# Topic 606 – Media & Entertainment

January 18, 2018

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# Learning objectives

— Identify how to apply the five step revenue model with an emphasis on situations specific to the media and entertainment industry.

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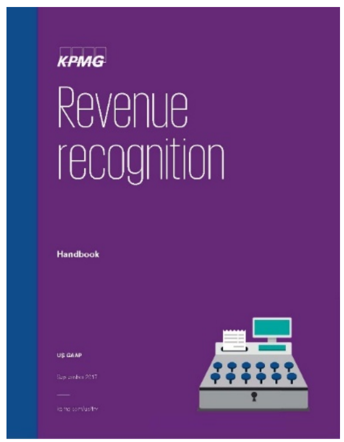
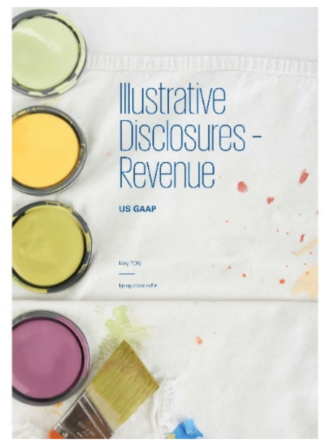
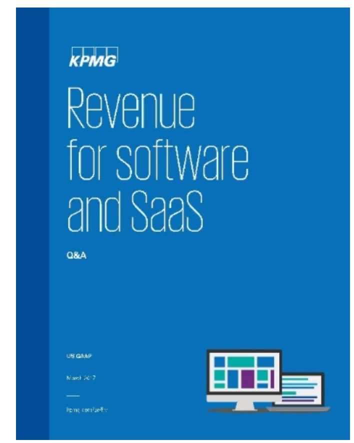
# Revenue resources




[Handbook: Revenue Recognition](#)

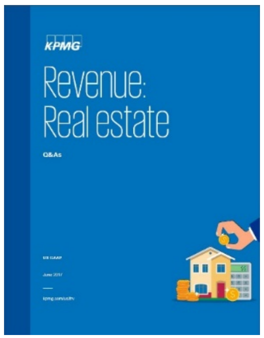


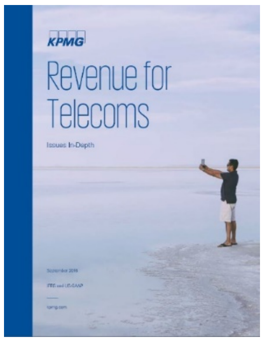

[Revenue: Illustrative disclosures](#)




[Revenue for software and SaaS](#)

# Revenue resources – Industry focus

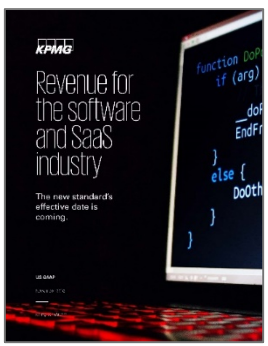


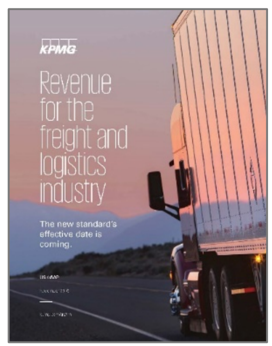
















Financial Reporting View
https://frv.kpmg.us/

# M&E industry

- ASC 606 supersedes legacy industry guidance on a variety of topics:
  - Licenses of intellectual property
    - Renewals
    - Street date
    - License of content library
  - Barter transactions
  - Allocation of transaction price to cross-collateralized film arrangements
- Anticipated accounting changes include:
  - Timing of revenue recognition for licenses of IP
  - Affect of contractual restrictions on the number of performance obligations
  - Accounting for nonrefundable minimum guarantees

# Media – key considerations

- Single vs. multiple licenses
- License restrictions
- Affiliation agreements
- Streaming content
- License renewals
- Nature of the license
- Customer options
- Advertising credits
- Selling price allocation
- Other promises
- Cost capitalization
- Sales-or usage based royalties
- Significant financing
- Variable consideration

# M&E industry

**ASC 606 supersedes legacy industry guidance on a variety of topics:**

Licenses of intellectual property

— Renewals

— Street date

— License of content library

Barter transactions

Allocation of transaction price to cross-collateralized film arrangements

**Potential accounting changes include:**

Timing of revenue recognition for licenses of IP

Affect of contractual restrictions on the number of performance obligations

Accounting for nonrefundable minimum guarantees

# Licenses of intellectual property (IP)

## Licenses of IP are common in the M&E industry

A motion picture studio granting rights to broadcast a film or television program

A motion picture studio granting distribution rights associated with a film

A broadcaster granting programming rights to an affiliate

A music company granting its music library content to a digital publisher

A book publisher licensing the international rights of a character

A sports team granting the right to use it’s name and logo

# The core principle and the five-step model

## Core principle

An entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

1. Identify the contract(s) 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
5. Recognize revenue when (or as) the entity satisfies a performance obligation

# Step 1: Identify the contract with the customer

A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability is a matter of law. Contracts can be written, oral, or implied by an entity's customary business practices. Additionally:

