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EITF reaches final consensus for produced and licensed episodic television content

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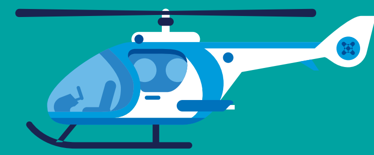

KPMG reports that the EITF has reached a consensus to align the accounting and disclosure guidance for episodic television series with the guidance for films.

Applicability

Episodic television series[1] - All companies in the film production and distribution industry that produce or license content.

Key facts and impacts

At its January 17, 2019 meeting, the EITF reached a final consensus, subject to the FASB's ratification, about the proposed ASU[2] on films. The comment deadline was December 7, 2018.

The EITF consensus would align the requirements for episodic television content with the guidance for films in certain respects. This would include removing the restrictions on capitalization of production costs for episodic television content.

The emergence of streaming services offered by Netflix, Hulu, Amazon Prime and similar organizations has required updates to the accounting guidance for television series.[3]

Cost capitalization

The EITF affirmed its consensus-for-exposure to require a company to capitalize eligible production costs for an episodic television series similar to how it accounts for a film. This would remove the existing constraint that restricted capitalization based on contracted revenue in the initial and secondary markets. This would allow more production costs of episodic television series to be capitalized.

The EITF observed that the availability of channels for initial distribution of episodic content, including online video distributor streaming platforms, immediate access to international distribution channels and direct-to-consumer streaming platforms, significantly mitigates the risk that producers will not be able to recover the amount of initially capitalized production costs for episodic television series.

Amortization

The EITF affirmed its consensus-for-exposure to amend ASC 926-20 by requiring a company to review and revise estimates at each reporting date of the remaining use of a film that is part of a 'film group' and account for changes prospectively.

A film group is defined as the unit of account for a film and a license agreement for program material when the film or license agreement is expected to be predominantly monetized with other films and license agreements instead of being predominantly monetized on its own.

1 EITF Issue No. 18-B, Improvements to Accounting for Episodic Television Series

2 Proposed ASU, Improvements to Accounting for Costs of Films and License Agreements for Program Materials

3 ASC 926-20, Entertainment---Films - Other Assets – Film Costs

A film group would comprise the lowest level for which identifiable cash flows are largely independent of the cash flows of other films or license agreements.

The EITF's decision would retain the individual-film forecast method to amortize capitalized film costs. However, a company would be required to amortize films in a film group based on representative use and to review and revise estimates each reporting period for the remaining use of each film in the group.

Impairment unit of account

The EITF affirmed its consensus-for-exposure to require impairment testing to be performed at the level of a film group. For companies with predominantly indirect revenue at an individual title level (e.g. content library subscription services), this may be the entire library and may rarely, if ever, result in an impairment. However, the EITF consensus would require unamortized costs to be written off if a film is abandoned or removed from a service offering (i.e. library).

Impairment indicators

Current impairment indicators in ASC 926-20 focus on the pre-release stage of a film. The EITF affirmed its consensus-for-exposure to provide additional impairment indicators that relate to changes in circumstances that could occur after a film is released. These include:

- a significant change in technological, regulatory, legal, economic or social factors;
- a significant decrease in the actual or forecasted number of subscribers, or the loss of a major distributor; or
- a current-period operating or cash flow loss combined with a history of such losses or projected losses for a film group.

The EITF also reached a consensus to require the predominant monetization strategy for a film to be reassessed when the monetization strategy changes significantly. Any significant change in monetization strategy would also be an impairment indicator for the individual film.

Impairment model

The EITF affirmed its consensus-for-exposure to align the impairment model in ASC 920-350 with the fair value impairment model in ASC 926-20. This would remove the requirement to use the NRV model as prescribed in ASC 920-350[4] to test license agreements that are not in a film group.

The EITF decided that the fair value model in ASC 926-20 is appropriate for both types of content because it is similar to the impairment model used for finite-lived intangible assets.

Presentation and disclosure

The EITF affirmed its consensus-for-exposure to align the disclosure requirements in ASC 920-350 and ASC 926-20 by removing the requirement to classify assets as noncurrent under ASC 926-20 and current or noncurrent based on time under ASC 920-350. A company would use judgment to determine the classification of film costs and license agreements.

The EITF also affirmed its consensus-for-exposure to require a company to either present or disclose capitalized costs of licensed films separately from those for produced films.

The new presentation and disclosure requirements are as follows.

- The components of film costs, separately for films predominantly monetized on their own and for films predominantly monetized with other films and license agreements.
- Amortization method used (e.g. the individual-film-forecast-computation method or estimates of use), the aggregate amortization expense for each period, separately for theatrical films and direct-to-television products, and the caption in the income statement where the amortization is recorded.
- The portion of costs of completed films that is expected to be amortized during the upcoming operating cycle separately for theatrical films and direct-to-television products.
- The amount of film costs for released films that a company expects to amortize within the following three years from the most recent balance sheet date, separately for theatrical films and direct-to-television products.
- A description of the units of account used for impairment testing and the methods used for determining fair value.
- A general description of the facts and circumstances leading to impairment, the amount of impairment losses and where the losses are recorded.
- Segments under ASC 280 where any impairment losses are recorded.

[4] ASC 920-35, Entertainment---Broadcasters – Intangibles—Goodwill and Other

Additionally, the EITF affirmed its consensus-for-exposure to require disclosures for licensed content within the scope of ASC 920-350 that are similar to the disclosures in ASC 926-20 so financial statement users can better understand a company's entire portfolio of content.

The EITF also reached a consensus to amend ASC 920 to require cash flows for licensed content to be classified as cash flows from operating activities within the statement of cash flows. This would align the cash flow statement presentation guidance with ASC 926.

Private company considerations

The EITF reached a consensus that the new guidance would apply to private companies.

Effective dates and transition

Effective Date	Public business entities	All other entities
Annual and interim periods in fiscal years beginning after	December 15, 2019	December 15, 2020
Early adoption allowed?	Yes	

KPMG observations

A company would be required to apply the new accounting and disclosures prospectively from the beginning of the interim period in which the guidance is adopted, including when it is early adopted. For example, if the guidance is issued March 31, 2019, a calendar year-end entity that early adopts the guidance in the quarter ended March 31, 2019 would be required to apply the amendments beginning January 1, 2019.

Prospective application may cause a license agreement in a comparative period to be considered a current asset and license agreements in the current period to be noncurrent assets.

The EITF also concluded that comparability would require full retrospective application, which may be burdensome to some companies.

The EITF also reached a consensus to require companies to provide additional transition disclosures regarding the nature of, and reason for the change in accounting principle, the transition method, and a qualitative description of the financial statement line items affected by the change.

Contributing authors

Kimber Bascom; David Yates

KPMG's Financial Reporting View

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