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MIAG
Media Industry Accounting Group

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Making sense of a complex world

Revenue recognition: principal/agent arrangements – issues for media companies

This paper explores some of the key IFRS accounting considerations for principal/agent arrangements.

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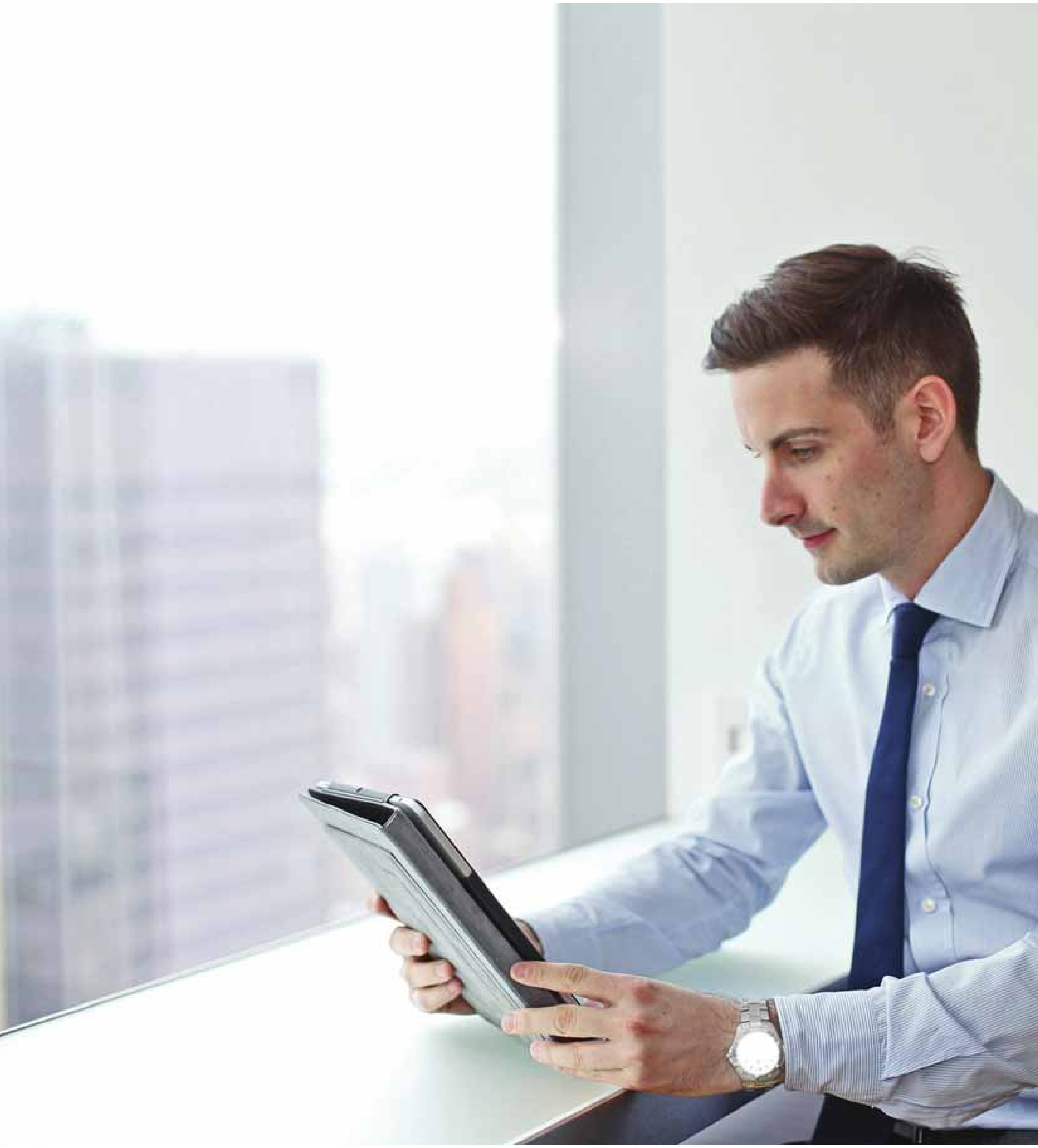