**A contract exists if…**

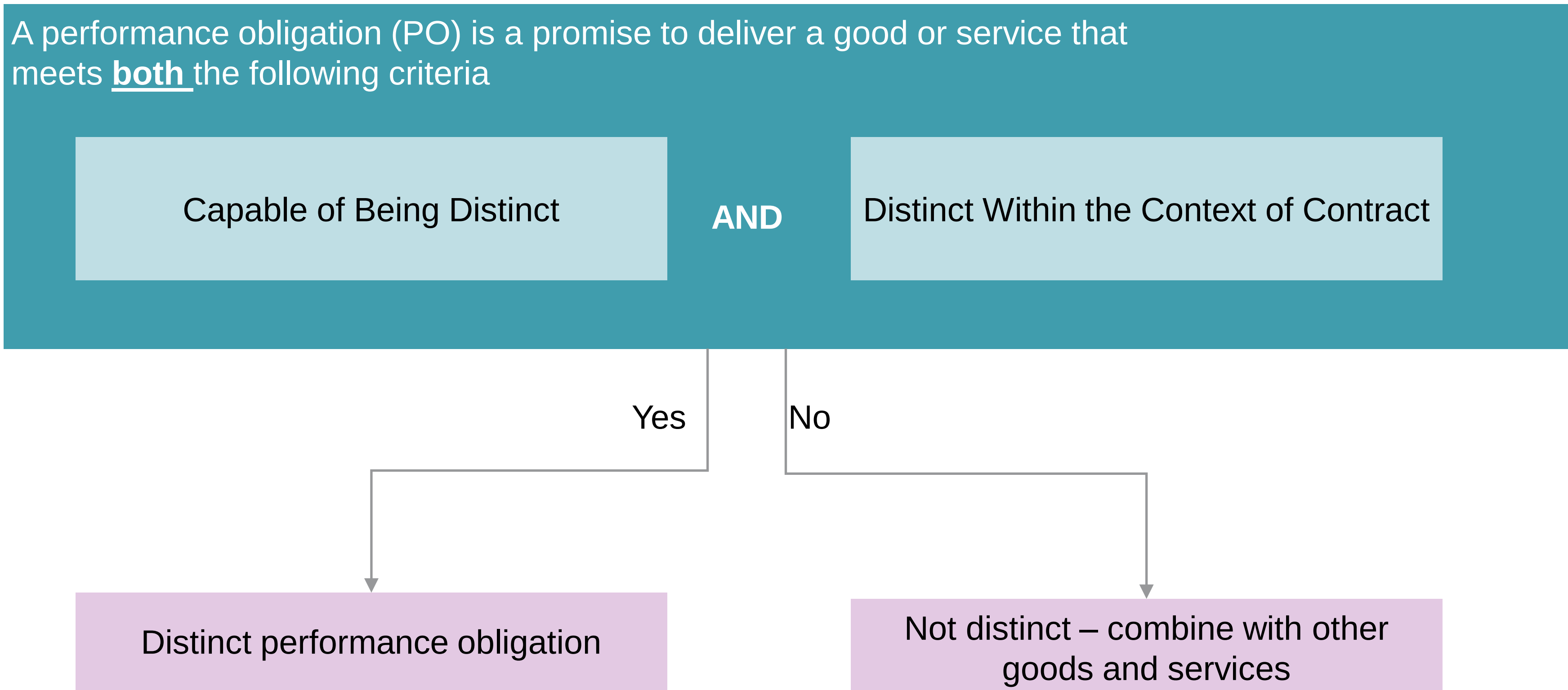
**…collection of consideration is probable***

