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To the Point

FASB — final guidance

FASB amends accounting for costs of films and license agreements for media and entertainment entities

The guidance addresses changes in the distribution model for content in the media and entertainment industry.

What you need to know

- The FASB issued final guidance that aligns the cost capitalization requirements for episodic television series with the guidance for films in ASC 926-20 and adds new disclosure requirements.
- Entities that predominantly monetize films or license agreements together with other films and/or license agreements will be required to test the "film group" for impairment rather than test each individual title.
- Entities that monetize content in a film group must reassess their estimate of the use of a film in the film group and account for any changes prospectively.
- All broadcasters will need to change their impairment model for costs incurred to license content to a fair value model.
- The guidance is effective for PBEs in fiscal years beginning after 15 December 2019, and interim periods within those years; for other entities, it is effective for years beginning after 15 December 2020, and interim periods within those years. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2019-02[1] to align the accounting for the costs of producing films and episodic television series in response to changes in production and distribution models in the media and entertainment industry.

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With the rise of digital downloading, streaming services and other new distribution models, entities had questioned whether it still makes sense to limit the costs an entity can capitalize for each episode in a television series to contractual revenues for that episode until the entity has persuasive evidence that a secondary market exists, as required by the legacy guidance in Accounting Standards Codification (ASC) 926-20.[2] They noted that some operators of digital download and streaming services monetize content only on their own platform and do not intend to license their content in a secondary market. They also noted that producers of films aren't subject to such a constraint.

The new guidance, which was developed by the Emerging Issues Task Force, amends the capitalization, amortization, impairment, presentation and disclosure requirements for entities that produce content in the scope of ASC 926-20 and aligns the impairment guidance for licensees in the scope of ASC 920-350[3] with the fair value model in ASC 926-20. This guidance applies to broadcasters and entities that produce and distribute films and episodic television series through both traditional mediums (e.g., television, theatrical release) and digital mediums (e.g., an online streaming service).

The table in the appendix highlights the key changes described below.

Key considerations

The ASU amends aspects of the capitalization, amortization, impairment, presentation and disclosure requirements in ASC 926-20 and the impairment, presentation and disclosure requirements in ASC 920-350. The key changes are:

- Costs incurred to produce episodic television series are capitalized as incurred. Capitalization of these costs is no longer constrained until persuasive evidence of secondary market revenues exists.
- When they first capitalize film costs, entities are required to determine qualitatively whether their predominant monetization strategy is on a title-by-title basis (e.g., release in theaters) or together with other films and/or license agreements (e.g., release as a library of content on a streaming service). This is a new requirement.
- Entities that predominantly monetize their content together with other films and/or license agreements must consider whether their estimate of the use of a film in the film group has changed. If there is a change, they are required to prospectively amortize the change in estimate over the revised remaining use of the film. This new requirement differs from the treatment of changes in estimates for content monetized on a title-by-title basis, which are amortized prospectively as of the beginning of the fiscal year of the change.
- If an entity's predominant monetization strategy is to monetize films (in the scope of ASC 926-20) and/or license agreements (in the scope of ASC 920-350) in a film group, the entity will be required to test for impairment at the film group level. An entity will continue to test individual titles for impairment if its predominant strategy is to monetize content on a title-by-title basis.
- The impairment indicators for entities that monetize content on a title-by-title basis were revised, and new impairment indicators were added for entities that monetize content as part of a film group.
- Entities that apply the guidance in ASC 920-350 are required to test for impairment using a fair value model, regardless of whether the content is monetized as part of a film group and accounted for under ASC 926-20 or ASC 920-350. This is a change from legacy guidance, which requires entities in the scope of ASC 920-350 to test for impairment using a net realizable value model.

- Entities need to apply judgment to determine whether to classify capitalized costs for producing and licensing content or a portion of those costs as current or noncurrent on the balance sheet, because the legacy requirements in ASC 926-20 and ASC 920-350 are eliminated.
- Entities must separately disclose the components of film costs (under ASC 926-20) for films predominantly monetized on their own and for films predominantly monetized in a film group. Costs incurred to license content must be disclosed separately, even if the content is part of a film group.
- Entities are required to classify cash flows for licensed content as cash flows from operating activities in the statement of cash flows. This requirement aligns the cash flow guidance in ASC 920 with the requirements in ASC 926.

How we see it

- Entities are expected to capitalize more production costs than under legacy guidance because they are no longer required to have persuasive evidence that a secondary market exists for episodic television series to do so.
- Under the new guidance, entities are required to apply judgment to determine the predominant monetization strategy for their content and to identify film groups.
- Entities may need to make system changes to gather the data necessary to comply with the new disclosure requirements.

The ASU amends the impairment guidance for licensees of content (i.e., broadcasters) to be a fair value model.

Impairment

A film group, which is a new term, is defined as the lowest level at which identifiable cash flows are largely independent of the cash flows of other films and/or license agreements.

Therefore, if an entity has content that meets the definition of a film group, it would test all content in that group (both original and licensed content) for impairment as one unit of account in accordance with ASC 926-20. Any licensed content that is part of the film group would be accounted for in accordance with the capitalization, amortization, presentation and disclosure requirements in ASC 920-350.

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 before moving it into a film group.

For example, assume an entity originally determines that it will monetize a film through theatrical and home video 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 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.

The guidance also revises the impairment indicators for events or changes in circumstances that could occur after the release of a film that is monetized on its own. Indicators have also been provided for entities that predominantly monetize content as part of a film group. These include technological, regulatory, legal, economic or social factors that may indicate the film group is impaired.

Transition and effective date

The guidance is effective for public business entities (PBEs) in fiscal years beginning after 15 December 2019, and interim periods within those fiscal years. For all other entities, it is effective in fiscal years beginning after 15 December 2020, and interim periods within those fiscal years. Early adoption is permitted, including in an interim period.

Entities will apply the new guidance prospectively from the beginning of the interim period that includes the date of adoption, including for costs incurred for content in production at the effective date. An entity must assess its predominant monetization strategy at the date of adoption.

Accordingly, a calendar year-end entity could early adopt the guidance in the first quarter of 2019 and would be able to apply the guidance to all costs incurred during the year.

Endnotes:

[1] ASU 2019-02, *Improvements to Accounting for Costs of Films and License Agreements for Program Materials.*

[2] ASC 926-20, *Entertainment — Films — Other Assets — Film Costs.*

[3] ASC 920-350, *Entertainment — Broadcasters — Intangibles — Goodwill and Other.*

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Appendix: Summary of new guidance

	ASC 926-20 content		ASC 920-350 content	
	Title-by-title basis	*Film group*	*Title-by-title basis*	*Film group*
Cost capitalization	Capitalize film **and** episodic television costs as incurred		Capitalize costs incurred at lower of cost or fair value	
Amortization	No change	Reassess estimates of use for a film within a film group and apply changes prospectively	No change	
Impairment indicators	Revised impairment indicators in the post release stage of a film	New impairment indicators for film groups	No change	Test content for impairment using new indicators in ASC 926-20 (film group)
Impairment test	No change	Assess impairment on an aggregated basis (i.e., the film group)	Test for impairment using a fair value model	Test for impairment in accordance with ASC 926-20
Presentation and disclosure	Eliminates guidance on balance sheet classification Adds disclosure requirements			