

**Query No. 33**

**Subject: Gross vs. net presentation of revenue under Ind AS 115.<sup>1</sup>**

**A. Facts of the Case**

1. A Company (hereinafter referred to as ‘the Company’) is one of India's largest Multi System Operator (MSO). With digital head-ends and a network of more than 33,000 kms of optical fiber and coaxial cable, it provides its cable services in India's 580 locations and adjoining areas, reaching out to millions of digital customers.

2. The Company deploys State-of-the-art technology for delivering multiple TV signals to enhance consumer viewing experience. Its product range includes Digital Cable Television, Broadband and Local Television Channels. The Company has been providing services in digital mode, armed with technical capability to provide features like Video on Demand, Pay per View, Over-The-Top content (OTT), Electronic Programming Guide (EPG) and Gaming through a Set Top Box (STB). All products are marketed under the Company’s brand name.

3. Telecom Regulatory Authority of India’s (‘TRAI’) new regulatory framework 2017 became effective from 1 February, 2019. Such regulatory framework comprises:

- a) The Telecommunication (Broadcasting and Cable) Services (Eight) (Addressable Systems) Tariff Order, 2017 (the Tariff Order 2017)
- b) The Telecommunication (Broadcasting and Cable) Services Interconnection (Addressable Systems) Regulations, 2017 (the Interconnection Regulation 2017)
- c) The Telecommunication (Broadcasting and Cable) Services Standards of Quality of Service and Consumer Protection (Addressable Systems) Regulations, 2017 (the QoS Regulation 2017)

4. As per the new tariff order, the Company has revised its terms of engagements with participants through the television content delivery chain, i.e., broadcasters, LCOs and customers. Terms of engagement are as follows:

<b>Arrangement</b>	<b>Service</b>	<b>Commercial Terms</b>
MSO with Local Cable Operators (LCO)	<ul style="list-style-type: none"><li>• For activation and installation of STBs</li><li>• To re-transmit the signals of TV channels received from MSO for distribution to the subscribers in the territory</li><li>• Providing customer support (including</li></ul>	<ul style="list-style-type: none"><li>• The agreements have been entered between MSO and LCOs on a principal to principal basis.</li><li>• MSO has right to finalize the prices of pay channels and also network capacity fee and channel bouquets, subject to TRAI regulations which have fixed the upper ceiling on the tariffs.</li><li>• MSO shall have ownership of the network used to deliver the cable services under this agreement.</li><li>• MSO shall have the right to package the channels/service offerings, fix the price of the package and network capacity fees, subject to TRAI regulations which have fixed the upper ceiling on the tariffs</li><li>• MSO shall make provision of Head-end, Conditional Access System, Subscriber Management system.</li><li>• MSO to bill to LCO for MSO’s share in Network Capacity Fee (NCF) and pay channel, and for broadcaster’s share in pay channel. This shall be</li></ul>

<sup>1</sup> Opinion finalised by the Committee on 5.2.2021.

	<p>package opt, disconnections , consumer complaints)</p>	<p>invoiced basis channels/bouquet subscribed by the customers, details of which shall be captured by MSO using their digital platforms. The invoice raised by the Company on LCO can be directly correlated to the pay-channel amounts being invoiced by broadcasters as well. In a nut shell, trail of invoice raised by broadcaster on the Company, by the Company on LCO and finally by LCO on customers for pay channel costs can be established. Each party (i.e. MSO and LCO) keeps on adding charge for his own service to the preceding party's invoice.</p> <ul style="list-style-type: none"> <li>• MSO shall debit LCOs wallet (this is being used after TRAI regulations as entire supply chain has moved from postpaid to prepaid model) for the amount due from LCOs. LCOs shall ensure that they have sufficient balance in their wallet so that there is no disruption of the services to the subscribers.</li> <li>• Billing to subscribers shall be done by LCOs. This shall be for the entire amount due from subscribers. LCO shall also be responsible to manage the last mile services and collect subscription from the subscribers.</li> <li>• LCO and MSO shall share amongst them in agreed ratio, the distribution fee also, i.e., a maximum of 20% of the pay channel cost. This sharing shall be in pre-agreed ratio (say 50:50 or 45:55).</li> <li>• LCO is liable for his portion of service delivery to the end customer and MSO can't be held responsible for the same. MSO is liable to ensure proper services to LCO.</li> </ul> <p><i>Analysis:</i> In practice, the MSO releases the content to the LCOs only upon the advance payment from LCO by charging his wallet. Whether the LCO has received the advance payment from the subscriber or not will be a risk of LCO and he cannot claw back the amount from the MSO in the case of payment failure by the subscriber.</p>
<p>MSO with Broadcasters</p>	<ul style="list-style-type: none"> <li>• Placement/Carriage service: Superior placement / positioning of channels on the Company's packages</li> <li>• Content fee: To provide non-exclusive right to the</li> </ul>	<p>Placement/Carriage service: A fixed monthly fee collected for placement service to be provided to (Free-to-Air) FTA channel only. Landing service can be provided to types of channels. There is no change in scenario of landing charges; these are entirely for prime spot made available by MSO and have nothing to do with LCO. (This is only for information and no consultation is being requested by the querist for this.)</p> <p>Pay channel cost or Content cost:</p> <ul style="list-style-type: none"> <li>• This cost is for making available pay channel content to MSOs.</li> <li>• Broadcaster is free to decide the MRP (sale price) of the pay channel.</li> </ul>