**…rights to goods or services and payment terms can be identified**

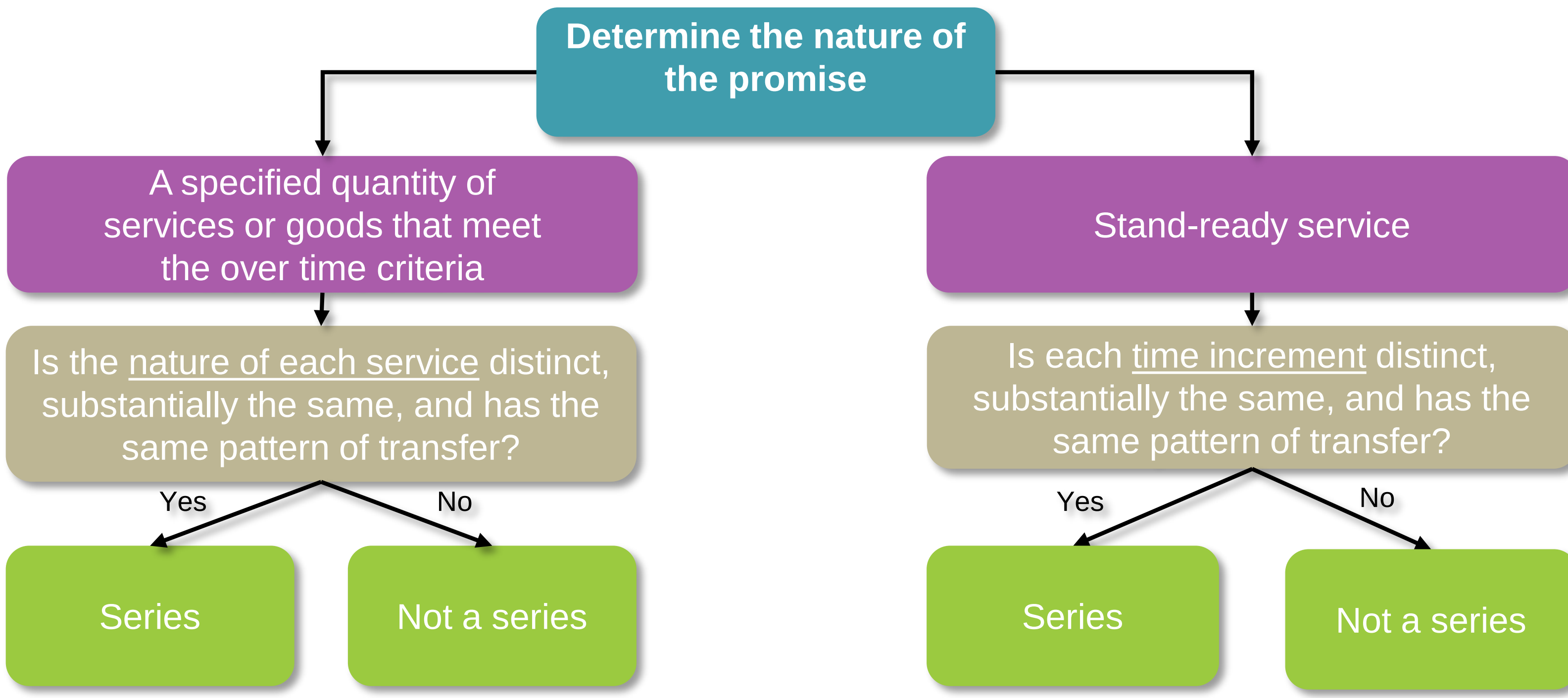
**…it has commercial substance**

**…it is approved and the parties are committed to their obligations**

# Step 2: Identify the performance obligations



# Series of distinct goods or services




Not automatic – **consider facts and circumstances**. If delivery of goods or services are sporadic or spread out, may not recognize revenue using time-based increment

# Step 3: Determine the transaction price

**Transaction price = The amount of consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer (excluding amounts collected on behalf of third parties)**

| Variable consideration and the constraint | Significant financing component | Collectibility | Noncash consideration | Consideration payable to a customer |
|---|---|---|---|---|
| ✓ | ✓ | ✗ | ✓ | ✓ |

# Step 4 - Allocate the Transaction Price

**What items should be considered relative to allocation of the transaction price?**

1. Determine stand-alone selling prices
2. Allocate the transaction price

# Step 5 - Recognize Revenue

**A performance obligation is satisfied over time if any of the following is met.**

1. Simultaneously received and consume benefits
2. Create or enhance a customer's asset
3. No alternative use and right to payment

# Step 5 - Recognize Revenue (continued)

**If performance obligation is NOT satisfied over time, then en entity recognizes revenue at a point in time at which it transfers control of the good or service to the customer.**

**Indicators that control has passed include a customer having…**

- … a present obligation to pay
- … physical possession
- … legal title
- … risks and rewards of ownership
- … accepted the asset

