Statement of Financial Accounting Standards No. 53

Note: This Statement has been completely superseded

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FAS53 Summary

Financial Reporting by Producers and Distributors of Motion Picture Films

December 1981

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

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Distributors of Motion Picture Films

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Paragraph Numbers

FAS 53: Financial Reporting by Producers and Distributors of Motion Picture Films

FAS 53 Summary

This Statement extracts the specialized accounting principles and practices from the AICPA Industry Accounting Guide, *Accounting for Motion Picture Films,* and AICPA Statement of Position 79-4, *Accounting for Motion Picture Films,* and establishes standards of financial accounting and reporting for producers and distributors of motion picture films. Exhibition rights transferred under license agreements for television program material shall be accounted for like sales by the licensor. The sale shall be recognized by the licensor when the license period begins and certain specified conditions have been met. Producers and distributors that license film exhibition rights to movie theaters generally shall recognize revenue when the films are shown. This Statement also describes how producers and distributors shall account for film costs and participation agreements.

INTRODUCTION

1. As discussed in FASB Statement No. 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters,* the FASB is extracting the specialized [1] accounting and reporting principles and practices from AICPA Statements of Position (SOPs) and Guides on accounting and auditing matters and issuing them in FASB Statements after appropriate due process. This Statement extracts the specialized principles and practices from the AICPA Industry Accounting Guide, *Accounting for Motion Pictures Films,* (Guide), and SOP 79-4, *Accounting for Motion Picture Films,* and establishes financial accounting and reporting standards for **producers** [2] and **distributors** of **motion picture films** (films).

2. The Board has concluded that it can reach an informed decision on the basis of existing information without a public hearing and that the effective date and transition specified in paragraph 25 are advisable in the circumstances.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Revenue

Films Licensed to Movie Theaters

3. Motion picture exhibition rights are generally sold (licensed) to theaters on the basis of a percentage of the box office receipts or for a flat fee in some markets. In certain instances, the licensor may receive a nonrefundable guarantee against a percentage of the box office receipts. In some markets, for example in many foreign markets, those guarantees are essentially outright sales because the licensor has no reasonable expectations of receiving additional revenues based on percentages of box office receipts, particularly where there is a lack of control over distribution.

4. A licensor shall recognize revenues on the dates of exhibition for both percentage and flat fee engagements. In most cases, nonrefundable guarantees shall be deferred in the accounts and recognized as revenues on the dates of exhibition. Guarantees that are, in substance, outright sales, shall be recognized as revenue if the conditions specified in paragraph 6 are met.

Films Licensed to Television

5. Motion pictures companies and **independent producers** and distributors (licensors) shall consider a **license agreement for television program material** as a sale of a right or a group of rights.

6. A licensor shall recognize revenue from a license agreement for television program material when the license period begins *and* all of the following conditions have been met:

a. The license fee for each film is known.
b. The cost of each film is known or reasonably determinable.
c. Collectibility of the full license fee is reasonably assured.
d. The film has been accepted by the licensee in accordance with the conditions of the license agreement.
e. The film is available for its first showing or telecast. Unless a conflicting license prevents usage by the licensee, restrictions under the same license agreement or another license agreement with the same licensee on the timing of subsequent showings shall not affect this condition.

7. Ordinarily, when the conditions specified in paragraph 6 are met, both the licensee and licensor are contractually obligated under a noncancelable license agreement and are able to

perform in compliance with all the significant terms of the license agreement. If significant factors raise doubt about the obligation or ability of either party to perform under the agreement, revenue recognition shall be delayed until such factors no longer exist. Insignificant factors, such as the actual delivery of an existing print of a previously accepted film, are not a sufficient basis for delaying revenue recognition. Amendments to an existing license shall receive appropriate accounting recognition consistent with the accounting described in this Statement.

8. Revenues from the licensing of a film shall be recognized in the same sequence as the **market**-by-market exploitation of the film and at the time the licensee is able to exercise rights under the agreement. That time would be the later of the commencement of the license period (the right then being exercisable by the licensee) or the expiration of a conflicting license (the right then being deliverable by the licensor).

9. The amount of the license fee for each film ordinarily is specified in the contract, and the present value of that amount, computed in accordance with the provisions of APB Opinion No. 21, *Interest on Receivables and Payables,* generally shall be used as the sales price for each film.