	<p>MSO to distribute, carry and retransmit the feed of the Channels to its subscribers on 24x7 basis.</p>	<ul style="list-style-type: none"> <li>• Broadcaster only enters into agreement with MSO and has no touch point with LCO or with the end customer.</li> <li>• Cost to be collected and paid per subscriber basis rather than fixed monthly agreements. (It has become a pass through cost after new TRAI Regulations came into effect.)</li> <li>• Broadcaster shall invoice his entitled amount of the MRP (called subscription fee) to MSO each month.</li> <li>• MSO shall process payment against these invoices.</li> <li>• Broadcaster retains control of the content at all times, the MSO can only retransmit the content to the LCO on an 'As is' basis.</li> <li>• The primary obligor for providing content to the subscribers and LCOs remains the broadcaster; MSO only helps bridge the gap between broadcasters and LCO. For non-availability of content due to fault of broadcaster, MSO/LCO are not responsible, thus each party is only responsible for their share of transmission/re-transmission.</li> <li>• Further, the pricing of services of MSO and LCO are dependent on pricing of broadcaster, though MSO can offer discount but he'll have to shell out the same from his own pocket and no part of it will be borne by broadcaster.</li> </ul>
<p>MSO and Subscribers</p>		<p>Subscriber Application Form (SAF) is signed between the Company and the subscriber and forms the service agreement*. According to the terms and conditions of the Form:</p> <ol style="list-style-type: none"> <li>1) Agreement is solely between subscriber and the Company, broadcaster has not been named anywhere in the agreement.</li> <li>2) Agreement provides contact details of the Company's customer care centre.</li> <li>3) As per agreement, the Company shall be responsible for (a) providing services to the subscriber (through LCO) based on the subscription request and subject to any regulatory/government control and intervention in respect of the service and (b) providing STB and viewing cards (VCs) (which shall remain the property of the company).</li> <li>4) The MSO is free to change the prices of the package/channel.</li> <li>5) Though the agreement limits the liability of the Company as the Company will not be responsible if it fails to perform its obligation for a reason beyond its reasonable control, nonetheless the Company shall be liable to refund the amount of payment received from the subscriber after adjusting its charges.</li> </ol>

	<p>Analysis: The LCO collects money from the subscribers and MSO collects money from LCO regardless of whether the LCO has obtained the money from the subscriber or not – so risk of debtor lies with the LCO and in substance, the subscriber seems to be customer of the LCO and not MSO.</p> <p>Further, nowhere in the agreement there is any nexus between the subscriber and the broadcaster and there is no nexus between the LCO and the broadcaster. Any default by LCO in making payment to broadcaster or subscriber to the LCO shall not affect the liability of the MSO towards the broadcaster.</p> <p>MSO limits his liability for failure to perform/ discharge his obligations only to the extent that it pertains to his service obligation and not for failure of broadcasters or LCOs. Relevant clause of the Subscriber Application form (SAF) has been reproduced hereunder:</p> <p>Clause V of the SAF: The service quality, functionality, availability and/or reliability thereof may be affected for reasons beyond the control of the Company. In such event, the Company is entitled to, without any liability, refuse, limit, suspend, vary, disconnect, deactivate and/or interrupt the service in whole or in part at any time in its sole discretion with respect to one/all subscriber(s) without any notice for any reason and/or due to various factors including but not limited to (a) applicable law and/or directives of any authority/court.</p> <p>*SAF is a mandatory form prescribed by Interconnection Regulations of Telecom Regulatory Authority of India (TRAI) to enable MSO to track the number and identity of subscriber to whom the services are provided, this is not a determining factor for principal to principal assessment between MSO and LCO.</p>
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5. The querist has provided a summary of contract of the Company with broadcasters as follows:

- i. The Company and broadcaster has entered into an interconnection agreement where broadcaster grants the Company, the non-transferable, limited and non-exclusive right and the Company accepts the obligation to distribute the signals of the subscribed channels, in SD and HD, on a linear broadcast basis, to the subscribers during the term and in the territory in lieu of fixed distribution fees which shall be 20% of the MRP declared by broadcaster for pay channel/bouquet.
- ii. The Company carries no inventory risk.

- iii. The Company agrees to distribute the subscribed channels in the territory during the entire term on an "as-is" basis and in their entirety and continuously on a 24\*7\*365 days basis without any break and without any editing, delays, alterations, interruptions, picture squeezing, or re-sizing, insertion of graphic or animated overlays, pull through or crawls, deletions or additions and further agrees to make the subscribed channels available to its subscribers. Further, the Company agrees not to cut, edit, insert, dub, voice-over, sub-title, reformat, or otherwise change or make addition to any programmes, data or content included on the subscribed channels.
- iv. The broadcaster has reserved the right to discontinue any channel at any point of time, without the consent of MSO. In such an event, the MRP of the bouquet of channel will be reduced by using the formula given in the contract.
6. Further, the terms of Subscriber Application Form (SAF) state as follows:
- 1) Customer entered into an agreement with the Company by submitting the subscriber application form for availing the cable TV services of the Company.
  - 2) As per the agreement, the Company will not be responsible for any delay or failure in performance of this agreement caused by any reason or event beyond the reasonable control of the Company.
  - 3) Agreement (SAF) has been prescribed by TRAI interconnection Regulations and is mandatory for providing the services to the subscriber. It appears that the purpose of this is to enable tracking the number of subscriber and prevent unauthorized distribution of the services.
7. *Accounting treatment currently adopted by the Company:*
- The Company has been recognizing the subscription fees as its revenue and the cost it pays to the broadcaster for the content is recorded as content cost in the books of account, i.e., 'gross accounting' method is being followed.
8. *Basis relied upon by the Company in recognizing revenue on gross basis:*
- Paragraphs B34-B38 of Indian Accounting Standard (Ind AS) 115, 'Revenue from Contracts with Customers' deal with the principal vs. agent consideration. Below is the Company's assessment of the said paragraphs:

<b>Paragraph No.</b>	<b>Contents of the paragraph as per the Standard</b>	<b>Assessment by the Company</b>
B34	When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A	Promise or performance obligation to be delivered – Re-transmission services of content received from broadcasters "as-is" via the Company's created technological platform to transmit the content, which includes head-end, optic fiber cables, set top boxes, viewing cards, Conditional access system (CAS) and subscribers management system (SMS) etc.

	specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.	
B34A	To determine the nature of its promise (as described in paragraph B34), the entity shall: (a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and	Promise or Performance Obligation to be delivered – the Company’s obligation stems from the fact that it owns the technological platform to transmit the content, which includes head-end, optic fiber cables, set top boxes, viewing cards, Conditional access system (CAS) and subscribers management system (SMS) etc.
	(b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.	Refer assessment of paragraph B37 done below.
B35	An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.	The Company does not have any control on the content of the channel that is being provided to the subscriber. There is not even a momentary control as the Company does not have the right to change the nature and form of the content being broadcasted. The new agreement entered into with the broadcaster also lays certain restrictions on the Company with regard to the placement of channel, restricting the control of the Company in that respect. For example, the distributor can place the channel along with the channels of similar genre etc. (though company can still charge Channel Placement charges for placement in that particular category).
B35A	When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following: (a) a good or another asset from the other party that it then transfers to the customer.	As discussed in the above point, the Company does not have control of the goods or services, however the agreement with LCOs specify that the Company shall set up and operationalise Head-end, Conditional access system (CAS) and subscribers management system (SMS) for ensuring efficient and error free services. However, it may be noted that the Company is ‘involved’ in