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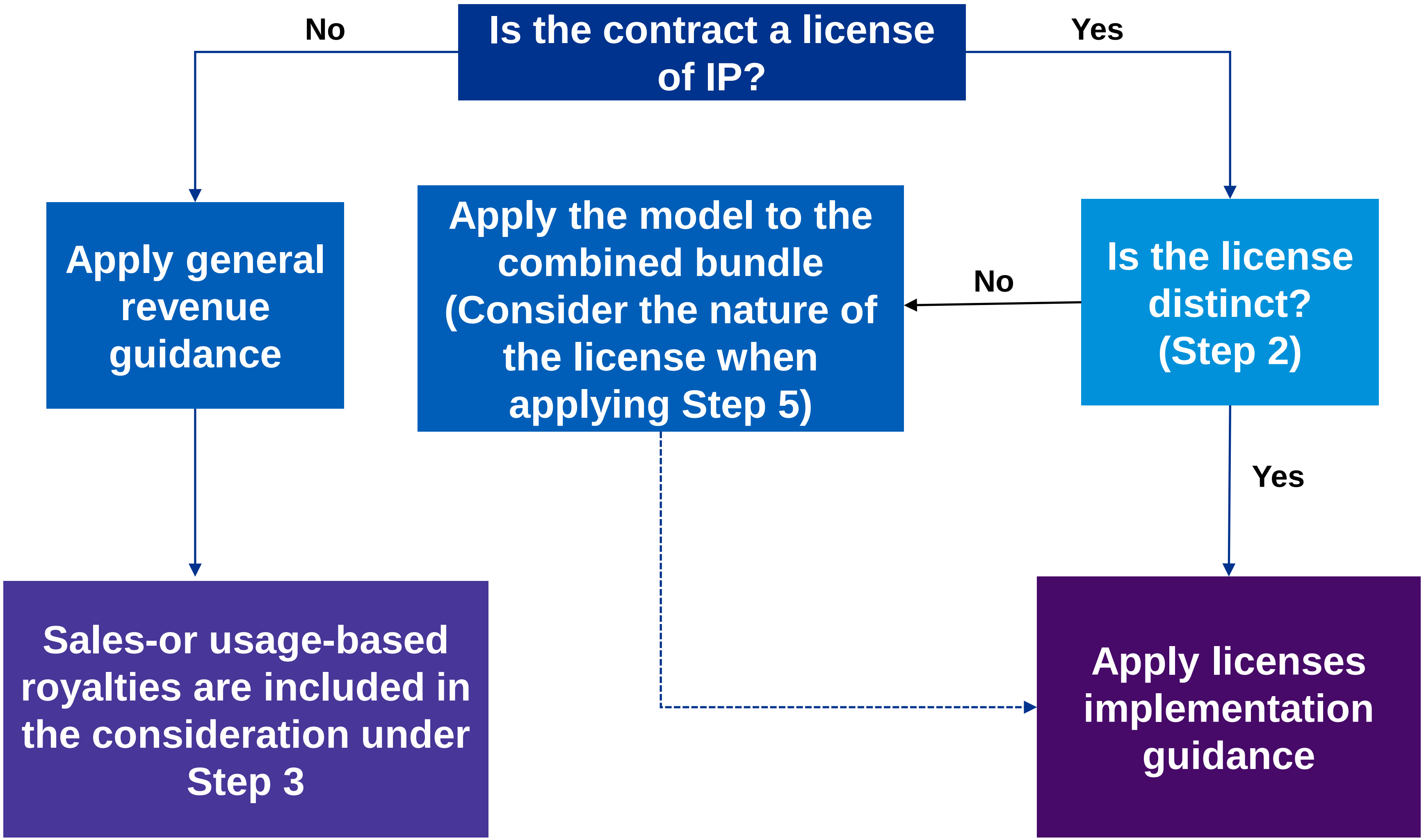
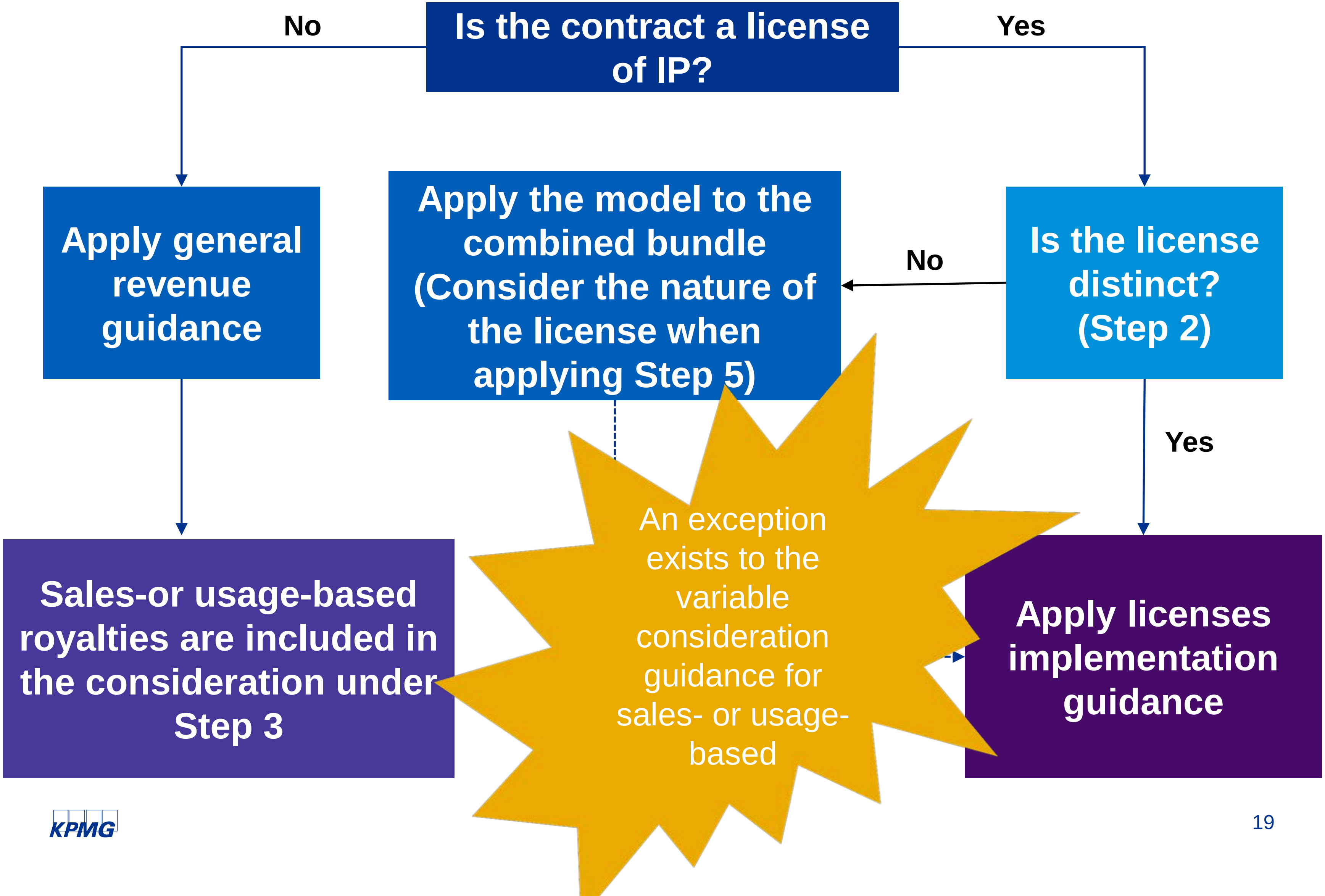
# Licenses of IP guidance



# Licenses of IP guidance



# Determine the nature of the entity's promise

## Licenses

### Functional IP

Has significant standalone functionality and derives a substantial portion of its ability to provide benefit or value (i.e., "utility") from

### Examples of functional IP

Completed media content:

- Film
- Television episodes
- Music

### Revenue recognition

Generally recognized at a point in time

### Symbolic IP

Does not have significant standalone functionality because substantially all of the utility is derived from its association

### Examples of symbolic IP

Continuing support of content:

- Brands
- Team and trade names
- Character images

### Revenue recognition

Recognized over time

# License vs. service

Consider whether arrangements provide a license or a service. Examples:

- Music streaming service versus license of music content
- Affiliate arrangements

Affiliate obtains control of media content

↓

**License of IP**

↓

Apply sales- or usage-based royalty recognition constraint to monthly fee per subscriber* and estimate of subscribers for the period

Affiliate does not obtain control of media content

↓

**Series of distinct services**

↓

Likely apply the variable consideration allocation exception for the monthly fee per subscriber, if criteria are met

**Apply the constraint if the monthly fee per subscriber is a sales- or usage-based royalty.*

# License of content library

- **Consider a film producer that licenses its completed titles and any titles produced in the future**
- **Licensor will need to determine:**
  - The promised goods or services in the contract and, therefore, the number of performance obligations
  - The appropriate measure of progress toward satisfaction of the performance obligation(s) over the license period
- **Licensor will allocate the transaction price to the performance obligation(s) on a relative standalone selling price basis**

# Determining whether a license is distinct

Consider whether contracts include distinct licenses of IP following Step 2 of the model.