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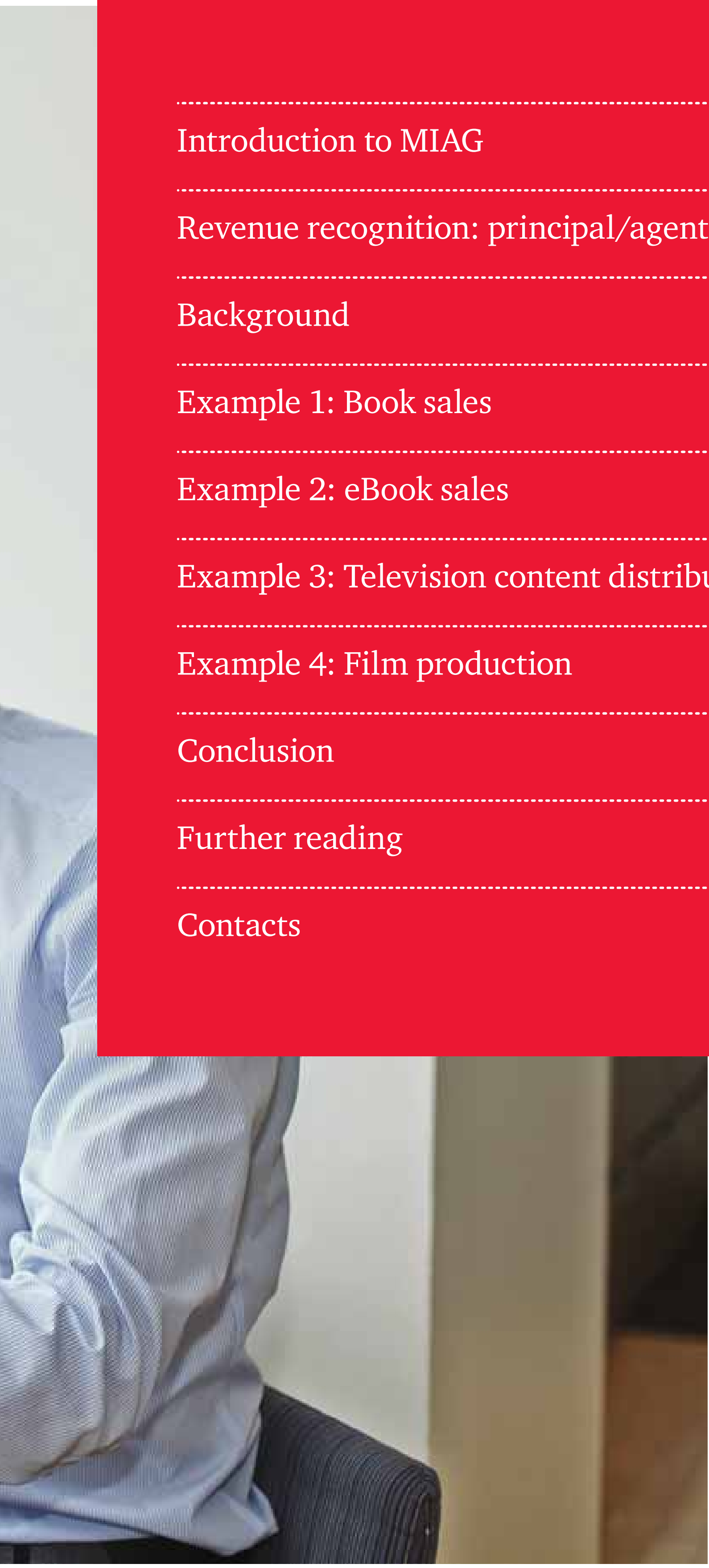


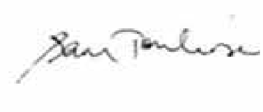
Introduction to MIAG

Our 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 that 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 that is driven not just by rapidly changing business models but also by imminent changes to the world of IFRS accounting.

Through MIAG, PwC[1] aims 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.

Best wishes



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[1] PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal company

Revenue recognition: principal/agent arrangements

Revenue is – hopefully! – the largest item in the income statement so accounting judgements that directly affect revenue are invariably important. Our sixth MIAG paper explores some of the key IFRS accounting considerations when media companies enter into potential principal/agent arrangements.

Principal/agent assessments are becoming increasingly complex as digital transformation results in an ever-increasing variety of content formats and routes to reach the ultimate consumers. For the media company – often the 'content provider' in such arrangements – the assessment of whether it is selling its content to a retailer/distributor, or to consumers via an agent, has a direct impact on whether it recognises its revenues net or gross. This in turn affects two key metrics in opposite directions: revenue and percentage profit margin. Careful selection and communication of appropriate revenue recognition accounting policies for potential principal/agent arrangements is therefore a key part of managing capital markets stakeholders.

This paper considers the assessment of the key principal/agent considerations in various practical examples, covering physical books, eBooks, television content and film production. Our scenarios are clearly not designed to be exhaustive; but they will hopefully provide food for thought for media companies when considering whether they are acting as principal in new or existing routes to market.

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

Best wishes

Christoph Gruss
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PwC Media Industry Accounting Group

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Background

PwC's Media Industry Accounting Group (MIAG) is our premier forum for discussing and resolving emerging accounting issues that affect the entertainment & media sector – visit our dedicated website: www.pwc.com/miag

Revenues in the media sector can arise from the sale of goods or rendering of services in areas as diverse as books, newspapers, magazines, music, film, television, video games and more. A common feature of many media industries is that the 'content' owned by the media company requires a third party distribution route to reach the ultimate consumers. Distribution routes can be either traditional physical retailers or, increasingly, providers of telecommunications or online retail sites.

These arrangements – of content owner, distributor and consumer – require the content owner (media company) to assess whether it is functioning as:

- ***A principal selling to the distributor,*** in which case the media company would recognise the net revenues receivable from that distributor; or
- ***A principal selling directly to ultimate consumers,*** using the distributor as its agent, in which case the media company would recognise the gross revenues paid by the consumer, with the distributor's margin representing a cost of sales.

A company is acting as principal when it has exposure to the significant risks and rewards associated with selling goods or rendering services. In contrast, a company that acts on behalf of another party realises revenues by receiving commissions or fees, because it is acting as an agent. In the scenarios in this paper, the key challenge for the media company is to determine whether its customer is the retailer/distributor or the ultimate consumer (with the distributor acting as an agent in the sale).

