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MIAG
Media Industry Accounting Group

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Making sense of a complex world

Revenue recognition: payments to customers – issues for media companies under IFRS 15

This paper explores some of the key IFRS 15 accounting considerations for payments by media companies to their customers.

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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 and media sector.

With more than 4,200 industry-dedicated professionals, PwC's global entertainment and media (E&M) practice has depth and breadth of experience across key industry sectors including: television, film, advertising, publishing, music, internet, video and online 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 E&M 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

Sam Tomlinson

PwC UK
Chairman,

PwC Media Industry Accounting Group

Sam Tomlinson

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

Revenue recognition: payments to customers

Revenue is – hopefully! – the largest item in the income statement so accounting judgements that directly affect revenue are invariably important. This 13 MIAG paper, a revision of our seventh paper, explores some of the key accounting considerations when media companies make payments to their customers under the new revenue recognition standard, IFRS 15 'Revenue from contracts with customers'.

Payments to customers can present accounting challenges in many sectors, but particularly in a fast-evolving media and technology landscape where two companies are frequently both supplier to, and customer of, each other.

While a media company's assessment of whether payments to its customers are distinct from, or directly linked to, sales transactions will still determine whether the company recognises these payments as costs or deductions from revenue, IFRS 15 provides explicit guidance when making this assessment. Whether or not such payments are presented net or gross of revenue affects two key metrics in opposite directions: revenue and percentage profit margin. Careful communication of appropriate revenue recognition accounting policies for payments to customers is therefore a key part of managing capital markets stakeholders.

This paper considers the assessment of payments to customers in various practical examples, covering the purchase of advertising space, physical and digital 'slotting fees', outsourced advertising sales and incentive payments in tripartite arrangements.

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

Best wishes

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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 and media sector – visit our dedicated website: www.pwc.com/miag

Revenue 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 relatively common feature of the fast-evolving media and technology landscape is for two companies to be both supplier to, and customer of, each other.

A media company making payments to its customers must assess whether these payments:

- represent consideration for ***distinct*** goods or services supplied by customers, in which case the payments are generally presented in the income statements as costs; or
- are consideration that is not provided in exchange for ***distinct*** goods or services, in which case the payments are linked to revenue so are presented as deductions from it.

Sometimes it might be obvious that the payment to the customer is for a distinct good or service – but other times it might not be. This assessment is becoming even more complicated as digital transformation generates an ever-increasing network of interconnected relationships that do not have the benefit of historical experience or practice to inform the accounting judgements.

What is the relevant IFRS guidance?

'IFRS 15 provides specific guidance on 'consideration payable to a customer'. Consideration includes both cash payments and credit or other items (e.g. a voucher) that can be applied against amounts owed by the customer. It also includes any amounts paid by the company to other parties, who buy the company's goods or services from its customer – that is, if the company makes payments to 'its customer's customer' this guidance also applies. It is also worth noting that in tri-partite arrangements, it is possible that an company has two customers. Whether or not each of the other parties in a tripartite arrangement is a company's customer might not be clear and could require judgement. For example, if the company is acting as an introduction agent, it might be providing a service to each of the parties that it brings together. If so, a payment payment to either of those parties would be deducted from revenue unless the payment was for a distinct good or service.

There is a rebuttable presumption in IFRS 15 that payments to a customer reduce the transaction price, that is, they are reveue deductions. This presumption can be rebutted if the company can demonstrate that the payment it makes is for a distinct good or service that it is acquiring from its customer. The company also needs to demonstrate that the price paid for that distinct good or service is fair value. Any amounts paid that exceed fair value are deducted from revenue.

(Previous US GAAP revenue recognition guidance on payments to customers used the term 'identifiable benefit', which was described as a good or service that is 'sufficiently separable from the recipient's purchase of the vendor's products such that the vendor could have entered into an exchange transaction with a party other than a purchaser of its products or services in order to receive that benefit'. The IASB has indicated that the IFRS 15 principle of 'distinct' is similar to this previous guidance.)

Careful consideration is needed when media company M sells a product or service to customer C and that same customer C also sells a product or service back to M. The issue for media company M in preparing its accounts is whether the two transactions should be regarded as distinct.

A distinct good or service is defined by IFRS 15 as one that:

- the company can benefit from, either on its own or together with other resources that are readily available (it is capable of being distinct); and
- is separately identifiable from other promises (it is distinct in the context of the contract).

When the good or service acquired by media company M from customer C is not considered to be distinct, it is most commonly because the first criterion is not met. Factors that indicate that the good or service acquired by M from C is capable of being distinct include:

- C selling the same product or service to other independent third parties that it has sold to M
- M having no obligation to purchase the product or service from C as a result of having C as its customer

Factors that indicate that the good or service acquired by media company M from customer C is not distinct include:

- M would not have made the purchase if it were not also selling a good or service to C. We believe that this is a key factor in assessing any payments to customers.
- Transactions are entered into in close proximity to each other and/or their mutual existence is acknowledged in the separate contracts.
- M does not have a clear business need for the product or service it is purchasing from C.

These indicators are not part of the standard, but are likely to be helpful data points when making an assessment.

Sometimes, considering whether the cash transactions between the company and the counterparty are settled gross or net can provide further evidence to support the conclusion reached on income statement presentation. However, in general the method of settlement (gross or net) is not determinative.

