

Accounting for digitally distributed content (after adoption of ASU 2019-02)

Media and entertainment



Building a better
working world

A person is sitting on a white staircase, holding a smartphone. The background is a white wall with a wavy, textured pattern. The scene is brightly lit, creating a warm and modern atmosphere.

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The growth of subscription online video has taken place alongside tectonic structural changes in the wider home entertainment landscape, such as the widespread accessibility of high-speed data, an erosion of traditional multichannel TV subs and a rising number of broadband-only homes.

Source: SNL Kagan



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1

Introduction

For media and entertainment (M&E) companies, digital distribution is transforming every facet of their businesses. The rise of social media, widespread broadband availability, faster internet connections and the popularity of smartphones and tablets have changed the demands and expectations of media audiences and created an astounding variety of new digital products and services. Perhaps nowhere is the transformation as visible as in the growth of content that is accessible through digital services.



Nowhere is the transformation as visible as in the growth of internet content streaming.



How should digital download and streaming service providers account for the licensing and production of movies and television shows?

Many of the digital download and streaming service providers (digital providers) that offer movies and television shows (content) over the internet (digital services) are licensing content and creating their own content (digital content). This isn't very different from what traditional broadcasters and producers of films or television shows have always done. They are however distributing content in a different manner. We, therefore, believe that entities that license or produce content to be distributed to consumers on a digital service should follow the M&E industry-specific accounting guidance that has historically been applied by traditional broadcasters and producers of films or television shows.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2019-02 to improve the accounting for costs of films and license agreements for program materials in light of the changes in production and distribution models in the M&E industry. The ASU explains how digital providers

should apply the guidance in Accounting Standards Codification (ASC) 926-20¹ for costs incurred by entities to produce films or episodic television series and the guidance in ASC 920-350² for costs incurred to license content from another party that will be transmitted or broadcast.

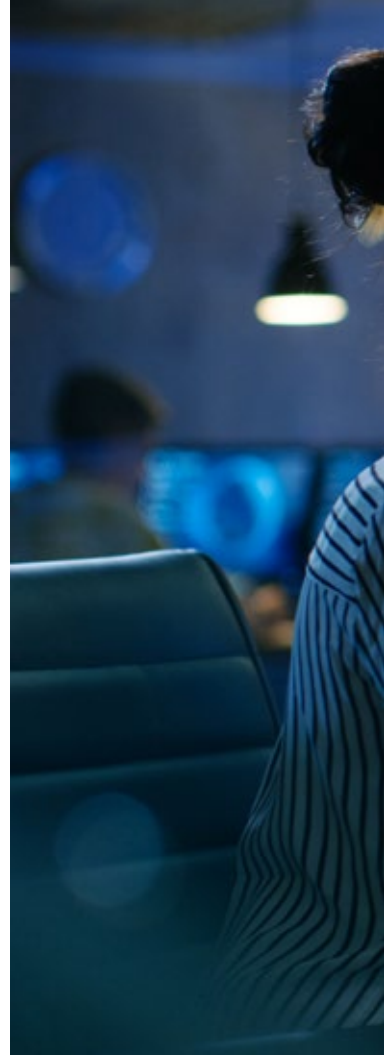
This publication describes considerations for entities that have adopted the guidance in ASU 2019-02 and license or produce content for distribution on digital services. Entities that have not adopted ASU 2019-02 should refer to our publication, *Accounting for digitally distributed content (before adoption of ASU 2019-02)*. We expect new questions to arise as technology and business models continue to evolve. For the remainder of this publication, the term licensed content refers to the rights acquired under a "license agreement" for content (program material), and the term "owned content" refers to content owned (produced) by the entity.

This publication addresses considerations under US generally accepted accounting principles (GAAP), and differences may arise when applying accounting standards outside of the US.

1. ASC 926-20, *Entertainment - Films, Other Assets - Film Costs*.
2. ASC 920-350, *Entertainment - Broadcasters, Intangibles - Goodwill and Other*.

2

Accounting considerations for the license of content



1. Should digital providers that license content apply ASC 920,³ which addresses the accounting and reporting by a broadcaster licensee for the rights acquired under a license agreement?

ASC 920 defines a broadcaster as “an entity or an affiliated group of entities that transmits radio⁴ or television program material.” While ASC 920 has historically been applied by broadcasters that license content that they transmit over the airwaves and through cable and satellite networks, other types of digital providers have considered whether they should apply this guidance when they license content that will be transmitted or distributed through their digital services. Entities that transmit licensed content through digital services apply the ASC 920 guidance because the transmission of licensed content, regardless of the technical distribution mechanism, is within the scope of ASC 920.

ASC 920 does not apply to broadcasters that own the content shown on their cable, network or local television outlets, and we believe that, by extension, it would not apply to owned content that is distributed

through digital services. The accounting for owned content is addressed in ASC 926.⁵ See Chapter 3 for more details on the application of ASC 926.

2. How is the license of content accounted for under ASC 920?

A licensee of content that determines that it meets the definition of a broadcaster should capitalize the licensed content and record the related liability on the balance sheet when all of the following conditions have been met:

- ▶ The license period begins.
- ▶ The cost of each program is known or reasonably determinable.
- ▶ The program material has been accepted by the licensee in accordance with the license agreement.
- ▶ The program material is available for its first showing.