**License is distinct** → **Determine the nature of the promise to the customer and follow guidance for licenses of IP**

**License is not distinct** → **Determine the nature of the overall promise to the customer, considering guidance for licenses of IP, to determine whether the overall promise is satisfied over time or at a point in time and to select an appropriate measure for measuring progress (if satisfied over time)**

# License of content library

## Scenario

Production Company produces television content. Production Company enters into a three-year license agreement with Customer to provide its completed television shows and rights to future television shows produced in the future.

## Evaluation

- Production Company will need to determine the promised goods or services in the contract and, therefore, the number of performance obligations
  - Content library is determined to be distinct because Customer has the ability to play, sell, use or otherwise consume the IP.
  - The rights to new content are also determined to be distinct because Customer benefits from the promise that it will have most up-to-date content during three-year agreement.
- As a result, Production Company identifies two distinct performance obligations.

# Knowledge check 1

When applying the ‘distinct’ criteria in Step 2 of the revenue model, which of the following must an entity assess?

I. Whether the customer can benefit from the license on its own or together with other resources that are readily available.

II. Whether the license is considered functional or symbolic IP.

III. Whether the license is separately identifiable from other goods or services in the context of the contract.

IV. Whether the license provides the customer with a right to use or access an entity’s IP.

**A. I and II**

**B. I and III**

**C. II and IV**

**D. III and IV.**

# Attributes of a license vs multiple licenses

When are provisions in a license attributes of the license versus separate promises?

Q

A

Most restrictions of time, geography, or use define attributes of a single promised license.

Contractual provisions that require (including implicitly) the licensor to transfer additional rights to use/access IP are not attributes of a promised license. Rather, they generally create an additional promise to the customer.

Significant judgment may be required in determining whether a contract includes one license or multiple licenses.

# Contractual restrictions

- **Entities are required to evaluate whether contractual restrictions (e.g., restrictions of time, geography or use) define the attributes of a license of IP or represent additional promised goods or services to the customer**
  - Judgment is required to determine whether other contractual provisions result in additional performance obligations
- **Contractual restrictions that define the attributes of a license of IP**
  - They do not affect whether a performance obligation is satisfied at a point in time or over time
  - They do not affect the number of performance obligations in the contract

# Contractual restrictions (examples)

## Common examples include “broken window” provisions:

| Example | Number of performance obligations |
|---|---|
| Producer licenses a film to a broadcaster that has the right to air the film once a year for four years | One performance obligation:<br>► Once the customer controls the rights conveyed by that license, there is no additional promise for the licensor to fulfill |
| Distributor licenses a film to a broadcaster for years one through three and years eight through 10 of a license period<br>Rights can be licensed to a different customer in years four through seven | Two performance obligations:<br>► Assume the gap between the two windows of availability (i.e., the period in which the customer’s rights have been revoked) is substantive<br>► Distributor would need to evaluate whether it has made an additional promise to transfer the rights again in years eight through 10 |

# Restrictions on licensee's ability to use and benefit from license

- **Performance obligations that provide a customer with a right to access the entity's IP are satisfied over time. Entities should select an appropriate method to measure progress toward complete satisfaction of that performance obligation to provide access.**
- **Performance obligations that provide a customer with a right to use the entity's IP are satisfied at a point in time. These performance obligations are satisfied when the license transfers to the customer.**
- **Revenue cannot be recognized before both of the following occur:**
  - A copy of the IP is provided or made available to the customer
  - The beginning of the period during which the customer is able to use and benefit from its right to access or use the IP

# Restrictions on licensee's ability to use and benefit from license

- **M&E entities will have to apply judgment to determine when to recognize revenue if a contract includes restrictions on where and when a customer can distribute a product**
  - M&E entities will not recognize revenue before the street date if the customer cannot use and benefit from the license before that date
  - Revenue may be recognized before the street date when the customer can use and benefit from a license that is not restricted by the street date (e.g., when a manufacturer can distribute licensed film-related products before the film's street date)
  - This could result in a change from legacy practice
    - Under legacy film guidance in ASC 926-605, an entity cannot recognize revenue from licenses to film-related products until it releases the film

# Restrictions on licensee's ability to use and

## Approval rights

- M&E licensing arrangements may allow or require approval by the licensor for how a licensee uses the IP
- If the licensor determines that approval rights affect when the customer is able to use and benefit from its right to the IP, the licensor would not recognize revenue until the approval is granted. This could result in a change from legacy practice

## Renewals of licenses of IP

- Revenue related to the renewal of a license of IP may not be recognized prior to the beginning of the renewal period
- The requirement to wait to recognize revenue until the beginning of the renewal period is a change from legacy guidance

# Subsequently accruing rights to IP

## Scenario

On January 1, Year 1, Television Studio enters into a three-year contract with Broadcaster granting exclusive right to air TV Show in U.S. and Canada. However, because of an overlapping contract with a Canadian competitor, the rights to air TV Show in Canada do not begin until July 1, Year 1. Television Studio provides copy of TV Show immediately and Broadcaster can air in U.S. immediately.