		<p>providing services to the customers, in the sense that without the Company's technology, the content of the broadcasters do not have any standalone value to the customers. This may be considered akin to a manufacturing company which perhaps primarily only assembles products purchased from vendors and bundle them to create a product which has a standalone value to the customer- in this case, the manufacturer or assembler is considered to be a principal, even though, some components assembled may be 'pass-through' costs. With this logic, the Company should be considered as a principal.</p>
	<p>(b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.</p>	<p>The Company is providing transmission/downlinking services and does not have the ability to direct the content provider in terms of provision of content.</p>
	<p>(c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. For example, if an entity provides a significant service of integrating goods or services (see paragraph 29(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.</p>	<p>As discussed above, the Company does not obtain any rights to amend the content being aired by broadcasters. However, the Company needs to create the necessary technological platform to transmit the content, like head-end, optical fiber cable, set top box, viewing cards, CAS, SMS etc. resulting into integration of services provided by broadcaster (i.e. content) to LCOs and finally to subscriber such that the technology of the Company is able to decrypt, encrypt the signals, carry them using fiber and relay the content to the subscribers eventually.</p> <p>It is pertinent to draw an analogy for the Company to a manufacturing or a trading company.</p> <p>Think of a manufacturing company which uses certain material in its production process which may not be allowed to be tampered with and need to be used on "as-is" basis for the eventual usage of the customer. Similarly, think of a retailer which trades in garments and simply sells the goods purchased on "as-</p>

		is” basis. Similarly, the Company contracts with its customers to provide content displayed on their screens using the Company’s technology. Hence, the Company is a principal for the entire worth of the content being displayed and not just for the technology platform being provided as such technology platform, on a standalone basis, is of no use and does not hold any standalone value to the subscribers.
B35B	When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.	The Company recognizes the revenue from subscription income on gross basis, i.e. the amount billed to LCOs which includes the share of broadcaster, since it is integrating the content received from broadcaster with the technological platform that the Company is providing in order to retransmit the content to end user, i.e. subscriber.

9. Further, the querist’s assessment for the indicators given in paragraph B37 of Ind AS 115 for assessment of transfer of control is as follows:

<b>Indicator</b>	<b>Assessment</b>
Primary responsibility for providing the services	The responsibility to provide the services to the ultimate subscribers/local cable operators is with the Company and not with the broadcasters. Although, as per clause 7 of the subscriber application form agreement with the subscriber, the Company will not be liable for any delay or failure in performance caused by any reason beyond its reasonable control, however, it is established through agreements that without capital infrastructure in place given by Company, the service cannot be provided although the control of content lies with the broadcaster.  Accordingly, primary responsibility of the Company is with regard to the transmission/downlinking services and providing free to air channels to the subscribers (end customers) through technological set up.
Inventory risk	Not applicable, since the Company is involved in providing services only.
Discretion in establishing prices	As per the revised agreement with the broadcaster, the revenue for the Company is fixed minimum 20% of the MRP and incentives of maximum 15%. Accordingly, the Company has limited discretion of establishing prices.
The entity’s consideration is in the form of a commission	As explained above, the Company operates in margin range of 20% - 35% of MRP as fixed by the broadcaster for channels. The consideration received over and above the margin fixed by the broadcaster is in the nature of pass through.

10. Industry practices as informed by the querist for various companies:

ABC Limited

## Accounting policy

### “2.07 Revenue recognition

The Company derives revenues primarily by providing service in respect of distribution of television channels through digital cable distribution network. Revenue is recognized on satisfaction of performance obligation upon transfer of promised products or services to customers in an amount that reflects the consideration which the Company expects to receive in exchange for those products or services. Generally, control is transfer upon shipment of products to the customer or when the product is made available to the customer, provided transfer of title to the customer occurs and the Company has not retained any significant risks of ownership or future obligations with respect to the product shipped.