This paper considers the assessment of payments to customers by media companies in various practical examples, covering the purchase of advertising space, physical and digital 'slotting fees', outsourced advertising sales and incentive payments in tripartite arrangements. Our scenarios are clearly not designed to be exhaustive; but they will hopefully provide food for thought for media companies when considering how to account for payments to their customers under IFRS 15. 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 payments to customers, which impacts revenue recognition, might also affect sales tax.

Some countries may have tax legislation specifically designed to address payments to customers, in which case the accounting treatment adopted should in theory 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 will also pay close attention to payments between related group companies to understand the substance of intra-group transactions.

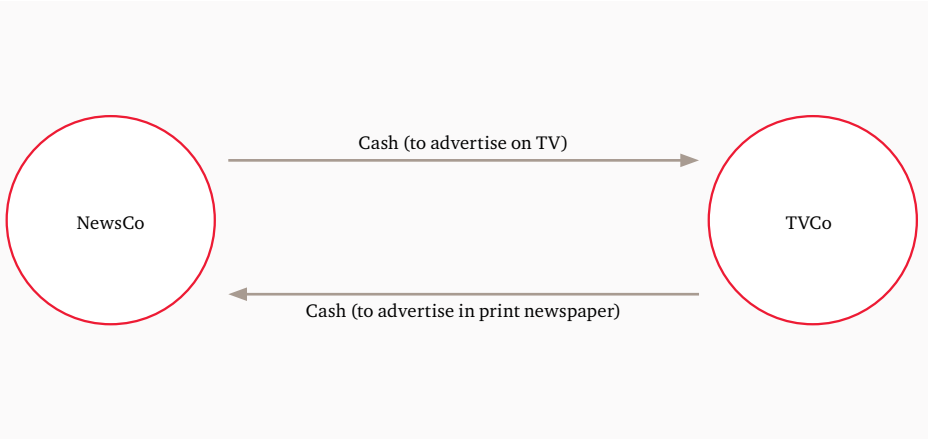
We would always recommend consulting with a local tax expert to determine possible consequences of payments to customers.

Example 1: Buying advertising space

Scenario

NewsCo regularly sells advertising space in its print newspapers to TVCo. Occasionally, NewsCo also pays TVCo for advertising spots on its television channels. Each year, the total advertising sold by NewsCo to TVCo is worth considerably more than the amount bought by NewsCo from TVCo (i.e. TVCo does more advertising than NewsCo).

The NewsCo print ad sales contracts and the TVCo television ad sale contracts are all distinct contracts that are signed at different times and make no reference to each other. Both NewsCo and TV also sell advertising space to numerous other advertisers at similar rates to those charged to each other.



How should NewsCo account for its advertising on TVCo's television channels?

NewsCo must assess whether its payments to TVCo for television advertising:

- represent consideration for an advertising service that is distinct from the print advertising sales to TVCo, in which case NewsCo would present the payments as operating costs in its income statement; or
- are not distinct from the print advertising sales to TVCo, in which case NewsCo would offset the payments against revenue.

We focus here on NewsCo since the balance of cash flows in this scenario mean that NewsCo is the main supplier with TVCo as the customer.

IFRS 15 analysis by NewsCo

In this case, it seems clear that the TV advertising is distinct from the newspaper advertising. NewsCo can benefit from advertising on TV even if TVCo does not choose to place advertisements in the newspaper. This conclusion is further supported by considering the indicators set out in the previous section:

Indicator	Assessment by print newspaper NewsCo
Customer (TVCo) selling same product or service to other third parties i.e. capable of being distinct	• TVCo (and NewsCo) does indeed sell advertising space to third parties in the normal course of business • **Indicator suggests these transactions are capable of being distinct i.e. NewsCo would present payments to TVCo as operating costs**
Obligation to purchase the product or service from customer (i.e. from TVCo)	• There are no indications that TVCo obliges NewsCo to buy television advertising space • NewsCo gets a benefit from the advertising that is distinct from whether or not it makes a sale to TVCo • It would therefore be assumed NewsCo has genuine business need to buy this advertising • **Indicator suggests goods and services exchanged are distinct i.e. NewsCo would present payments to TVCo as operating costs**
Separate contracts at different times with no reference to each other	• Contracts are signed separately and make no reference to each other • **Indicator suggests transactions are distinct i.e. NewsCo would present payments to TVCo as operating costs**

Conclusions

In summary, NewsCo's payments to TVCo for television advertising space appear to be for the purchase of a separately identifiable service. NewsCo should then assess whether the price it pays for this advertising is a market rate (i.e. 'fair value'). NewsCo would present these payments up to the fair value of the services received as an operating cost in its income statement (not as a deduction from revenue). However, if there were any indication that NewsCo had paid more than fair value, the difference would be deducted from revenue.

Different guidance applies if the sales of advertising space in each direction are deliberately set equal to each other, with no possibility of cash changing hands – i.e. the arrangement is 'barter'. A company recognises revenue for a barter transaction so long as it can demonstrate that:

- the exchange has not taken place between companies in the same line of business simply to facilitate sales to customers, for example, if NewsCo and TVCo exchange advertising space so that they can sell that space on to advertisers. We don't expect transactions like this to be common; and
- the transaction has commercial substance, that is, there is a genuine commercial reason for the exchange.