## Evaluation

- Television Studio considers whether contract grants Broadcaster single license, subject to use restriction, or two licenses.
- Concludes provision in contract preventing Broadcaster from airing TV Show in Canada for first six months requires Television Studio to transfer additional rights on July 1, Year 1 that Broadcaster does not control.
- As such, Television Studio concludes that the contract includes two promised licenses.

# Attributes of a promised license

## Scenario

Assume same facts as previous Example, except that the rights to air TV Show in the U.S. and Canada both commence on January 1, Year 1. However, the terms of Broadcaster's rights to air TV Show extend only to three broadcasts of each TV Show episode in each territory during the three years and, as part of contract, Broadcaster agrees to not air certain types of advertisements during TV Show.

## Evaluation

- Term of license (three years), the geographical scope of license (U.S. and Canada), and usage limitations (three broadcasts of each TV Show episode per territory and restrictions on advertisements) define the scope of Broadcaster's rights.
- None of these provisions require Television Studio to transfer additional rights to use after January 1, Year 1.
- As such, Television Studio concludes that the contract is for a single license.

# Broken Windows

## Scenario

| Case 1 | Case 2 |
|---|---|
| Producer licenses a film to a broadcaster that has the right to air the film once a year for four years. | Distributor licenses a film to a broadcaster for years one through three and years eight through ten of a license period.<br>Rights can be licensed to a different customer in years four through seven. |

# Broken Windows (continued)

## Evaluation

### Case 1

One performance obligation:

- Once the customer controls the rights conveyed by that license, there is no additional promise for the licensor to fulfill.

### Case 2

Two performance obligations:

- Assume the gap between the two windows of availability (i.e., the period in which the customers rights have been revoked) is substantive.
- Distributor would need to evaluate whether it has made an additional promise to transfer the rights again in years eight through ten.

# Knowledge check 2

On January 1, Year 1, Music Studio enters into a two-year contract to license a digital album exclusively to Customer. The contract allows the digital album to be made available for download on Customer's music store in the U.S. and Canada beginning on January 1, Year 1. Which of the following statements is the best answer as it relates to the contractual restrictions in this example?

A. The contractual restrictions define the scope of Customer's rights (i.e. term of the license and geographical scope).

B. The contractual restrictions that define the attributes of the license affect whether the performance obligation is satisfied at a point in time or over time.

C. The contractual restrictions that define the attributes of the license result in an additional performance obligation.

D. There are no contractual restrictions in this example.

# Restrictions on use and benefit

**Approval rights**

M&E licensing arrangements may allow or require approval by the licensor for how a licensee uses the IP

If the licensor determines that approval rights affect when the customer is able to use and benefit from its right to the IP, the licensor would not recognize revenue until the approval is granted. This could result in a change from legacy practice.

**Street date**

M&E licensing arrangements often include restrictions on when the customer can distribute the IP (typically referred to as the “street date”)

M&E entities will not recognize revenue before the street date for licenses of IP if the customer cannot use and benefit from the license before that date.

# License renewal

Q

Does a renewal grant a new license or modify an existing license?

Q

When is the revenue for the new license recognized?

A

Always creates a new license.

A

When customer can *use and benefit* from the license (i.e., not before the beginning of the renewal period).

Revenue related to the renewal of a license of IP may not be recognized prior to the beginning of the renewal period. The requirement to wait to recognize revenue is a change from legacy guidance

# Knowledge check 3

Which of the following must occur before revenue associated with a license of IP can be recognized?

I. A copy of the IP is provided or made available to the customer.

II. The customer has provided their plan for using the IP.

III. The customer has utilized the IP.

IV. The beginning of the period during which the customer is able to use and benefit from its right to access or use the IP

**A. I and II**

**B. II and III**

**C. II and IV**

**D. I and IV**

# Sales- or usage-based royalty exception

Sales- or usage-based royalties received in exchange for licenses of IP are recognized at the later of when:

- Subsequent sale or usage occurs
- The performance obligation to which some or all of the sales- or usage-based royalty has been allocated is satisfied.

This royalty recognition constraint applies only when the sole or predominant item to which the royalty relates is a license of IP.

M&E entities will need to estimate royalties if actual sales or usage data is not available at the end of the reporting period.

- This will be a significant change in practice for entities that report on a lag under legacy practice.

Significant judgment will likely be required to estimate royalties if actual sales or usage data is not available. Licensors without this data will need to implement processes and controls to collect data and develop assumptions to make a reasonable estimate.

# Non-refundable minimum guarantees

Minimum guarantees generally represent fixed consideration and their accounting is not subject to the royalties constraint.

Licenses of functional IP

- The minimum guarantee is recognized at the point in time the entity transfers control of the license to the customer.
- The royalties above the fixed minimum would be recognized in accordance with the royalty recognition constraint.

Licenses of symbolic IP

- TRG discussed three approaches:
  - Estimate total consideration (fixed minimum and future royalties) and apply an appropriate measure of progress, subject to the royalty recognition constraint.
  - Apply a measure of progress to the fixed consideration and begin recognizing the variable component when the fixed amount is exceeded on a cumulative basis.
  - As-invoiced practical expedient would allow recognition of royalties when invoiced (only appropriate with evidence of exceeding the minimum)

Detailed examples in Section 10.11 of Handbook

# Knowledge check 4

Which of the following is NOT correct as it relates to sales- or usage-based royalties?