Service revenue comprises:

- i. Subscription income from digital and analog subscribers, placement of channels, advertisement revenue, fees for rendering management, technical and consultancy services and other related services.
- ii. Activation fees on Set top boxes (STBs) is deferred and recognized over the period of customer relationship on activation of boxes.
- iii. Amounts billed for services in accordance with contractual terms but where revenue is not recognized, have been classified as advance billing and disclosed under current liabilities. Revenue is measured at the amount of consideration which the company expects to be entitled to in exchange for transferring distinct product or services to a customer as specified in the contract, excluding amounts collected on behalf of third parties (for example taxes and duties collected on behalf of the government). Consideration is generally due upon satisfaction of performance obligations and a receivable is recognized when it becomes unconditional. Revenue in excess of invoicing are classified as contract assets (“unbilled revenue”) while invoicing in excess of revenues are classified as contract liabilities (“unearned and deferred revenue”).”

## XYZ Limited

### Accounting policy

#### “Income from rendering of services and sale of products

The Company derives revenues primarily from Broadband business comprising of Internet services and other allied services.

Revenue is recognised upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expect to receive in exchange for those products or services. Subscription revenue is recognized ratably over the period in which the services are rendered.

To recognize revenues, the Company applies the following five step approach:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and

5. recognize revenues when a performance obligation is satisfied. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

A receivable is a right to consideration that is unconditional upon passage of time. Revenues in excess of billings is recorded as unbilled revenue and is classified as a financial asset for these cases as right to consideration is unconditional upon passage of time. While invoicing in excess of revenue are classified as contract liabilities (which we refer to as unearned revenue).

The Company presents revenues net of indirect taxes in its Statement of Profit and Loss.”

11. The querist has pointed out that the statutory auditors of the Company have issued a modified opinion in respect of this matter.

12. *Management's view:*

Management is of the view that as per its interpretation and cable industry/sector practices of recognising revenue under Ind AS 115, the Company has appropriately shown gross revenue and content cost separately.

As per the Company, content on a standalone basis does not hold any standalone value to the customers. Coupled with the Company's technology, it becomes worthy of 'sale' to the customers and hence, the Company is a principal in this transaction, irrespective of the fact that the pricing is determined as per TRAI guidelines and the Company does not have any right to tamper with the 'content' from broadcasters. As per the management, these two factors are not as important in the overall evaluation as the importance is to be given to the fact that the Company is the primary obligor for the entire supply chain - be it towards the broadcasters or be it towards the Company's customers. Moreover, since other players like ABC Limited and XYZ Limited have followed gross basis of accounting while preparing their financial statements, it is believed that gross presentation is appropriate.

13. The querist has also provided the following clarifications separately:

(i) With regard to who decides on the packaging of the channels - broadcaster or MSO, for example, whether the MSO can package X channels with Y channels; and if yes, then who decides on the pricing of the same, the querist has stated that there is standard package released by broadcasters in the form of a Pack at a MRP and a la carte channels price if individual channel is required. The pricing for standard packs and a la carte channels is decided by broadcasters. There is also DPO package which is made by MSO which includes total pack and a la carte from broadcasters in which MSO can give maximum discount for 15 % from MRPs of the broadcasters. (Refer to point no 9 page no 6 of the FAQ on NTO provided by the querist separately for the perusal of the Committee).

(ii) With regard to video on demand, gaming, OTT, etc. referred to in paragraph 2 above; and who decides on this content and gets the revenue for the same, the querist has stated that there is no revenue from video on demand, gaming and OTT as of now as these services are not currently offered. If in future, these services are started, MSO will get only revenue sharing on the MRP offered by the broadcaster for the subscribers (please note that the broadcaster can set any price since there are no regulations from TRAI as of now on this).

- (iii) With regard to any advertisement revenue, for example, many cable operators these days advertise on their welcome screen, the querist has stated that revenue from advertisement which is displayed by MSO is only MSO's revenue. If any advertisement is displayed by the cable operator, that revenue belongs to the cable operator and not the MSO.
- (iv) With regard to whether it is mandatory for a MSO to telecast the content of all the registered broadcasters, the querist has stated that MSO may choose not to do business with a broadcaster.
- (v) The querist has also mentioned that the LCOs can have contracts simultaneously with multiple MSOs.
- (vi) MSOs can have a contract with a broadcaster of its choice regardless of whether another MSO has or does not have a contract with that broadcaster. Further, there is no exclusivity allowed and no MSO can force broadcaster to not have a contract with other MSO.

