedicated professionals, PwC’s global entertainment & media practice has depth and breadth of experience across key industry sectors including: television, film, advertising, publishing, music, internet, video games, radio, sports, business information, amusement parks, casino gaming and more. And just as significantly, we have aligned our media practice around the issues and challenges that are of utmost importance to our clients in these sectors. One such challenge is the increasing complexity of accounting for transactions and financial reporting of results – complexity which is driven not just by rapidly changing business models but also by imminent changes to the world of IFRS accounting.

Through MIAG, we aim to work together with the entertainment & media industry to address and resolve emerging accounting issues affecting this dynamic sector, through publications such as this one, as well as conferences and events to facilitate discussions with your peers. I would encourage you to contact us with your thoughts and suggestions about future topics of debate for the MIAG forum,

and very much look forward to our ongoing conversations.

With best regards

Marcel Fenez
PwC - Hong Kong
Global Leader,
PwC Entertainment & Media

Marcel Fenez
The rise of joint ventures for media companies

Joint ventures are an increasingly popular option for media companies to develop new products, to enter new international markets, or to share financing risk. Our first MIAG paper explores some of the accounting complexities which can arise both under existing IFRS and in the future.

More CEOs in Entertainment & Media (E&M) than in any other sector expect to form a new strategic alliance or joint venture in the coming year. And 57% – compared to 39% across all industries – expect the majority of their innovations to be co-developed with partners outside their organisations. Well known examples of media joint ventures include the streaming service Hulu (a joint venture between NBCUniversal, Fox and Disney) and YouView (a partnership of BBC, ITV, Channel 4, Channel 5, Arqiva, BT and TalkTalk).

This forecast increase in the scale and scope of joint ventures will expose more media companies to accounting complexities such as distinguishing between supplier arrangements, jointly controlled operations and jointly controlled entities; the treatment of net liabilities in a joint venture; retranslation of foreign joint ventures; and the contribution of assets and knowledge into a joint venture.

This paper explains the treatment of these and other items under the current standard IAS 31 Interests in joint ventures and also considers how the treatment might change under IFRS 11 Joint arrangements which is applicable for periods beginning on or after 1 January 2013.

We hope that you find this paper useful and welcome your feedback.

Best wishes

Sam Tomlinson
PwC - UK
Chairman, PwC Media Industry Accounting Group

Sam Tomlinson
PwC’s 14th Annual Global CEO Survey revealed that E&M industry CEOs now see collaboration as critical to success: 57% – compared to 39% across all industries – expect the majority of their innovations to be co-developed with partners outside their organisations.

PwC’s Global E&M Outlook 2011-2015 expanded upon this theme, forecasting the rise of a new operating model called the Collaborative Digital Enterprise (CDE) to harness the key business drivers of digital, demand and data. Joint ventures are particularly popular within the E&M sector as they enable media companies to expand and develop their brands into new products; to enter new international markets, particularly emerging markets which often have media ownership restrictions requiring foreign companies to have a local partner; and to share financing risk at a time when the macroeconomic outlook remains uncertain. Well known examples of media joint ventures include the streaming service Hulu (a joint venture between NBCUniversal, Fox and Disney) and YouView (a partnership of BBC, ITV, Channel 4, Channel 5, Arqiva, BT and TalkTalk).

So, what exactly is a joint venture?

Joint ventures are economic arrangements between two or more parties where key strategic decisions are made unanimously by the entities (the “venturers”) that share control. Key strategic decisions would include decisions that significantly impact sales and purchases of goods and services; research and development of new products; acquisitions and disposals; and the funding structure of the venture.

Joint ventures may appear in incorporated or unincorporated form (i.e. a joint venture need not result in the creation of a separate legal entity). “Strategic alliances” in which companies agree to work together to promote each other’s products or services may also be considered joint ventures.

How are joint ventures classified and accounted for?

