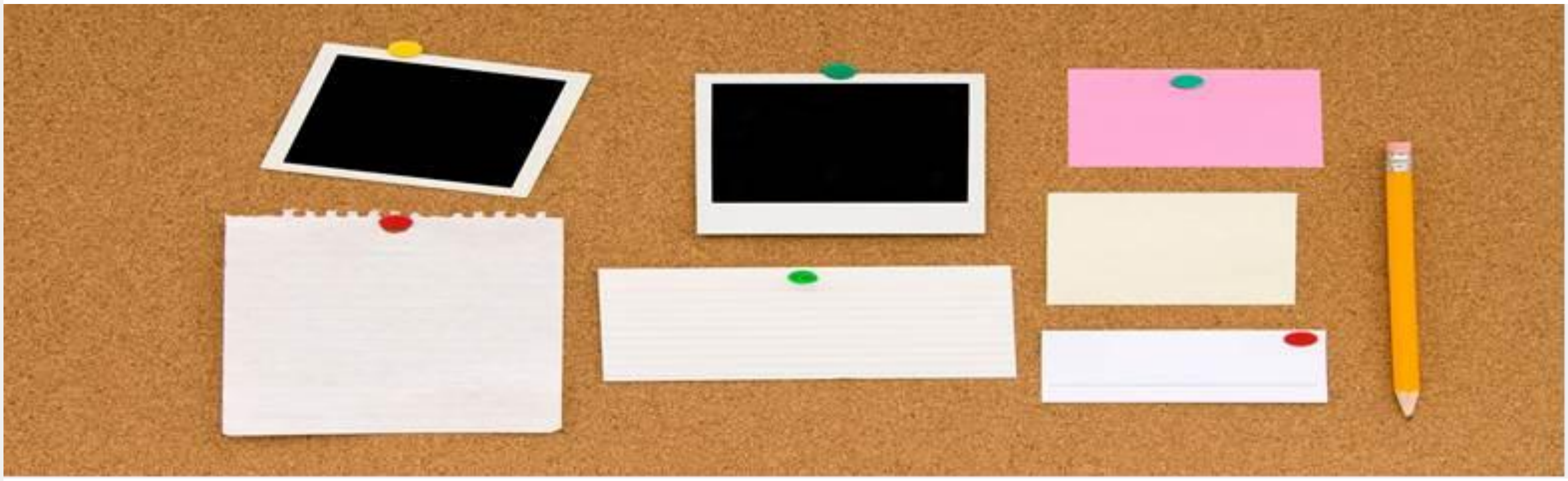
NavarroAmper&Co.

Philippines | Technical Research | 22 October 2014 (Issue 12)



Accounting & Auditing News

IFRS 15 — *Revenue from Contracts with Customers*: Part 3G – Impact on Media Sector

How to identify and allocate revenue to different goods and services?

Background

Given the lack of specific guidance in IFRSs, there was greater room for judgment when identifying the goods and services within a contract and then allocating the revenue to those goods and services identified. Entities may have to amend their current accounting policies as a result of the more detailed guidance in IFRS 15. The new standard requires that the revenue from a contract is to be allocated to each distinct good or service provided on a relative standalone selling price basis, though a 'residual' approach is permitted in limited circumstances.

Effect

Media companies often offers bundles of goods and services to their customers such as multimedia advertising campaign may include more than one type of advertising placement such as print, online and television. Applying the new standard to this scenario, entities will need to assess whether the goods and services provided represent separate performance obligations or whether they should be accounted for as one performance obligation. Where it is concluded that certain goods or services should be accounted for separately, entities will then typically look to the standalone selling price to apportion the relevant amount of the transaction price to each distinct goods and services.

