Technical Guide
Accounting for Motion Picture Films

Research Committee
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

The Indian film industry mainly produces motion picture films across India. A motion picture film is a bundle of rights emanating from contractual arrangements or otherwise and in accounting terms it is an intangible asset as it is a collection of rights owned by an enterprise for deriving economic benefits through exploitation.

The objective of this publication 'Technical Guide for Accounting on Motion Picture Films' is to enhance the comparability and reliability of financial statements of companies engaged in the business of production and distribution of motion picture films. Since there is no specific guidance in this important area at present, I am happy to note that Research Committee of the Institute in this direction taken an initiative to provide guidance in respect of accounting for motion picture films and has come up with this publication on **"Technical Guide for Accounting on Motion Picture Films** ".

I would like to compliment CA. Babu Abraham Kallivayalil, Chairman, Research Committee, CA. Satish Kumar Gupta, Vice-Chairman, Research Committee and other esteemed members of the Research Committee for their efforts.

I hope that this endeavor of the Committee in the form of a Technical Guide will be immensely useful to the members and also to others concerned.

New Delhi
June 28, 2019

CA. Prafulla P. Chhajed
President

Preface

Motion picture is a medium used to simulate experiences that communicate ideas, stories, perceptions, feelings and atmosphere by means of recorded or programmed moving images along with other sensory stimulations and motion picture films, or movies, are a story conveyed with moving images. The Income Tax Act, 1961 provides specific treatment for claiming expenses incurred in connection with feature films. However, currently there is no specific guidance on accounting for motion picture films under Indian Generally Accepted Accounting Principles (GAAP). A motion picture is an intangible asset. Film-making or film production is the process of making a motion picture film, from an initial story idea or commission, through scriptwriting, shooting, editing, directing and distribution to an audience. This typically involves a large number of people and takes from a few months to several years to complete.

The objective of this '***Technical Guide for Accounting on Motion Picture Films***' is to provide a perspective on the various accounting issues in the context of the activities of the producer and distributor / the owner and the exploiter, of a motion picture film, which are unique to the industry and provides guidance on applying accounting principles relating to recognition and measurement.

This Technical guide is not a comprehensive document on all the accounting issues faced in accounting for motion picture films and only deals with some specific issues. This Technical Guide also provides a perspective under IFRS converged Indian Accounting Standards ('Ind AS') on each of the issues.

I would like to take this opportunity to place on record my appreciation of the effort put in by CA. Rajesh Mehra the expert in the area and CA. Bhavna Doshi, former Council Member who contributed in the preparation of the basic draft of this Technical Guide.

I would like to thank all members of the Research Committee especially the Vice-Chairman CA. Satish Kumar Gupta. I also compliment CA.

Vidhyadhar Kulkarni, Technical Consultant, for his invaluable contribution and efforts at various stages of the finalisation of this Technical Guide. I also appreciate the dedicated efforts of entire Secretariat of Research Committee.

I sincerely believe that this Technical Guide will go a long way in establishing sound accounting and reporting principles in the motion picture films industry.

New Delhi
June 25, 2019

CA. Babu Abraham Kallivayalil
Chairman, Research Committee

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1. Introduction

1.1. India's Film industry is one of the largest in the world with more than 2,000 motion picture film ('movie') releases per year and over 3 billion movie-goers annually. It is a ₹ 183 billion industry and is expected to grow to ₹ 259 billion by 2024[1]. The Indian Film Industry comprises of motion picture films produced across India. This industry enjoys mass appeal and is probably the most important content feeder to other businesses in the Media & Entertainment space.

1.2. The industry has seen some extensive changes in recent years, including:

- Increased corporatisation;
- Tapping of capital markets for raising funds;
- Investment by Private Equity and Venture Capital;
- Newer and dynamic means of creation, acquisition and exploitation of rights;
- International forays by Indian Production Houses and entry of global players in India;
- Growth of multiplexes and experiences;
- Development of markets in Tier II and Tier III cities
- Expansion of regional markets;
- Shorter theatrical life of movies as compared to previous decade; and
- Advent of online platforms as a mood of content consumption.

1.3. The above has resulted in a vast change in the business environment and, as an offshoot, has led to significant complexities in accounting and financial reporting.

1.4. There is currently no specific guidance on accounting for motion picture films under Indian Generally Applied Accounting Principles (GAAP). This coupled with the peculiar nature of the industry, warrants guidance on

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[1] ***Source :*** KPMG in India's Media & Entertainment Report 2019. India's Digital Future – Mass of Niches.

and need to outline principles relating to industry-specific accounting as regards recognition and measurement.

1.5. This guide aims to enhance the comparability and reliability of financial statements of companies engaged in the business of production and distribution of motion picture films.

2. Scope of this Technical guide

2.1. This technical guide aims at providing a perspective on the various accounting issues in the context of the activities of the producer and distributor/ the owner and the exploiter, of a motion picture film, which are unique to the industry and provides guidance on applying accounting principles relating to recognition and measurement. This technical guide does not deal with accounting in the context of other players in the chain of exploitation such as a broadcaster, music company, etc. The guide also does not deal with the accounting and revenue recognition by the Producer where the motion picture film has been commissioned by a customer and is being produced to order. The Guide also provides a perspective under IFRS converged Indian Accounting Standards ('Ind AS') corresponding to International Financial Reporting Standards on each of the issues. Also, it specifically deals with the following aspects:

- Motion picture film - an asset?
- Nature - Tangible v/s Intangible
- Classification – Current v/s Non-current
- Useful life
- Accounting for costs
- Commencement and closure of a project
- Borrowing costs related to motion picture films
- Amortisation
- Impairment
- Revenue recognition

2.2. This Technical guide is not a comprehensive document on all the accounting issues faced in accounting for motion picture films and only deals with some specific issues as highlighted above. It should be noted that it is mandatory to refer to the relevant authoritative pronouncements in all cases.

3. Making of a motion picture film

Participants in motion pictures creation The entire production process involves a number of participants and activities, including the following:				
Story writer, Script writer, Dialogue writer	Director & Direction Team	Cast & its assistants	Music Director, Lyricist, Singers, etc	Production team
Director of Photography & Camera Department	Production Design team, Art Director, etc	Costume Designer and Make up & Hair Dresser	Action Direction Team	Sound – Production & Post
Choreographer & team	Other Technicians	Suppliers – Equipment, Raw stock, etc	Post Production – Lab, DI, Sfx, Dubbing, Editing, etc	Financier, Completion Guarantee Bond & Insurance

MOTION PICTURE FILM MAKING PROCESS				
Pre-production process • Story Selection • Script Development • Synopsis & Bound Script • Appoint Director • Project		**Production process** • Music recordings • Permissions for Locations • Ordering of Production Material • Ordering of Unexposed Film Stock		**Post-production process** • Processing of Exposed Stock • Telecine • Editing • Dubbing • Sound mixing & Sound Negative • Dolby/DTS

Green-lighting • Casting of all characters • Finalisation of all agreements • Finalisation of shooting schedule • Submission of master production budget		• Production Call Sheet circulated to all • Coordination with all artist & crew • Shoot Begins • In-film brand placements • Time Management & Supervision • Circulation of Daily Progress Report • Depositing of Exposed Stock with Lab • End of Principal Photography		license • DI, SFX, Titles & Graphics • Premix & Final Mix • First Copy • Censor • Final Print

STREAMS OF REVENUE – The various streams of Revenue available for exploitation includes the following.			
Theatrical Distribution	**Music & Digital Rights.. …contd**	**Television rights contd**	**Other Rights**
• Commercial Theatrical Rights	• Clip Rights – downloadable	• Near Video on Demand Rights	• Airborne Rights
• Non Commercial Theatrical Rights	• Wallpaper Rights	• Near Movies on Demand Rights	• Internet & Broadband Rights
• Theatrical Video Rights	• Music Video Downloads	• High Definition TV rights	• Title Rights
• Embassy rights	• Mobile Streaming Rights		• E-books Rights
• Festival Rights	• Wallpaper Rights – Mobile	**Home video rights**	• Gaming Rights
• Sub Titling & Dubbing Rights	• Mobile Telephone Rights	• DVD, VCD, Blu Ray, HD Disc, etc sell through	• Ship Rights
	• VidCast	• DVD, VCD, Blu Ray, HD Disc, etc Rental Rights	• Hotel rights
	• Podcast		• Prequel/Sequel rights
Music & Digital	**Television**	**In-film**	• Remake

Rights	**Rights**	**Advertising**	rights
• Music Rights	• Pay Television Rights	• In-film rights	• Serialization rights
• Caller back Rights	• Satellite Television Rights	• Character Co-branding rights	• Surface Transport Rights
• Mobile Contest Rights	• Terrestrial TV Rights		• Internet Streaming Rights
• Mobile Gaming Rights	• DTH	**Merchandise**	• Internet animation Rights
• Mobisodes Rights	• IPTV Rights	• Merchandising Rights	• Animation Rights – Commercial
• Performance Rights for Films / TV / Theatre	• Pay cable Television Rights	• Character Rights for Films/TV/internet / books	
• Radio Broadcasting Rights	• Pay per View		
• Ringtones Rights	• Near Video on Demand Rights		
• Mobile Video Downloads	• Video on Demand		
• Mechanical Music Rights	• VOIP Rights		
• Synchronization Music Rights	• Free Cable Television Rights		

4. Motion Picture Films

Motion picture film - an 'Asset'?