Entities make a policy election, which must be applied consistently, to initially record the asset and related liability for licensed content at either the fair



value or gross amount of the liability. If a present value technique is used to determine the fair value, the difference between the gross and net liability is recorded as interest in accordance with ASC 835.⁶

While it is generally relatively easy to determine whether the program material has been accepted and is available for its first showing, determining when costs of each program are known or reasonably determinable may be more difficult. Agreements for licenses of content may be structured in a variety of ways, including:

- ▶ Fixed fee per title, episode or series
- ▶ Fixed fee for an entire contract (e.g., a group of movies and television shows)
- ▶ Variable fee based on advertising (e.g., advertising metrics achieved, revenue-sharing arrangements), subscription fees or number of views
- ▶ Variable fee based on advertising, subscription fees or number of views with a minimum guarantee
- ▶ A combination of fixed and variable fees

The variety of arrangements and combinations of fee structures can make the evaluation of when the cost of each program is known or reasonably determinable even more challenging. The capitalized costs should be allocated to the individual programs within a package on the basis of relative value of each program.

Entities may determine that costs incurred to license content are not capitalizable (even though the license period has begun) because all of the capitalization criteria above have not been met. Two common scenarios when this may occur include the following:

- ▶ An entity makes payments to acquire licensed content in advance of exploiting the content. If the capitalization criteria under ASC 920 have not been met, in practice, entities initially classify these costs as a Prepaid Asset and reclassify them to a Programming Asset when the ASC 920 capitalization criteria are met. The asset is then amortized using an appropriate methodology as described in Section 3 as the content is exploited.

3. ASC 920, *Entertainment – Broadcasters*.

4. For further guidance on accounting for radio arrangements, refer to ASC 928, *Entertainment – Music*.

5. ASC 926, *Entertainment – Films*.

6. ASC 835, *Interest*.

- ▶ An entity agrees to make payments as the content is exploited. Because the costs of the program are not known or reasonably determinable until the content is exploited, which is aligned with the entity's use of the content, entities would simultaneously capitalize and amortize the content as described in Scenarios 2 and 3 below.

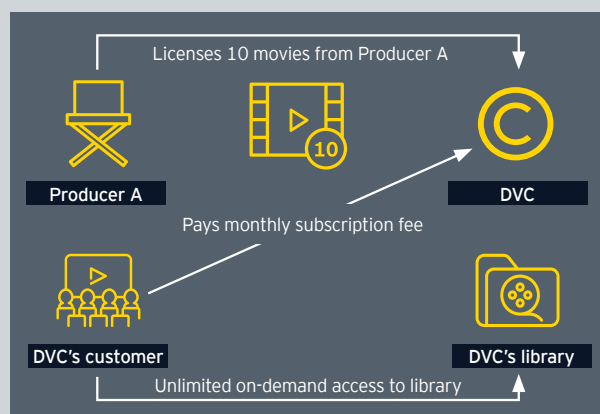
Under any circumstance, entities must assess the realizability of the costs before capitalizing them.

Finally, an entity must evaluate its predominant monetization strategy when it first incurs costs to acquire licensed content which are capitalizable under ASC 920. That is, an entity must determine whether it expects to predominantly monetize a title either: (1) on its own or (2) together with other films and/or license agreements (i.e., as part of a film group as described in further detail in Chapter 2, Section 3c). This evaluation is critical because it affects an entity's impairment assessment of these costs.

The following illustration discusses typical scenarios.



Illustration 1 – assessing whether the cost of each program is known or reasonably determinable when the arrangement has predetermined titles



Digital Video Co. (DVC) licenses 10 movies from Producer A for a two-year period. DVC provides its customers with unlimited on-demand access to this library of digital content viewed online in exchange for a monthly subscription fee. Therefore, DVC expects to predominantly monetize this content as part of a film group.

The following scenarios describe common payment terms for the license of content and the appropriate accounting:

Scenario 1

Upon delivery and its acceptance of the 10 movie titles, DVC agrees to pay a total of \$1 million (or \$100,000 per movie as specified in the contract and determined to be the value of each licensed title) for the unlimited right to broadcast the content for two years (the license period). Because the contract price is fixed and the cost of each program is known, DVC would capitalize the total amount of \$1 million at the beginning of the license period when the content is available for streaming and would begin to amortize it using an appropriate methodology as described in Section 3 below. If the fee per title was not specified in the contract or the contractually specified fees were not an approximation of the value of each right, DVC would allocate the \$1 million fee on a relative fair value basis to each title and capitalize accordingly.



Scenario 2

In addition to paying \$1 million for the unlimited right to broadcast the 10 movies for two years, DVC agrees to pay Producer A an additional fee of \$1 for each online stream of a movie from this library. In this case, similar to Scenario 1, DVC would capitalize \$1 million at the beginning of the license period and would begin to amortize it using an appropriate methodology as described in Section 3 below. Because the cost capitalization criteria under ASC 920 are likely not met for the additional \$1 fee for each online stream until the content is exploited, DVC would not capitalize any additional costs until that time. Once the content is exploited and the cost capitalization criteria are met, the additional \$1 fee per online stream payable by DVC would be capitalized and amortized immediately as each movie was streamed.