Under IAS 31 Interests in joint ventures the accounting broadly follows the legal form – a legal entity is classified as a “jointly controlled entity”, giving a choice of proportionate consolidation or equity accounting; whereas a joint venture formed by contractual arrangements but which is not a separate legal entity is classified as “jointly controlled operations” and the owners account for their direct rights to assets, liabilities, revenues and expenses.

Under the equity method of accounting, the investment in the joint venture is presented as one line item in the balance sheet and income statement. It is initially recorded at cost and is subsequently increased or decreased to reflect changes in the venturer’s share of the joint venture’s net assets. The equity accounting method is actually set out in IAS 28 Investments in Associates since the method is the same for associates and joint ventures.

The classification and accounting treatment is summarised in the flowchart opposite.

A new standard IFRS 11 Joint arrangements will apply from 1 January 2013. The first, most significant impact of IFRS 11 will be on those media companies which have opted to account for jointly controlled entities using proportionate consolidation, which is prohibited under the new standard. Research indicates that a narrow majority of media companies reporting under IFRS currently use proportionate consolidation rather than equity accounting. A change from proportionate consolidation to equity accounting will usually have the following effects:

- Net income unaffected but revenue and costs will decrease (% profit margin will therefore increase).
- Net assets unchanged, but total assets and total liabilities will decrease (debt leverage ratios will therefore also decrease).
- Cash flow operating, investing and financing activities will all decrease except for the specific line “dividends received from joint ventures” which will increase.
The second main impact of IFRS 11 will be on any jointly controlled entities under IAS 31 which are classified as joint operations under the new standard. Such entities would previously have been equity accounted or proportionately consolidated under IAS 31 whereas under IFRS 11 the venturer’s share of the joint operation’s underlying assets, liabilities, revenues and expenses will be recognised. The IASB has indicated that it expects most jointly controlled entities under IAS 31 to be joint ventures under IFRS 11 since separate legal entities generally imply that the assets, liabilities, revenues and expenses belong to the entity itself, with each venturer’s interest being a share of the net assets rather than direct rights to the underlying balances. Nevertheless, there will be some jointly controlled entities under IAS 31 which prove to be joint operations under IFRS 11.

This paper goes on to consider some accounting complexities which arise when media companies use joint ventures to develop new products, enter new markets or use joint ventures as a source of financing. The key points illustrated by our scenarios are:

- In licensing and distribution arrangements, it is important to distinguish between supply arrangements, joint operations and jointly controlled entities.
- Joint ventures in subscription-based businesses are sometimes equity accounted as net liabilities.
- The holding structure of an overseas joint venture can affect foreign exchange translation.
- Contribution of assets into a joint venture can cause an immediate income statement gain.
- Debt waiver by a joint venture must be assessed carefully to determine if an income statement gain arises.

This list of scenarios is not designed to be exhaustive; but will hopefully provide food for thought as media companies consider how to account for new and future joint ventures.
“Supplier arrangements must be distinguished from joint ventures”
Brand expansion and development into new products

Scenario 1: Licensing arrangements

Media companies looking to expand their brands into new products often use licensing arrangements which can sometimes be joint ventures.

Scenario 1(a): Multi-national publisher (P) is looking to expand into travel guides so enters into an arrangement with Niche Travel Co (NTC):

- NTC will provide content for the new range of Very Good Travel Guides
- NTC is entitled to a royalty calculated as 15% of sales and 25% of gross profit of Very Good Travel Guides (VGTG)
- P has sole responsibility for all printing, binding, marketing and sales
- P selects the countries to be covered in future Very Good Travel Guides

Scenario 1(a)

VGTG's results are:

<table>
<thead>
<tr>
<th>Sales (100%)</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of sales (printing, binding, marketing – all by P)</td>
<td>(40)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>60</td>
</tr>
<tr>
<td>Sales royalty to NTC (15% of sales)</td>
<td>(15)</td>
</tr>
<tr>
<td>Profit royalty to NTC (25% of gross profit)</td>
<td>(15)</td>
</tr>
<tr>
<td>Net profit (retained by P)</td>
<td>30</td>
</tr>
</tbody>
</table>

Current accounting under IAS 31: since P has sole control of key strategic decisions around sales, costs (i.e. printing, binding, marketing) and new products (i.e. new country guides), this would be treated as a supplier arrangement not a joint venture. P would include 100% of the Very Good Travel Guide results above.