4.1. Motion picture films, or movies, are a story conveyed with moving images. It is produced by recording photographic images with cameras, or by creating images using animation techniques or visual effects and is necessarily stored on a medium such as master/ Beta tapes, reels, CD, external drives and more recently on cloud based platforms. The product is generally registered with the relevant trade association as also under copyright laws. The registered owner therefore has the right or liberty to deal with it as he deems fit, subject to rights, if any, retained by the script writer.

What is the nature of a motion picture film for accounting purposes?

4.2. *The Framework for the Presentation and Preparation of Financial Statements* (the Framework) issued by Accounting Standards Board (ASB) defines an asset as follows:

An *asset* is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

4.3. Thus a motion picture film being a resource controlled by the producer legally, from the exploitation of which he expects to derive economic benefits, satisfies the definition of an asset.

Classification of the Asset

Inventory (Current) v/s Intangible (Non-current)

4.4. An asset may be classified as a current or non-current asset.

4.5. Schedule III – Division I to the Companies Act, 2013 ('the Act') applicable to non-Ind AS financial statements states that an asset shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is expected to be realised within twelve months after the reporting date; or

(d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

4.6. The basis for classification of assets as current or non-current under Division I and Division II (applicable to Ind AS financial statements) is identical.

4.7. The key debate in classification of a motion picture film is whether it is an intangible asset under AS26 / Ind AS 38 or inventory under AS 2/ Ind AS 2.

4.8. As per paragraph 3 of AS 2 – *Valuation of Inventories*, inventories are assets:

(a) ***held for sale in the ordinary course of business;***

(b) ***in the process of production for such sale; or***

(c) ***in the form of materials or supplies to be consumed in the production process or in the rendering of services.***

4.9. The definition of inventories under Ind AS 2- Inventories is similar to the current AS 2.

4.10. A motion picture film is a bundle of rights emanating from contractual arrangements or otherwise. It is generally not held by the producer for sale, i.e. the producer usually intends to retain the rights to a Motion picture film in perpetuity. What the producer does in the normal course of business is assign the rights to third parties (distributors, exhibitors, broadcasters, etc) so as to gain economic benefits therefrom. While most of the rights devolve back to the producer after the expiry of the assignment period, some rights may be assigned in perpetuity (e.g. Music rights).

Motion picture film as Intangible asset

4.11. As per paragraph 6 of AS 26 – 'Intangible Assets', an Intangible asset is as an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

4.12. Monetary assets are money held and assets to be received in fixed or determinable amounts of money. Non-monetary assets are assets other than monetary assets.

4.13. Further, as per paragraph 20 of AS 26, an intangible asset shall be recognised if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably.

4.14. Also, as per paragraph 21 of AS 26, an entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

4.15. In line with above, paragraph 8 of Ind AS 38 defines an intangible asset as an identifiable non-monetary asset without physical substance.

4.16. A motion picture film (and the inherent copyrights / Intellectual property rights (IPRs) as an intangible asset. Certain key characteristics of a motion picture film are as follows:

- **Identifiability**

Motion picture film may be internally generated (generally by Production houses) or acquired (purchased from the Producer for a specified period or in perpetuity). Since each motion picture film is distinct and specific, it is separately identifiable from another.

- **Control**

Only the producer/ acquirer of a Motion picture film, contractually and by virtue of registration with the relevant film body, have the right to exploit it. The Motion picture film or a specific right therein is therefore controlled by the entity, either in perpetuity or for a specified period.

- **Form**

A motion picture film lacks physical substance and the rights are for the contents which, for exploitation purposes, may be stored on a physical medium such as Beta tapes, CD, DVD, etc or digital platforms such as cloud servers.

- **Marketability**

There are a range of avenues and an active market for exploitation/ trade of Motion picture film rights available both in India and overseas.

- **Future economic benefits**

The motion picture film rights are generated / acquired for obtaining future

economic benefits through exploitation. Generally, the expectation of future economic benefits would vary depending on factors such as the production house, star cast involved, director, etc.

4.17. To summarise, a motion picture film is an asset as it is a collection of rights owned by an enterprise for deriving economic benefits through exploitation. Rights in a motion picture film may arise either through acquisition or through self-generation. In either case, a resource is obtained/ created which will entitle the holder to future economic benefits. Such right is a non-monetary item, without physical substance and can be identified through legal registration. A producer undertakes production of a motion picture film with the intention of making profits from exploitation of rights therein. Further, the costs of making a motion picture film are identifiable and can be measured reliably.

4.18. Thus, for a producer, a technical and preferred view is that a motion picture film is an Intangible asset and it generally does not qualify as inventory except in circumstances where a media company is producing content that could be sold to anyone and for which the producer expects to retain no intellectual property rights (in such cases, the accounting and treatment would follow principles applicable to inventories and this has not been specifically dealt with in this Technical guide).

4.19. However, there is diversity in practice among media companies. In terms of ultimate outcome, classification as either intangible assets or inventory may be of less concern as this may make little difference beyond balance sheet classification since initial recognition, subsequent amortisation and impairment review practices are generally applied consistently regardless of the classification.

Ind AS Perspective

4.20. The definition of inventory and intangible assets as per Indian GAAP and Ind AS is largely converged thus there is no GAAP difference in initial recognition of assets.

4.21. Disclosure for motion picture film under Schedule III (Division I and Division II)

Motion picture films shall be disclosed separately under 'Intangible Assets' in Balance sheet as the Act requires the following categories of assets to be disclosed separately under Intangible Assets:

- Copyrights, and patents and other intellectual property rights, services and operating rights
- Licenses and franchise

Accounting for costs related to production of a motion picture film

4.22. Film-making or film production is the process of making a motion picture film, from an initial story idea or commission, through scriptwriting, shooting, editing, directing and distribution to an audience. This typically involves a large number of people, and takes from a few months to several years to complete. A film production company engages in right creation with an intention to exploit the rights therein. Therefore, for such production house or producer, the motion picture film is an internally generated intangible asset.

4.23. As per paragraph 53 of AS 26, the cost of an internally generated intangible asset comprises the sum of expenditure incurred from the time when the intangible asset first meets the recognition criteria and includes:

- expenditure on materials and services used or consumed in generating the intangible asset;
- the salaries, wages and other employment related costs of personnel directly engaged in generating the asset;
- any expenditure that is directly attributable to generating the asset;
- overheads necessary to generate the asset and that can be allocated on a reasonable and consistent basis to the asset; and
- AS 16, Borrowing Costs, establishes criteria for the recognition of interest as a component of the cost of a qualifying asset. These criteria are also applied for the recognition of interest as a component of the cost of an internally generated intangible asset.

4.24. Similarly, under paragraph 66 of Ind AS 38, the cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

(a) costs of materials and services used or consumed in generating the intangible asset;

(b) costs of employee benefits (as defined in Ind AS 19) arising from the generation of the intangible asset;

(c) fees to register a legal right;

(d) amortisation of patents and licences that are used to generate the intangible asset; and

(e) Ind AS 23 specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset.

Ind AS perspective

4.25. The accounting guidance in Ind AS 38 is similar to AS 26 on these matters.

Components of cost

4.26. Production costs are accumulated on an individual project (Motion picture film) basis on commencement of project and comprise the following:

- Cost of Talent – Remuneration / professional charges paid to cast and crew including participation costs (for guidance on participation costs refer paragraph 4.46);
- Cost of acquired content in case of adaptations such as royalty paid to an author if the related motion picture film is an adaptation of his / her book;
- Production expenses for shooting of the Motion picture film such as raw film costs, shooting, costumes, set costs, permits, travel and accommodation etc.;
- Pre and post production costs such as dubbing, processing, special effects, legal and professional charges etc;
- Allocable expenditure directly attributed or allocated on a reasonable and consistent basis such as cost of own employees directly engaged in creation of content, rent for office premises/ studio, depreciation of own equipment used, etc.; and
- Borrowing costs provided they meet the criteria laid down in AS - 16 'Borrowing Costs'.

4.27. All these costs are identified to a specific project and are disclosed as 'Intangible Assets under Development' in the financial statements till such

time as the motion picture film is complete and disclosed as 'Motion picture films'. A motion picture film is generally said to be complete on receipt of the censor certificate. However, for motion picture films which are released directly on streaming platforms on the basis of self-regulation, such motion picture films will be deemed to be available for use when they are ready for being streamed.

Research and Development Costs

Project commencement date

4.28. Determination of project commencement date assumes significance for self - generated rights as recognition of cost is permitted only from such time as recognition criteria under AS 26 and Ind AS 38 are met. The terms 'research' and 'development' are defined in paragraph 6 of AS 26 (paragraph 8 of Ind AS 38) as below:

4.29. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

4.30. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

4.31. The motion picture film making process starts with an idea or 'booking' of an artist. Inspiration comes from various sources namely in-house staff, from freelance writers, or from existing literary works. Successful ideas are written up and then proceed into the production process. Excluding the script and early development phase, the production process, from story to filming out the final image and post production can take considerable period of time.

4.32. As per paragraph 41 of AS 26 (paragraph 57 of Ind AS 38), no intangible asset arising out of research phase of an internal project should be recognised. Thus, an intangible asset can be recognised only on the commencement of the development stage where the intangible asset can be identified and the entity can demonstrate that future economic benefits are probable from the asset.