This assessment can be challenging for many business relationships in many media sectors. It is further complicated by digital transformation resulting in an ever-increasing variety of content formats and digital distribution routes, which do not have the benefit of historical experience and practice to inform the accounting judgements.

What is the relevant IFRS guidance?

IFRS provides some limited guidance on revenue recognition under principal/agent arrangements. IAS 18 *Revenue recognition* states that '*…in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission*'.

A company is acting as principal when it has exposure to the ***significant risks and rewards*** associated with selling goods or rendering services. The illustrative examples attached to IAS 18 set out some indicators to consider when assessing potential principal/agent arrangements. Indicators that a company should account for a transaction as principal include:

- ***The company has the primary responsibility for providing the goods or services to the customer or for fulfilling the order*** – this may be the case if the company is responsible for the acceptability of the products or services ordered or purchased by the customer; but it may also be the case that the company has primary responsibility when it has the most influence on the content of the product. For this indicator the view of the customer should also be considered i.e. which company does the customer view as his supplier, particularly in the event of defects or complaints.

- ***The company has inventory risk before or after the customer order, during shipping or on return*** – this may be the case if the company bears the general inventory risk of losses arising from lost, damaged, stolen or unsold inventory. For this indicator the general sales risk of the developed good could also be considered i.e. who bears the greater risk from the investment in content and distribution.
- ***The company has latitude in establishing prices*** – this might be the case if the company sets the sales price or sets prices within a broad range. Further, the company might have an indirect ability to establish price by providing additional goods or services.
- ***The company bears the customer's credit risk for the amount receivable from the customer*** – this 'traditional' risk might increasingly be mitigated by up-front electronic payment.
- ***The amount the company earns is not predetermined*** – an agent is more likely to have earnings that are predetermined via a fixed fee per transaction or a stated percentage of the amount billed to the customer. In contrast, a principal has more ability to vary prices and hence to receive earnings that are not predetermined.

These indicators are not exhaustive; nor must all of them have been met to confirm that a company is acting as principal. Indeed, in practice, some indicators might suggest that one party is principal, whilst other indicators suggest the reverse. Relevant indicators are therefore considered as a whole to assess the economic substance of the arrangement, with the greater weight being assigned to the most important. In some cases a small change in the relevant contractual terms or business practice can affect the principal/agent assessment.

This paper addresses the assessment of the key principal/agent considerations for media companies in various practical examples covering physical books, eBooks, television content and film production. Our scenarios are clearly not designed to be exhaustive; but they will hopefully provide food for thought for media companies when considering whether they are acting as principal in new or existing routes to market. As always, the answer for complicated real life arrangements will depend on specific facts and circumstances.

Are there any tax implications?

This paper is concerned primarily with accounting, which should be consistent across companies reporting under IFRS, rather than tax, which will vary with each country's local laws and tax regulations. We note that sales tax is generally calculated as a percentage of revenue; so the assessment of principal/agent, which impacts revenue recognition, might also affect sales tax.

Many countries will have tax legislation specifically designed to address principal/agent debates, so in theory the accounting treatment adopted should be tax neutral. However, even in such countries, the accounting treatment adopted might have implications with regards to sales tax, since differing treatments for accounting and tax purposes might catch the attention of local tax authorities or accounting regulators. Direct tax authorities might also pay close attention to sales to, or distribution by, related group companies to understand the substance of intra-group transactions.

We would always recommend consulting with a local tax expert to determine possible tax consequences of a principal/agent assessment.

Example 1: Book sale-or-return arrangement

Scenario

Book publisher B produces the content for a book and arranges physical printing. The printed books are then distributed by logistics company L to booksellers including retailer R. Book publisher B invoices retailer R for an agreed price per unit. B suggests, but cannot enforce, a retail selling price.

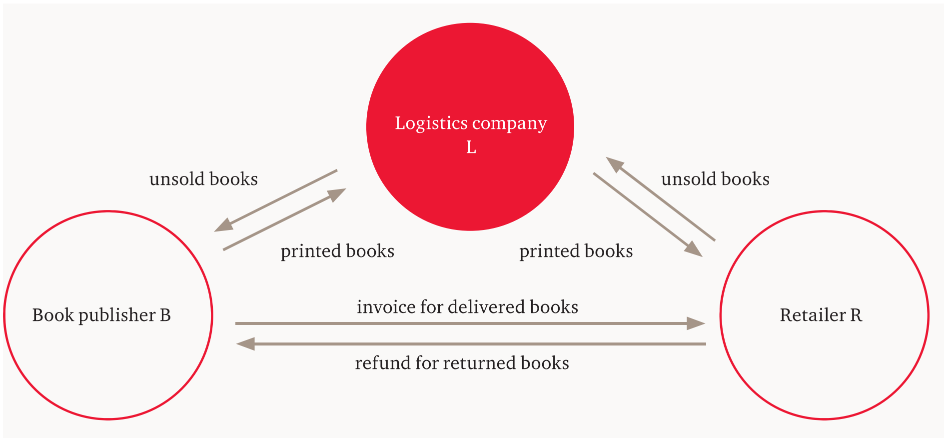
The arrangement includes a sale-or-return clause meaning that retailer R can return any unsold books at the same price per unit originally invoiced by book publisher B. These unsold books are collected by logistics company L, which then returns them to B. Books can be returned for a period of up to 12 months after original shipment.