We think the determination of whether companies are in the same line of business and whether the exchange is a vendor/customer relationship or merely a supplier/supplier relationship will be an area of judgement. Assuming that the two points above can be demonstrated, revenue is recognised at the fair value of the advertising received unless that cannot be reasonably estimated, in which case it is measured based on the value of the advertising provided.

The previous IFRS requirement for services to be 'dissimilar' to qualify for gross recognition does not exist under IFRS 15, suggesting that under the new standard more barter transactions might be recognised gross as revenues and costs.

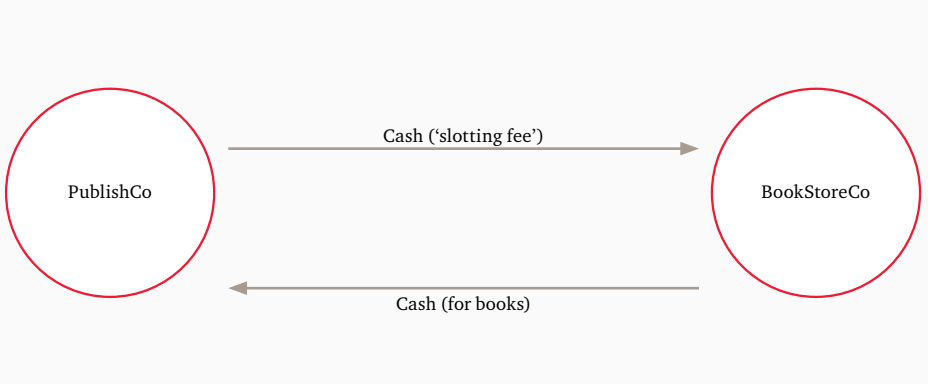
Example 2: Physical slotting fees

Scenario

Book publisher PublishCo sells books to BookStoreCo on a sale-or-return basis. In order to maximise sales of its (potential) bestsellers to readers, PublishCo occasionally pays 'slotting fees' to BookStoreCo in exchange for prominent book displays and other in-store marketing.

The book sales contracts and the in-store marketing (slotting fee) contracts are distinct contracts that are signed at different times and make no reference to each other. However, any individual slotting fee that is agreed between the parties under the overarching contract is paid with reference to a particular book that BookStoreCo will market. Slotting fees are usually settled as part of the overall net settlements of shipments, returns and open invoices.

BookStoreCo receives similar slotting fees from most of its major publishers.



How should PublishCo account for its slotting fee payments to BookStoreCo?

PublishCo must assess whether its payments to BookStoreCo for in-store marketing:

- represent consideration for a marketing service that is distinct from the book sales to BookStoreCo, in which case PublishCo would most likely regard the payments as marketing and present them as operating costs in its income statement; or
- are not distinct from the book sales to BookStoreCo, in which case PublishCo would treat the payments as discounts and offset them against revenue.

IFRS 15 analysis by PublishCo

In this case, it does not appear that PublishCo can benefit from the 'slotting' services unless it also sells the books to BookStoreCo. PublishCo cannot benefit from the prominent display of its (hopefully) bestsellers in any meaningful way unless it has sold books to BookStoreCo which can be displayed. It also seems unlikely that PublishCo benefits from other in-store marketing (e.g. a poster) unless customers can actually purchase the books from that shop. On this basis, the 'slotting' service that PublishCo receives is not distinct from the books which it sells. This conclusion is further supported by considering our indicators:

Indicator	Assessment by book publisher PublishCo
Customer (BookStoreCo) selling same product or service to other third parties i.e. capable of being distinct	• BookStoreCo receives similar slotting fees from most of its major publishers • However, these are (by definition) all publishers that are also major suppliers to BookStoreCo, making it difficult to argue that slotting fees are sold independently • **Indicator suggests slotting fees are not capable of being distinct from book sales i.e. PublishCo would present payments as deductions from revenue**
Obligation to purchase the product or service from customer (i.e. from BookStoreCo)	• There is no contractual obligation for PublishCo to buy book displays and in-store marketing from BookStoreCo. • PublishCo should also consider other factors such as whether there is an implicit expectation that major publishers will spend a certain amount on slotting fees each year or conversely whether Bookstore does not expect any individual Publisher to pay for slotting each year. • **The stronger the evidence of an implicit obligation or expectation for PublishCo to purchase in-store marketing from BookStoreCo, the stronger the indicator that PublishCo would present payments as deductions from revenue**
Distinct contracts at different times with no reference to each other	• Contracts are signed separately and make no reference to each other, and have distinct pricing arrangements • However, each slotting fee paid relates to a specific book that has been sold by PublishCo to BookStoreCo • **Indicator seems to be mixed since the distinct pricing in the separate book sales and slotting contracts suggests transactions are distinct; but the key question remains whether BookStoreCo can benefit from purchasing goods under the separate contract**

Conclusions

In summary, although the book sales and in-store marketing contracts are legally separate, PublishCo cannot benefit from the 'slotting' services provided unless it also sells books to BookStoreCo If PublishCo had not entered into a sales transaction with BookStoreCo (i.e. sold books) in the first place, it would not have paid for marketing services. Since no distinct service has been purchased, PublishCo would present the payments as deductions against revenue (not as separate marketing costs).