4.33. Further, as per paragraph 44 of AS 26 (paragraph 57 of Ind AS 38), "an intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an enterprise can demonstrate all of the following:

(a) ***the technical feasibility of completing the intangible asset so that it will be available for use or sale;***

(b) ***its intention to complete the intangible asset and use or sell it;***

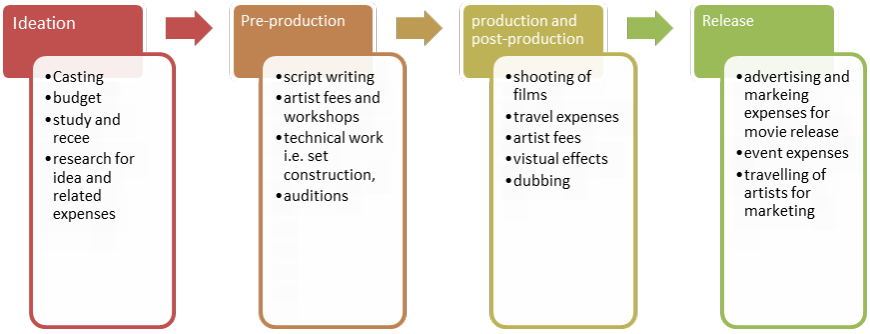
(c) ***its ability to use or sell the intangible asset;***

(d) ***how the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;***

(e) ***the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and***

(f) ***its ability to measure the expenditure attributable to the intangible asset during its development reliably***."

Motion picture film development stages are as follows:



4.34. In a motion picture film production cycle, distinguishing between the research and development phase requires significant judgement. The ideation phase is likely to be 'research' that is undertaken with the prospect of understanding the potential market for such a film and the availability of talent to direct and star in it. Expenses, other than direct advances, incurred prior to the date of the finalization of concept should be expensed considering the same as a cost in the research phase. This is because in the research phase of a project, it cannot be demonstrated that an intangible asset exists from which future economic benefits are probable. Examples of research activities could include activities aimed at obtaining new knowledge

(scouting for a script) or the search for, evaluation and final selection of, applications of research findings or other knowledge (selection of cast and crew, locations, etc). In practice, the producer often does not pay for any service till the story idea has been finalized or the motion picture film is conceptualized. Therefore, expenses incurred in the research phase may not be significant. Following are the triggers for commencement of pre-production (commencement of cost capitalization):

- ***ability to complete the project*** - agreement with script writers, directors and lead star cast. The ability to complete the film and reliably generate profits is likely to come at some point between the start and the end of pre-production phase, but before actual filming starts.
- ***existence of a market*** - prior evidence of successful productions by the studio or competitor. When a sequel of an earlier movie is being developed, a producer can look to historical experience with the feasibility and success of the previous title, plus the general experience of successful sequels. In addition, funding will be easier to obtain and key talent might be locked in already. Therefore, capitalisation of costs might start earlier in the process.
- ***generate probable future economic benefits*** - history of accurate forecasts of future local and international and other streams.

4.35. On fulfillment of recognition criteria of development stage all directly attributable internal and external costs of the motion picture film must be capitalised. The capitalization shall cease on completion of post-production work and in some cases development phase completes on issues of censor certificate. The cost associated with movies that are stalled or canned are to be expensed out immediately.

4.36. The development of an internally generated right commences on the completion of the conceptualisation of the Motion picture film. While each situation could be different and would need to be evaluated individually, certain indicators for evidencing the completion of the conceptualisation of a Motion picture film could be:

- Story selection
- Finalisation of the script
- Identification of key cast and crew, etc.

4.37. Movie studios often acquire all the rights for a particular Motion picture film from a production company. They may either purchase a completed product (Motion picture film) or require a production company to make a Motion picture film on their behalf and sell it to them.

4.38. The company should also consider the applicability of Ind AS 23 Borrowing costs in determining whether interest should be capitalised.

4.39. The cost of advertising and promotional activities is expensed as incurred.

4.40. In practice, production houses need to formulate a policy regarding commencement and component of costs to be capitalized, which is to be followed consistently. Further, the policy should be periodically revisited to check it remains appropriate.

4.41. As per paragraph 25 of AS 26, cost of an acquired right includes:

- Purchase price
- Duties and taxes (non recoverable) – e.g. Value added tax
- Directly attributable expenditure on making it ready for intended use – e.g. Dubbing costs of a foreign movie

4.42. The motion picture film and the rights therein so acquired meet the definition of an intangible asset.

Ind AS perspective

4.43. The accounting guidance in Ind AS 38 is similar to current AS 26 on these matters.

Artist costs of multiple film deals

4.44. It is often observed that the artists are signed by film production companies for multiple projects. In cases where the amount of consideration to be paid per movie is given in the agreement, the amount relevant to each movie should be captured in the respective project cost. In other cases, the consideration should be split based on the relative fair values of the consideration per motion picture film or where it is impracticable to do so, the consideration may be equally divided.

4.45. The above principles would also apply for allocation of costs where a library of motion picture films is acquired for exploitation.

Participation costs

4.46. Parties involved in the production of a motion picture film may be compensated in part by contingent payments based on the financial results of the Motion picture film. Such payments to members of the cast and crew are generally referred to as Participation Costs. Participations may be given to creative talent, such as actors, directors or writers, or to entities from whom distribution rights are licensed. Some examples of participation costs are collections from assignment of territory (an artist's remuneration or part thereof comprises proceeds from theatrical revenue from a specified territory), assignment of mode of exploitation (an artist is assigned say right to revenues from overseas territory), share of overflows, an artist is given a pre-determined share in the revenue from in-film advertisement, etc.

4.47. The accounting for participation costs poses difficult questions such as:

- At what stage should participation costs be accounted?
- What factors should be considered in estimating the participation costs payable?
- Should participation costs be a part of the Motion picture film cost?
- Should participation costs be netted off from the revenue earned or should revenue and cost be shown on a gross basis?

4.48. As per AS - 29 'Provisions and contingencies', a provision is made if there exists a present obligation arising out of past events, which is likely to result in outflow of resources and the outflow can be reliably measured. Paragraph 10 of AS 29 defines a present obligation as an obligation that based on available evidence is considered probable, i.e. more likely than not. For a provision to be recognized, a reliable estimate of the amount of obligation is required to be made.

4.49. In the present case, participation cost is an obligation for the entity as it is contractual in nature. As motion picture films have an active market, it would be appropriate to consider the obligation as probable. The estimate of the participation costs payable would necessarily have to be consistent with the expected revenues as in majority of the cases participation costs are based on revenue generated from the motion picture film.

4.50. Since participation costs are generally linked to revenue, the trigger for recognizing these costs is the occurrence of the event leading to the generation of revenue. As agreements with artists or crew are generally entered at the pre-production stage, the ultimate outcome of the liability payable on settlement cannot be reliably measured in advance. It is therefore appropriate to defer accounting for participation costs and to accrue for the liability only when there is certainty of related revenue. Even if one was to consider a participation cost as a barter of say exploitation rights for services rendered by the artist, the fair value thereof cannot be reliably estimated or determined till the actual happening of the event.

4.51. As participation costs are costs for engaging the artist, these should form part of remunerating the artist for services rendered in the production of the motion picture film. These should therefore, like other costs, be added to the total cost (except probably in cases where these are paid directly to the participants as per their overriding title) and not netted off from revenue. Appropriate disclosure of the accounting policy and of the costs should be considered.

4.52. As un-accrued participation costs represent a commitment, appropriate disclosure in the financial statements should be made as per the requirements of Schedule III to the Companies Act, 2013 under "Contingent liabilities and commitments (to the extent not provided for)" including specifying the particulars of the commitment/ liability.

Ind AS perspective

4.53. The accounting guidance in Ind AS 37 is similar to current AS 26 on above matter.

Borrowing costs

4.54. As per paragraph 8 of AS 16 - 'Borrowing Costs', only borrowing costs related to a qualifying asset are eligible for capitalisation. Paragraph 3 of the AS 16 (Paragraph 5 of the Ind AS 23 – Borrowing costs) defines a qualifying asset as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case). As a motion picture film generally takes more than one year for completion, it would accordingly be a qualifying asset under AS 16.

4.55. Borrowing costs may include:

- interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

4.56. Under paragraph 6 of Ind AS 23, Borrowing cost includes interest expense calculated using the effective interest method as described in Ind AS 109 Financial Instruments.

4.57. As stated in paragraph 14 of AS 16, the capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when all the following conditions are satisfied:

- expenditure for the acquisition, construction or production of a qualifying asset is being incurred;
- borrowing costs are being incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

4.58. Thus, the capitalisation of borrowing costs should commence only when the recognition criteria for self-generated intangible assets are met, borrowing costs are being incurred and motion picture film production is in progress. Suspension, extended delays, etc should be evaluated as per requirements of AS 16 and the entity should cease interest capitalisation during such suspension or extended delays, where appropriate.

4.59. Paragraph 16 of AS 16 clarifies that the activities necessary to prepare the asset for its intended use or sale exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

4.60. In the Indian scenario, it is often noticed that a principal actor needs to be contracted and dates blocked well in advance; at times even 1-2 years

in advance, and the producer is often required to pay large sums of money to block dates for a single project or for multiple projects. Therefore, where advances are given to artists as 'signing amounts' before the project is probably even conceptualised, it needs to be evaluated whether monies borrowed for the purpose of these advances meet the criteria for capitalisation.