## **B. Query**

14. In view of above, the querist has sought the opinion of the Expert Advisory Committee as to whether revenue to be shown as gross or net of content cost by understanding principal and agent relationship as per Ind AS 115.

## **C. Points considered by the Committee**

15. The Committee notes that the basic issue raised by the querist relates to the accounting for revenue from subscription fee with respect to subscription of a-la-carte or bouquet of channels, viz., whether on a gross basis or net basis under Ind AS 115. The Committee has, therefore, restricted the opinion only to this issue and has not examined other issues that may arise from the Facts of the Case, such as, timing of recognition of revenue, consequential legal and regulatory issues, accounting for broadcasting rights, identification of performance obligation, timing of revenue recognition, etc. The querist has mentioned that the Company provides features like Video on Demand, Pay per View, Over-The-Top content (OTT), Electronic Programming Guide (EPG) and Gaming through a Set Top Box (STB); however, the Committee has not looked into the accounting for these service offerings. Further, the Committee has looked into the issue of revenue recognition of the subscription fee that the Company earns for broadcasting television content and has not looked into the appropriateness of the revenue recognition policy for Network Capacity Fees or placement/carriage service fee charged by MSO to broadcaster, or advertising revenue that the Company earns.

16. The Committee notes that Ind AS 115 contains the following guidance with respect to principal versus agent considerations:

“B34 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

B34A To determine the nature of its promise (as described in paragraph B34), the entity

shall:

- (a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and
- (b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.

**B35** An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.

**B35A** When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following:

- (a) a good or another asset from the other party that it then transfers to the customer.
- (b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf
- (c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. For example, if an entity provides a significant service of integrating goods or services (see paragraph 29(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

**B35B** When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

**B36** An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

**B37** Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal (see paragraph B35)) include, but are not limited to, the following:

- (a) the entity is primarily responsible for fulfilling the promise to provide the

specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.

- (b) the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.
- (c) the entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

B37A The indicators in paragraph B37 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

B38 If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the specified good or service to the customer (ie the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (ie whether the entity is acting as an agent)."

The Committee notes that as per the requirements of Ind AS 115, where another party is involved in providing goods or services to the customer, the entity should first determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). Further to determine the nature of its promise, the entity should (i) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party) and (ii) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.

In order to determine the specified good or service in the extant case, the Committee notes from the Facts of the Case that the Company is retransmitting the television content received from the broadcaster using its own network platform to the customer. The Subscriber Application Form (SAF) is signed between the Company and the subscriber; and forms the service agreement. This agreement gives rise to a performance obligation for the Company to provide a television content to the customers in future, i.e., the underlying promise is the right to TV content in future.

17. Further, the Committee notes that as per the requirements of paragraph B35A(c) of Ind AS 115, when another entity is involved in providing goods and services to the customer, an entity that is a principal obtains control of a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. Thus, in the extant case, the Company, to be a principal, should obtain control of good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. In this regard, the Committee notes that in the extant case, the good or service provided by the other party (viz., by a broadcaster) is a non-transferrable, limited and non-exclusive right to television content, which after integrating with other such rights to television content provided by other broadcasters, the Company transmits the same to the customer through its own technological platform. Therefore, the Committee is of the view that in the extant case, the relevant condition to determine whether the Company is a principal or an agent is that the Company should be able to *control* the right to television content before the same, combined with other goods or services, is provided to the customer.

In this context, the Committee notes that in respect of ‘control’, paragraph 33 of Ind AS 115 provides as follows:

“33 ... Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. ...”

Further, the Standard provides three indicators of when an entity controls the specified good or service (and is, therefore, a principal) in paragraph B37. The Committee notes that these indicators are meant to support an entity’s assessment of control, not to replace it. These indicators do not override the assessment of control; and should not be viewed in isolation. Furthermore, they should not be considered as a checklist of criteria to be met or factors to be considered in all scenarios. As per paragraph B37A of Ind AS 115, these indicators, depending on the facts and circumstances, may be more or less relevant or persuasive to the assessment of control.