A. M&E entities will need to estimate royalties if actual sales or usage data is not available at the end of the reporting period.

B. The royalty recognition constraint applies only when the sole or predominant item to which the royalty relates is a license of IP.

C. Licensors will need to implement processes and controls to collect data and develop assumptions to make reasonable estimates of royalties if actual sales or usage data is not available.

D. Sales- or usage-based royalties received in exchange for licenses of IP are recognized at the earlier of when (1) subsequent sale or usage occurs; or (2) the performance obligation to which some or all of the sales- or usage-based royalty has been allocated is satisfied.

# Nonrefundable minimum guarantees – symbolic IP

- **A producer of an animated film enters into a five-year arrangement with a clothing manufacturer to license the film's character images (symbolic IP) for the production of film-related merchandise. The license requires the clothing manufacturer to pay a sales-based royalty of 5% of its gross sales. The contract also includes a guarantee that the producer will receive a minimum of $5m for the entire five-year period.**
- **The clothing manufacturer's related royalties each year are as follows (assume the entity's estimates equal actual royalties earned):**

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| Royalties received | 750 | 1,500 | 2,000 | 1,000 | 3,000 |
| Cumulative revenue | 750 | 2,250 | 4,250 | 5,250 | 8,250 |

**Total royalties equal $8.25m.***

*** The following example (Views A through C) is from TRG agenda paper no. 58.**

# Nonrefundable minimum guarantees – symbolic IP

**View A:**

Producer expects total royalties to exceed the minimum guarantee (MG), so it applies an appropriate measure of progress

Producer determines that an output-based measure is an appropriate measure of progress and applies the right to invoice practical expedient because the royalties due for each period correlate directly with the value to the customer of Producer's performance each period

— No estimation of the transaction price is required as long as Producer expects the royalties to exceed the MG

Producer recognizes revenue from the sales-based royalty when the customer's subsequent sales occur

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **Royalties received** | 750 | 1,500 | 2,000 | 1,000 | 3,000 |
| **Annual revenue** | 750 | 1,500 | 2,000 | 1,000 | 3,000 |
| **Cumulative revenue** | 750 | 2,250 | 4,250 | 5,250 | 8,250 |

# Nonrefundable minimum guarantees – symbolic IP

**View B:**

Producer estimates the transaction price (including fixed and variable consideration) for the contract and applies an appropriate measure of progress

Producer determines that time elapsed is an appropriate measure of progress

Producer recognizes revenue ratably over the five-year term, subject to the royalty recognition constraint (i.e., cumulative revenue recognized cannot exceed the cumulative royalties received)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **Royalties received** | 750 | 1,500 | 2,000 | 1,000 | 3,000 |
| **Royalties (cumulative)** | 750 | 2,250 | 4,250 | 5,250 | 8,250 |
| **Fixed + variable (ratable)*** | 1,650 | 1,650 | 1,650 | 1,650 | 1,650 |
| **Annual revenue** | 1,650 | 1,650 | 1,650 | 300 | 3,000 |
| **Cumulative revenue** | 1,650 | 3,300 | 4,950 | 5,250 | 8,250 |

* Assuming the producer's estimated transaction price (fixed and variable consideration) is $8.25m, the annual revenue that could be recognized is $1.65m per year ($8.25m divided by five years (contract term)).

# Nonrefundable minimum guarantees – symbolic IP

**View C:**

Producer recognizes the MG (fixed consideration) using an appropriate measure of progress and recognizes royalties only when cumulative royalties exceed the MG

Producer determines that time elapsed is an appropriate measure of progress

Producer applies the royalty recognition constraint to the sales-based royalties in excess of the MG (i.e., recognizes the royalties when the MG is exceeded on a cumulative basis)

The variable consideration (royalties in excess of the MG) is allocated to the distinct periods using the variable consideration allocation exception

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **Royalties received** | 750 | 1,500 | 2,000 | 1,000 | 3,000 |
| **Royalties (cumulative)** | 750 | 2,250 | 4,250 | 5,250 | 8,250 |
| **Fixed (ratable)*** | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| **Annual revenue** | 1,000 | 1,000 | 1,000 | 1,250 | 4,000 |
| **Cumulative revenue** | 1,000 | 2,000 | 3,000 | 4,250 | 8,250 |

* Because the MG is $5m over the contract term, the annual revenue (excluding royalties in excess of the MG) is $1m ($5m divided by five years (contract term)).

# Rights to advertising spots

**Scenario**

- Media Company (producer or distributor) licenses a 22-minute TV show to a broadcaster (TV station or cable network)
- TV show broadcasted within a 30-minute time slot that includes 8 minutes of advertising.
- Media Company receives cash + right to 4 minutes of advertising slots that it can sell to a third party. Advertising fee agreed with advertiser, based on ratings of the licensed content
- Current U.S. GAAP accounting: advertising revenue for the four minutes recognized when advertising airs. The cash fee is recognized as revenue when the licensed content is made available.