However, marketing arrangements can cover a range of potential services. Whilst it seems unlikely that in-store advertising would be distinct from the sale of goods to that store, (and services such as 'display' or 'exclusivity' probably can never be distinct), other forms of marketing might be more likely to be distinct. If, for example, BookStoreCo charges a fee for PublishCo's titles to be included in its television commercial, PublishCo might be able to benefit from this, even if it had not sold books in BookStoreCo's shops (because consumers might see the advertisement and decide to buy the book from another vendor). That is not to say that this would always be the conclusion reached. As ever, a good understanding of the specifics of a contractual arrangement are required before making these judgements.

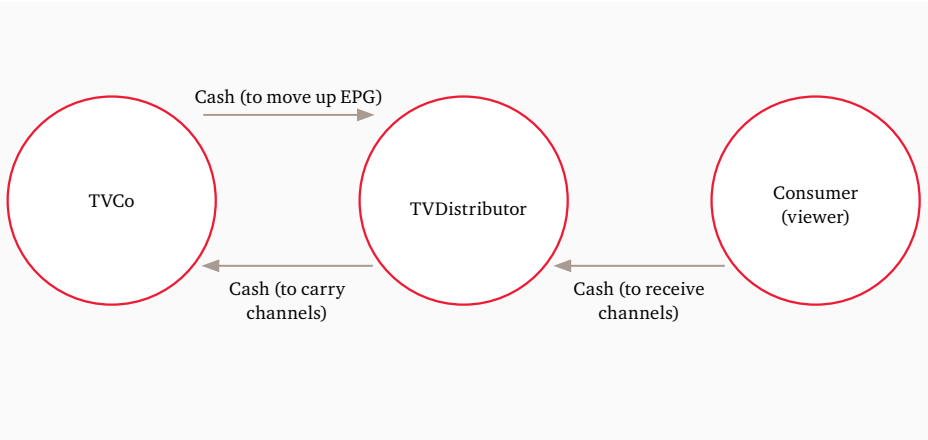
Example 3: Digital slotting fees

Scenario

TVCo operates a suite of channels that it makes available to cable company, TVDistributor, in exchange for channel revenues. The channel revenues paid by TVDistributor are a combination of fixed fee and a variable element driven by audience figures for TVCo's channels.

As part of a contract renegotiation, TVCo extends this distribution deal by five years and also makes a one-time up-front payment to TVDistributor to improve its position on the Electronic Programme Guide (EPG) from the eighth page to the first page. TV channels on the first couple of pages typically have significantly higher viewing figures, in part because most 'channel-hopping' viewers select relatively early from the EPG so do not get to the later pages.

TVCo's improved EPG position – its new 'slot' – will enable TVCo to secure higher audience revenues from TVDistributor and also higher rates from its advertisers. It will last for five years, concurrent with the renewed distribution deal. If the distribution deal is cancelled for any reason during these five years then a pro-rated portion of the EPG payment will be refunded by TVDistributor to TVCo.



How should TVCo account for the EPG payment?

TVCo must assess whether the payment to TVDistributor to improve its EPG position:

- represents a marketing payment that is distinct from the provision of its channels to TVDistributor, in which case the EPG payment would be presented in the income statement as an operating cost (i.e. amortisation of an 'EPG position' intangible asset); or
- is not distinct from the provision of its channels to TVDistributor, in which case the EPG payment would be treated as deduction from revenue (i.e. unwind of an advance deposit paid against future television distribution revenues).

IFRS 15 analysis by TVCo

Similar to the physical slotting fees example above, it does not appear that TVCo can benefit from the better position on the EPG unless it also sells its channels to TVDistributor. TVCo cannot benefit from the prominent positioning of its channels unless it has provided those channels to TVDistributor in the first place. In other words, the payment by TVCo for better position on the EPG could only be made to TVDistributor and not to another cable company. This conclusion is further supported by considering our indicators:

Indicator	Assessment by television company TVCo
Customer (TVDistributor) selling same product or service to other third parties i.e. capable of being distinct	• TVDistributor occasionally auctions desirable EPG positions among those channels whose content it broadcasts • This happens relatively infrequently since continual changes within the EPG would confuse and upset viewers • All television companies that bid for EPG positions are either already being distributed by TVDistributor or in the process of negotiating such a deal. This make it difficult to argue that desirable EPG positions are sold independently • **Indicator suggests transactions are not capable of being distinct i.e. TVCo would present EPG payments as deductions from revenue**
Obligation to purchase the product or service from customer (i.e. from TVDistributor)	• There is no suggestion that TVDistributor obliged TVCo to pay for the improved EPG position as part of the renewed television distribution deal • TVCo should also consider other factors such as whether there is an implicit expectation that it will pay for the EPG slot each year or conversely whether TVDistributor does not expect any individual TVCo to pay for an EPG slot in each year • **The stronger the evidence of an implicit obligation or expectation for TVCo to purchase an EPG position from TVDistributor, the stronger the indicator that TVDistributor would present payments as deductions from revenue**
Distinct contracts at different times with no reference to each other	• Contracts were signed at the same time and last for the same period (five years) • Moreover, EPG payment is refundable (on pro-rated basis) if the distribution deal is cancelled • **Indicator suggests transactions are not distinct i.e. TVCo would present EPG payments as deductions from revenue**

Conclusions

In summary, although the distribution arrangement and EPG contracts are legally separate, they were signed simultaneously and are clearly linked through their concurrent five year time period and the pro-rated refund of the EPG payment if the distribution deal is cancelled. It seems clear in this case that TVCo cannot benefit from the EPG positioning unless it also provides its channels to TVDistributor and so the provision of EPG positioning is not distinct from the provision of those channels.