For this example, assume book publisher B charges retailer R €9 for each book and R generally charges consumers the suggested retail price of €10.

How should book publisher B account for printed book sales?

In this scenario, book publisher B must assess whether it is acting as:

- Principal selling to ultimate consumers and using retailer R as its agent i.e. record gross revenues of €10 and cost of sales €1; or
- Principal selling directly to retailer R i.e. record net revenues of €9.



Assessment of key principal/agent indicators

An indicative assessment by book publisher B for each of the five key indicators might be:

Indicator	*Assessment by book publisher B*
Primary responsibility for providing the goods and services	• In general, the consumer considers the bookstore to be responsible for the acceptable condition of the book i.e. if the book is physically incomplete or ruined, the customer would ask R for a replacement or cash refund • B retains responsibility for the content of the book (along with, potentially, the book's author) i.e. the responsibility to address/compensate for complaints over content is not transferred to R • Although an identical book can be bought from a variety of retailers, the consumer is not necessarily neutral in the selection of the retailer and will take into account factors such as customer service, the range of books available and other services available at the store • **This indicator is mixed, but on balance book publisher B is selling to retailer R, with R in turn acting as principal in its dealings with consumers**

Indicator	*Assessment by book publisher B*
Inventory risk	• B retains the risk of losses on books that are unsold within 12 months, since they can be returned • However, R has physical possession of the books so the risk of damaged or stolen books resides with the retailer. In addition, R has full inventory risk for books that were delivered more than 12 months previously if these are not returned • **This indicator is also mixed, but again on balance book publisher B is selling to retailer R, with R acting as principal in selling to consumers**
Latitude in establishing prices	• R sets the price for consumers. Whilst R generally uses the retail price suggested by B, R has latitude to vary from this • **Indicates book publisher B is selling to retailer R, with R acting as principal in sale of the book to the customer. (NB: If book publisher B could instead mandate the ultimate sales price, this assessment might be reversed – see conclusions below.)**
Credit risk	• B bears credit risk in its transactions with R; B does not have exposure to credit risk of ultimate consumers • R bears credit risk for its sales to consumers, but this risk is limited since books are typically sold for cash or on credit cards covered by insurance • **The lack of substantive credit risk means that this indicator is not very relevant so not determinative**
Predetermined earnings	• R sets the selling price of the book and as such its earnings are not predetermined by B • **Indicates book publisher B is selling to retailer R, with R acting as principal in sale of the book to the customer**

Conclusions

In summary, the retailer in this example has primary responsibility for delivering the product to the consumer; has physical possession of the inventory so bears the significant inventory risk; and sets the selling price. These factors collectively indicate retailer R is acting as principal in selling to the customer in this scenario. As such, book publisher B's customer is retailer R so B recognises revenue of €9 per book. (NB: revenue is not recognised for books that are expected to be returned by R – returns provisions are not addressed in this paper.)

However, if some of the facts and circumstances were varied, the determination could be different. In some territories the book publisher might have the legal right to set the selling price to the consumer, and might also retain more of the inventory risk given local arrangements such as extended multi-year returns periods. In such a scenario, the book publisher might deem its customer to be the ultimate consumer rather than the retailer, in which case it would recognise gross revenues of €10 per book together with cost of sales (i.e. the retailer's 'commission') of €1.

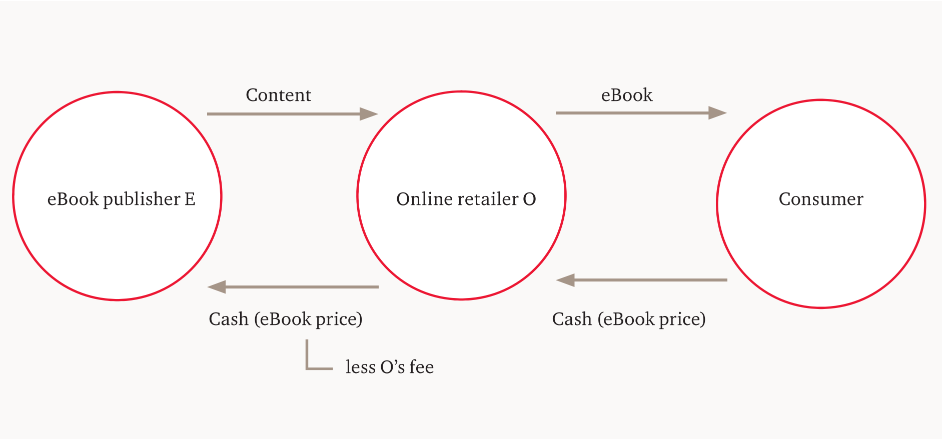
As always, the assessment in real life should be determined by the specific facts and circumstances including contractual terms, applicable laws and local industry practice.

Example 2: eBook sales via online retailer

Scenario

Online retailer O sells eBooks with the eBook content being provided to O by eBook publisher E. O is responsible for transforming E's digital files into a digital format that can be sold on O's website and downloaded by consumers on to their eReader device, although this 'transformation' process is relatively straightforward and does not represent 'significant modification'.