4.61. Production companies may argue that since the advance has been paid, there is a definitive intent for the project; and other aspects would be finalised only after such date as, in many cases, the project would evolve around the principal artist. Thus, the project may be construed to have commenced since signing the desired artist is a necessary activity to plan the project or take it forward even though no other related activity would have commenced till such time that the lead artist has been finalized and signed. Also, pursuant to the agreement which would have been entered into, the entity would have control, being the right to utilize the services of the artist during the future committed dates.

4.62. However, it may also be argued that while an advance is the starting point but since the production has not yet commenced or is slated to commence only say 6-12 months later, the Company is still in the research phase where it has been scouting for the script, director, actors, etc and thus the expenses during this phase, including borrowing costs, need to be expensed.

4.63. Further, the advance paid to the artist is nothing but a holding cost, akin to the example where land is acquired and development of property has not commenced and hence, capitalisation is not permitted. Therefore, interest cost should be expensed till other criteria evidencing commencement of the project (development phase) are met.

4.64. Paragraph 17 of AS 16 states that Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalisation of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. In the context of a Motion picture film, if the production is suspended for example to

accommodate the artist's another project, capitalization of borrowing cost should be suspended. However, if the suspension is for example to obtain permission for shooting at a particular location and which permission is delayed, capitalization of borrowing cost could be continued.

Acquired rights

4.65. In the case of an acquired right, as there is no development activity, it usually does not meet the definition of a 'qualifying asset' to merit capitalisation of borrowing costs.

Ind AS perspective

4.66. The accounting guidance in Ind AS 23, Ind AS 38, Ind AS 31 and Ind AS 37 is similar to AS 16, AS 26, AS 27 and AS 29 respectively on these matters.

Other costs

Exploitation costs

4.67. An entity should charge manufacturing and/or duplication costs of products for sale, such as videocassettes and digital video discs, to expense on a unit-specific basis when the related product revenue is recognized. An entity should, at each balance sheet date, evaluate inventories of such products for net realizable value and obsolescence exposures, with appropriate adjustments recorded as necessary.

4.68. Cost of theatrical film prints are generally charged to expense over the period over which benefit is expected to be derived from their use. In most cases, majority of the film prints are expected to be utilized for exhibition within a couple of months from the first release of a movie.

Promotion costs

4.69. Significant expenses (such as television promos, hoardings, newspaper advertisements, promotion parties, etc.) are incurred for the promotion of a Motion picture film prior to its release to build awareness. This cost is normally incurred a few weeks before the release and increases as the release date approaches. All advertisements costs are specific to a particular Motion picture film.

4.70. Some argue that since these expenses are necessarily to be incurred to generate an audience (customer-base) for the Motion picture film; these

add to the value of the ultimate product and hence, should be added to the cost of the asset (right) / deferred till the release of the movie. However, under AS 26, the concept of deferral of expense is virtually done away with.

4.71. Paragraph 53 of AS 26 clearly states that only those overheads that are necessary to generate the asset can be allocated to the cost of the asset. Promotion costs cannot be said to be necessary for the generation of the Motion picture film right per se. Moreover, the producer has no control over the benefit expected to be derived therefrom, i.e. advertisement only promotes a Motion picture film but does not guarantee revenues, nor can a one-to-one linkage be established between the growths in revenue resulting from advertisement. Thus, promotion expenses are a period cost and should be expensed as incurred just as in the case of branding costs or a huge publicity campaign before the commercial launch of a product, both of which are expensed.

Ind AS perspective

4.72. The accounting guidance in Ind AS 38 is similar to AS 26 on these matters.

Amortisation of cost of a motion picture film

4.73. As per paragraph 72 of AS 26, the amortisation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. If that pattern cannot be determined reliably, the straight-line method should be used. The amortisation charge for each period should be recognised as an expense unless another Accounting Standard permits or requires it to be included in the carrying amount of another asset.

4.74. Consumption of economic benefits of a movie is reflected in the exploitation of movie rights. Such exploitation is through various modes some of which are immediate on release of a movie and some are even before of release of a movie (e.g. music rights) and some are post release (e.g. satellite distribution with a condition for exhibition post a specified period). Estimates tend to suggest that a major portion of the economic benefits are derived through theatrical exhibition (about 50-60%), followed by satellite exhibition including online streaming platforms (25-30%) and balance from miscellaneous rights including music rights and other rights like dialogues, scenes, remake rights, ringtones, internet streaming and so on.

4.75. As early as in 1959, the Central Board of Direct Taxes had, based on interaction with the film producers, estimated useful life of a movie to be

three years[2]. This period was revised to one year in 1969, again based on the interaction with the feature film producers[3]. Current interactions with the industry indicates that this period has further shrunk and these days, the effective useful life is much shorter. The entire emphasis these days is to focus on first few weeks of release with maximum possible use of the film through simultaneous release in several theatres. This has become possible due to technological advancements and with move to digital distribution. The effective useful life of a movie has therefore shrunk to about 12 to 24 weeks (3 to 6 months) depending upon popularity factors like star cast, music and marketing initiatives and effectiveness.

4.76. Given these special features, the straight line method of amortization is generally not considered appropriate or reflective of the consumption pattern.

4.77. Globally, the Individual Film Forecast Method referred to under US GAAP was recognised as the preferred way to associate the cost of motion picture film production with the related revenue earned.

4.78. This method requires that an entity make an estimate of the ultimate revenue to be earned over the estimated life of the right or over its contractual period. For an example of amortisation under the film forecast method, refer Illustrations in Section 6.

4.79. Revenue projections are usually limited to existing modes of exploitation, i.e. future modes of exploitation which are not known and/or anticipated technological changes are not considered in estimating revenues. At each period-end, estimates of ultimate revenue are reviewed for appropriateness.

4.80. Amortisation based on past trends is discouraged unless a specific trend for similar genre of films in similar circumstances is evidenced.

4.81. The film forecast method also forms the basis for accruing participation costs simultaneously.

4.82. It was considered appropriate to amortise the intangible asset by estimating the economic useful life of the movie based on the likely utilization/exploitation period of a movie. The best estimate of this can be

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[2] Board's Circular No. 4 (XI-3) D, dated 9-4-1959

[3] **Circular :** *No. 30 [F. No. 9/80/69-IT(A-II)], dated 4-10-1969.*

made by the producer on the basis of the star cast of the movie, story line, director, producer, musician and other relevant factors and their popularity at the time of release. It was felt that, these days, major part (about 75 – 90 %) of economic utilization of the film generally occurs on over a period of 6 – 12 months from the release of the movie. Therefore it is recommended that major cost of the film be amortised based on the estimate of the period of economic utlisation of the movie by the producer. In case this cannot be reliably estimated, the same may be spread over a period of twelve months on straight line basis to enable preparation of quarterly or half yearly financial statements. The balance cost of the movie (25-10%) may be amortised based on the period over which economic benefits are expected to be exploited.

4.83. Further, the intangible asset is also required to be tested for impairment at period end to ensure appropriateness of carrying value.

Ind AS perspective

4.84. Paragraph 97 of Ind AS 38 – Intangibles Assets states the depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

4.85. Further, paragraph 98A states that there is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits embodied in the intangible asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. This presumption can be overcome only in the limited circumstances:

(a) in which the intangible asset is expressed as a measure of revenue, as described in paragraph 98C; or

(b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Where an entity is able to rebut the above presumption, revenue based amortisation may be followed (refer Illustrations in Section 6).

4.86. Paragraph 98B states in choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (i.e. time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortisation, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits.

4.87. Paragraph 98C states in the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation. In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortising the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined.

4.88. Thus, the selection of the appropriate method supported by the underlying economics of the transactions, consistently applied is usually effective in determining an appropriate amortization method.

4.89. Based on guidance under Ind AS 38, although the companies are recommended not to use a revenue based amortization method, however, as explained above, straight-line method of amortization is also not reflective of the pattern in which motion picture film's future economic benefits are expected to be consumed by the entity. A production house derives its economic benefits from a film through various streams at different points of time and sells these rights in the film to one or more parties. Thus, these

rights are required to be amortised having regard to the fair values assigned and economic benefits expected to be derived from exploitation of respective rights.

4.90. Accordingly, on completion of the film, the producer shall allocate fair values to various rights and each right will be amortised based on its consumption and economic benefits flowing to the entity. Allocation of fair value among such rights is necessary as period of exploitation for each right may differ. For example, exploitation of music rights and merchandise rights of a motion picture film may begin few months before its theatrical release, similarly exploitation of satellite and other digital rights may commence only later.

4.91. Further, it is pertinent to note that if a producer is not able to generate adequate economic benefit from a particular right it cannot reallocate unmortised values to other rights. For instance, theatrical rights of motion picture film is generally allocated significant values; however, if the film under-performs at the box office, the producer has to fully amortize the fair value allocated to theatrical rights and it cannot reallocate any amount to other rights. The producer should continuously reassess appropriateness of fair value allocated to various rights, if it observes few rights have been under-performing in the past, as it is an indication that allocation of fair values was not accurate in the first place.

Impairment

4.92. As per AS 28 - 'Impairment of Assets", an entity should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the enterprise should estimate the recoverable amount of the asset in accordance with the provisions of the Standard. If the carrying amount of an asset exceeds the recoverable amount, impairment loss should be recognised.

