Appendix – Examples

Example 1

Revenue Recognition for a Fixed Fee, Single Film License Arrangement (In Accordance With Paragraphs .15 and .27)

A-1. An entity grants to a customer a license for cable television broadcast rights for a single film. Assumptions are the following:

a. End of entity's fiscal year is December 31.

b. Contract execution date is July 31, 2000.

c. License period is January 1, 2001 to December 31, 2003.

d. The entity has met all of the revenue recognition conditions of paragraph .07 at January 1, 2001.

e. License fee is $19,000.

f. Payment schedule is $1,000 at contract execution date, $6,000 on each of January 1, 2001, 2002, and 2003. Payments are non-interest bearing.

g. Appropriate interest rate for computation of interest is 12 percent per year.

A-2. Income recognition is computed as follows:

	Revenue	Interest Income
Year 2000	$-	$-
Year 2001	17,140[1]	1,217[2]
Year 2002	-	643[3]
Year 2003	-	-
	$17,140	$1,860

[1] Sum of $1,000 paid on contract execution, $6,000 paid on January 1, 2001, plus the present value at 12 percent of the $6,000 payments due on January 1, 2002 and 2003.

[2] Interest at 12 percent for twelve months on a receivable (present valued) of $10,140.

[3] Interest at 12 percent for twelve months on a receivable (present valued) of $5,357.

Example 2

Allocation of Revenue for a Fixed Fee, Multiple Film Arrangement (In Accordance With Paragraph .16)

A-3. Assumptions are the following:

a. An entity grants to a customer the cable television broadcast rights to three films under a single licensing arrangement in a particular market and territory. The arrangement calls for a fixed license fee of $30,000. The arrangement provides for a pro-rata reduction in the license fee if Film 3 is not completed and made available for delivery.

b. At the date of the arrangement, Films 1 and 2 are complete; Film 3 is yet to be produced. An evaluation of the relative fair values of the licensed rights to Films 1 and 2 indicate that Film 1 should be assigned 55 percent of the fixed license fee and Film 2 should be assigned 45 percent of the fee. The amount potentially refundable if Film 3 is not completed and delivered is $10,000.

A-4. The entity should allocate the license fee as follows:

Film 1 = $11,000 ($30,000 license fee, less $10,000 potentially refundable for one incomplete film, multiplied by 55 percent)

Film 2 = $9,000 ($30,000 license fee, less $10,000 potentially refundable for one incomplete film, multiplied by 45 percent)

Film 3 = $10,000 (the refundable amount due if the film is not completed and made available for delivery)

A-5. The entity should recognize revenue on amounts allocated to each film in accordance with the provisions of this Statement of Position (SOP). If payments under such an arrangement are due in installments, applicable present value calculations should be performed, as illustrated in Example 1.

Example 3

Revenue Recognition for a Variable Fee, Single Film Arrangement With a Nonrefundable Minimum Guarantee (In Accordance With Paragraph .19)

A-6. Assumptions are the following:

a. An entity licenses to a customer the home video rights to one film for a period of two years. The licensing arrangement provides for a variable fee to the entity equal to 30 percent of the customer's gross receipts from the exploitation of this film during the license period. The licensing arrangement also requires the customer to pay the entity a $50,000 nonrefundable minimum guarantee against the variable fee.

b. For purposes of this example, assume that the customer generates gross receipts from the exploitation of the film equal to $100,000 in Year 1 and $80,000 in Year 2. Also, assume that the entity has met all other revenue recognition conditions of this SOP.

A-7. The entity should recognize revenue as follows:

	Nonrefundable Minimum Guarantee	*Variable License Fee*
Year 1	$ 50,000[1]	$ -[2]
Year 2	-	4,000[3]

[1] Amount is equal to the nonrefundable minimum guarantee

[2] No variable fee is recognizable in Year 1, as the variable fee ($100,000 gross receipts * 30 percent = $30,000) is less than the nonrefundable minimum guarantee.

[3] The cumulative variable fee is $54,000 [($100,000 + 80,000) * 30 percent], which exceeds the previously recognized nonrefundable minimum guarantee by $4,000. Accordingly, revenue for Year 2 is $4,000.