The eBook price charged to consumers is set by online retailer O but within narrow, contractually-determined boundaries agreed with E. The consumers pay the eBook price to O, which retains a set amount per sale (O's fee) and remits the remainder to eBook publisher E. If a refund is provided to the consumer for any reason, online retailer O makes this payment but eBook publisher E must return to O any cash previously received for that eBook.



Online retailer O is responsible for delivery of the content to the consumer. If any defect is caused by E's content, O reverts to E for correction.

How should eBook publisher E account for eBook sales?

In this scenario, assume that online retailer O charges consumers a price between €9.99 and €10.15, as permitted by its contract with eBook publisher E, with E receiving 70% of the price paid by the consumer.

eBook retailer E must assess whether it is acting as:

- Principal selling its content to ultimate consumers and using online retailer O as its agent, i.e. record gross revenues of €9.99 – €10.15 (dependent on actual selling price) and cost of sales €3.00 – €3.05; or
- Principal selling its content directly to online retailer O i.e. record net revenues of €6.99 – €7.10.

Assessment of key principal/agent indicators

An indicative assessment by eBook publisher E for each of the five key indicators might be:

Indicator	*Assessment by book publisher E*
Primary responsibility for providing the goods and services	• O is responsible for technical infrastructure and download format as well as digital delivery to the consumer • However, E is responsible for the content that, in the absence of a physical product, is the key sales driver • **This indicator is mixed and it is not clear who has primary responsibility to the consumer**

Indicator	*Assessment by book publisher E*
Inventory risk	• There is no traditional inventory risk for eBooks since there is no physical product • There is some investment recoverability risk for E given its investment in the author and editorial activities (though it is likely that the investment will be recovered via more than one sales channel i.e. by physical books as well as ebooks). In this scenario, O has minimal inventory risk since the transformation process is straightforward and does not constitute a significant modification • **The lack of physical inventory means this indicator is not very relevant so not determinative**
Latitude in establishing prices	• O sets the price charged to ultimate consumers • However, since the boundaries in this scenario are narrow, there is little substance to O's ability to set price and it is in fact E that has true latitude in setting prices • If boundaries were "broad" this indicator might be different (there would be significant judgement in deciding whether a particular range is "narrow" or "broad") • **The narrow range within which O can set prices in this scenario indicates eBook publisher E is acting as principal selling to ultimate consumers, with online retailer O acting as its agent. (NB: if O was able to set prices within a "broad" range, the conclusion might be different – see conclusions below)**
Credit risk	• O bears credit risk in transactions with customers • However, eBooks are paid by credit card and the online retailer typically obtains authorisation for the charge prior to the eBook download • Credit risk is therefore largely mitigated • **The lack of substantive credit risk means that this indicator is not very relevant so not determinative**
Predetermined earnings	• O receives a set percentage of a narrow range of sales prices • The refund mechanics suggest that E protects O from exposure to loss from sales returns • **Indicates eBook publisher E is acting as principal selling to ultimate consumers, with online retailer O acting as its agent**

Conclusions

The assessment of eBook revenue recognition is, as always, dependent on specific contractual terms and business practices, which are rapidly changing as the eBooks market develops and the variety of digital devices increases.

In the scenario described above, we would on balance conclude that since the eBook publisher has the more substantive pricing power and the online retailer's earning per book is effectively pre-determined, and given the lack of other relevant and substantive indicators, the eBook publisher is most appropriately viewed as principal in its dealings with consumers. As such it would record its revenues at the gross selling price with the commission paid to the online retailer as a cost of sales.

However, alterations of this scenario's fact pattern could result in a different conclusion. For example, if the online retailer is given significant latitude to set prices (e.g. it is able to price at a loss) and pays a fixed amount (not a fixed percentage) to the publisher for each eBook, this would result in the online retailer taking on greater risks and rewards of transactions with the ultimate consumer. This change might affect the assessment of whether the eBook publisher's customer is the online retailer or the ultimate consumer. If the conclusion changed and the publisher's customer becomes the online retailer, the eBook publisher would then recognise as revenue the fixed amount received from the online retailer for sales of each eBook.

There is currently some diversity in practice among eBook publishers in assessing such relationships as principal/agent (with the eBook publisher viewed as a principal selling to ultimate consumers using an online retailer as its agent) or as a direct sale to the online retailer (where the online retailer is viewed as the principal selling to the ultimate consumer, with a share of revenue paid to the publisher). This is at least partly due to differing contractual terms.

As eBook revenues become more material and the variety of digital devices increases we expect that the volume and type of contracts between publishers and online retailers will also grow. eBook publishers will need to ensure appropriate accounting policies are developed at a pace that matches and reflects these evolving business practices.

Similar considerations to those set out above would apply for a music publisher selling music downloads or for a company selling an 'app' via an online store.