4.93. Some indicators that suggest impairment of Motion picture film rights include:

- an adverse change in the expected performance of a Motion picture film prior to release;
- substantial delays in completion or release schedules;

- changes in release plans, such as a reduction in the initial release pattern;
- insufficient funding or resources to complete the Motion picture film and to market it effectively;
- restriction imposed on release of the motion picture film generally or in certain territories; and
- actual performance subsequent to release fails to meet management's budgeted plans.

4.94. For the purpose of the above assessment, each motion picture film is generally treated as a separate cash generating unit. For a library of Motion picture films acquired together, impairment should be assessed for all the related Motion picture films acquired together only if these are also intended to be exploited as a bouquet; if not, impairment assessment should be based on values assigned to each individual Motion picture film.

The expected future cash flows include those from the motion picture film's continued use by the producer over its useful economic life and based on present value calculations. The value in use methodology is usually used to determine the impairment of motion picture films, since it is easier to determine the value to that producer than its hypothetical value to another.

Cash inflows should include all sources of reasonably estimable revenues. Such sources might include theatrical releases in multiple markets, revenues associated with offline sales, licensing sales to broadcast, release via digital platforms and merchandising revenues from the sale of consumer products.

Cash outflows generally include all additional future distribution, advertising, marketing, and other exploitation costs as well as cash flows associated with participations and residuals.

The following is also considered in an evaluation of the nature and extent of such cash flows:

- Cash inflow or outflows associated with the film to date
- Historical experiences associated with similar films
- Film reviews and observable public perceptions

The cash flow projections require management's judgments which should be based on realistic assumptions and which should be applied consistently.

The cash flows should be based on the most up-to-date budgets and forecasts that have been formally approved by management.

A key consideration in determining the net outflows involves the remaining distribution costs. The major film producers have mature distribution networks with minimal incremental distribution costs for individual films; whereas from an independent producer's perspective, the cash outflows from distribution could be significant because it will be need to pay a distribution fee.

4.95. At times it may so happen that a Motion picture film which is under production (nearly complete or completed and awaiting release) as at balance sheet date is released post the balance sheet date but before the finalisation of the accounts.

4.96. As per AS 4 – 'Contingencies and events occurring after the balance sheet date', events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and by the corresponding approving authority in the case of any other entity.

4.97. Two types of events can be identified:

- those which provide further evidence of conditions that existed at the balance sheet date; and
- those which are indicative of conditions that arose subsequent to the balance sheet date.

4.98. As per paragraph 13 of AS 4, assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern (i.e., the continuance of existence or substratum of the enterprise) is not appropriate.

4.99. As per paragraph 83 of AS 26, in addition to the requirements of AS 28, an enterprise should estimate the recoverable amount of the following intangible assets at least at each financial year-end even if there is no indication that the asset is impaired:

(a) an intangible asset that is not yet available for use; and

(b) an intangible asset that is amortised over a period exceeding ten years from the date when the asset is available for use.

4.100. The recoverable amount should be determined under AS 28 and impairment losses recognised accordingly.

4.101. The ability of an intangible asset to generate sufficient future economic benefits to recover its cost is usually subject to great uncertainty until the asset is available for use. Therefore, this Standard requires an enterprise to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

4.102. As per AS 28, recoverable amount is the higher of an asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

4.103. Based on the above, for Motion picture films which are under production, an impairment analysis should be performed as per the requirements of AS 28 at every balance sheet date irrespective of whether there are any triggers for impairment.

4.104. In case of Motion picture films which are under production at the balance sheet date and which release subsequently, a question may arise whether the determination of recoverable amount should take into account the impact of the subsequent release.

4.105. Events occurring after the balance sheet date but before issue of financial statements resulting in possible write downs of motion picture film cost should generally not be adjusted in the financial statements as at the balance sheet date. This is because as per AS 4, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. Hence, in the present case, prior to the release of a motion picture film, generally there exists no indication of the likely performance of the movie and hence no condition whose subsequent determination would require an adjustment to the carrying value of the asset.

4.106. Similarly, impairment assessment is based on expected future cash flows at balance sheet date and should therefore not be impacted by subsequent performance.

Ind AS perspective

4.107. The accounting guidance in Ind AS 10 (corresponding to IAS 10) and Ind AS 36 (corresponding to IAS 36) is similar to the current literature.

5. Exploitation of rights

General principles of revenue recognition

5.1. Paragraph 4 of AS 9 – 'Revenue Recognition' defines revenue as the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

5.2. As per paragraph 10 of AS 9, revenue from sales or service transactions should be recognised, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

5.3. As per paragraph 11 of AS 9, revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(b) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

5.4. As per paragraph 12 of AS 9, revenue from rendering of services shall be recognised when the service is performed. Performance should be regarded as being achieved when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service.

5.5. With advent of Ind AS 115 – Revenue from customer contracts, there is paradigm shift in the way revenue is recognized. The new standard requires a more detailed evaluation of the arrangement coupled with judgement with respect to various performance obligations. It provides comprehensive guidance on variety of topics, including principal-agent evaluation, non-refundable minimum guarantee, licenses of intellectual property and barter transactions.

5.6. We shall evaluate the revenue recognition principles as per AS-9 Revenue Recognition and Ind AS 115 Revenue from customer contracts.

Principles as applicable to revenue from sale or licensing of rights in Motion picture films

5.7. Let us examine the revenue recognition principles in the context of sale or licensing of rights in Motion picture films:

Persuasive evidence of a sale or licensing arrangement with a customer exists

5.8. Persuasive evidence of a sale or licensing arrangement is provided solely by legally enforceable documentation (such as a contract, a term sheet, a memorandum of understanding) that sets forth, at a minimum, the license period, the Motion picture film or films affected, the rights transferred, and the consideration to be exchanged; for example, agreements for licensing of distribution rights for a Motion picture film, term sheet between exhibitor and distributor for theatrical exhibition, etc.

The motion picture film is complete and, in accordance with the terms of the arrangement, has been delivered for its exploitation, exhibition or sale

5.9. If the sale or licensing arrangement requires an entity to make significant changes to a Motion picture film after its initial availability to a customer, the arrangement does not meet the delivery condition. Significant changes are those changes that are made where an arrangement requires an entity to create new or additional content after the Motion picture film is initially available to the customer. For example, reshooting a scene or creating additional special effects are significant changes.

The license period has begun and the licensee can begin its exploitation, exhibition or sale

5.10. Certain arrangements restrict a customer from beginning its initial exploitation, exhibition, or sale of a motion picture film. For example, a

television broadcaster or DTH operator can begin telecast only after elapse of specified time from the theatrical release. In such instances, an entity should not recognize related revenue until the restriction has expired.

The arrangement fee is fixed or determinable

5.11. This condition has been discussed above.

Collection of arrangement fee is reasonably assured

5.12. Recognition of revenue requires that revenue is measurable and that at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.

Ind AS perspective

Evaluation of license rights under Ind AS 115

5.13. Paragraph B52 of Ind AS 115 states that a licence establishes a customer's rights to the intellectual property of an entity. Licences of intellectual property may include, but are not limited to, licences of any of the following:

(a) software and technology;

(b) motion pictures, music and other forms of media and entertainment;

(c) franchises; and

(d) patents, trademarks and copyrights.

5.14. As per paragraph B53, in addition to a promise to grant a licence to a customer, an entity may also promise to transfer other goods or services to the customer. Those promises may be explicitly stated in the contract or implied by an entity's customary business practices, published policies or specific statements. As with other types of contracts, when a contract with a customer includes a promise to grant a licence in addition to other promised goods or services, an entity is required to identify each of the performance obligations in the contract.

5.15. As per paragraph B54, if the promise to grant a licence is not distinct from other promised goods or services in the contract, an entity shall account for the promise to grant a licence and those other promised goods or services together as a single performance obligation.

5.16. As per paragraph B55, if the licence is not distinct, an entity shall determine whether the performance obligation (which includes the promised

licence) is a performance obligation that is satisfied over time or satisfied at a point in time.

5.17. As per paragraph B56, if the promise to grant the licence is distinct from the other promised goods or services in the contract and, therefore, the promise to grant the licence is a separate performance obligation, an entity shall determine whether the licence transfers to a customer either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the licence to a customer is to provide the customer with either: (a) a right to access the entity's intellectual property as it exists throughout the licence period; or (b) a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.

Determining the nature of the entity's promise

5.18. As per paragraph B58, the nature of an entity's promise in granting a licence is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

(a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;

(b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph B58(a); and

(c) those activities do not result in the transfer of a good or a service to the customer as those activities occur.

5.19. Paragraph B59 states that factors that may indicate that a customer could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary business practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the customer related to the intellectual property to which the customer has rights may also indicate that the customer could reasonably expect that the entity will undertake such activities.

5.20. As per paragraph B59A, an entity's activities significantly affect the intellectual property to which the customer has rights when either:

a) those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or

b) the ability of the customer to obtain benefit from the intellectual property is substantially derived from, or dependent upon, those activities. Accordingly, if the intellectual property to which the customer has rights has significant stand-alone functionality, a substantial portion of the benefit of that intellectual property is derived from that functionality. Consequently, the ability of the customer to obtain benefit from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include completed media content (for example, films, television shows and music recordings).

5.21. If the criteria in paragraph B58 are met, an entity shall account for the promise to grant a licence as a performance obligation satisfied over time because the customer will simultaneously receive and consume the benefit from the entity's performance of providing access to its intellectual property as the performance occurs.