IFRS 15 contains guidance explaining that the reduction in revenue is taken into account when the corresponding revenue is recognised. Consequently, TVCo would recognise the reduction in revenue as a result of the digital slotting fee in proportion to the expected revenue that will be generated over the five year period.

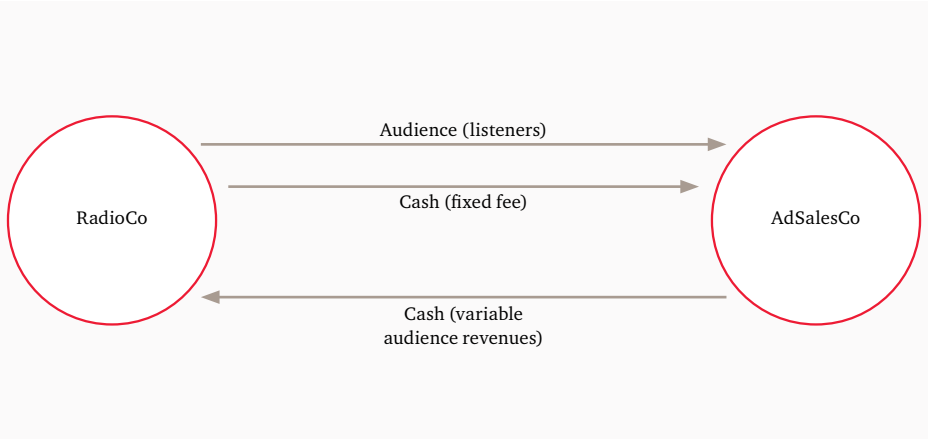
Example 4: Outsourcing advertising sales

Scenario

RadioCo has previously maintained its own in-house advertising sales function. RadioCo has now decided this sales function is non-core so is outsourcing its advertising sales to AdSalesCo.

Under the outsourcing agreement RadioCo appoints AdSalesCo to be the exclusive seller of advertising space ('spots') across all RadioCo's radio stations. RadioCo's previous in-house ad sales team is transitioned across to AdSalesCo.

AdSalesCo is now responsible for selling advertising spots to third party advertisers. It pays 'audience revenues' to RadioCo based on the size of audience (i.e. number of listeners) delivered by RadioCo's stations. The audience revenues are calculated with reference to the number of listeners, not with reference to the advertising revenue actually generated by AdSalesCo. AdSalesCo is free to price the advertising as it sees fit and bundle it with advertising on other radio channels or other media. Under the new arrangement, RadioCo is effectively a seller of audiences (to AdSalesCo) rather than a seller of advertising spots (to third party advertisers). Consequently, in this scenario, it can be assumed that AdSalesCo is RadioCo's customer rather than its agent.



As part of the arrangement, RadioCo pays to AdSalesCo an annual fixed fee for the service of selling the advertising spots on its behalf. This fixed fee is broadly equivalent to the fixed salary costs of the ad sales team that transitioned from RadioCo to AdSalesCo.

How should RadioCo account for the flat fee paid to AdSalesCo?

RadioCo must assess whether the flat fee paid to AdSalesCo:

- is consideration paid to AdSalesCo for a distinct advertising service, in which case the flat fee would be presented in the income statement as a cost; or
- is not distinct from the sale of 'audience' to AdSalesCo, in which case the flat fee would be treated as deduction from revenue.

IFRS 15 analysis by RadioCo

RadioCo has sold all its advertising space to AdSalesCo and is remunerated based on audience numbers achieved. RadioCo does not receive a service from AdSalesCo. AdSalesCo takes control of the advertising inventory before it is sold to advertisers (see MIAG 6 and 12 for principal/agent arrangements). Therefore AdSalesCo is selling the advertising in its own right i.e. it is not arranging for the sale of advertising on behalf of RadioCo. Since RadioCo is not receiving a service from AdSalesCo, it cannot be receiving a distinct service. This conclusion is further supported by considering our indicators:

Indicator	Assessment by television company TVCo
Customer (AdSalesCo) selling same product or service to other third parties i.e. capable of being distinct	• AdSalesCo offers outsourcing of advertising sales to a variety of content owners • In each case, there will either be a flat fee payable with higher audience revenues; or no flat fee but lower audience revenues. It would be illogical for AdSalesCo not to adjust the audience rate to compensate for the presence or absence of the fixed fee • The flat fee is therefore payable only by (some of) the media companies that have outsourced the selling of advertising • **Indicator suggests transactions are not capable of being distinct i.e. RadioCo would present the flat fee paid to AdSalesCo as a deduction from revenue**
Obligation to purchase the product or service from customer (i.e. from AdSalesCo)	• RadioCo is obliged to pay the fixed fee as part of the arrangement to outsource advertising sales to AdSalesCo • **Indicator suggests transactions are not distinct i.e. RadioCo would present the flat fee paid to AdSalesCo as a deduction from revenue**
Distinct contracts at different times with no reference to each other	• The flat fee is embedded within a single advertising sales outsourcing contract • **Indicator suggests transactions are not distinct i.e. RadioCo would present the flat fee paid to AdSalesCo as a deduction from revenue**

Conclusions

In summary, although there is a basis for the calculation of the fixed fee and it is paid separately from audience revenues received, it is clearly and inextricably part of one overall advertising outsourcing contract. There is no distinct service provided by AdSalesCo and so the fixed fee is not distinct from audience revenues. RadioCo would present the fixed fee as an offsetting deduction against revenue (not as a separate operating cost).

