Members of the Emerging Issues Task Force (EITF or Task Force) reached a final consensus on one issue. The final consensus is subject to ratification by the Financial Accounting Standards Board (FASB) at a future meeting.

The Task Force reached a final consensus on the following issue:

- Issue 18-B: The Task Force affirmed its decision that entities that produce episodic television series should capitalize production costs using the guidance in Accounting Standards Codification (ASC) 926-20 that applies to film production costs. The Task Force also affirmed its decision that the amortization guidance in ASC 926-20 should be amended to require prospective adjustments for changes in estimates of the use of a film. In addition, the Task Force affirmed its decision that the impairment guidance should be amended to align the impairment models in ASC 926-20 and ASC 920-350 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.
Final consensus

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. In contrast, producers of films can capitalize film costs without having any evidence of a secondary market. 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).

In its final consensus, the Task Force affirmed its decision 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 also affirmed its decision 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 (i.e., individual film level or 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 affirmed its previous decision 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. In addition, the Task Force affirmed its decision that the impairment models in ASC 926-20 and ASC 920-350 should be aligned with the fair value model in ASC 926-20.

In a change from its consensus for exposure, the Task Force decided to require an entity to reassess the predominant monetization strategy of a film when certain changes in the monetization strategy occur. During the meeting, the FASB staff said that it would describe the type of changes that require an entity to reassess the predominant monetization strategy of a film in the final Accounting Standards Update. Under the Task Force’s approach, entities would be required to test the film for impairment in those circumstances.

The Task Force also affirmed its decision to eliminate 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.
The Task Force also affirmed its decision 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).

In response to comment letters received on the exposure draft, the Task Force decided to amend the guidance in ASC 920 to require entities to classify cash flows for licensed content as cash flows from operating activities within the statement of cash flows. This change would align the cash flow classification requirements in ASC 920 with the requirements in ASC 926.

**How we see it**

The entertainment industry has evolved, blurring the lines between traditional film companies and streaming services. Modernizing the accounting to allow entities to capitalize more production costs for episodic television series would address the significant changes to the entertainment industry’s production and distribution models.

**Effective date and transition**

Entities would apply the final consensus prospectively as of the beginning of the interim period that includes the adoption date.

The final consensus would be effective for public business entities (PBEs) for fiscal years beginning after 15 December 2019, and interim periods within those years. For entities other than PBEs, the final consensus would be effective for fiscal years beginning after 15 December 2020, and interim periods within those fiscal years. Early adoption would be permitted.

**Endnotes:**

1. ASC 926-20, *Entertainment—Films—Other Assets—Film Costs*.