**When should the revenue from the 4-minute advertising be recognized?**

**Is this advertising non-cash consideration received for the license of functional IP?**

**Issue**

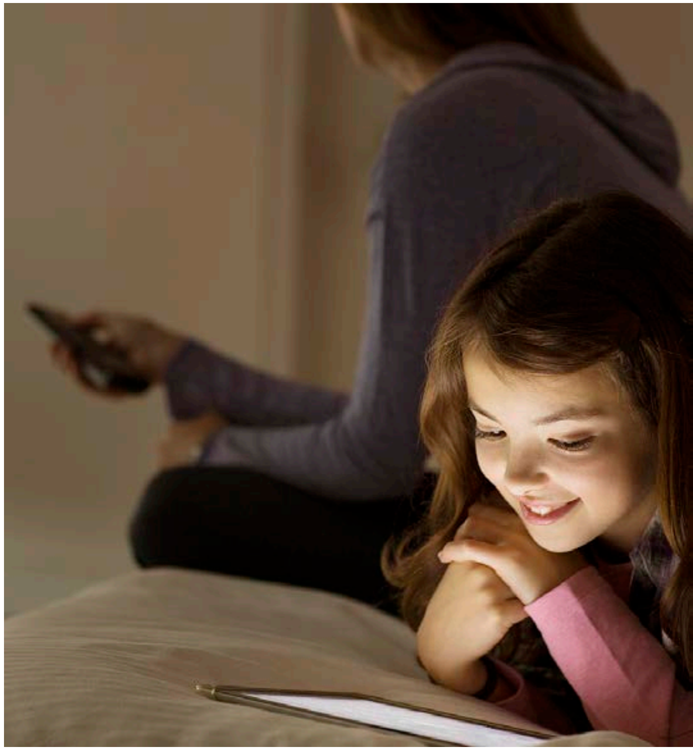
# Exchange of advertising - Advertising exchanged for content

- **A producer will need to determine the nature of the rights received from the network to sell the advertising spots**
  - Contingent payment based on the licensee's use of the IP:
    - — Producer records revenue for any fixed cash consideration when control of the license is transferred to the network
    - — Determine whether sales- or usage-based royalty recognition constraint may apply
  - An asset from the licensee:
    - — Producer accounts for the advertising time as noncash consideration, measured at fair value at contract inception
      - - Determining the fair value of the noncash consideration may be challenging
    - — Record revenue for the fair value of the advertising spots when the licensed content is aired by the network

# Exchange of advertising – advertising exchanged for advertising

- **Include the fair value of the advertising received, measured at contract inception, in the transaction price for the advertising sold**
  - Arrangement must meet criteria to be considered a contract with a customer (e.g., have commercial

Recognizing revenue for the fair value of the advertising received, instead of the advertising surrendered, will be a change from legacy guidance.



# Variable consideration and the constraint

- **Entities are required to estimate variable consideration when some or all of the transaction price varies (e.g., due to discounts, rebates, refunds, credits, incentives, bonuses or penalties, contingencies, price concessions)**
- **Entities will have to include in the transaction price any variable consideration for which it is probable that a significant reversal of cumulative revenue recognized will not occur in future periods**

**Example:** Ad Agency A enters into a six-month advertising campaign agreement ($500,000 fixed fee) with a potential $100,000 performance bonus linked to certain goals.

If Ad Agency A determines it is probable that a significant reversal of cumulative revenue will not occur, it will include the $100,000 in the transaction price. The agency will recognize revenue earlier than under legacy guidance, which requires goals to be met and the performance bonus to be achieved before the performance bonus can be recognized.

# Customer options for additional goods or services

- **Entities need to determine whether options to provide additional goods or services represent material rights, and, if so, account for them as separate performance obligations**
  - Evaluate whether the option is independent of the existing contract
    - — Option is not a material right if it is for a good or service priced at its standalone selling price
- **An entity will need to determine the standalone selling price of the material right, which may require estimation**
- **Nonrefundable up-front fees (e.g., installation fees)**
  - A customer’s ability to renew a contract without having to pay an activation or installation fee may represent a material right
  - The amount allocated to the material right will be recognized over the period of benefit

# Principal vs. agent considerations

- **When other parties are involved in providing goods or services to an M&E entity's customer, the M&E entity must determine whether it is acting as a principal or an agent:**
  - This analysis may be necessary for entities involved in co-production, co-distribution and advertising arrangements and digital providers that distribute content
- **The standard requires an entity to determine whether it controls the specified good or service**

Indicators of control by an entity (if not clear after considering the definition of control):

- ▶ Primarily responsible for fulfilling the promise to provide the good/service
- ▶ Has inventory risk before or after the good/service has been transferred to the customer
- ▶ Has discretion in establishing the price for the good/service

# Contract costs

- **Incremental costs to obtain a contract**
  - Capitalized if they are incremental and expected to be recovered
  - Refer to the applicable liability standard to determine when costs should be accrued
    — When accrued, evaluate whether costs meet criteria to be capitalized

- ► Assets are amortized over the period the goods or services are transferred and are subject to impairment review
- ► Impairment testing of capitalized contract costs
  - ► Include future cash flows associated with contract renewals

**Example:**

☑ Sales commissions directly related to obtaining new contracts – **capitalize**

☒ Bonuses based on other metrics (e.g., profitability, EPS) – **do not capitalize**

# Participation costs

- **Costs paid to parties involved in the production of a film (e.g., creative talent, such as actors or writers) based on the financial results of a film. ASC 926 requires that, as of each reporting date, accrued participation costs should not be less than the amounts that a producer is obligated to pay based on royalties collected and revenue recognized as of that date**
- **Changes in amounts allocated to individual performance obligations or changes in the timing of revenue recognition may affect when participation costs are accrued**

For example, participation costs may be affected by:

- ► The allocation of a minimum guarantee to individual films that are cross-collateralized
- ► Changes to the timing of recognition of a minimum guarantee and a sales-based royalty related to symbolic IP

# Thank you

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