Example 4

Revenue Recognition for a Variable Fee, Multiple Film Arrangement With a Nonrefundable Minimum Guarantee (In Accordance With Paragraph .20)

A-8. Assumptions are the following:

a. An entity licenses to a customer the home video rights to five films for a period of three years. The licensing arrangement provides for a variable fee to the entity equal to 30 percent of the customer's gross receipts from the exploitation of the films during the license period. The licensing arrangement also requires the customer to pay the entity a $50,000 nonrefundable minimum guarantee against the variable fees for the five films. The variable fees are cross-collateralized for purposes of determining any amounts due in excess of the $50,000 nonrefundable minimum guarantee.

b. For purposes of this example, assume the customer generates revenue as follows:

	Film 1	Film 2	Film 3	Film 4	Film 5
Year 1	$30,000	$20,000	$10,000	$-	$-
Year 2	10,000	10,000	5,000	10,000	5,000
Year 3	10,000	10,000	5,000	10,000	5,000
Total	$50,000	$40,000	$20,000	$20,000	$10,000

A-9. In this example, the entity cannot recognize the nonrefundable minimum guarantee as revenue upon the inception of the license period due to the cross-collateralization provisions of the arrangement. Instead, the entity should recognize revenue on a variable fee basis. The entity should recognize revenue as follows:

	Film 1	Film 2	Film 3	Film 4	Film 5	Total
Year 1(1)	$9,000	$6,000	$3,000	$ -	$ -	$18,000
Year 2(1)	3,000	3,000	1,500	3,000	1,500	12,000
Year 3(1)	3,000	3,000	1,500	3,000	1,500	12,000
Subtotal	$15,000	$12,000	$6,000	$6,000	$3,000	$42,000
Year 3, at end of license period(2)	2,857	2,286	1,143	1,143	571	8,000
Total	$17,857	$14,286	$7,143	$7,143	$3,571	$50,000

1 Amounts are computed using 30 percent of the customer's gross receipts for the applicable films and periods.

2 The cumulative amount of the entity's variable fees earned is less than the nonrefundable minimum guarantee. The excess ($8,000) of the nonrefundable minimum guarantee over cumulative earned revenue is recognized at the end of the license period, and is allocated to the individual films based on their relative cumulative variable fees.

Example 5

Illustration of the Individual-Film-Forecast Method of Amortization, for a Film in Its Initial Year of Release (In Accordance With Paragraph .34)

A-10. Assumptions are the following:

a. Film cost - $50,000

b. Estimated ultimate revenue - $100,000

c. Actual revenue earned in Year 1 - $60,000

d. Estimated ultimate participation costs - $10,000

A-11. Film Cost amortization in Year 1:

$$\frac{\$60{,}000 \text{ earned revenue}}{\$100{,}000 \text{ ultimate revenue}} * \$50{,}000 \text{ film cost} = \$30{,}000$$

A-12. Participation costs accrued in Year 1:

$$\frac{\$60{,}000 \text{ earned revenue}}{\$100{,}000 \text{ ultimate revenue}} * \$10{,}000 \text{ ultimate participation costs} = \$6{,}000$$

Example 6

Illustration of the Individual-Film-Forecast Method of Amortization, for a Film Where Estimates Are Revised Subsequent to the Initial Year of Release (In Accordance With Paragraph .36)

A-13. Assumptions are the following:

a. Film cost is $50,000

b. Estimated ultimate revenue:
- Year 1 - $100,000
- Year 2 - $90,000 (Note: not the remaining ultimate revenue starting from this year)

c. Actual revenue earned:
- In Year 1 - $60,000
- In Year 2 - $10,000

d. Estimated ultimate participation costs:
- Year 1 - $10,000
- Year 2 - $9,000 (Note: not the remaining ultimate participation costs starting from this year)

e. For Year 1, film cost amortization was $30,000 and participation costs accrued were $6,000.

A-14. Film Cost amortization in Year 2:

$$\frac{\$10{,}000 \text{ earned revenue}}{\$30{,}000 \text{ remaining ultimate revenue}^{(1)}} * \$20{,}000 \text{ unamortized film costs}^{(2)} = \$6{,}667$$

A-15. Participation costs accrued in Year 2:

$$\frac{\$10{,}000 \text{ earned revenue}}{\$30{,}000 \text{ remaining ultimate revenue}^{(1)}} * \$3{,}000 \text{ remaining ultimate participation costs}^{(3)} = \$1{,}000$$

[1] Computed as follows: Year 2 revised ultimate revenue of $90,000 minus cumulative prior earned revenue of $60,000.

[2] Computed as follows: Film cost of $50,000 minus cumulative prior amortization of $30,000.

[3] Computed as follows: Year 2 revised ultimate participation expense of $9,000 minus cumulative prior accrual of $6,000.

Example 7

Adjustment of a Participation Liability That Is in Excess of a Revised Estimate of Amounts Ultimately Payable (In Accordance With Paragraph .41)

A-16. In accordance with paragraph .41 of this SOP, a participation liability that exceeds the unpaid amount expected to be ultimately payable should be offset against the remaining carrying value of the corresponding film. This scenario can result from changes in ultimate revenue and cost estimates that result in reduced expectations of ultimate participation costs.