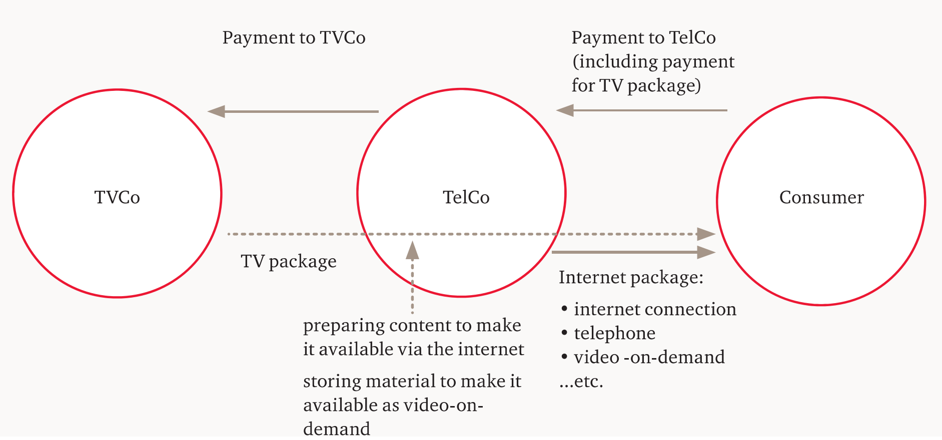
Example 3: Television content distribution

Scenario

A telecommunications company (TelCo) provides services including telephone, internet and cable television. All services are available standalone or combined in various 'entertainment packages'. Television content (the 'TV package') is provided by television company TVCo.

Some of TelCo's entertainment packages allow television broadcasting via the internet. TelCo stores TVCo's full library of television material so that TelCo customers have the opportunity at any time to search and watch specific material ('video-on-demand').

The contractual arrangement between TelCo and TVCo allows TelCo to sell the TV package of TVCo in conjunction with other TelCo products i.e. bundled within TelCo's various entertainment packages. TelCo pays a primarily fixed fee to TVCo and assumes customer credit risk. The fee paid by TelCo to TVCo includes provisions to pay more or less than the 'fixed' fee if TVCo's content proves exceptionally popular or unpopular with TelCo's subscribers.



How should TVCo account for revenues under this arrangement?

TVCo must assess whether it is acting as:

- Principal selling its content to ultimate consumers using TelCo as its agent i.e. record gross revenues with TelCo's margin as its cost of sales; or
- Principal selling its content directly to TelCo i.e. record net revenues.

Assessment of key principal/agent indicators

An indicative assessment by TVCo for each of the five key indicators might be:

Indicator	*Assessment by TVCo*
Primary responsibility for providing the goods and services	• Although both companies clearly contribute to provision of these services, an ultimate consumer would most likely view its supplier as TelCo, particularly where services are bundled or in the event of issues • **Indicates TVCo is selling its content to TelCo, with TelCo then acting as principal in its dealings with consumers**

Indicator	*Assessment by TVCo*
Inventory risk	• There is no traditional inventory risk since there is no physical product • TVCo retains legal ownership of the content of its TV package, meaning its inventory risk lies in recovering its production cost (though the investment may be recovered via more than one sales channel) • TelCo is responsible for storage of TVCo's library of content for use on its video-on-demand system and has paid a fixed fee for access to that library • **The lack of physical inventory means that this indicator is potentially less relevant, although TelCo paying a fixed fee might indicate that it has something akin to inventory risk**
Latitude in establishing prices	• Each company is responsible for the price of its own products • TVCo sets the price it charges TelCo • TelCo sets the price charged to consumers for its entertainment packages and can combine TVCo's content with other content • **Indicates TVCo is selling its content to TelCo, with TelCo then acting as principal in its dealings with consumers**
Credit risk	• TVCo bears credit risk in its transactions with TelCo • TelCo bears credit risk in its transactions with consumers • **Indicates TVCo is selling its content to TelCo, with TelCo then acting as principal in its dealings with consumers**
Predetermined earnings	• TelCo has the ability to set consumer prices • Amount earned by TVCo is a fixed fee with variation if its shows are very (un)popular • **Neither TelCo nor TVCo's earnings are predetermined, which indicates that TelCo is not acting as an agent of TVCo**

Conclusions

Both companies are responsible for providing services, with TVCo providing content and TelCo providing infrastructure. It is likely that the ultimate consumers view their supplier as TelCo, particularly in the event of service disruption. This suggests that TVCo is selling to TelCo rather than using TelCo as its agent to sell to the ultimate customers. As such, TVCo should recognise only the net revenues received from TelCo. This conclusion is supported by the fact that TelCo has the ability to alter/enhance the content by combining it in packages with other content and has pricing power and customer credit risk.

However, scenarios can be envisaged where the conclusion would be different. For example, if the video-on-demand content was available solely on a pay-per-view basis, with the price set by TVCo and a fixed commission paid to TelCo, this would be a strong indication that TVCo was selling content directly to consumers, using TelCo as its agent.

It would also be relevant to consider who the consumer believes has primary responsibility for providing the content i.e. do consumers believe they are 'accessing TVCo content' (via TelCo) or 'being provided content by TelCo' (content that happens to be generated by TVCo). The 'TVCo content access' view would imply that TVCo is principal in its dealing with consumers so should recognise revenue gross, with TelCo's commission representing a cost of sale. In contrast, the 'TelCo content provision' view implies that TVCo is selling to TelCo so should recognise just the net revenue received.