Future accounting under IFRS 11: “relevant activities” under IFRS 11 are consistent with key strategic decisions under IAS 31. The conclusion would be the same i.e. this remains a supplier arrangement.
Scenario 1(b): The facts are the same as in scenario 1(a) except that the contract between P and NTC specifies that key sales and marketing decisions must be agreed jointly. NTC also has a right of veto over countries proposed by P to be covered in future Very Good Travel Guides.

Current accounting under IAS 31: the cash flows are unchanged from scenario 1(a), but the requirement for unanimous key strategic decisions means this is a joint venture. Since there is no legal entity it would be classified as a jointly controlled operation. P would account for its direct rights to the underlying results and assets as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (85%)</td>
<td>85</td>
</tr>
<tr>
<td>Cost of sales (printing, binding, marketing – all by P)</td>
<td>(40)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>45</td>
</tr>
<tr>
<td>Profit royalty to NTC (NB: still calculated as 25% of 60)</td>
<td>(15)</td>
</tr>
<tr>
<td>Net profit</td>
<td>30</td>
</tr>
</tbody>
</table>

Future accounting under IFRS 11: the joint arrangement would be classified as a joint operation and the accounting treatment would be unchanged from IAS 31.
Scenario 1(c): The facts are the same as scenario 1(b) above except that P and NTC decide to set up a legal entity VGTG Ltd with equal voting rights. NTC contributes content into VGTG Ltd and P contributes the printing, binding and marketing. NTC retains direct rights to its content and P retains full rights to the residual cash in VGTG Ltd after paying royalties to NTC. This residual cash can be distributed as a dividend to P whenever P requests it.

Figure 1(c):

Current accounting under IAS 31: this is a joint venture – more specifically, it is a jointly controlled entity so P has a choice whether to equity account or use proportionate consolidation. Assuming P opted for equity accounting, the accounting entries would be:

Debit: Balance sheet: investment in joint venture 30
Credit: Income statement: share of results of joint venture 30

and on distribution of the dividend:

Debit: Balance sheet: cash 30
Credit: Balance sheet: investment in joint venture 30

Future accounting under IFRS 11: most jointly controlled separate legal entities will be classified as joint ventures under IFRS 11 and equity accounted. However, in this scenario, since P retains direct rights to the underlying results and assets, the joint arrangement might be classified as a joint operation in which case the accounting treatment would be as per scenario 1(b). More examination of the specific facts would be required before reaching a final conclusion.
“Currently, jointly controlled entities can be equity accounted or proportionately consolidated, but the latter is prohibited under IFRS 11”

**Scenario 1(d):** The facts are the same as scenario 1(c) above except that P and NTC decide to set up a legal entity VGTG Ltd with equal shares and voting rights. NTC contributes content into VGTG Ltd and P contributes the printing, binding and marketing. This time, there is no allocation of sales or royalty to NTC; instead the profit of 60 is retained within VGTG Ltd (to be shared equally between P and NTC).