A-17. Assumptions are the following:

a. Film cost - $50,000.

b. Estimated ultimate revenue:
- Year 1 - $100,000
- Year 2 - $80,000

c. Actual revenue earned:
- In Year 1 - $60,000
- In Year 2 - $10,000

d. Estimated ultimate participation costs:
- Year 1 - $10,000
- Year 2 - $0

e. For Year 1, film cost amortization was $30,000, and participation costs

accrued were $6,000.

A-18. Adjustments of Participation Liability and Film Costs in Year 2:

	Unamortized Film Costs	*Participation Liability*
Balance at end of Year 1	$ 20,000	$ 6,000
Adjustment to eliminate excess liability	(6,000)	(6,000)
Adjusted balances	$ 14,000	$ -

A-19. Film Cost amortization in Year 2:

$10,000 earned revenue / $20,000 remaining ultimate revenue(2) * $14,000 unamortized film costs(2) = $7,000

A-20. Participation costs accrued in Year 2:

$10,000 earned revenue / $20,000 remaining ultimate revenue(1) * $0 remaining ultimate participation costs(3) = $0

[1] Computed as follows: Year 2 revised ultimate revenue of $80,000 minus cumulative prior earned revenue of $60,000.

[2] Computed as follows: Film cost of $50,000 minus cumulative prior amortization of $30,000 and minus the excess participation liability adjustment of $6,000.

[3] Estimated ultimate participation costs were reduced to $0 in Year 2; accordingly, the excess liability was reversed and no further accruals are required.

Example 8

Accounting for Costs of Episodic Television Production Prior to the Establishment of Secondary Market Revenue Estimates (In Accordance With Paragraph .33)

A-21. Assumptions are the following:

a. An episodic television series is in its first year of production

b. Secondary market revenue estimable – none

c. Cost of production, per episode after the first episode - $700 (assume that most of the set costs were accounted for as part of the first episode, which is not illustrated in this example)

d. Exploitation costs, per episode - $5

e. Estimated ultimate revenue per episode:

Contracted -- $400

A-22. Secondary market revenue is not estimable per the provisions of paragraph .39(*b*). Accordingly, capitalization of film costs is limited as follows:

	Per Episode
Revenue contracted	$400
Production costs to be capitalized	$400
Exploitation costs expensed	$5
Production costs to be charged directly to expense	$300[1]

[1] Computed as follows: Total cost of production of $700, less costs to be capitalized of $400.

Example 9

Illustration of the Individual-Film-Forecast Method of Amortization, for an Episodic Television Series (In Accordance With Paragraph .37)

A-23. Assumptions are the following:

a. An entity produces and distributes an episodic television series. Five seasons of the series are ultimately produced.

b. The entity's fiscal year end corresponds directly with the completion of each production season.

c. The beginning of Season 4 is when secondary market revenue estimates are initially established.

d. Costs of production are the following:

Seasons 1 to 3	$36,000 (fully expensed prior to Season 4)
Season 4	$16,000
Season 5	$18,000

e. Earned and remaining ultimate revenues are the following:

As of Season 4

Earned and reported in Season 4	$8,000
Earned and reported in Season 5	N/A
Remaining ultimate revenue, Seasons 1 to 4	$40,000
Remaining ultimate revenue, Season 5	N/A
	$48,000

As of Season 5

Earned and reported in Season 4	N/A
Earned and reported in Season 5	$11,000
Remaining ultimate revenue, Seasons 1 to 4	$40,000
Remaining ultimate revenue, Season 5	$10,000
	$61,000

f. Ultimate participation costs are as follows:

As of Seasons 1 to 3	$ 0
As of Season 4	$2,000
As of Season 5	$3,000

A-24. Amortization of film costs in accordance with paragraph .37 of this SOP is determined as follows for Seasons 4 and 5:

Season 4	\$8,000[1] / \$48,000[2]	x	\$16,000[3]	=	\$2,667
Season 5	\$11,000[1] / \$61,000[2]	x	\$31,333[4]	=	\$5,650

A-25. Accrual of participation costs is determined as follows:

Season 4	\$8,000[1] / \$48,000[2]	x	\$2,000[5]	=	\$333
Season 5	\$11,000[1] / \$61,000[2]	x	\$2,667[6]	=	\$481

[1] Earned and reported revenue during the current season.

[2] Remaining ultimate revenue at the beginning of the current season.

[3] Remaining unamortized film costs at the beginning of Season 4 (\$0 from Seasons 1 to 3, plus the cost of production of Season 4).

[4] Remaining unamortized film costs at the beginning of Season 5 (\$13,333 unamortized as of the end of Season 4 plus the \$18,000 cost of production of Season 5).

[5] Remaining unaccrued participation costs at the beginning of Season 4.

[6] Remaining unaccrued participation costs at the beginning of Season 5 (ultimate cost of \$3,000, less prior cumulative accrual of \$333).