Example 4: Film production

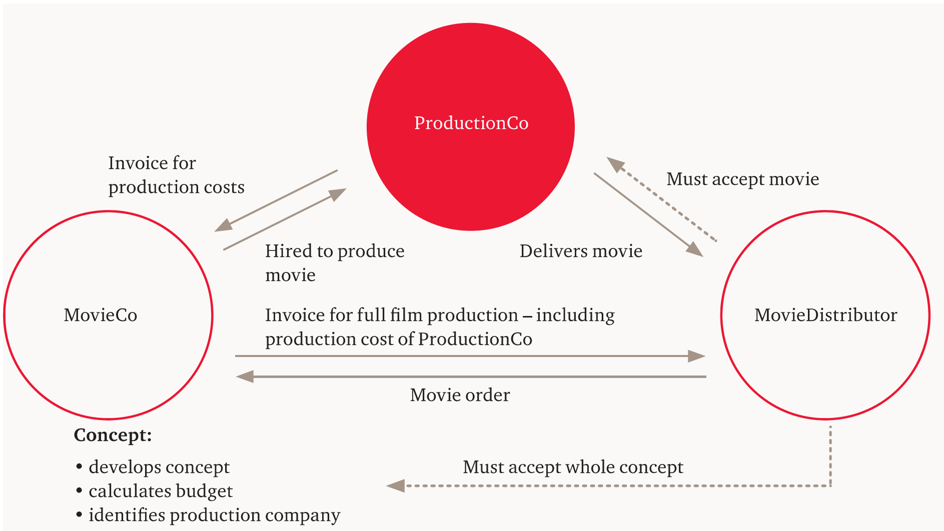
Scenario

A film company (MovieCo) is engaged in development of film concepts. Its activities include location scouting, logistics organisation and budget management.

MovieCo has been commissioned by another company (MovieDistributor) to work on the production of a film. Accordingly, MovieCo has entered into a contract with MovieDistributor covering concept development for this film.

MovieCo develops the concept, calculates the budget and searches for a third company that will produce the movie – with these details being presented to MovieDistributor. After approval of concept, budget and the production company (ProductionCo) by MovieDistributor, MovieCo hires ProductionCo to produce the movie based on the agreed concept and budget.

MovieCo does not bear the risk of budget overruns and does not directly benefit from budget savings. Furthermore, ProductionCo is responsible for the quality and delivery of the movie with the final movie being approved and accepted by MovieDistributor. After final acceptance, MovieCo provides an invoice to MovieDistributor for the total amount of the movie production including costs charged by ProductionCo and a 10% mark-up for MovieCo's own services.



How should MovieCo account for the amounts it invoices to MovieDistributor?

MovieCo must assess whether it is acting as:

- Principal in selling the finished film to MovieDistributor i.e. recognise as revenue the full amount invoiced, including 10% mark-up; or
- Agent acting on behalf of MovieDistributor (to source and manage ProductionCo), in which case it would recognise revenue to the extent of its 10% mark-up (excluding ProductionCo's costs).

Assessment of key principal/agent indicators

An indicative assessment by MovieCo for each of the five key indicators might be:

Indicator	*Assessment from MovieCo perspective*
Primary responsibility for providing the goods and services	• Movie Co develops the film, calculates the budget and searches for a suitable production company, but all these procedures are subject to approval by MovieDistributor • ProductionCo is responsible for production, quality and delivery of the film, with approval again resting with MovieDistributor • **Indicates ProductionCo is acting as principal in sale of the film to MovieDistributor, with MovieCo acting as agent**

Indicator	Assessment from MovieCo perspective
Inventory risk	• MovieCo takes ownership of the whole concept before presenting it to MovieDistributor • But once filming commences, ProductionCo carries inventory risk until final movie is accepted by MovieDistributor • MovieDistributor approves ProductionCo's budget and is exposed to variations against it • MovieCo therefore does not carry significant inventory risk • **Indicates ProductionCo is acting as principal in sale of the film to MovieDistributor, with MovieCo acting as agent**
Latitude in establishing prices	• Budget presented by MovieCo to MovieDistributor reflects budget prepared by ProductionCo • MovieDistributor approves ProductionCo's budget and is exposed to variations against it • MovieCo is therefore unable to freely determine the price since it can mainly vary only its margin, not select alternative cost inputs • **Indicates ProductionCo is acting as principal in sale of the film to MovieDistributor, with MovieCo acting as agent**
Credit risk	• After the production process, ProductionCo invoices MovieCo • MovieCo in turn invoices MovieDistributor, including the costs of ProductionCo • MovieCo is subject to payment by MovieDistributor but still liable to pay the invoice of ProductionCo i.e. credit risk lies with MovieCo • **Indicates MovieCo is acting as principal in sale of the film to MovieDistributor**
Predetermined earnings	• MovieCo receives a 10% mark-up on the amount billed by ProductionCo • MovieCo earnings are therefore predetermined • **Indicates ProductionCo is acting as principal in sale of the film to MovieDistributor, with MovieCo acting as agent**

Conclusions

The primary responsibility for providing the film to MovieDistributor lies with ProductionCo because it is responsible for the quality and delivery of the film, which is then subject to direct approval by MovieDistributor. ProductionCo also contributes the major cost variable (i.e. sets price) and has exposure to the major inventory risk. Collectively, these factors would probably outweigh the contra indicator of MovieCo bearing credit risk, particularly since credit risk is often mitigated by stage payments.