**Figure 1(d):**

![Diagram](image)

**Current accounting under IAS 31:** this is a joint venture – more specifically, it is a jointly controlled entity so P has a choice whether to equity account or use proportionate consolidation. If P opted for equity accounting, the accounting entries would be:

- Debit: Balance sheet: investment in joint venture 30
- Credit: Income statement: share of results of joint venture 30

whereas if P opted for proportionate consolidation the entries would be:

- Debit: Income statement: cost of sales 20
- Debit: Balance sheet: cash 30
- Credit: Income statement: revenue 50

**Future accounting under IFRS 11:** since P has a share of the net assets rather than direct rights, the joint arrangement would be classified as a joint venture and must be equity accounted (i.e. proportionate consolidation is not an option).
Brand expansion and development into new products

Scenario 2: Subscription businesses

Film production and distribution company (F) is faced with declining DVD sales so enters into a joint venture with internet giant (G) to distribute F’s films via the internet using on-demand internet streaming (IS). The joint venture IS is a separate legal entity where F and G have veto rights over key strategic decisions and equal rights to its net assets.

IS’s customers pay an annual subscription in advance for the right to stream an unlimited number of films each year over their internet connection.

IS will treat these advance payments as deferred revenue which will be recognised straight line over the annual life of the subscription. But the cash received may be used to fund the ongoing costs of the activities which are expensed immediately. In this type of situation, IS could find itself with net losses and hence net liabilities at a reporting period date since recognition of revenue (and hence profit) lags behind the recording of costs. This will be particularly true while the business is growing quickly because the deferred revenue at the end of the current period will exceed the revenue deferred from the prior year end.

**Current accounting under IAS 31:**

The joint venture is a jointly controlled entity so F has a choice whether to equity account or use proportionate consolidation. Assuming F opted for equity accounting, and F’s share of IS’s losses exceeds the carrying amount of IS, then F must decide whether to recognise further losses by IS.

In general, once the carrying amount of a joint venture has been reduced to nil, recognition of further losses is discontinued unless the venturer has an obligation to fund further losses incurred by the joint venture.

However, in this situation the net liabilities of IS represent an obligation to deliver services not to pay cash. Moreover, the marginal cost of delivering these services – i.e. the cost of maintaining the internet streaming website – is low. The “net liabilities” therefore really represent future profit which the accounting rules on revenue recognition have deferred to future periods.

It is therefore appropriate for F to continue to recognise IS’s losses in F’s income statement and the associated net liabilities on F’s balance sheet. Once the equity accounted investment in IS has been reduced to nil, further liabilities should be recognised according to the nature of the underlying obligation i.e. in this situation the “excess credit” would be classified within F’s deferred revenue.

**Future accounting under IFRS 11:**

The joint arrangement would be classified as a joint venture so equity accounted. The treatment of “excess losses” would be the same as the current accounting described above.

“It is sometimes appropriate to equity account for net liabilities in a joint venture”
Scenario 3: Distribution arrangements

Media companies looking to enter new international markets often use distribution arrangements which can sometimes be joint ventures.

US television production company (USTV) is keen to broadcast its programmes in Ruritania. USTV enters into an arrangement with Ruritania Commercial Broadcaster (RCB) to carry USTV’s programmes on one of its channels. The arrangement is a separate legal entity US-In-Ruritania (USIR) which is owned 60% by USTV and 40% by RCB. USTV and RCB have rights to the net assets of USIR in proportion to their shareholdings. RCB pays USIR a flat fee annually for broadcasting its programmes. USIR pays RCB on a “per programmes” basis to translate certain programmes from English into Ruritanian for domestic viewers.

Note that there are cash flows in both directions between USIR and RCB – for rights to broadcast; and for translation.

(In addition, RCB sells and retains the advertising slots within USIR’s breaks between programmes.)

If USIR is a subsidiary, then USTV will need to assess whether these cash flows between USIR and RCB represent separately identifiable fair value so should be presented gross as revenues and costs in the consolidated USTV income statement; or if they are linked transactions these should be presented as net within revenue. This assessment will also be required by USTV if USIR is a joint venture which is proportionately consolidated by UTSV.

(This assessment of gross vs net can be complex – and will be the topic of a future MIAG publication.)

In contrast, if USIR is a joint venture which is being equity accounted by USTV, then from USTV’s point of view the question of the gross vs net presentation of the two-way cash flows between USIR and RCB becomes moot for the consolidated books of USTV. This is because gross vs net presentation within USIR has no impact on USTV’s share of results or net assets.