18. In the extant case, the Committee notes the following relevant points from the facts provided and sample of agreement between the broadcaster and MSO and MSO and LCO (provided by the querist separately):

- The Company has the right to package the channels/service offerings and fix the price of the package and network capacity fees, subject to TRAI regulations which have fixed the upper ceiling. Further, it is to be noted that the Company further has right to finalise the rate of network capacity fee (which is charged separately by the MSO, i.e., the Company from the customers apart from the distribution fee for pay channels). Although, the Company is combining/repackaging the channel offerings of different broadcasters, as separately clarified by the querist, this is based on the fact that there is standard package released by the broadcasters with a maximum retail price (MRP) and *a la carte* channels price if an individual channel is required. The pricing (MRP) for standard packs and *a la carte* channels is decided by the broadcasters. The subscription commission for the MSO and LCO (shared in the ratio of 55:45 or 50:50) from the broadcasters is also fixed at 20% of the MRP of a-la-carte channel or bouquet of channels. Thus, the Company (MSO) is receiving a fixed margin/ commission from the broadcasters and also does not have significant price discretion with regard to the price of package offered to the customers.
- As per the Agreement with broadcaster, MSO shall ensure retransmission of

encrypted signals of the subscribed channels through MSO's Digital Distribution Platform to the broadcaster's subscribers in its entirety without any delay, cutting, editing or any other modification, alteration, addition, deletion or variation. The MSO only retransmits the signals of the subscribed channels to the subscriber through its digital platform in the Territory defined under the Agreement with the broadcaster and for the term of the Agreement.

- Therefore, the Company (MSO) does not have significant discretion to change the nature of right to access the television content (channels) that the broadcasters are transmitting.
- The broadcaster reserves the right at any time during the term of its agreement with the Company (MSO) to suspend and/or discontinue any of the television channels.
- The MSO shall not distribute the subscribed channels to any commercial subscribers.
- The MSO provides during the term of the agreement with the broadcaster, aperiodic subscriber's report covering date pertaining to (i) monthly per subscriber distributor retail price of each of the subscribed channel offered by MSO, (ii) composition of each package offered by MSO, etc.
- MSO bills to LCO for MSO's share in Network Capacity Fee (NCF) and pay channel, and for broadcaster's share in pay channel. This shall be invoiced basis channels/bouquet subscribed by the customers, details of which shall be captured by MSO using their digital platforms. The invoice raised by the Company on LCO can be directly correlated to the pay-channel amounts being invoiced by broadcasters as well. The trail of invoice raised by broadcaster on the Company, by the Company on LCO and finally by LCO on customers for pay channel costs can be established. Each party (i.e. MSO and LCO) keeps on adding charge for his own service to the preceding party's invoice. Thus, the invoice raised by the Company on the customer can be directly correlated to the pay-channel price decided and being invoiced by broadcasters.

19. Upon examination of 'control' under paragraph B37 of Ind AS 115, the Committee notes the following:

- (a) With regard to whether the entity is primarily responsible for fulfilling the promise to provide the specified good or service, the Committee notes that, in the extant case, although, both the Company and the broadcaster contribute to provision of cable TV services, an ultimate consumer would most likely view the broadcasters as the supplier of the television content even if there is no contractual relation between the customer and the broadcaster. Although, the responsibility to provide the services to the ultimate subscribers/local cable operators is with the Company, the Company is not liable for any delay or failure in performance caused by any reason beyond its reasonable control. Thus, the primary obligor for providing content to the customers is the broadcaster; the Company only helps to bridge the gap between broadcasters and the customers.
- (b) With regard to whether the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer, the Committee notes that there is no inventory risk in conventional terms, since there is no physical good. Upon entering into agreement with the broadcaster, the Company does not appear to be committing itself to obtain the specified good (i.e. any specific television channel or package) before this is transferred to the customer since there is no minimum guaranteed subscription fees payable to the broadcasters. The amount to be collected by the Company and paid to the broadcasters is on a 'per subscriber' basis and depends on the average active subscribers of the Company

rather than fixed monthly agreements as per the TRAI Regulations.

Further, the Committee notes that under the agreement with the broadcaster, irrespective of the collection of the invoiced amount from the customers, the Company shall pay the subscription fee to the broadcaster. This may suggest that the credit risk is borne by the Company. Although, the credit risk assessment is not very relevant for the purpose of principal vs. agent assessment under Ind AS 115, however, the Committee notes that as per the Agreement between LCO and MSO, MSO receives advance payment from LCO irrespective of whether LCO receives the same from the subscriber which means that credit risk of non-payment by customer is being borne by the LCO rather than MSO.