Scenario 3

Upon delivery and its acceptance of the 10 movies, DVC agrees to pay Producer A 1% of the subscription fees it collects from its monthly subscribers over the next two years. Because the cost associated

with each title is not known and there is significant uncertainty about future monthly billings under month-to-month subscriber agreements, DVC would not capitalize any of the license fees (i.e., it would not record licensed content and the related liability when the movies have been delivered and are available for showing). Instead, DVC would only capitalize and amortize the license fees when the programs are streamed because that is when the capitalization criteria in ASC 920 are met.

More complex scenarios, including those with additional variability in payments (e.g., variable license payments that increase or decrease over time or that are phased in or out depending on viewership), should be considered carefully to determine not only when (or whether) the related license asset and liability are recorded but also the subsequent amortization of the license asset. See Section 3 for further details on how different types of digital content should be amortized under ASC 920.

3. How should different types of digital content be amortized under ASC 920?

Capitalized costs of license agreements, including titles in a film group, are amortized under ASC 920 based on the estimated number of future showings, except for licenses with unlimited showings, which may be amortized over the period of agreement because the estimated number of future showings may not be determinable.

The unit of account should be determined prior to selecting the appropriate method of amortization. ASC 920 provides for the following:

Type of content licensed	Program-by-program basis	Amortized as a series
Feature programs (e.g., current releases)	✓	
Episodic television (e.g., first run or available)		
Program series and other syndicated products		✓

Feature programs can be amortized, in accordance with ASC 920, on an aggregated basis if the resulting

amortization approximates the amortization that would be calculated on a program-by-program basis.

ASC 920 provides for the following amortization methods to be applied based on the expected future economic benefit to be earned:

Method of amortization	Description
Accelerated amortization	Under this method, amortization is recorded based on the expected value of each airing. For example, if the first showing is expected to be more valuable than reruns or if historical or expected viewership trends indicate there will be higher viewership in the initial periods following release, an accelerated method of amortization may be more appropriate.
Straight line	If each showing is expected to generate similar value, a straight-line amortization method may be more appropriate. Under this method, amortization is recorded evenly (typically over the shorter of the license period or estimated period of use).

When selecting the most appropriate method to amortize programming, the type of content, expected benefit to the entity and available viewing metrics that could be measured should also be considered.

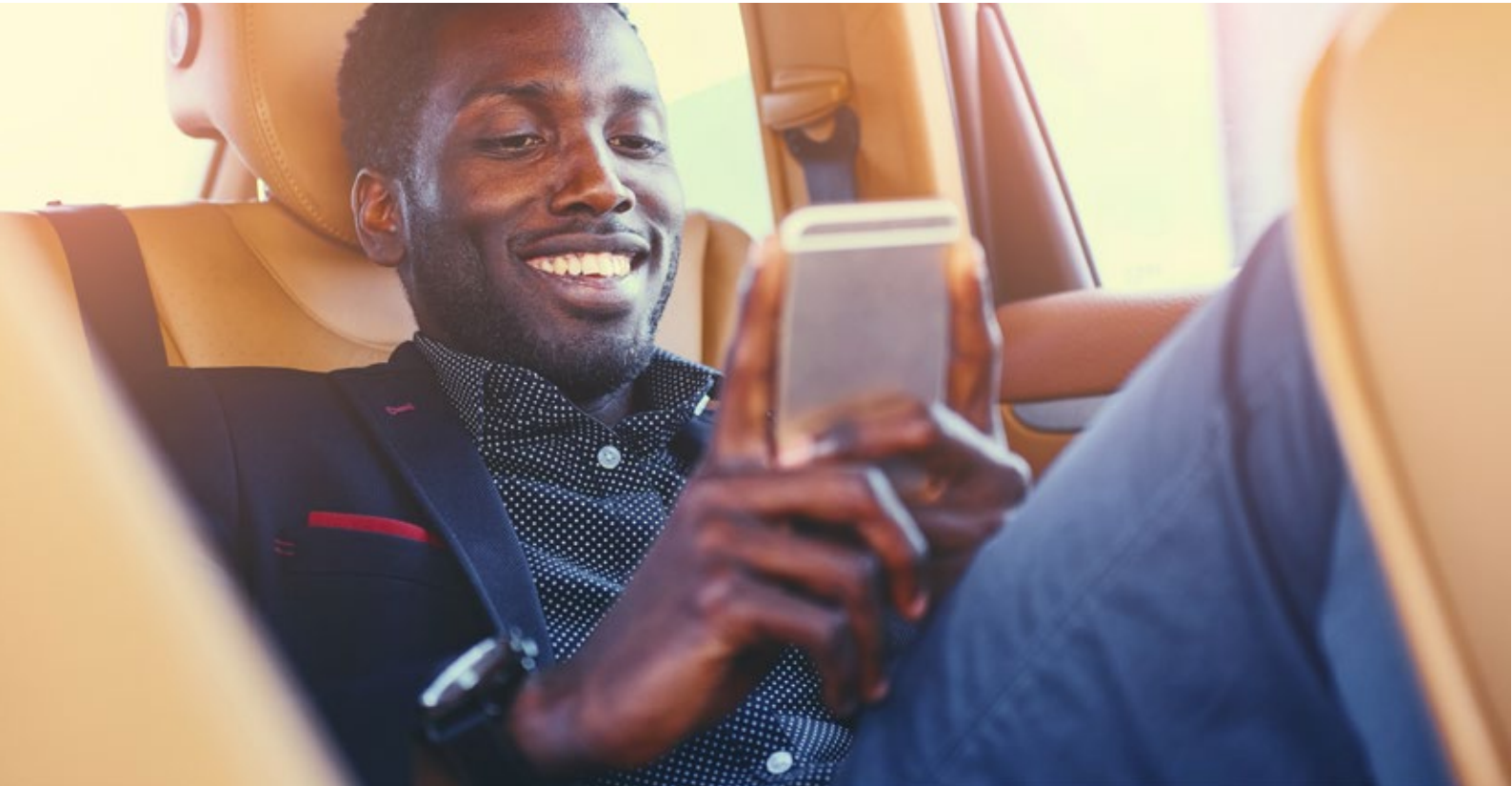
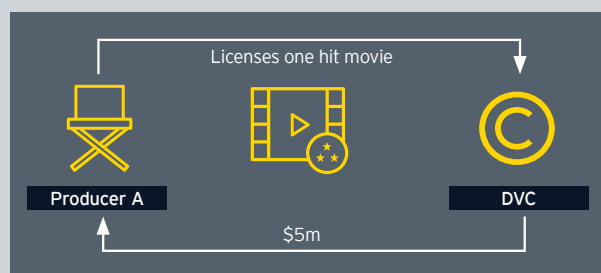