<u>When should variable or uncertain revenues be recognized?</u>

Background

Contracts in the media sector can include significant variable elements, for example, a developer of a television program may receive a percentage of advertising revenue from broadcaster which is unknown at initial point of sale. There are new specific requirements in respect of variable consideration such that it is only included in the transaction price if it is highly probable that the amount of revenue recognized would not be subject to significant future reversals when as a result of subsequent re-estimation

Effect

Significant degree of judgment is required to estimate the amount of consideration that should be taken into account. Accordingly, the profile of revenue recognition may change for some entities as a result.

The standard also introduces specific restriction for royalty payments relating to intellectual property. If royalty payments relating to intellectual property. If royalty payments are based on usage or onward sale, entities are restricted from recognizing the associated revenue until the usage or onward sales has occurred, even it is possible to make a reliable estimate of this amount based on historical evidence.

<u>Should Revenue be Recognized Over Time or at a Point in Time?</u>

Background

IFRS 15 introduces a new approach to determine whether revenue should be recognized over time or at a point in time. Three scenarios are specified in IFRS 15 in which revenue will be recognized over time. If revenue is to be recognized over time, a method should be used which best reflects the pattern of transfer of goods or services to the customer. If a transaction does not fit into any of the three scenarios specified in IFRS 15, revenue will instead be recognized at a point in time, when control passes to the customer.

Effect

Recognizing revenue over time or at a point in time will often depend on careful analysis of specific contract terms. Quite small differences between otherwise similar contracts could have a fundamental impact on the timing of revenue recognition. It will often be particularly important to focus on contractual terms that allow the customer to cancel, curtail or significantly modify a contract and whether, in such cases, the seller is entitled to adequate compensation for work performed to date.

<u>Will this impact revenue allocated to the sale or set-top boxes and similar items?</u>

Background

In media sector it is common for equipment provided as part of a package to be subsidized by the providers of the channels and to be viewed as a cost of doing business. Previously, the lack of specific guidance has often led to any revenue allocated to the equipment being limited to the amount, if any, explicitly paid by the customer towards the equipment.

Effect

The new requirements for allocating revenue may significantly change the profile of revenue recognition for some entities and due to the sheer volume of customers with different tariffs and service plans, entities may have to overcome significant practical challenges to ensure systems are in place to deal with the new requirements.

<u>Will the type of license sold impact when revenue is recognized?</u>

Background

IFRS 15 distinguishes between licenses that represent the transfer of a right to use an entity's intellectual property and licenses that represent the provision of access, over a period of time, to an entity's intellectual property , and specifies criteria to determine which type of license being sold. Revenue for the former will typically be recognized at a point in time; revenue for the latter will typically be recognized over a period of access.

Effect

Entities within the media sector will need to examine license arrangement in the light of this new guidance, and may need to change their existing accounting in some cases. Where a change is required, this may have significant impact on a timing of revenue recognition.

Should revenue be allocated to customer options to acquire additional goods or services at a discount?

Background

Some media contracts include a right for a customer to purchase additional goods or services at a discount, for example, in a subscription package if renewal fees are significantly lower than first year fees, or where a renewal option is granted to a network by a production company in respect of a TV series.

Effect

If a contract includes a material right for the customer to acquire additional goods or services, an entity must allocate a portion of the transaction price to that option and recognized revenue when control of the goods or services underlying the option is transferred to the customer, or when the option expires.

Will accounting for barter transactions change as a result of the new standard?

Background

It is common for media entity to exchange advertising space with another media entity for nil cash consideration. The specific guidance regarding how to account for such transactions has now been superseded by more general accounting principles in the new standard.

Effect

Entities will have to consider whether this new guidance, particularly on non-cash consideration and non-monetary exchanges between entities, will require a change from their current accounting policies for such transactions.

Please contact the Technical Research Group at +63 2 581 9000 local 9088/9165/9078 or e-mail phtr@deloitte.com for questions regarding this publication.

Deloitte.

Member of Deloitte Touche Tohmatsu Limited

19th Floor Net Lima Plaza
5th Avenue corner 26th Street
Bonifacio Global City, Taguig
Philippines 1634