- (c) With regard to whether the entity has discretion in establishing the price for the specified good or service, the Committee notes that in the extant case, the pricing of services of the Company are dependent on pricing (MRP of channels) provided by the broadcaster. As noted above, the invoice raised by the Company on the customer can be directly correlated to the pay-channel price decided and being invoiced by broadcasters. Further, as per Clause 4 of the Agreement with the broadcaster, the calculation of the subscription fee of the Company is based on the rate specified by the broadcaster multiplied by the number of average active subscribers who have subscribed to the broadcaster's channels. Furthermore, the Agreement clearly states that the broadcaster reserves the right to offer promotional scheme for the subscription fees. Therefore, although the Company can offer discount to the customer (subject to certain limits), but it will not be able to recover the same from the broadcaster. Moreover, there are certain restrictions prescribed by the TRAI Regulations on the maximum discount that can be offered to the customers. The Company is also entitled to incentives from the broadcasters of 10% on the MRP of the subscribed bouquet if certain prescribed conditions are met. This is also dependent on the average active subscribers of the Company. Thus, the pricing of services of the Company are largely dependent on pricing of the broadcaster and not much influenced by the Company. Accordingly, it appears that the Company does not have a significant pricing discretion.

20. Further, the Committee notes that, as stated in paragraph 33 of Ind AS 115, control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. Thus, to determine whether an entity controls a specified good (received from another party/supplier) before that good is transferred to the customer, it should be assessed as to whether which party has the ability to direct its use; whether the terms of the contract between the entity and supplier preclude the supplier from using the product for another purpose or directing the product to another customer and whether the entity or the supplier obtains the remaining benefits from the product by being entitled to the consideration in the contract from the customer.

In the extant case, as stated in clause 3(a) of the Broadcaster Agreement, the Company has non-exclusive, non-transferrable and non-sublicensable rights from the broadcaster to receive signals of the subscribed channels directly from the designated satellites and retransmit signals through its permitted distribution platform to the subscribers. The possession of the broadcasters' STB or access to signals of the subscribed channels does not entitle the Company to receive or retransmit signals of the subscribed channels in any other manner whatsoever. Further, as per clause 6 of the Broadcasters' Agreement, the broadcaster reserves the right launch new channel and also to discontinue or suspend any channels. Further, as per

Clause 11 of the Broadcaster's Agreement, the Company is required to provide the broadcaster subscriber report which, amongst other things, would contain monthly per subscriber retail price of each subscribed channel and composition of each package offered by the Company. Any changes shall be communicated to the broadcaster. The Company shall maintain sufficient records to enable the broadcaster to verify the veracity of the subscriber report. Further, as per Clause 12, the Company shall undertake to conduct audit of its digital network infrastructure every year and provide the same to the broadcaster.

Based on the above, the Committee is of the view that the Company's right to television content is provided to the customer by the broadcasters and the Company does not seem to have the ability to direct those services. The Company is likely to be simply facilitating (and arranging for) the transmission of television content by the broadcaster, rather than controlling the rights to the services that it then directs to the customer.

Accordingly, on an overall consideration, the Committee is of the view that the broadcasters are responsible for providing services in relation to providing the television content since the Company does not control the right to television content before it transfers the same to the end consumer. Therefore, the Company is acting as an agent in the context of Ind AS 115 and shall therefore recognise revenue on a net basis, i.e., it should recognise only the margin/incentive income from broadcasters as its revenue.

21. The Committee notes that the querist has submitted the extracts of revenue recognition policies of some peer MSO companies and has further submitted that these companies are reporting subscription revenue on a gross basis. The Committee wishes to point out that it has not looked into the appropriateness of the policies followed by those companies and it may also be noted that the facts and circumstances may be different. Also, the Committee wishes to point out that there may be other accounting policies that may exist in practice amongst other peer MSO companies.

#### **D. Opinion**

22. As mentioned in paragraph 20 above, the Company does not control the right to television content before it transfers the same to the end consumer. Therefore, the Company is acting as an agent in the context of Ind AS 115 and shall therefore recognise revenue on a net basis, i.e., it should recognise only the margin/incentive income from broadcasters as its revenue.