5.22. If the criteria in paragraph B58 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists at the point in time at which the licence is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licence at the point in time at which the licence transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall determine the point in time at which the licence transfers to the customer. However, revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence. For example, if a software licence period begins before an entity provides (or otherwise makes available) to the customer a code that enables the customer to immediately use the software, the entity would not recognise revenue before that code has been provided (or otherwise made available).

5.23. Based on the above, rights in a motion picture film such as music rights, theatrical rights, television and satellite rights, digital rights are examples of a 'right of use' licence, which a production house allocates to parties for exploitation. The motion picture film, its underlying IP and other rights are complete and there are no activities that the licensee of rights needs to undertake which may affect the IP. Therefore, revenue may be recognised at the point of time when the film right is transferred and is available for exploitation. Further, limiting factors such as restrictions of time, geography, or use of the licence do not determine the nature of the production house's promise in granting the licence, they are merely attributes of the licence and do not preclude revenue recognition to take place at the point in time where the licence is exploitable by the licensee. Examples of limitations or restrictions on use could include right to exploit the licence in a single territory or geography, number of times that the film can be shown on the TV channel, etc.

Sale or lease

5.24. In exploitation of rights, the producers license various rights in Motion picture films for license fees. License fees and royalties (i.e. charges for the use of such assets as know-how, patents, trade marks and copyrights) have to be distinguished from leases.

5.25. The licensing arrangement is regarded as sale and not lease due to the following factors:

- the rights to the asset are assigned to the licensee in return for a fixed fee or non-refundable guarantee;
- the contract is non cancellable;
- the licensee is able to exploit its rights to the asset freely (i.e. the licensor no longer retains managerial control); and
- the licensor has no remaining obligations.

Therefore, all the risks and rewards are effectively transferred to the licensee.

5.26. Based on the above, we conclude that licensing arrangements for rights in Motion picture films satisfy the conditions for recognition of sale of asset given above and, accordingly, are not leases.

5.27. Moreover, paragraph 1 of AS 19 – 'Leases' specifically excludes licensing agreements for items such as motion picture films, video

recordings, plays, manuscripts, patents and copyrights from the scope of the Standard.

Revenue recognition for sale of rights prior to exploitation

5.28. As mentioned above, the producers of Motion picture films often sell rights before the release of the movie. Some agreements contain a restriction period within which the movies cannot be broadcasted or merchandise cannot be sold or that the rights of the acquirer are available for exploitation only at a certain future time. In such cases, the issue arises as to what should be the appropriate time of revenue recognition for the producer or lessor of rights.

5.29. Though most of the general principles of revenue recognition are met at the time of, say, delivery of beta tapes, the fact that the licensor retains effective control by way of precluding the licensee to exploit the right, is enough reason to defer revenue recognition as it can be argued that the entity has not parted with the effective control of the rights.

5.30. Some typical scenarios are discussed below:

- Revenue from sale of music rights can be recognised as revenue even though the agreement is prior to the release of the movie provided on the date of revenue recognition there is no restriction on the music company to exploit the music rights.
- Agreements for sale of satellite rights usually contain a no broadcast period as determined by the producer after the theatrical release of the film. In this case, revenue recognition should be deferred till the date of the expiry of the non broadcast period as till this date the seller of the right retains effective control of the satellite rights. The date on which the non broadcast period ends is the trigger for revenue recognition.
- The revenue recognition from sale of merchandising rights should be recorded based on similar principles as that for music rights.
- The agreements for in-film advertising are usually variable depending on the number of scenes containing the customer's products. The number of scenes that contain the advertisement of the customer's products can only be crystallized as on the date of the release of the movie and accordingly, revenue from in-film advertising should generally be deferred till the date of the release of the movie

Illustration1: Revenue Recognition for a Fixed Fee, License Arrangement involving Sale of future rights

(a) End of the entity's accounting year is 31 March

(b) Contract execution date is 1 February 2009

(c) License period is 1 June 2009 to 31 May 2012

(d) The entity has met all revenue recognition conditions as on 1 June 2009

(e) Consideration of ₹ 1,000

(f) Payment schedule is as follows:

(g) Contract execution date: ₹ 1,000

Income recognition is computed as follows:

Accounting year end	Rationale	Revenue to be recognized
Year ended 31 March 2009	Revenue recognition criteria not met	₹ 0
Year ended 31 March 2010	All revenue recognition criteria met on 1 June 2009	₹ 1,000
Year ended 31 March 2011	Revenue entirely recognised in Year ended 31 March 2010	₹ 0

Gross versus net

5.31. Given the chain of intermediaries involved in the media industry and the structuring of various contracts, the distinction between whether an entity is acting as an agent or a principal assumes significance as it helps determine whether the entity should account for a particular stream of revenue on a gross or net basis. Usually, an entity working as an agent does not have an exposure to the significant risks and rewards of ownership of goods or rendering of services. An entity having exposure to the significant risks and rewards associated with the sale of goods or rendering of services is acting as a principal. The following features should be considered to determine if an entity is acting as a principal or an agent. None of the indicators noted below should be considered presumptive or determinative,

but an overall assessment would need to take into account the direction of the majority of indicators. Indicators that an entity is acting as a principal include that it:

- has primary responsibility for providing the goods and services to the customer or for fulfilling the order, i.e. it is the primary obligor;
- has inventory risk before or after the customer order, during shipping or on return
- has discretion in establishing prices (directly or indirectly); or
- bears the customer's credit risk for the amount receivable from the customer.

5.32. For example, in case of film exhibition where the theatre owner (exhibitor) and the film distributor contractually share revenue based on a pre-determined percentage, the exhibitor generally accounts for revenue from sale of tickets on a gross basis and discloses the distributor's share as cost. In light of the above indicators, this is justifiable as:

- Primary obligor - The exhibitor is responsible to the general cinema going public for screening of the movie
- Inventory risk – as generally there is a revenue share, the exhibitor has part inventory risk as his return on the operating costs is dependant on the success of the movie
- Latitude in establishing price – the exhibitor generally has the liberty in pricing of the tickets
- Credit risk – the exhibitor is obliged to pay the distributor as well as the regulatory authorities in proportion to the tickets sold, irrespective of ultimate collection from the end customer eg. in case of corporate bookings where money may not be necessarily received on sale of tickets.

5.33. Under Ind AS 115, the criteria for a company as a principal in a transaction is, if it obtains control of the goods and services of another party before it transfers control over those goods and services to the customer. A company that is a principal obtains control of any one of the following:

- A good from the other party that it then transfers to the customer
- A right to a service to be performed by the other party that gives the company the ability to direct that party to provide the service to the customer on the company's behalf

- A good or service that the company then combines with others in providing the specific good or service to a customer

5.34. If the determination of whether the company controls the specified good or service (i.e., is a principal) is unclear, companies should evaluate the following indicators:

- Primary responsibility for fulfilling the promise
- Inventory risk
- Discretion in establishing price

No relative weighting is provided to the indicators.

5.35. Ind AS 115 has introduced specific guidance on agent versus principal considerations, which represents a change in approach from erstwhile Ind AS 18 or AS 9 which were based on the risks and rewards approach and Ind AS 115 is based on the transfer of control approach. Also, it is pertinent to note that credit risk is no longer an indicator under Ind AS 115 for principal-agent evaluation.

5.36. In case of production house, the entity controls the IPR and related rights in a motion picture film. Thus its arrangement with the movie distributor for theatrical rights, with broadcaster / digital platform for satellite and digital rights, with music companies for music rights and others are all on principal to principal basis and therefore, revenue for a production house shall be accounted on gross basis, which is largely consistent with AS 9. However, in case of line producer the conclusion of principal-agent may differ and a more detailed evaluation is required of the arrangement.

Multiple film deals

5.37. In contracts where rights to multiple Motion picture films are sold for a lump-sum consideration, immediate revenue recognition may not be appropriate as the exploitation dates for the individual Motion picture films may be different. Further, the total consideration needs to be allocated to individual rights. Ind AS 115 states that the objective when allocating the transaction price is for an entity to allocate the transaction price in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for the said right of the Motion picture film. Therefore, the allocation of total consideration should be determined based on fair values and revenue should be recognised subject to satisfaction of principles of revenue recognition in respect of each Motion picture film. Consideration

is usually given to various aspects such as age of the movie (old/ new), released/ unreleased, type of rights, past performance of the movie, current relevance of the subject, etc in arriving at the fair value. In case the fair value of individual rights is not determinable, then the revenue may be allocated to each individual Motion picture film in equal proportion. The consideration allocated for the movies which do not meet the revenue recognition criteria at period end, is treated as deferred revenue.

Types of revenue arrangements

Fixed fee arrangements

5.38. If a sale or licensing agreement provides that an entity will receive a flat predetermined consideration or fee, then the amount of that consideration or fee is considered fixed and determinable. In such instances, the entity recognizes the entire amount of consideration as revenue when it has met all of the other revenue recognition conditions.

Variable fee arrangements

5.39. An entity's sale or licensing agreement fee may be based on a percentage or share of revenue from the exhibition or other exploitation of a Motion picture film. In such instances, the entity recognises revenue as the Motion picture film is exhibited or exploited, provided the other revenue recognition criteria are met – eg. distribution agreements on a commission basis or an agreement between a distributor and a multiplex (exhibitor) for exhibition.