“Complex distribution arrangements can significantly affect your income statement presentation”

### Table 3: Comparison of Subsidiary vs Joint Venture

<table>
<thead>
<tr>
<th>Category</th>
<th>Subsidiary</th>
<th>Joint Venture</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USTV shareholding in USIR:</strong></td>
<td>60% Proportional to shareholding</td>
<td>60% Veto rights over key strategic decisions</td>
</tr>
<tr>
<td><strong>Voting rights:</strong></td>
<td>USIR is subsidiary of USTV</td>
<td>USIR is joint venture</td>
</tr>
<tr>
<td><strong>Classification:</strong></td>
<td>USIR consolidates 100% of USIR’s revenues and costs, and recognises 40% non-controlling interest towards the foot of its income statement</td>
<td>Choice: equity account or proportionate consolidation</td>
</tr>
<tr>
<td><strong>Current accounting treatment:</strong></td>
<td>(under IAS 27 and IAS 31)</td>
<td>(under IFRS 10 and IFRS 11)</td>
</tr>
<tr>
<td><strong>Future accounting treatment:</strong></td>
<td>Unchanged</td>
<td>Equity account</td>
</tr>
</tbody>
</table>
Scenario 4: Retranslation of foreign joint ventures

Media companies looking to expand into new international markets often do so via a joint venture with a partner who is more familiar with local market, culture and regulations. In particular, emerging markets which often have media ownership restrictions that require foreign companies to have a local partner. The impact of foreign exchange movements on these joint ventures should always be considered.

Current accounting under IAS 31 and IAS 28 (and IAS 21 Changes in foreign exchange rates)

Consider the following situations: Sterling plc has a joint venture in the US. This joint venture can be structured either via a UK holding company JV Ltd (see Figure 4.1) or as a direct investment into JV Inc (see Figure 4.2). We have assumed in both cases that Sterling plc has chosen to equity account for its joint venture in the US.

The question then arises whether the underlying net assets of the equity accounted joint venture should be retranslated by Sterling plc at each reporting date.

In Figure 4.1 above, this question is straightforward. Assuming JV Ltd has a functional currency of GBP, at each reporting date it will consolidate and retranslate the net assets of JV Operations Inc from USD to GBP with movements being recognised via other comprehensive income (OCI). Sterling plc, when equity accounting for its joint venture, will in turn record its share of this OCI movement.

The accounting related to Figure 4.2 is more complicated. These are two views:

View 1: Most companies around the world retranslate their share of the underlying net assets of foreign joint ventures when equity accounting for them, resulting in a foreign exchange gain or loss in OCI. Such “View 1” companies believe this treatment is similar to the retranslation of foreign subsidiaries on consolidation. They also highlight that the economic substance of the joint venture in Figure 4.2 is the same as in Figure 4.1 so should generate the same accounting treatment.

View 2: Those taking a “View 2” approach argue that since the joint venture (JV Inc in Figure 4.2) does not retranslate its own net assets in its standalone accounts, there is no foreign exchange retranslation item in OCI in the joint venture’s books and it would therefore be inappropriate for the venturer (Sterling plc) to record such an item when equity accounting for JV Inc.

Our view on Figure 4.2 is that although the guidance in IAS 28 and IAS 21 is arguably inconsistent, on balance we believe that “View 1” is the appropriate one since this more accurately reflects the economic value of the venturer’s interest in its overseas joint venture.

A key point to note from this conclusion for Sterling plc when structuring its US joint venture is that while the structure in Figure 4.2 does avoid translation foreign exchange volatility within OCI of the joint venture, it does not avoid it in OCI of consolidated Sterling plc.

Future accounting under IFRS 11

IFRS 11 addresses the question of how to define and account for a joint venture but does not amend the equity accounting method, so the accounting conclusions above are unchanged.