Illustration 2 – accelerated amortization



DVC pays \$5 million to license a feature program (a hit movie that is part of a successful franchise) for a two-year term from Producer A. The license provides DVC the exclusive US premiere rights to the title on its streaming platform. Based on viewer history with similar titles, DVC estimates that approximately 75% of all expected viewership for this feature program will occur in the first month of the license term. DVC therefore amortizes \$3.75 million (75% of \$5 million) in the first month and the remaining asset value will be amortized evenly over the remaining 23 months of the license term, as this reflects DVC's expected views based on its history with similar titles.

3a. How do windows of availability affect the amortization pattern?

Certain license arrangements may also include specific periods (i.e., windows) in which the licensee may exploit the licensed content. For example, a three-year arrangement for a license of a feature program may include the rights to air the feature program only in years one and three. In these cases, the licensee will allocate the fee to the two license periods (i.e., years one and three) based on their relative fair value. Based on the values allocated to each license period, the licensee will record amortization in year one but will not record any amortization during the second year because it does not receive any benefit from the content. Noteworthy is that whether the arrangement is viewed as one license (a three-year license for a feature program that can only be broadcast in year one and year three) or two separate one-year licenses, the method of amortization will not change and should be based on the expected value of the individual one-year periods.

3b. How should a licensee account for an arrangement that includes geographies or platforms where the license period begins before the expected exploitation period?

Certain license arrangements may include rights that will not be exploited at the beginning of the license period. For example, a licensee may have the rights to a title in multiple countries but may not plan to launch the service (i.e., broadcast the content) in a particular market until a later date within the license period. In this case, the licensee would record separate assets based on the individual markets' relative fair value and would not begin to record amortization of each asset until the later of the license period or the launch date in each individual market. The amortization method would be determined considering the factors discussed on the previous page.

3c. What are some of the impairment considerations for entities that license digital content?

An entity's impairment considerations for licensed content will depend on the entity's monetization strategy for a title. That is, an entity is required to determine whether its licensed content is predominantly monetized with other films and/or license agreements (e.g., through a subscription fee for access in a particular geography). If it is, the entity must identify a "film group" as the unit of account for impairment testing in accordance with the guidance in ASC 926-20. A film group represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other films or license agreements. In this instance, it may be appropriate for the content to be aggregated on an overall basis for the entire library of content (akin to traditional cable channels with similar programs for the overall channel). This means entities may aggregate both produced and licensed content for impairment testing purposes and test for impairment in accordance with ASC 926-20. See Chapter 3 for further details.

If an entity does not predominantly monetize its licensed content together with other films and/or license agreements but monetizes its licensed content on an individual title-by-title basis, it would test the licensed content for impairment in accordance with ASC 920-350. Although titles may not be part of a film group, the guidance in ASC 920 does allow for licensed content (within the scope of ASC 920) to be aggregated under various methods to assess it for impairment. For example, content may be aggregated by program, daypart, series or package. A daypart could be an aggregation of programs broadcast during a particular time of day (e.g., daytime, evening, late night) or programs of a similar type, genre or channel (e.g., sports, news, children's shows, an overall cable channel). Typically, content is aggregated for purposes of the impairment test based on how the content is monetized (i.e., the lowest level of identifiable cash flows). For example, if advertising is sold by daypart on a specific channel, this may be the appropriate aggregation method for the impairment test.