MovieCo would therefore be agent rather than principal in the sale of the movie and would not recognise the gross amounts received from MovieDistributor as revenue. Instead, MovieCo would recognise only the 10% mark-up as revenue, being the compensation that it receives for its services to MovieCo, which include sourcing and managing ProductionCo.

However, changes in certain facts could influence this assessment. For example, the contract might specify that MovieCo must first approve ProductionCo's film quality before passing it to MovieDistributor, including the acceptance of inventory risk if MovieDistributor subsequently disagrees over quality; and it might also state the production company used is at MovieCo's discretion and not subject to approved by MovieDistribuor. With these contract changes MovieCo would be taking significantly more of the arrangement's risks and so be more likely to be deemed principal. MovieCo would then record as revenue the full amount invoiced to MovieDistributor, with the amount paid to ProductionCo recorded as MovieCo's cost of sales.

Conclusion

Principal/agent assessments are becoming increasingly complex as digital transformation results in an ever-increasing variety of intangible content formats and routes to reach the ultimate consumers. For the media company – often the "content provider" in such arrangements – the assessment of whether it is selling its content to a retailer/distributor, or to consumers via an agent, has a direct impact on whether it recognises its revenues net or gross. This in turn affects two key metrics in opposite directions: revenue and percentage profit margin.

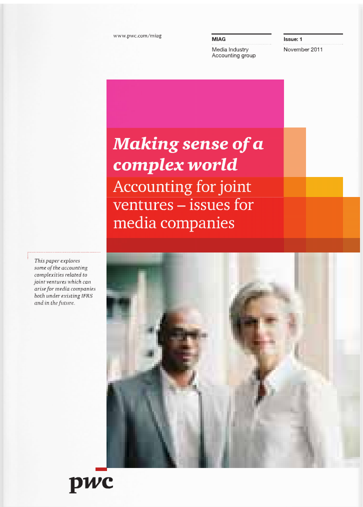
This paper has considered the assessment of the key principal/agent considerations in various scenarios covering physical books, eBooks, television content and film production.

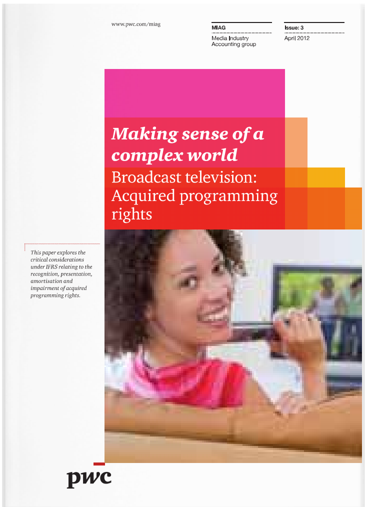
Our scenarios are clearly not designed to be exhaustive; but they will hopefully provide food for thought as media companies consider whether they are acting as principal in new or existing routes to market. The answer for complicated real life arrangements will depend on the specific facts and circumstances in each case. Where transactions are significant, management should include disclosures in the financial statements that enable users to understand the conclusions reached. As always, planning ahead can prevent painful surprises.

We hope you find 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.

Further reading





MIAG Issue: 1

Accounting for joint ventures – issues for media companies

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

MIAG Issue: 2

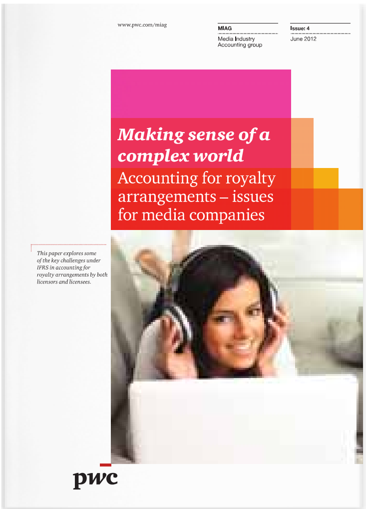
Revenue recognition for media companies

This paper explores some of the main implications for media companies of the revenue recognition ED re-exposed in November 2011.

MIAG Issue: 3

Broadcast television: Acquired programming rights

This paper explores the critical considerations under IFRS relating to the recognition, presentation, amortisation and impairment of acquired programming rights.



MIAG Issue: 4

Accounting for royalty arrangements – issues for media companies

This paper explores some of the key considerations under IFRS in accounting for royalty arrangements by both licensors and licensees.

MIAG Issue: 5

Content development and cost capitalisation by media companies

This paper explores the critical considerations relating to the classification, capitalisation and amortisation of content development spend under the applicable IFRS standards IAS 2 *Inventories* and IAS 38 *Intangible Assets*, focusing on the television production, educational publishing and video game sectors.

17th Annual Global CEO Survey

Key findings in the entertainment and media industry

Our 2014 CEO Survey shows there is growing optimism amongst entertainment and media (E&M) leaders as they transform their businesses. Product and service innovation will provide the greatest opportunity for revenue growth and is likely to play a pivotal role in addressing their greatest concerns: shifts in consumer spending and behaviour and speed of technological change. However, risk management is the area of the business least prepared moving forward.

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