Companies which have opted under IAS 31 to apply proportionate consolidation for jointly controlled entities which are classified as joint ventures under IFRS 11 will be required to equity account. They will face this accounting matter for the first time as part of their transitional arrangements.
At a time when the macroeconomic outlook remains uncertain, joint ventures can be used by media companies to share financing risks and fund growth.

**Scenario 5: Contribution of assets**

A mid-size video games developer VGD needs funding to develop sequels and spin-offs to one of the key brands it has developed internally over the past few years. VGD therefore enters into a joint venture JV with bank B. At the inception of JV, VGD contributes its core brand in exchange for 60% of JV and B contributes €100 million for 40%. Although the shareholdings are unequal, both venturers have a right of veto over key strategic decisions so JV does qualify as a joint venture – to be precise, a jointly controlled entity – under IAS 31.

The initial cost of investment in B’s books is a straightforward €100 million. But the accounting in VGD’s books is more complex. Since the brand was developed internally, it is likely to have little or no carrying value on VGD’s balance sheet. But when ownership of the brand passes from VGD to JV, it would meet the definition of an intangible asset under IAS 38 *Intangible assets* so should be initially recorded in JV’s books at cost. Since the ‘cost’ in this instance is the issuance by JV of shares to VGD, the brand would likely be measured in two ways:

- First, by reference to the price paid by B for shares in JV i.e. since 40% cost €100 million, the brand granted in exchange for 60% would be recorded in JV’s books at €150 million; and
- Second, a sense-check would be provided by JV using standard valuation techniques (such as discounted cash flow or relief from royalty) to confirm the value of the brand at approximately €150 million.

At inception JV therefore has net assets of €250 million. Assuming VGD is applying the equity accounting method, VGD will consolidate its share of net assets as being €150 million; but since the brand VGD contributed had no value on its balance sheet, does this result in a ‘gain’ of €150 million from forming the joint venture?

The answer is “not quite”. The interpretative guidance in SIC 13 *Jointly controlled entities – non-monetary contributions by venturers* only permits recognition of such gains up to the level of the equity interest held by other venturers – in other words, VGD cannot recognise the unrealised gain on the 60% of the brand which it effectively still owns through its stake in JV. Under the equity method, the unrealised part of the gain is removed from the income statement and instead eliminated against the investment in JV. At the inception of JV, the entries recorded by VGD would therefore be...