Costs and Expenses

Production Costs

10. Costs to produce a film (**production costs**) shall be capitalized as film cost inventory and shall be amortized using the individual-film-forecast-computation method (paragraphs 11 and 12 and Appendix D). The periodic-table- computation method (paragraph 13) may be used if the result would approximate the result achieved using the individual-film-forecast-computation method. Amortization shall reasonably relate the film costs to the gross revenues reported and shall yield a constant rate of gross profit before period expenses. Amortization of film costs shall begin when a film is released and revenues on that film are recognized.

11. The individual-film-forecast-computation method amortizes film costs in the same ratio that current gross revenues bear to anticipated total gross revenues. That method requires the determination of a fraction, the numerator being gross revenues from the film for the period and the denominator being the anticipated total gross revenues from the film during its useful life, including future estimated total gross revenues from exploitation in all markets. Estimated revenues from the sale of long-term, noninterest-bearing television exhibition rights shall be included in the denominator in an amount equal to the total estimated present value of those revenues as of the date they are expected to be recognized, computed in accordance with the provisions of Opinion 21. Accordingly, in the period those revenues are recognized, the numerator shall include only that present value (not gross proceeds). The resulting fraction is applied to production and other capitalized film costs to determine the amortization for each period.

12. Due to the uncertainties in the estimating process, anticipated total gross revenues may vary from actual total gross revenues. Estimates of anticipated total gross revenues shall be reviewed periodically and revised when necessary to reflect more current information. When anticipated total gross revenues are revised, a new denominator shall be determined to include only the anticipated total gross revenues from the beginning of the current year; the numerator (actual gross revenues for the current period) is not affected. The revised fraction is applied to the unrecovered film costs (production and other capitalized film costs) as of the beginning of the current year.

13. The periodic-table-computation method amortizes film costs using tables prepared from the historic revenue patterns of a large group of films. That revenue pattern is assumed to provide a reasonable guide to the experience of succeeding groups of films produced and distributed under similar conditions. The periodic-table-computation method ordinarily is used only to amortize that portion of film costs relating to film rights licensed to movie theaters, and film costs accordingly shall be allocated between those markets for which the table is used and other markets. If that method is used to amortize film costs, the periodic tables shall be reviewed regularly and updated whenever revenue patterns change significantly. Such tables shall not be used for a film whose distribution pattern differs significantly from those used in compiling the table, for example, a film released for reserved seat theater exhibition.

Participations

14. If it is anticipated that compensation will be payable under a **participation** agreement, including residuals, the total expected participation shall be charged to expense in the same manner as amortization of production costs as described in paragraphs 10-13, that is, in the same ratio as current gross revenues bear to anticipated total gross revenues.

Exploitation Costs

15. Costs incurred to exploit a film (**exploitation costs**) that clearly benefit future periods shall be capitalized as film cost inventory and amortized as described in paragraphs 10-13. Examples of those costs are film prints, and prerelease and early release advertising that is expected to benefit the film in future markets. Cooperative or other forms of local advertising that are not clearly expected to benefit the film in future markets, and rent, salaries, and other expenses of distribution shall be charged to expense in the period incurred.

Inventory Valuation

16. Unamortized production and exploitation costs shall be compared with **net realizable value** each reporting period on a film-by-film basis. If estimated future gross revenues from a film are not sufficient to recover the unamortized film costs, other direct distribution expenses, and participations, the unamortized film costs shall be written down to net realizable value. Film costs that are written down to net realizable value during a fiscal year may be written back up during that same fiscal year in an amount not to exceed the current year write-down, if the motion picture company increases its estimate of future gross revenues. The adjustments shall

be recorded in the interim period in which the revised estimates are made; previously reported interim amounts shall not be restated. Film costs that are reduced to net realizable value at the end of a fiscal year shall not be written back up in subsequent fiscal years. In unusual cases, such as a change in public acceptance of certain types of films or actual costs substantially in excess of budgeted costs, a write-down to net realizable value may be required before the film is released.