(If the contractual terms meant that should audiences fall significantly, the fixed fee that RadioCo pays could be larger than the 'audience revenues' it receives (i.e. there were no minimum audience revenue), this might result in a net payment from RadioCo to AdSalesCo in a particular period. Since revenue is defined in IFRS as an inflow of economic benefits in return for the provision of goods or services, it cannot be negative (since this is an outflow). As such, in these circumstances, it is likely that the net payment would be presented as a cost with clear disclosure as to the nature of the item.)

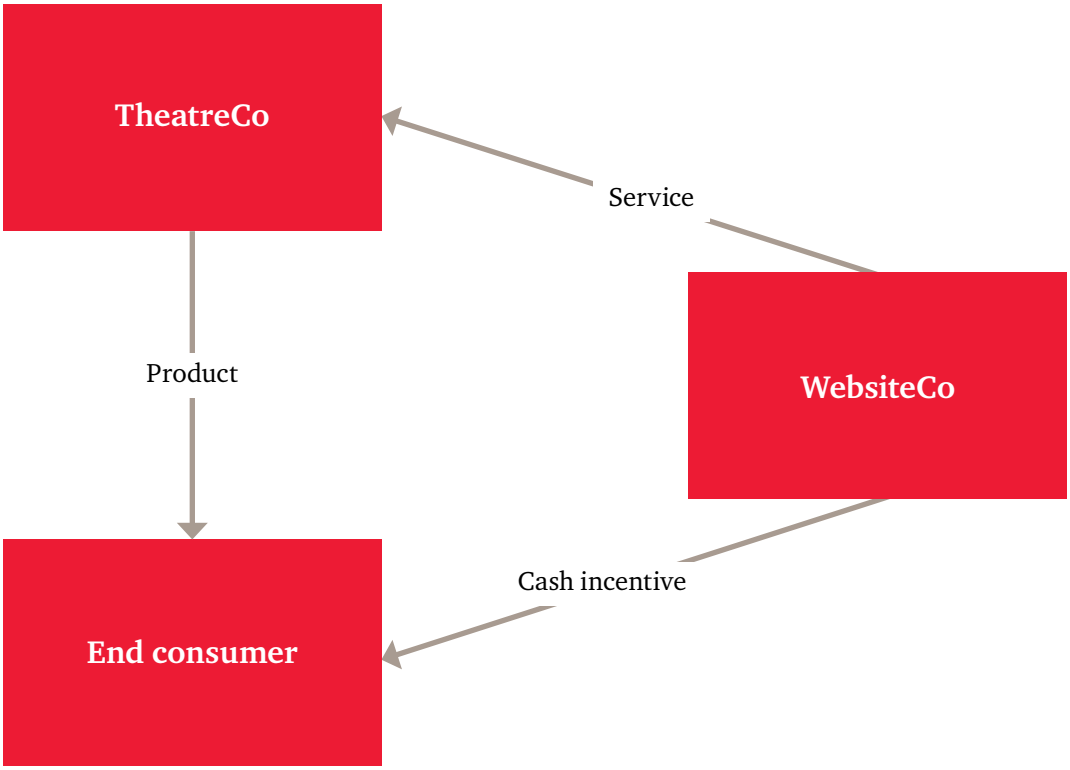
A change in operating model such as the one described in this example can lead to some interesting outcomes when comparing periods. Pre-outsourcing, RadioCo effectively presented 100% of its advertising revenues gross with the fixed base salary costs of its sales team in operating costs; post-outsourcing, similar items are netted off. The outsourcing arrangement therefore decreases RadioCo's revenues but increases its percentage profit margin.

If some of the facts and circumstances were changed, the determination could be different. For example, if the fee paid by RadioCo varied directly in proportion to the advertising sales actually achieved by AdSalesCo, and AdSalesCo was given less discretion over pricing and the bundling of RadioCo's advertising with other advertising, it would be more likely that AdSalesCo was deemed to be acting as an advertising sales agent and the fee paid to AdSalesCo would be a commission expense in RadioCo's income statement.

Arrangements between advertising platforms (in this example, RadioCo), agents (in this example, AdSalesCo) and advertisers can vary considerably. Each model needs to be analysed carefully to determine the nature of the relationships between the parties. In some arrangements where the advertising agent receives a variable fee, the advertising agency might be providing services to the advertiser (purchasing and managing advertising slots) rather than for the advertising platform (selling slots). As in the example above, in these cases payments by the advertising platform to the agent might be revenue deductions for the platform since it is not clear that any service is being received by the platform.

Example 5: Incentive payments in tripartite arrangements

Scenario



WebsiteCo is a platform through which consumers can book theatre tickets. WebsiteCo charges a platform service fee to multiple TheatreCos based on each of their sales. WebsiteCo does not purchase or commit to purchase any tickets from each TheatreCo and thus does not take on any inventory risk. WebsiteCo has concluded that it is not principal in the sale of tickets. See MIAG 12 for further discussion of principal/agent analysis under IFRS 15 for media companies.