Capitalized content costs are to be assessed for impairment if projections of the expected benefit (program usefulness) are revised downward. Under ASC 920, broadcasters test licensed content for impairment if a program is not expected to be monetized as projected or if the planned use for a title changes. If capitalized content costs are impaired, the amount by which the unamortized capitalized content costs exceeds the fair value should be written off to the income statement.

If a licensee decides to stop using or abandons a particular title (e.g., a specific film or television show) before the end of the license period, the remaining unamortized cost for that title should be written off to fair value, which most likely will be zero unless the licensee has rights to further monetize the title.

If an entity's monetization strategy for a title changes significantly, the entity is required to reassess its predominant monetization strategy for that title. An entity that changes its predominant monetization strategy from an individual title to a film group is

required to test the asset for impairment on an individual title basis before moving it into a film group. See Chapter 3, Sections 5 and 7 for further details.

3d. Should a license for an extended period be accounted for under ASC 920?

Licenses for an extended period of time typically include older titles or a library of titles. Such licenses are accounted for under ASC 920. While a licensee has access to content for an extended period, typically such licenses are amortized over a shorter defined period (e.g., a 10- to 20-year period that factors in industry experience or the experience of the licensee with similar titles) if it is determined that the expected benefit from the content is de minimis later in the license term.



3

Accounting considerations for the production of content for self-distribution

1. Should entities that produce content to be distributed on their own digital services platform apply ASC 926?

While ASC 926 has traditionally been applied by film and episodic television producers, questions have arisen about whether entities that produce programs for distribution on their streaming and online services should apply this guidance. ASC 926 applies to “all entities that are producers⁷ or distributors⁸ that own or hold rights to distribute or exploit all kinds of films⁹ in one or more markets and territories.”

ASC 926 also notes that it “applies to films exploited by the entity directly, or licensed or sold to others.” The definition of a producer as “an entity that produces and has a financial interest in films for exhibition in movie theaters, on television, or elsewhere” would include an entity that produces a film or series that is exhibited on a streaming or other online service, thus subjecting those activities to ASC 926.

2. How are costs incurred for production of content accounted for by entities that produce their own digital content under ASC 926?

The guidance in ASC 926 states that entities should capitalize costs to produce films, which includes episodic television series and digital content costs, as those costs are incurred.

The types of costs associated with developing and producing digital content for distribution that are typically capitalizable include the (1) rights to screenplays, (2) salaries for actors, directors and other personnel, and (3) production and post-

production costs. The costs of acquiring a film’s copyright rather than licensing the content would be capitalizable under ASC 926.

When assessing whether costs related to production of digital content are capitalizable, a producer should assess whether the costs relate directly to the production of the digital content. Upon an entity’s adoption of ASU 2019-02, capitalization of costs incurred to produce episodic television series is no longer limited until an entity has persuasive evidence that secondary market revenues exist. However, entities must still carefully determine which costs are capitalizable and whether the costs are recoverable.

When considering participations¹⁰ and residuals¹¹ for a title, it is important to understand whether the terms of the arrangements differ for digital content and more traditional content. For example, while residuals traditionally are calculated based on a percentage of gross revenues from ancillary markets, they may be based on another measure for digital content such as production costs.

All costs capitalized related to the development of content under ASC 926, whether for the production of films or episodic television, are referred to as “film costs” in the guidance and the remainder of this publication.

When an entity first incurs costs associated with the production of a film or episodic television series, it must evaluate its predominant monetization strategy. That is, the entity must determine whether its predominant monetization strategy for a particular title is (1) on its own (e.g., theatrical release) or (2) together with other films and/or license agreements (i.e., as part of a film group).



This evaluation is critical because it affects an entity's impairment of these costs.

2a. How are costs incurred for production of an app to deliver content accounted for by entities that produce their own app?

Costs incurred for building a digital service app or a direct-to-consumer app for a specific film are likely not within the scope of ASC 926. Rather, entities should assess whether such costs are capitalizable under other accounting guidance (e.g., internally developed software), if appropriate.

3. What is the individual-film-forecast method in ASC 926?

For a produced film that is predominantly monetized on its own, capitalized film costs are amortized using the individual-film-forecast-computation method under ASC 926. Under this method, an entity amortizes capitalized film costs in a manner that yields a constant rate of profit over the ultimate period, which considers a film's actual current period revenue and estimated remaining "ultimate revenue." Ultimate revenue is an estimate of all revenues expected to be received from the exploitation, exhibition and sale of a film in all markets and territories (e.g., theatrical, home video, television, digital services, DVDs/Blu-ray or direct

advertising). If the estimates are revised, the change would be accounted for prospectively as of the beginning of the fiscal year of the change.