Story Costs and Scenarios

17. The cost of film inventories ordinarily includes expenditures for properties, such as film rights to books, stage plays, original screenplays, etc. The stories and scenarios generally must be adapted to the production techniques for motion picture films. The cost of the adaptation is included in the cost of the particular property. Those properties shall be reviewed periodically and, if it is determined that a property will not be used in the production of a film, the cost shall be charged to production overhead in the current period. There is a presumption that story costs shall be charged to production overhead if the property has been held for three years and has not been set for production. Once charged off, story costs shall not be reinstated if subsequently set for production.

Investments in Films Produced by Independent Producers

18. Cash advances made by motion picture companies to independent producers shall be included in film cost inventory of the motion picture company. Amounts of loans to independent producers that are guaranteed by a motion picture company shall be recorded by the motion picture company as film cost inventory and as a liability when funds are disbursed. Revenues and expenses shall be accounted for and reported following the same principles described in paragraphs 3-17.

Balance Sheet Classification

19. A license agreement for sale of film rights for television exhibition shall not be reported on the balance sheet until the time of revenue recognition. Amounts received on such agreements prior to revenue recognition shall be reported as advance payments and included in current liabilities, if those advance payments relate to film cost inventory classified as current assets.

20. Either a classified or unclassified balance sheet may be presented. If a classified balance sheet is presented, film costs shall be segregated on the balance sheet between current and noncurrent assets. The following film costs shall be classified as current assets: unamortized costs of film inventory released and allocated to the primary market, completed films not released (reduced by the portion allocated to secondary markets), and television films in production that are under contract of sale. All other capitalized film costs shall be classified as noncurrent assets.

21. The allocated portion of film costs expected to be realized from secondary television or other exploitation shall be reported as a noncurrent asset and amortized as revenues are recorded.

Home Viewing Market

22. Motion picture companies may earn additional revenues by licensing films to the **home viewing market**. Some of those transactions have characteristics similar to the transactions described in paragraph 3 of this Statement and some have characteristics similar to the transactions described in paragraph 5. Accordingly, programs licensed to the home viewing market shall be reported as described in paragraphs 3-21, as appropriate.

Disclosure

23. The components of film inventories (including films released, completed but not released, and in process and story rights and scenarios) shall be disclosed.

Amendment to FASB Statement No. 32

24. The references to the AICPA Industry Accounting guide, *Accounting for Motion Picture Films,* and AICPA Statement of Position 79-4, *Accounting for Motion Picture Films,* are deleted from Appendix A of Statement 32.

Effective Date and Transition

25. This Statement shall be effective for financial statements for fiscal years beginning after December 15, 1981, with earlier application encouraged. Restatement of previously issued financial statements to conform to the provisions of this Statement is encouraged but not required.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Donald J Kirk, *Chairman*
Frank E. Block
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

Appendix A: GLOSSARY

26. This appendix defines certain terms that are used in this Statement.

Distributor

A film distributor owns the rights to distribute films, which are sold (licensed) to movie theaters, individual television stations, groups of stations, networks, or others. This definition excludes syndicators or other independent sales organizations that act only as sales agents for producers or owners of films under agreements that do not call for the sharing of profits.

Exploitation Costs

Exploitation costs are costs incurred during the final production phase and during the release periods of films in both primary and secondary markets. Examples of such costs are film prints, advertising, rents, salaries, and other distribution expenses.

Home Viewing Market

The home viewing market includes all means by which films are sold or otherwise made available to residential viewers for a fee. Examples are video cassettes and disks and all forms of pay television, including cable and over-the-air transmission.

Independent Producer

Motion picture companies frequently advance funds or guarantee loans for the production of films by independent producers. Certain legal rights of ownership, including the copyright, may be retained by the independent producer. The motion picture company frequently has a participation in the net revenues from the film and generally has additional attributes of ownership, such as the right to exploit the film and the risk of loss. The financing arrangement usually provides that the production loan by the motion picture company (or the guaranteed loan) is repayable only from the revenues from the particular film. The independent producer does not have general liability with respect to such a loan. Consequently, the motion picture company bears substantially all the risks of ownership.