Minimum guarantee arrangements

5.40. In certain arrangements that provide for variable fees, a non-refundable minimum amount is guaranteed that is applied against the variable fees on a Motion picture film. After the minimum guarantee amount is recovered, overflows are shared between the entity and the distributor. In such arrangements, the amount of the non-refundable minimum guarantee is considered fixed and determinable, and the entity should recognize the minimum guarantee as revenue when it has met all of the other revenue recognition conditions. This is usually achieved when the licensor's right to exploitation commences and provided it is reasonable to expect collection of the minimum guaranteed amount. Overflows over the minimum guarantee are variable in nature and should be recognised as they are earned, provided other revenue recognition conditions are satisfied.

5.41. Under Ind AS 115, there is specific guidance which requires that any sales and usage based royalty attributable to a licence of IP is to be recognised at the later of when the subsequent sale or usage occurs and the satisfaction or partial satisfaction of the performance obligation to which some or all of the sales or usage-based royalty have been allocated. This is an exception to the general requirements and it applies when the royalty relates only to a licence of IP; or the licence is the predominant item to which the royalty relates. Generally, in case of transfer of rights in motion picture films by production houses to distributors, there is a fixed guaranteed minimum payment by the distributor to the production house and a variable portion, consisting of royalty based on ticket sales at the box office. As per the above guidance, while the fixed component is recognised upfront at the time of transfer, the royalty on the licence can be recognised only as the ticket sales happen. As mentioned above, this guidance relates only to licences of IP, and is an exception to the variable consideration guidance given in Ind AS 115, which requires an estimate of the variable consideration to be made while determining the transaction price, wherein a higher revenue may be recognised upfront, subject to the constraints to variable consideration.

Barter arrangements

5.42. Barter arrangements are transactions where an enterprise enters into a transaction to exchange a non-monetary asset for purchasing dissimilar goods or services.

5.43. Dissimilarity of services is required to be analyzed by considering factors such as the nature of the media (television, print, radio), target group of the audience, frequency, timing, etc. Similarly, whether the revenue can be measured reliably is analysed based on whether similar services are provided to customers on a non-barter basis.

5.44. If the above analysis indicates that dissimilar services have been exchanged and the amount of revenue can be reliably measured; revenues are recognised at the time when the services are provided and equivalent costs are recognised when the corresponding services are utilised.

5.45. By contrast, exchange of similar services or services whose fair value cannot be reliably measured, does not result in any revenue/cost recognition.

5.46. In the case of a Motion picture film, the arrangement may be as follows - The producer provides in-film advertisement to the customer who in

turn advertises the Motion picture film on his medium e.g. Producer displays a particular TV channel in the Motion picture film and in return, the TV channel allocates promotion time on its channel (exchange of similar services) or, the customer finances the cost of say costumes or provides them free of cost and in return advertises its clothing line (products) using stills from the Motion picture film (dissimilar).

5.47. Barter arrangements should be recorded based on fair values of the assets (or services) involved (for example, the cost of costumes referred to in paragraph 5.46 above). Fair value of the asset surrendered to obtain the service should be recognised as cost for the service acquired. Fair value of the asset received should be used to measure the cost if this is more clearly evident. Revenue from barter arrangements should be recognised subject to meeting the principles of revenue recognition.

Film exploitation

5.48. In the Indian context, the most common forms of exploitation of a Motion picture film / rights are:

Theatrical exhibition

5.49. Theatrical exhibition accounts for a significant portion of total revenue from a Motion picture film.

5.50. The producer often finds it difficult to reach out to the exhibitors individually across the globe; hence, he usually appoints a distributor for each territory or even multiple territories. Once the Motion picture film is nearing completion/ ready for release, the producers generally organize a screening for potential buyers (distributors). Based on these screenings and depending on other parameters such as the star cast, director, production house, etc involved, the Motion picture film is taken up by a distributor and reaches cinemas and home media audience. The contracts between the producer and distributor could be on a minimum guarantee basis or on a commission basis.

5.51. In case of minimum guarantee contracts, the non-refundable amount is generally recognised as revenue on the date of the release of the Motion picture film.

5.52. In case of commission contracts, revenue is recognised as it is earned from the exhibition of the Motion picture film.

Illustration 2: Revenue Recognition for a Variable Fee with Non-refundable minimum guarantee

An entity grants theatrical distribution rights for a particular territory for a licensing period of 3 years on 1 December 2008. The consideration is ₹ 2,000 non-refundable minimum guarantee and variable fee equivalent to 30% of the distributors share from theatrical collections beyond ₹ 2,000.

Assuming the distributor generates ₹ 1,700 in the year ended 31 March 2009 and ₹ 1,500 in the year ended 31 March 2010, income is computed as follows:

Accounting year end	**Rationale**	**Revenue to be recognised**
Year ended 31 March 2009	Non-refundable minimum guarantee	₹ 2,000
Year ended 31 March 2010	Total distributor collections till year 2 – ₹ 3,200. Overflows over minimum guarantee ₹ 1,200. 30% entity's share.	₹ 360

Music rights

5.53. In India, music is an important feature of Motion picture films. Music rights are generally sold to music companies during the production stage itself. As music plays an important role in the marketing of a Motion picture film, music companies release the soundtrack prior to the theatrical release.

5.54. As these rights are generally assigned to the music company in perpetuity for a fixed fee, revenue is recognised on commencement of the music company's right to market the music. In cases where the producer has right to future royalty after achievement of threshold sales by the music company, royalty income is recognized as earned and when communicated/ confirmed by the music company.

Illustration 3: Allocation of Revenue for a Fixed Fee, Multiple Film Arrangement

On 1 September 2009, an entity grants music rights of its three upcoming movies to a music company for ₹ 3,000 receivable on date of contract signing. The contract condition stipulates that proportionate amount shall be refunded in case of non release of music of any of the three movies.

Assume that the music rights are made available to the music company for the first film on 1 December 2009, second film on 1 January 2010 and for the third film on 1 July 2010.

Income recognition would be as follows:

Accounting year end	Rationale	Revenue to be recognised
Year ended 31 March 2010	Music of First and Second Movies made available during the year ended 31 March 2010	₹ 2,000
Year ended 31 March 2011	Music for the third film made available to the music company on 1 July 2010	₹ 1,000 (*)

(*) Had the third movie been shelved during the year ended 31 March 2010, the amount of ₹ 1,000 would have been refundable to the music company.

Satellite and Home Video

5.55. Film makers sell the satellite rights for telecast to television broadcasters or Direct to Home ('DTH') operators. The rights are generally sold for a specified period of time after which the rights vest back to the producer. The consideration is usually fixed and non refundable. The television telecast ordinarily happens within six months from the theatrical release. The timing of the first telecast of the Motion picture film on television is decided in most instances by the producer- the agreements with the broadcasters or DTH operators generally contain a clause for no broadcast period. In certain cases the film makers also sell home video rights (i.e. sale of DVD's, VCD's or Blue Ray Discs) to home video companies The revenue arrangements are in the nature of fixed fees and a Motion picture film is usually released on home video after it's television broadcast or DTH broadcast.

5.56. The principles of revenue recognition will most likely be satisfied when the broadcaster / DTH operator can start telecast of the movie (i.e. after the no broadcast period is over) and not on hand-over of Beta tapes.

Illustration 4: Revenue Recognition for a Variable Fee, Multiple Film Arrangement with a Non-refundable minimum guarantee on a cross collateralised basis

An entity licenses to a customer the home video rights to five films for a period of three years from the date of release. The licensing arrangement also requires the customer to pay the entity ₹ 5,000 minimum guarantee. The licensing arrangement also provides for a variable fee to the entity equal to 30 % of the customers gross receipts from the exploitation of the films during the license period over ₹ 5,000.

The agreement is entered into on 1 April 2009 and the films are made available to the home video company on that date. Assume that the home video company had the following revenues from the 5 movies:

Year ended 31 March 2010:	₹ 1,500
Year ended 31 March 2011:	₹ 2,000
Year ended 31 March 2012:	₹ 2,200
Year ended 31 March 2013:	₹ 1,800
Year ended 31 March 2014:	₹ 2,000

Income recognition would be as follows:

Accounting year end	**Rationale**	**Revenue to be recognised**
Year ended 31 March 2010	Minimum guarantee	₹ 5,000
Year ended 31 March 2011	No variable fees to be recognised as MG amount has not been recovered	₹ 0
Year ended 31 March 2012	30% of variable fees over MG amount – i.e. 30% of ₹ 700	₹ 210
Year ended 31 March 2013	30% of variable fees ₹ 1,800	₹ 540
Year ended 31 March 2014	30% of variable fees ₹ 2,000	₹ 600

Merchandising and in-film advertising

5.57. In recent years, many new means of exploitation have started evolving. The more common stream of revenue amongst these for film makers is merchandising and in-film advertising. Merchandising rights are rights given to market film related products (e.g. soft toys of movie characters, t-shirts with movie characters embossed, etc.). In-film advertising relates to use of advertiser's products in the making of the movie (e.g. use of particular airline in scenes depicting air travel, an actor drinking a specific brand of cola in a particular scene, etc.).

5.58. The agreements could be in the nature of fixed fees or revenue share. It has been observed that release of the Motion picture film is a general requirement in order to be entitled to the fees. Revenue from fixed fee arrangements should be recognised on the date of release of the corresponding Motion picture film. Revenue from variable fee arrangements should be recognised as it is earned depending on the contractual arrangement

Internet and mobile rights

5.59. 'Internet Rights' are the rights for exploitation, distribution and exhibition, commercial as well as non-commercial, over the internet. Film makers also license the use of content over value added services through telephone operators such as Mobile Contest Rights, Mobile Gaming Rights, etc. The internet and mobile rights include Video On Demand, Pay Per View, free or pay downloads in part or full, animation, merchandising, games, wallpapers etc.