For a produced film that is predominantly monetized on its own but also is monetized with other films and/or license agreements, entities should make a reasonably reliable estimate of the value attributable to the exploitation of the film when monetized with other titles. Revenue that the entity expects to generate from the monetization of a particular title while it is part of a broader group must be included in the estimate of ultimate revenue. The following is the basic calculation to amortize capitalized film costs (e.g., starting in year one for a film):

Year 1 amortization

Year 1 revenues	×	Ultimate costs
Ultimate revenues		

Year 2 amortization

Year 2 revenues	×	Ultimate costs remaining as of the beginning of the current fiscal year
Ultimate revenues remaining as of the beginning of the current fiscal year		

7. A producer is defined in ASC 926 as "an individual or an entity that produces and has a financial interest in films for exhibition in movie theaters, on television, or elsewhere."
8. A distributor is defined in ASC 926 as "an entity or individual that owns or holds the rights to distribute films. The definition of distributor of a film does not include, for example, those entities that function solely as broadcasters, retail outlets (such as video stores), or movie theaters."
9. Films is defined in ASC 926 as "feature films, television specials, television series, or similar products (including animated films and television programming) that are sold, licensed, or exhibited, whether produced on film, video tape, digital, or other video recording format."
10. A participation is contingent compensation paid to the creative talent (e.g., actors, writers, directors and producers) that is based on a formula described in the contract.
11. Residuals are paid to various guild members who work on the production of content as additional compensation for use of the content in ancillary markets, such as home video, pay television and cable, network television and digital services.



Ultimate costs are an estimate of all capitalizable film costs to be incurred related to the production of the film.

4. For a film that is predominantly monetized as part of a film group, what is the appropriate amortization methodology?

For titles that are predominantly monetized as part of a film group, an entity must make a reasonably reliable estimate of the portion of unamortized film costs that is representative of the use of the title. An entity must expense such amounts as it exhibits or exploits the title. For example, an entity with a digital download streaming platform that only generates subscription revenue from the platform (i.e., no direct revenues from individual titles) may produce a film and only show it on its platform. In this example, the entity receives subscription fees from third parties that are not directly related to a particular film.

In practice, entities often use viewership curves¹² as a proxy for revenues, which reflects the use of the titles over the exploitation period. This is because entities that monetize content as part of a film group typically do not have direct revenues to attribute to a particular title and, therefore, are unable to apply the individual-film-forecast method. Entities will need to use judgment to determine the amortization methodology that is representative of the use of a title.

Entities that predominantly monetize content as part of a film group will also be required to reassess estimates of use of a title within a film group as of each reporting date. Any changes in estimates will be accounted for prospectively as of the date of the change, which is different than the accounting for any changes in estimates under the individual-film-forecast method (which are accounted for prospectively as of the beginning of the fiscal year of the change).

12. Viewership curves are typically established based on historical viewership data for a group of similar titles.



5. What are some of the considerations for a producer when assessing digital content for impairment under ASC 926?

Unamortized costs are to be assessed for impairment, regardless of whether the produced content (e.g., film or television series) is completed. Producers of content should perform a review whenever events or changes in circumstances indicate that the fair value of the produced content may be less than its unamortized costs. Additionally, ASU 2012-07 eliminated the rebuttable presumption in ASC 926 that conditions existing after the balance sheet date but before the financial statements are issued were presumed to have existed at the balance sheet date.

For a film that is predominantly monetized on its own, examples of impairment indicators include:

- ▶ An adverse change in the expected performance of the content prior to release
- ▶ Actual costs substantially in excess of budgeted costs
- ▶ 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 production of the content and to market it effectively
- ▶ The failure of a film to meet expectations set before its release due to factors such as:
 - ▶ A significant adverse change in technological, regulatory, legal, economic or social factors that could affect the public's perception of a film or the availability of a film for future showings
 - ▶ A significant decrease in the amount of ultimate revenue expected to be recognized

For a film that is predominantly monetized as part of a film group, examples of impairment indicators include:

- ▶ A significant adverse change in technological, regulatory, legal, economic or social factors that could affect the fair value of the film group
- ▶ A significant decrease in the number of subscribers or forecasted subscribers or the loss of a major distributor
- ▶ A current period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection of continuing losses associated with the use or exploitation of a film group

For films that are predominantly monetized on their own, impairment testing is performed on a title-by-title basis. However, for films that are part of a film group, impairment testing is performed at the film group level and would include licensed content (if identified as part of the film group) as stated in Chapter 2. That is, entities must determine the lowest level of identifiable cash flows that are largely independent of the cash flows of other films and/or license agreements to identify the film group, which is the unit of account for testing impairment.

If an entity determines the fair value of produced content using a traditional discounted cash flow approach, the discount rate should consider the expectations about possible variations in the amount or timing of the most likely cash inflows and outflows. If an entity uses an expected cash flow approach, the future cash inflows and outflows are probability weighted by period to address the uncertainty in cash flows.

6. What is the accounting if an entity abandons a film within a film group?

In some cases, an entity may test a film group for impairment, but not have any impairment charge. However, if an entity substantively removes a title from the film group because it no longer intends to include the title on its streaming platform, it must write off remaining unamortized film costs. For example, an entity may abandon production on a title before it is released or decide to remove a title from its service offering for a considerable period of time. In these instances, entities should assess whether the title has been substantively abandoned and, therefore, unamortized film costs associated with that title should be written off.