**Figure 5:**

```
<table>
<thead>
<tr>
<th></th>
<th>VGD</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brand</strong></td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>JV (separate legal entity)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash €100 million</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```

Debit: Balance sheet: investment in joint venture €150 million (= 60% of JV net assets of €250 million)

Credit: Income statement: share of results of joint venture €90 million (= unrealised 60% of VGD ‘gain’ of €150 million)

Credit: Balance sheet: investment in joint venture €90 million

...giving VGD a net investment in JV of €60 million i.e. its realised gain of 40% of €150 million.

(Under proportionate consolidation, the unrealised gain would be eliminated directly against the underlying assets. As a reminder, proportionate consolidation will be prohibited under IFRS 11.)

**Future accounting under IFRS 11:** the accounting treatment will be the same as under the IAS 31 equity method.

“*Contribution of assets into a joint venture can cause an immediate income statement gain*”
**Scenario 6: Waiver of debt issued by a joint venture**

Media company M has entered into a 50/50 joint venture (JV) with a private equity partner (PE). JV has also issued debt in the form of traded bonds. JV’s business model is dependent on advertising revenues. Due to the depressed advertising market and macroeconomic conditions, the bonds issued by JV are trading at below their redemption value (i.e. the market believes there is a default risk). Assume the redemption (or nominal) value – which is also the carrying value in JV’s books – is $100 million whereas the bonds are currently trading at a 10% discount i.e. $90 million.

**Scenario 6(a): JV buys back its debt and cancels it**

JV has surplus cash generated in prior years and management believes it can continue to trade sufficiently well through the downturn to fund its working capital requirements and growth plans. Management therefore opts to buy back JV’s traded bonds for $90 million and cancel them. The difference between the redemption price of $90 million and the carrying value of $100 million generates a $10 million finance gain in the income statement of JV.

M is equity accounting for JV so will in turn record a gain of $5 million (50% of $10 million) within M’s share of results of joint ventures in M’s income statement.

Again, there is a $10 million difference between the $90 million carrying value of the bonds being cancelled and their carrying value of $100 million.

However, in this scenario the debt cancellation has been facilitated by M and PE since JV itself did not have the cash available to repurchase its bonds. This purchase and cancellation really represents a transaction with shareholders so should not give rise to an entry in either the income statement or other comprehensive income. In JV’s books the $10 million ‘gain’ would instead be treated as a capital contribution and recognised directly within equity.

M is equity accounting for JV so must consider whether M also records its 50% share of the $10 million item. IAS 31 and IAS 28 do not give clear guidance on whether movements in a joint venture’s equity should be reflected within the equity accounting method; but we believe the most appropriate treatment for companies in M’s situation would be to reflect the $5m step-up within equity, labelled as “step-up in equity value of joint venture”.

**Future accounting under IFRS 11:** in both scenarios 6(a) and 6(b) the accounting will be the same as under IAS 31.

**Scenario 6(b): M and PE buy JV’s debt in order to cancel it**

M and PE have surplus cash generated in prior years and management in both companies believe they can continue to trade sufficiently well through the downturn to fund their working capital requirements and growth plans and those of JV. The M and PE management teams therefore opt to buy back JV’s traded bonds, in proportion to their 50% shareholding, for a combined $90 million (i.e. $45 million each) and ‘sell’ them to JV in exchange for $90 million of shares. JV then cancels the bonds.

“Debt waiver by a joint venture must be assessed carefully to determine if an income statement gain arises”
Conclusion

Joint ventures are an increasingly popular option for media companies to develop new products, to enter new international markets, or to share financing risk. This paper has considered some of the current accounting challenges and complexities which can arise for media companies under IAS 31 Interests in joint ventures.

We have also highlighted some changes under the upcoming new standard IFRS 11 Joint arrangements. Media companies likely to be most significantly affected by IFRS 11 are those that currently apply proportionate consolidation for jointly controlled entities, those that are particularly active in emerging or developing economies with restrictive foreign ownership rules, and those that have longstanding joint arrangements with limited contractual documentation detailing the specific terms of the arrangement. These latter examples serve as a helpful warning that careful consideration should always be given to the accounting consequences of entering into or amending any joint arrangement. As always, planning ahead can prevent painful surprises.

We hope that you found this paper useful and welcome your feedback.

To comment on any of the issues highlighted in this paper please visit our dedicated website www.pwc.com/miag or contact your local PwC entertainment & media specialist.

“As always, planning ahead can prevent painful surprises”
Publications / further reading

Global entertainment & media outlook

2011—2015

The global entertainment & media outlook contains detailed industry analysis and forecasts trends in the global entertainment & media industry over the next 5 years across 13 industry segments in 48 countries.

This year’s outlook focuses on the emergence of a golden age for empowered consumers, driven by the profound move to digital, which has created a “new normal” for the entertainment & media industry.

14th Annual Global CEO Survey

Entertainment & Media industry summary

This year our findings show that customers’ ongoing migration to new digital consumption habits is seeing CEOs in the E&M sector take a measured view of their industry’s outlook, focused around three key issues:

1. **Talent**: Tackling the skills conundrum
2. **Consumer spending and behaviours**: Targeted innovation
3. **Organisational structures**: Reshaping for collaboration

Engage customers through social media

Digital transformation

In this publication we take a look at how leading organisations have already recognised the importance of engaging their customers through social media and what lessons they have learnt. We also explore the potential value of social media for business and how to get started and successfully grow in this dynamic marketplace.
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