5.60. Ordinarily, on sale of music rights, the music company would have the rights for distribution of the film's music over the internet and mobile platforms.

5.61. The revenue arrangements for sale of internet and mobile rights are generally in the nature of variable fees. Revenue should be recognised as it earned by the customer depending on the contractual arrangement and satisfaction of the general principles of revenue recognition. For the purpose of accounting for revenue from these streams, the entity will usually have to wait for and rely on the customer's reports of revenue generated, number of clicks received, number of downloads, number of subscriptions to games, etc.

Sequel/ remake rights

5.62. Film makers often remake old classics or commercially successful movies in other languages by purchasing the copyrights to the original Motion picture film from its right-holder. The revenue arrangements are usually in the nature of fixed fees.

Other rights

5.63. Other licensing of rights may include the following:

- Dubbing rights – Rights to introduce voices in the Motion picture film to replace the original dialogues
- Airborne rights – Rights to show or play the Motion picture film in any aircraft
- Hotel or commercial rights - right to show or play the Motion picture film by means of television system in commercial establishments
- Right to show or play the Motion picture film and /or authorize others to do so for screening before an audience by institutions or organizations not primarily engaged in the business of exhibiting motion picture films
- Ship rights – Rights to show or play the Motion picture film in any water transport vessel

5.64. The revenue from sale of other rights should be accounted based on type of revenue arrangement entered into with the customer and at such time as the general principles of revenue recognition are met.

Co-production agreements

5.65. In a co-production agreement, the Motion picture film is jointly produced by two entities – usually, a movie studio and a production house. Accounting is generally guided by ownership of intellectual property rights.

5.66. Co-production agreements may be of the following two types:

- Where the co-producer is in-principle a financial investor:

As per paragraph 3 of AS 27 – 'Financial Reporting of Interests in Joint Ventures', an investor is a party to a joint venture and does not have joint control over that joint venture. In this case, the monies received from the co-producer are treated as debt and his share of revenues in excess of his

contribution is accounted for as cost charged to the statement of profit and loss as determined.

An example of the above is a film financer who ordinarily does not exercise control over the production of the Motion picture film but has protective rights which are generally a lien over the Motion picture film.

- The co-producer is an active participant in the creation of the right and is a joint owner of the copyright

As per paragraph 3 of AS 27, a venturer is a party to a joint venture and has joint control over that joint venture. As stated in paragraph 10 of AS 27, the operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a separate entity. Each venturer uses its own fixed assets and carries its own inventories, incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture agreement usually provides means by which the revenue and any expenses incurred in common are shared among the venturers. As per paragraph 12 of AS 27, in respect of its interests in jointly controlled operations, a venturer should recognize in its separate financial statements (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the joint venture. Similar treatment is prescribed by AS 27 in respect of jointly controlled assets. This treatment reflects the substance and economic reality and, usually, the legal form of the joint venture.

Thus, in this case, the Motion picture film right is accounted for as a jointly-owned asset, i.e. each co-producer accounts for its share of the revenue, costs, assets and liabilities associated with the Motion picture film.

Contract production

5.67. In this model the co-producer is essentially contracted for making the film. The key characteristics of this model are as follows:

Model 1 - Contract Production for Movie Studios	
Investment	The Producer generally invests all money required for the production
IPR Share / Negative Ownership	Sharing of Intellectual Property Rights and Co-ownership of negatives between the producer & co-producer or any other type of ownership

Model 1 - Contract Production for Movie Studios	
	structure as agreed between the parties
Production Activity undertaken	Co-Producer undertakes all production activities and makes payments for the production cost from the advance given by the Producer
Exploitation of Rights	Producer is the primary obligor for the exploitation of the rights and hence revenue is deposited in the Producer's account
Share of Co-Producer	Any surplus (commonly referred to as overflows) after recoupment of the producer's investment and other exploitation and marketing costs borne by the Producer, is shared between Producer and Co-producer in a pre-agreed ratio
Accounting in the Books of Producer	The investment is considered as a Cost of Production Entire collections accounted as revenue since the Producer is the primary obligor for the distribution process Co-producer's fees and share of overflows: Accounted as cost of sales
Accounting in the Books of Co-producer	Amount received from Producer for making the film is considered as an advance received towards the Project Fixed fees received as consideration for rendering production services should be recognised as income based on paragraph 7 of AS 9 'Revenue Recognition' (given the time period involved, generally Proportionate completion method is preferred) Share of overflows is accounted as income when earned.

Co-venturer agreement

Model 2 - Co-venturer	
Investment	The Producer and the Co-Producer jointly invest in the Motion picture film
IPR Share / Negative Ownership	Sharing of Intellectual Property Rights and the negatives are jointly owned between the Producer and the Co-Producer
Production Activity undertaken	Co-Producer undertakes all production activity and makes payment from the joint investment
Exploitation of Rights	The Producer and the Co-Producer jointly exploit the rights and Revenue is deposited in a joint account
Share of Co-Producer	The revenue is shared between the parties based on their respective investments till these amounts are recovered and the overflows over the investment amount is shared in an agreed ratio between the Producer and the Co-Producer
Accounting in the Books of Producer	Share of investment is recorded as Cost of Production. Share of revenue from joint exploitation is recorded as revenue
Accounting in the Books of Co-producer	Share of investment is recorded as Cost of Production. Share of revenue from joint exploitation is recorded as revenue

Financing arrangements

Model 3 - Financing arrangement	
Investment	Generally the Motion picture film cost is financed by the producer. He borrows money from the financer investor on need basis.

IPR Share / Negative Ownership	The Intellectual Property Rights and negatives are owned by the producer The financer investor has a lien on the negatives till the loan amounts are repaid As per majority of the contracts, the monies are required to be repaid before release of the movie
Production Activity undertaken	Producer undertakes all production activity and makes payment from the monies borrowed from the financer investor
Exploitation of Rights	The Producer undertakes the distribution activity and all collections are deposited to the producer's account
Interest	The financier investor generally receives interest on the amount lent
Accounting in the Books of Producer	The money received from the financer investor is recorded as a debt and the entire revenue is accounted in the books of the producer Interest payments are recorded as an expense till repayment
Accounting in the Books of Financer Investor	The amount lent is shown as loans receivable and interest income is accounted as it is earned on a time proportionate basis

6. Illustrations

Individual film forecast method of amortisation

Scenario 1: No change in estimate

a) Cost of movie – ₹ 1,000

b) Estimated ultimate revenue - ₹ 2,000

c) Actual revenue earned in Year 1 - ₹ 1,500

d) Actual revenue earned in Year 2 - ₹ 250

e) Estimated participation costs - ₹ 100

Film cost amortisation in Year 1:

$\frac{₹\ 1,500 \text{ revenue earned}}{₹\ 2,000 \text{ ultimate revenue}}$ X ₹ 1,000 film cost = ₹ 750

Participation cost accrual in Year 1:

$\frac{₹\ 1,500 \text{ revenue earned}}{₹\ 2,000 \text{ ultimate revenue}}$ X ₹ 100 participation cost = ₹ 75

Film cost amortisation in Year 2:

$\frac{₹250 \text{ revenue earned}}{₹\ 500 \text{ remaining ultimate revenue}}$ X ₹ 250 remaining unamortized film cost = ₹ 125

Participation cost accrual in Year 2:

$\frac{₹\ 250 \text{ revenue earned}}{₹\ 500 \text{ remaining ultimate revenue}}$ X ₹ 25 remaining participation cost = ₹ 12.5

Scenario 2: Revision in estimates in Year 2

Refer a) to e) in Scenario 1

f) Estimated ultimate revenue – Year 2 - ₹ 1,900

g) Estimated ultimate participation costs – Year 2 - ₹ 100

Where there is change in the estimate of ultimate revenue the amortisation should be revised prospectively

Film cost amortisation in Year 2:

$\frac{₹\ 250 \text{ revenue earned in Year 2}}{₹\ 400 \text{ ultimate revenue as at Year 2}}$ X ₹ 250 balance unamortised film cost = ₹ 156

Participation cost accrual in Year 2:

$\frac{₹\ 250 \text{ revenue earned in Year 2}}{₹\ 400 \text{ ultimate revenue as at Year 2}}$ X ₹ 25 estimated participation cost = ₹ 15.6 not accrued in Year 2

Scenario 3: Participation liability in excess of revised estimate of amounts ultimately payable

h) Estimated ultimate revenue – Year 2 - ₹ 1,900

i) Estimated ultimate participation costs – Year 2 - ₹ 0

j) Actual revenue earned in Year 2 - ₹ 250

As the change in ultimate participations cost payable is a change in estimate, any revision to participation costs payable should be accounted for prospectively from the period of the change. In case the participation cost accrued is in excess of the ultimate amount of participation costs payable, then such excess participation cost accrual should be accounted as a reduction of unamortized film cost instead of reversal of previously recorded provision.

Film cost amortisation in Year 2:

<u>250 revenue earned in Year 2</u> X ₹ 250 unamortised film cost in Year 2 -= ₹ 101.25
400 ultimate revenue as at Year 2 ₹ 88 excess participation cost accrual Year 1