7. What are some of the considerations for a producer when reassessing whether there has been a significant change in an entity's monetization strategy?

If an entity's monetization strategy for a title changes significantly, the entity is required to reassess its predominant monetization strategy for that title. An entity that changes its predominant monetization strategy from an individual title to a film group must test the asset for impairment before moving it into a film group.

For example, assume an entity originally determines that it will monetize a film through theatrical and home entertainment release and will license the film to a third-party streaming service. The entity concludes that its predominant monetization strategy for the film is on a title-by-title basis. In the following year, the entity launches its own streaming service and decides to monetize the film exclusively through this new platform. The entity concludes that it has a significant change in its monetization strategy and that there is a change in its predominant monetization strategy (from title by title to a film group).

In contrast, an entity's expectations for revenue could change, but its monetization strategy could stay the same. For example, assume that an entity determines that it will monetize a film through theatrical release and through pay-per-view and then on its own streaming platform in later years. The entity concludes that its predominant monetization strategy for the film is on a title-by-title basis. If the mix of revenues generated from the film's theatrical release and streaming distribution differs from expectations over the life of the title but the monetization strategy remains the same, this would not represent a significant change.



4

Digital content presentation and disclosure

1. Are there any presentation and disclosure considerations that producers should take into account?

Balance sheet

There is diversity in practice in the financial statement line item used for capitalized costs related to licensed and owned content. The guidance in ASC 920 and ASC 926 does not specify the caption, and reasonable captions include captions that are commensurate with the related revenue streams such as film costs, filmed entertainment and television costs, licensed program rights, programming and other inventory, content library (or rights) and broadcast rights.

For both licensed and produced content costs that are capitalized, ASC 920 and ASC 926 require that the assets be segregated between licensed (even if part of a film group) and produced content, but the guidance does not prescribe classification as either current or noncurrent on the balance sheet. Under ASC 920-405, the related liability is segregated between current and noncurrent on the balance sheet based on the payment terms. Further, the guidance requires entities to separately disclose the components of film costs (under ASC 926-20) for films predominantly monetized on their own and for films predominantly monetized with other films and/or license agreements.

Statement of cash flows

Under the guidance in ASC 926, cash outflows for film costs, participation costs and exploitation costs must be classified within operating activities in the statement of cash flows. ASC 920 also specifies that cash flows for licensed content should be classified as cash outflows from operating activities.

Commitments and contingencies

Item 303(a)(5) of Regulation S-K requires Securities & Exchange Commission (SEC) registrants to provide a tabular presentation of known contractual obligations as of the end of the most recent fiscal year. SEC Financial Release No. 83, "Commission Guidance on Presentation of Liquidity and Capital Resources Disclosures in Management's Discussion and Analysis (FR-83)," notes that the goal of the contractual obligations table is to present a meaningful snapshot of cash requirements arising from contractual payment obligations. Further, under ASC 920, "broadcasters shall disclose commitments for license agreements that have been executed but were not reported because they do not meet the conditions for recording a liability." Thus, content producers and licensees of content disclose commitments for future amounts owed (i.e., purchase obligations) under various agreements, including licensing and programming arrangements, as well as production costs such as talent and employment agreements. For certain arrangements, determining when to report the commitment may require judgment. The determination of whether an entity has entered into such a commitment will depend upon the terms of the agreement (e.g., when production has begun, when the content has been aired on a network or when there is a minimum number of episodes to be licensed).

Summary of ASC 920 & ASC 926 disclosure requirements

Below are the disclosure requirements for entities applying the guidance in ASC 920 and ASC 926:

ASC 920 Entertainment–Broadcasters

1. Present cash outflows for the costs incurred to obtain the rights acquired under a license agreement for program material as operating activities in the statement of cash flows and include the amortization of the capitalized costs of license agreements for program material in the reconciliation of net income to net cash flows from operating activities. (920-230-45-1)
2. Separately present the asset recorded for the rights acquired under a license agreement for program material from films that are accounted for under Subtopic 926-20 either on the balance sheet or in the notes to financial statements. (920-350-45-1)
3. Network affiliation agreements and other such items ordinarily are presented in the balance sheet of a broadcaster as intangible assets. (920-350-45-2)
4. Disclose methods of accounting for the rights acquired under a license agreement, including, but not limited to: (920-350-50-1)
 - a. The method or method(s) used in computing amortization
 - b. For impairment, a description of the unit(s) of account used for impairment testing and the method(s) used for determining fair value
5. Disclose in the financial statements or the notes to financial statements for each period for which a statement of financial performance is presented: (920-350-50-2)
 - a. The aggregate amortization expense for the period
 - b. The caption in the income statement where the amortization is recorded
6. For the most recent annual period for which a statement of financial position is presented, disclose in the notes to financial statements the portion of the costs of license agreements recognized at the date of the most recent statement of financial position that an entity expects to amortize within each of the next three operating cycles. (920-350-50-3)
7. An entity shall disclose its operating cycle if it is other than 12 months. (920-350-50-3)
8. For impairment amounts recognized for a license agreement that is not included in a film group, disclose in the notes to financial statements that include the period in which the impairment losses are recognized: (920-350-50-4)
 - a. A description of the facts and circumstances leading to the impairment
 - b. The amount of impairment losses
 - c. The caption in the income statement where the impairment losses are recorded
 - d. If applicable, the segment(s) under Topic 280 where the impairment losses are recorded
9. Segregate the liability recorded for the obligation incurred under a license agreement for program material between current and noncurrent based on the payment terms. (920-405-45-1)
10. Disclose commitments for license agreements that have been executed but were not reported because they do not meet the conditions for recording a liability as specified in ASC 920-350-25-2. (920-440-50-1)