No fees are received by WebsiteCo directly from the end consumers. In the agreement between WebsiteCo and the end consumers, the consumers have the right to book tickets, raise comments and post blogs; WebsiteCo also provides hotlines on which consumers can confirm, change or cancel bookings. WebsiteCo can stop the platform service without being liable to the end consumers. Sometimes, WebsiteCo will give discounts to consumers to encourage traffic through its platform. It does this by supplementing the cash received from the end customer so that the TheatreCo receives the list price of the ticket. For example, if the ticket is listed at €100 and the discount offered is €20, the consumer will transfer €80 to WebsiteCo and WebsiteCo will transfer €100 to TheatreCo. WebsiteCo promotes itself as a convenient and reliable place for consumers to book theatre tickets.

How should WebsiteCo account for the discounts given to end consumers?

WebsiteCo needs to determine whether the discounts given to the end consumers:

- are consideration paid to a customer, because the consumers are considered to be WebsiteCo's customers, and thus a revenue deduction (since it is clear in this case that the consumer does not provide a distinct service to WebsiteCo); or
- are not consideration paid to a customer because it is the TheatreCos that are WebsiteCo's only customers (i.e. the consumers are customers of TheatreCo not WebsiteCo), in which case the discount provided would generally be recorded as a marketing cost.

IFRS 15 analysis by WebsiteCo

WebsiteCo is providing the platform to each TheatreCo through which it connects with the end consumers to provide goods and services (i.e. theatre tickets). Therefore the TheatreCos are clearly WebsiteCo's customers. However, a question arises as to whether the end consumers are also WebsiteCo's customers. Working as an agent, WebsiteCo's performance obligation is to arrange for the transfer of goods and services between TheatreCo and the end consumers (i.e. both the end consumer and TheatreCo benefit from the agent WebsiteCo bringing them together).

The IASB Transition Resource Group (TRG) discussed such 'tripartite' situations and noted that it is critical to identify the reporting entity's customer(s). If the payment is made to a customer, this payment should be recognised as a reduction to revenue unless it has been made for a distinct good or service. The result of the TRG discussions indicated that (a) an entity must identify its customer in each revenue transaction within the distribution chain; and (b) an entity that is acting as an agent (i.e. arranging for another party to provide goods or services) might identify multiple customers in some arrangements. The agent might view both the principal (TheatreCo) and the end consumers as its customers.

However, there is little guidance regarding factors that an entity should consider to determine whether the end consumer should also be considered as the agent's customer in the context of IFRS 15 paragraph 70.

We think that the accounting treatment is clear that the discounts provided by an agent to an end consumer are a reduction in revenue when:

- the end consumer is the direct customer of agent i.e. when the analysis results in agent being determined to be the principal in the arrangement with end Consumer (refer to MIAG 12); or
- there is a contractual agreement between agent and merchant for the agent to provide end consumers with a discount.

However, in many real life cases, including our example, the two points above do not apply. In these other cases there is a judgment to be made whether the end consumer is the customer of the agent. This is a topic that many are currently grappling with and further insights should emerge as entities in the media sector approach the adoption date for IFRS 15.

Conclusion

Payments to customers can present accounting challenges in many sectors, but particularly in a fast-evolving media and technology landscape where two companies are frequently both supplier to, and customer of, each other. A media company's assessment of whether payments to its customers are distinct or directly linked to sales transactions determines whether the company recognises these payments as costs or deductions from revenue. IFRS 15 provides explicit guidance when making this assessment. Whether or not such payments are presented net or gross of revenue affects two key metrics in opposite directions: revenue and percentage profit margin.