License Agreement for Television Program Material

A typical license agreement for television program material covers several films (a package) and grants a broadcaster (licensee) the right to telecast either a specified number or an unlimited number of showings over a maximum period of time (license period) for a specified fee. Ordinarily, the fee is paid in installments over a period generally shorter than the license period. The agreement usually contains a separate license for each film in the package. The license expires at the earlier of the last allowed telecast or the end of the license period. The licensee pays the required fee whether or not the rights are exercised. If the licensee does not exercise the contractual rights, the rights revert to the licensor with no refund to the licensee. The license period generally is not intended to provide continued use of the film throughout that period but rather to define a reasonable period of time within which the licensee can exercise the limited rights to use the film.

Market

The first market in which a film is exploited is called the primary market because that is the market for which a film principally is produced. All other exploitation is in the secondary market. Generally, the markets are mutually exclusive; that is, a film cannot be exploited in more than one market at a time, because of the contract terms or sound marketing techniques.

There is only one first-run telecast of a particular film in a given market, and film rights are marketed in a manner to avoid conflict in a given market. For example, conflict may exist in a market between (a) theaters and television stations, (b) premium cable or broadcast subscription television and network television, (c) network television and local stations, and (d) two or more local stations within the market area. To avoid conflict between theaters and television, a producer may impose restrictions on distribution that would prohibit the licensing of the film for television while the film is being shown in movie theaters.

The market in which a film is exhibited is a prime determinant of the value of the film. A film's previous exposure in a market will generally have an effect on the price the exhibitor is willing to pay for exhibition rights. In addition, the size and demographics of a particular market and the audience's acceptance of the film affect the price that a telecaster can charge for advertising time.

Motion Picture Film (Film)

The term film refers to all types of films and video cassettes and disks, including features, television specials, series, and cartoons that are (a) exhibited in the theaters; (b) licensed for exhibition by individual television stations, groups of stations, networks, cable television systems, or other means; or (c) licensed for the home viewing market.

Net Realizable Value

Net realizable value is the estimated selling price (rental value) in the ordinary course of business less estimated costs to complete and exploit in a manner consistent with realization of that income.

Participation

Frequently, persons involved in the production of a motion picture film are compensated, in part or in full, with a participation in the income from the film. Determination of the amount of compensation payable to the participant is usually based on percentages of revenues or profits from the film from some or all sources. Television residuals are comparable to participations and are generally based on the number of times the film is exhibited on television or as a percentage of revenues from such exhibition.

Producer

A film producer is an individual or a motion picture company that produces films for exhibition in movie theaters, on television, or elsewhere.

Production Costs

Production costs include the cost of a story and scenario to be used for a film and other costs to produce a film, for example, salaries of cast, directors, producers, extras, and miscellaneous staff; cost of set construction and operations, wardrobe, and all accessories; cost of sound synchronization; production overhead, including depreciation and amortization of studio equipment and leasehold improvements used in production; and rental of facilities on location. Production costs ordinarily are accumulated by individual films in four chronological steps: (a) acquisition of the story rights; (b) preproduction, which includes script development, costume design, and set design and construction; (c) principal photography, which includes shooting the film; and (d) postproduction which includes sound synchronization, and editing, culminating in a completed master negative.

Appendix B: BACKGROUND INFORMATION AND SUMMARY OF CONSIDERATION OF COMMENTS ON EXPOSURE DRAFT

27. This Statement extracts the specialized accounting and reporting principles and practices from the Motion Picture Guide and SOP 79-4 and codifies them as FASB standards without significant change. Board members have assented to the issuance of this Statement on the basis that it is an appropriate extraction of those existing specialized principles and practices and that a comprehensive reconsideration of those principles and practices was not contemplated in the undertaking of this FASB project. Some of the background material and discussion of accounting alternatives have not been carried forward from the Guide and SOP. The Board's conceptual framework project on accounting recognition criteria will address revenue recognition issues that may pertain to those addressed in this Statement. A Statement of Financial Accounting Concepts resulting from that project in due course will serve as a basis for evaluating existing standards and practices. Accordingly, the Board may wish to evaluate the standards in this Statement when its conceptual framework project is completed.

28. The Guide was developed to clarify and standardize accounting by motion picture companies for revenues and costs, particularly the timing of revenue recognition and the treatment of production and exploitation costs. Before 1973, motion picture companies accounted for revenue from films licensed to television under several different methods, each of which resulted in recognizing revenue at a different point in time, ranging from the date the agreement was signed to apportioning the revenue over the license period. In addition, industry practice varied with respect to capitalization, amortization, and balance sheet classification of film costs. The Guide recommended that revenue from films licensed for telecasting be recognized when the license period began, the film became available to the licensee, and certain other specified conditions were met that, in effect, contractually obligated the licensor and licensee. The Guide also recommended the amortization of film costs by the individual-film-forecast-computation method and the write-down of those costs to net realizable value when estimated gross revenues were not sufficient to recover the film's unamortized costs.