ASC 926 Entertainment–Films

1. Separately disclose film costs from the rights acquired under a license agreement for program materials within the scope of Subtopic 920-350 either on the balance sheet or in the notes to financial statements. (926-20-45-2)
2. Disclose methods of accounting for film costs, including, but not limited to: (926-20-50-1A)
 - a. The method(s) used in computing amortization
 - b. For impairment, a description of the unit(s) of account used for impairment testing and the method(s) used for determining fair value
3. Disclose the components of film costs (including released, completed and not released, in production, or in development or preproduction) separately for films predominantly monetized on their own and films predominantly monetized with other films and/or license agreements. (926-20-50-2)
4. Disclose in the financial statements or the notes to financial statements for each period for which a statement of financial performance is presented: (926-20-50-4A)
 - a. The aggregate amortization expense for each period, separately for films predominantly monetized on their own and films predominantly monetized with other films and/or license agreements
 - b. The caption in the income statement where the amortization is recorded
5. Disclose the following in the notes to financial statements for the most recent annual period for which a statement of financial position is presented (separately for films predominantly monetized on their own and for films predominantly monetized with other films and/or license agreements): (926-20-50-4B)
 - a. For completed and not released films, the portion of the costs of completed films that an entity expects to amortize during the upcoming operating cycle
 - b. An entity shall disclose its operating cycle if it is other than 12 months
 - c. For released films, the portion of the costs of released films recognized at the date of the most recent statement of financial position that an entity expects to amortize within each of the next three operating cycles
6. For impairment amounts recognized for films or film groups, disclose the following information in the notes to financial statements that include the period in which the impairment is recognized: (926-20-50-4C)
 - a. A general description of the facts and circumstances leading to the impairment
 - b. The aggregate amount of impairment losses
 - c. The caption in the income statement where the impairment losses are recorded
 - d. If applicable, the segment(s) under Topic 280 where the impairment losses are recorded
7. For acquired film libraries, disclose the amount of remaining unamortized costs, the method of amortization, and the remaining amortization period. (926-20-50-5)
8. Present cash outflows for film costs, participation costs, exploitation costs, and manufacturing costs as operating activities in the statement of cash flows, and include the amortization of film costs in the reconciliation of net income to net cash flows from operating activities. (926-230-45-1)
9. Disclose the amount of accrued participation liabilities that the entity expects to pay during the upcoming operating cycle. (926-405-50-1)
10. Disclose the methods of accounting for participation costs. (926-405-50-2)
11. Disclose the methods of accounting for exploitation costs. (926-720-50-1)

Exhibit 1: Key differences between ASC 920 and ASC 926

	ASC 920	ASC 926
Cost capitalization	<p>The fee paid for licensed content is capitalized when the license period begins and all of the following conditions have been met:</p> <ul style="list-style-type: none"> ▸ The cost of each program is known or reasonably determinable. ▸ The program material has been accepted by the licensee. ▸ The program material is available for its first showing. 	<p>Costs related directly to the production of content are capitalized as film costs as they are incurred.</p>
Amortization methods	<p>Capitalized costs are amortized using any of the following, as appropriate:</p> <ul style="list-style-type: none"> ▸ Straight-line ▸ Accelerated <p>Feature programs should be amortized on a program-by-program basis; however, amortization as a package may be appropriate if it approximates the amortization that would have been provided on a program-by-program basis.</p> <p>Program series should be amortized as a series.</p>	<p>For films that are predominantly monetized on their own, capitalized film costs are amortized under the individual-film-forecast-computation method in a manner that yields a constant rate of profit over the ultimate period, assuming there are no changes in estimates. This considers a film's actual current period revenue and estimated remaining "ultimate revenue."</p> <p>For films that are predominantly monetized as part of a film group, an entity should make a reasonably reliable estimate of the portion of unamortized film costs that is representative of the use of the film. An entity must expense such amounts as it exhibits or exploits the film.</p>
Impairment testing methods	<p>For content predominantly monetized on its own, impairment testing is performed on a title-by-title basis. However, licensed content may be aggregated by program, daypart, series or package to assess it for impairment.</p> <p>Companies are required to test for impairment if management's expectations of the programming usefulness of a program, series, package or daypart are revised downward.</p>	<p>For content predominantly monetized on its own, impairment testing is performed on a title-by-title basis.</p> <p>ASC 926-20 provides multiple indicators to test for impairment. These indicators differ between content predominantly monetized as part of a film group and content predominantly monetized on its own.</p>

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