Members of the Emerging Issues Task Force (EITF or Task Force) reached consensuses-for-exposure on two issues. The consensuses-for-exposure are subject to ratification by the Financial Accounting Standards Board (FASB) at an October 2018 meeting.

The Task Force reached consensuses-for-exposure on the following issues:

- **Issue 18-A**: The Task Force decided that the acquiring entity in a business combination accounted for under Accounting Standards Codification (ASC) 805 should recognize an assumed liability in a contract with a customer if it meets the definition of a performance obligation in ASC 606.2

- **Issue 18-B**: The Task Force decided that entities that produce episodic television series should capitalize production costs using the guidance in ASC 926-203 that applies to film production costs. The Task Force also decided that the amortization guidance should be amended to require prospective adjustments for changes in estimates of the use of a film. In addition, the Task Force decided that the impairment guidance should be amended to align the impairment models in ASC 926-20 and 920-3504 with the fair value model in ASC 926-20, specify the unit of account and identify impairment indicators that should be used for impairment testing.

The Task Force also discussed but didn’t reach a consensus-for-exposure on the measurement of an assumed liability in a revenue contract in a business combination. Instead, the Task Force asked the staff to draft a discussion paper that would seek feedback from stakeholders on this topic. The Task Force will discuss the topic again at a later date.
Consensus-for-exposure

Issue 18-A: Recognition under Topic 805 for an Assumed Liability in a Revenue Contract

What’s the issue?

ASC 805 requires the acquirer in a business combination to recognize and measure the identifiable assets it acquires, the liabilities it assumes and any noncontrolling interest in the acquiree at fair value (with certain limited exceptions). Because the new revenue standard (ASC 606) defines a performance obligation more broadly than what is known in practice as a legal performance obligation, questions have arisen about when an assumed liability in a revenue contract (i.e., deferred revenue) should be recognized.

Acquirers historically have recognized deferred revenue in a business combination if they determined that they had a legal performance obligation to transfer goods or services to a customer under the related revenue contract. That’s because ASC 805 does not provide guidance on recognizing and measuring deferred revenue in a business combination.

ASC 606 defines a performance obligation in the Codification for the first time, and the definition of a performance obligation is broader than an obligation that is legally enforceable (e.g., a performance obligation could include a constructive obligation to provide maintenance and support of symbolic intellectual property). As a result, stakeholders questioned whether they should recognize assumed liabilities in an acquired revenue contract when they have a performance obligation under ASC 606 or a legal performance obligation. Stakeholders also asked for clarifications on how liabilities should be measured.

The Task Force decided to move ahead with its consensus-for-exposure that once acquiring entities in business combinations adopt the new revenue standard, they should recognize an assumed liability in a contract with a customer if it meets the definition of a performance obligation in ASC 606.

The Task Force also discussed but didn't reach a consensus-for-exposure on how acquiring entities should measure a liability assumed in a business combination related to a contract with a customer. Instead, the Task Force asked the staff to draft a discussion paper seeking feedback from stakeholders. The discussion paper will address a number of measurement questions, including some the Task Force previously discussed. The questions will include whether the payment terms (e.g., timing of payment) should affect the amount of revenue recognized by an acquiring entity and whether an entity should consider the assets and liabilities included in the acquired set of assets and activities when determining the fair value of all contract liabilities.

Effective date and transition

The consensus-for-exposure would be applied prospectively to all business combinations on or after the effective date of a final standard. The Task Force will discuss an effective date after it considers feedback on the consensus-for-exposure.
Consensus-for-exposure

Issue 18-B: Improvements to Accounting for Episodic Television Series

What’s the issue?

ASC 926-20 limits 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. However, producers of films are not subject to a similar constraint. Secondary market revenues include, for example, revenues earned from the license of content in territories other than the initial market and from the license of content on streaming platforms.

Some entities have questioned whether the constraint on the capitalization of costs for episodic television series is still relevant because some online video distributors monetize content only on their own platform and do not intend to license their content in a secondary market. These entities say the distribution of a film and an episodic television series should be treated the same because they generally produce and deliver the content to the consumer in the same manner (e.g., they develop and release an entire season of episodic content at once, which they view as similar to the release of a film).

The Task Force reached a consensus-for-exposure to align the cost capitalization guidance for episodic television series with the guidance for films in ASC 926-20 by eliminating the requirement that an entity’s capitalization of costs for an episodic television series be limited to contracted revenues until it has persuasive evidence that a secondary market exists.

Under the Task Force’s approach, the amortization guidance in ASC 926-20 would be amended to require entities to review the estimate of the remaining use of a film at each reporting date, and prospectively amortize changes in the estimate over the revised remaining use of the film.

The Task Force decided that the guidance in ASC 926-20 should be amended to require that the unit of account for impairment testing be the lowest level for which identifiable cash flows are largely independent of the cash flows of other films or license agreements. In some cases, this assessment would be at the individual film level, and in other cases, it would be at the film group level. This would allow entities with limited or no direct revenues associated with individual film titles to use a unit of account that is consistent with their monetization strategy (e.g., film group).

The Task Force also decided that the definition of a film group should be clarified to include licensed content under ASC 920-350 because entities often monetize produced and licensed content together. Entities would apply separate impairment indicators for an individual film and a film group, depending on their identified unit of account.

The Task Force also decided that the impairment models in ASC 926-20 and 920-350 should be aligned with the fair value model in ASC 926-20 so that licensed and produced content within the same film group would be tested for impairment as a combined unit of account.

The Task Force further decided that the requirement to classify content assets as noncurrent under ASC 926-20 and current or noncurrent based on estimated time of usage under ASC 920-350 should be eliminated. However, the Task Force decided that the current requirement for licensed or produced content to be separately disclosed on the face of the balance sheet or in the notes to the financial statements should be maintained. The Task Force also decided that an entity should provide certain quantitative and qualitative disclosures about the key characteristics of produced and licensed content, including the amortization and impairment of film costs (assuming they are material).
How we see it
The distribution channels for video content have evolved, blurring the lines between traditional film companies and streaming services. Modernizing the accounting and disclosure requirements for both licensed and produced content would help investors better understand an entity’s portfolio of content and compare information about licensed and produced content.

Effective date and transition
The Task Force tentatively decided that entities should apply the consensus-for-exposure that would amend the guidance on impairment, amortization, and presentation and disclosure prospectively to all costs that are incurred on or after the effective date of a final standard. The Task Force will discuss an effective date after it considers feedback on the consensus-for-exposure.

Endnotes:

1  ASC 805, Business Combinations.
2  ASC 606, Revenue from Contracts with Customers.
3  ASC 926-20, Entertainment – Films, Other Assets – Film Costs.
4  ASC 920-350, Entertainment – Broadcasters, Intangibles – Goodwill and Other.
5  The concept of a legal performance obligation is leveraged from previously existing guidance in EITF 01-3, Accounting in a Business Combination for Deferred Revenue of an Acquiree.