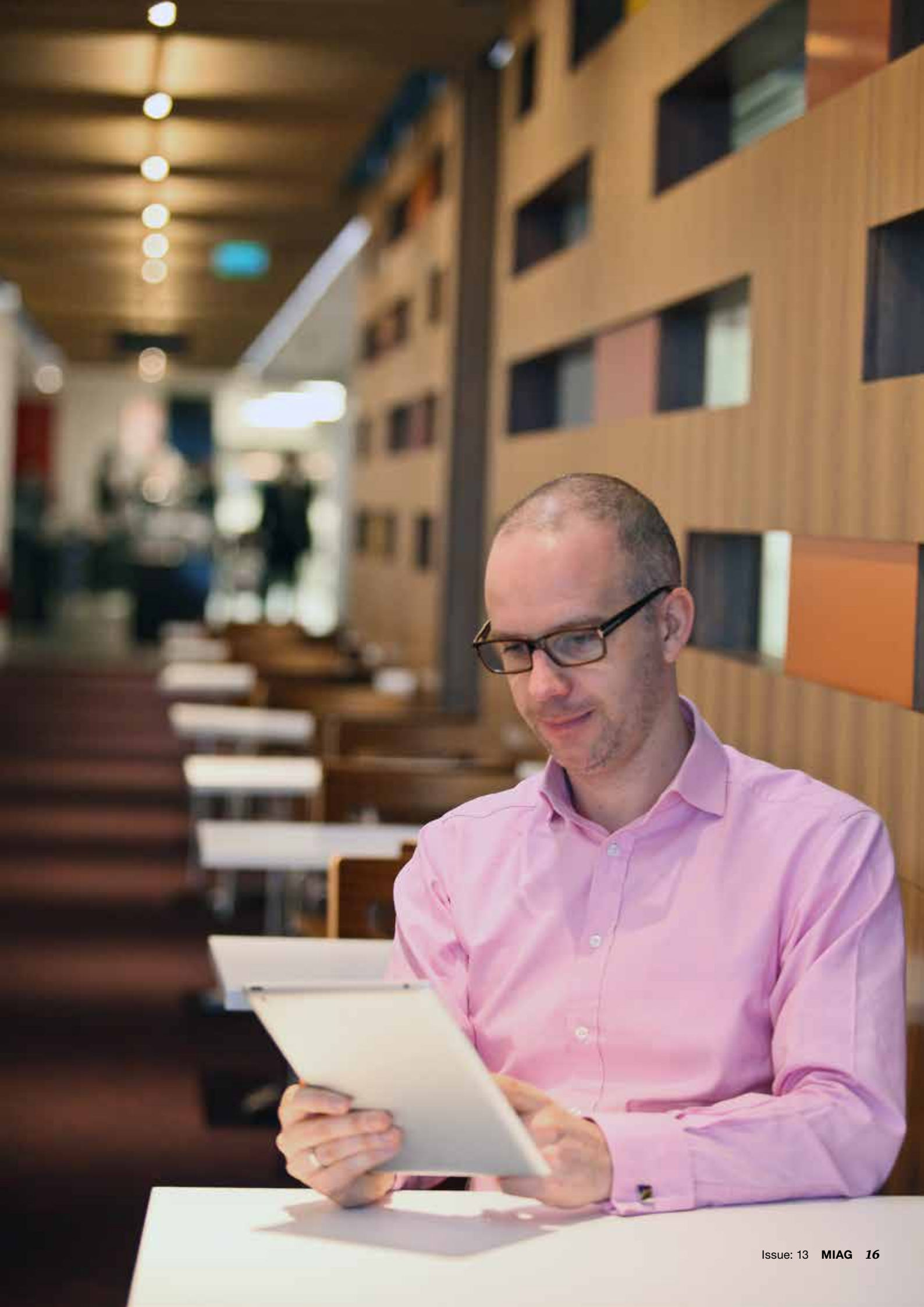
This paper has considered the assessment of payments to customers in various practical examples, covering the purchase of advertising space, physical and digital 'slotting fees', outsourced advertising sales and payments in tripartite arrangements.

The scenarios in this paper are clearly not designed to be exhaustive; but they will hopefully provide food for thought for media companies when considering how to account for payments to their customers under IFRS 15. 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 would not expect IFRS 15 to result in pervasive changes in previous assessments of payments to customers. It is possible, however, that some conclusions could change based on the control principle and other clarifications to the guidance. Management should plan sufficient time to review and understand the terms of their contracts with customers and vendors to ensure time for appropriate conclusions to be reached under IFRS 15.

We hope 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 and media specialist.



Further reading

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

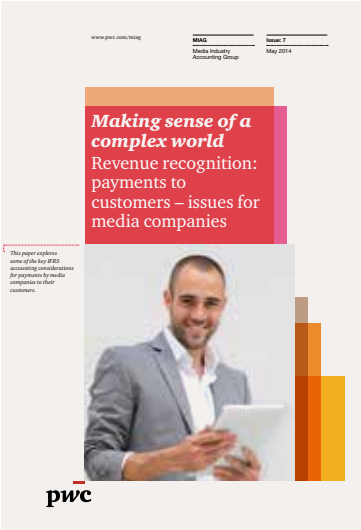
Accounting for royalty arrangements – issues for media companies

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.



MIAG Issue: 6

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

This paper considers the assessment of the key principal/agent considerations in various practical examples, covering physical books, eBooks, television content and film production.

MIAG Issue: 7

Revenue recognition: payments to customers – issues for media companies

This paper explores some of the key IFRS accounting considerations for payments by media companies to their customers, covering the purchase of advertising space, physical and digital 'slotting fees', outsourced advertising sales and video game prizes.

MIAG Issue: 8

Online gaming: Real issues in virtual worlds

This paper explores some of the key IFRS revenue recognition issues in the world of online gaming, covering principal/agent considerations, virtual items and virtual currencies, and multiple element arrangements.

MIAG Issue: 9

Media investments in technology companies

This paper explores some of the key IFRS accounting issues that can arise when making investments in technology companies.

MIAG Issue: 10

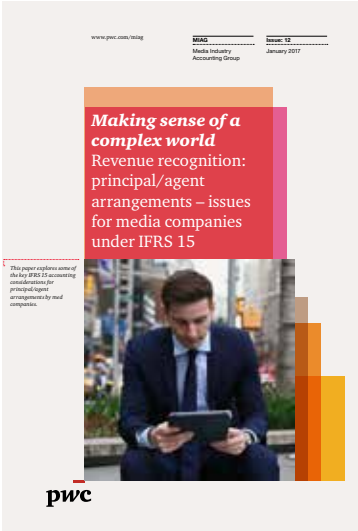
Film cost capitalisation, amortisation and impairment.

This paper explores some of the key considerations under IFRS for film cost capitalisation, amortisation and impairment.

MIAG Issue: 11

Film financing arrangements

This paper explores some of the key considerations under IFRS for film financing arrangements.



MIAG Issue: 12

Revenue recognition: principal/agent arrangements – issues for media companies under IFRS 15

This paper explores some of the key IFRS 15 accounting considerations for principal/agent arrangements by med companies.

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