29. An Exposure Draft of a proposed Statement, *Financial Accounting and Reporting by Producers and Distributors of Motion Picture Films,* was issued June 12, 1981. The Board received 23 letters of comment on the Exposure Draft. The Board's consideration of certain of the comments received are discussed in the following paragraphs.

30. Some respondents believe that a license agreement for television program material should not be considered as a sale of a right or a group of rights, but rather should be reported like an operating lease even though FASB Statement No. 13, *Accounting for Leases,* does not apply to license agreements. They believe that such an agreement has many characteristics of an operating lease. If a licensor accounted for a license agreement as an operating lease, revenues

would be recognized over the license period and film costs would be amortized as revenue is recognized.

31. Other respondents believe that a license agreement differs from an operating lease and should not be reported like an operating lease. They believe that a license agreement is a sale of a right. They noted that the licensor has satisfied substantially all of its obligations at the date the film becomes available to the licensee and, accordingly, there is no basis for deferring recognition of revenue beyond that point. They further noted that each sale of a motion picture exhibition right constitutes the final step in the realization process and, accordingly, should be reported as income when the conditions specified in paragraph 6 (paragraph 8 of the Exposure Draft) have been met. The Board agrees with those respondents.

32. Paragraphs 22 and 23 of the Exposure Draft required the segregation of film costs between current and noncurrent assets. Generally, costs allocated to primary markets would be classified as current assets and costs allocated to secondary markets would be classified as noncurrent assets. Several respondents prefer an unclassified balance sheet because they believe that the distinction between primary and secondary markets has blurred in recent years. The Board agrees that a classified balance sheet should not be required (paragraph 20 of this Statement). However, the Board believes that if a classified balance sheet is presented, segregation between current and noncurrent based on primary and secondary markets continues to represent a more meaningful presentation for this industry than other possible methods.

33. Paragraph 17 of the Exposure Draft required exploitation costs that clearly benefit future periods to be capitalized and amortized using the individual-film-forecast-computation method. Costs to be capitalized would have included prerelease and early release national advertising. Cooperative and all other forms of local advertising and distribution expenses would have been charged to expense in the period incurred. Some respondents stated that, in recent years, cooperative and local advertising have increased substantially, especially in major urban and local media centers. They believe that certain local advertising expenditures benefit future periods by developing a market for the film, thereby increasing its value in other markets. They believe that requiring those local advertising costs to be charged to expense as incurred may result in depressed operating results in the early release period of a film, even for a film expected to be commercially successful. Accordingly, they believe the reporting provisions in paragraph 17 of the Exposure Draft would have mismatched costs and revenues. The Board agrees with those respondents and has broadened the example of advertising costs that may be capitalized under paragraph 15 of this Statement.

34. Some respondents suggested that this Statement specify the accounting for films licensed to the home viewing market. They noted that recent technology has significantly expanded that market and that its increasing economic importance indicates a need for reporting guidance. They believe that some home viewing market transactions have characteristics similar to the transactions described in paragraph 3 (paragraph 5 of the Exposure Draft) and some have characteristics similar to the transactions described in paragraph 5 (paragraph 7 of the Exposure

Draft). The Board agrees with those respondents. Accordingly, paragraph 22 has been added to this Statement to specify that films licensed to the home viewing market shall be reported in accordance with the principles described in paragraphs 3-21 of this Statement, as appropriate. A definition of the home viewing market also has been added to the glossary.

35. Paragraph 6 of the Exposure Draft stated that nonrefundable guarantees that are, in substance, outright sales, would be recognized as revenue on execution of a noncancelable contract. Some respondents noted that film producers may sell off exhibition rights during film production and recognize revenue before the film is completed and available for exploitation. They suggested that such nonrefundable guarantees should not be recognized as revenue until the conditions specified in paragraph 6 (paragraph 8 of the Exposure Draft) have been met. The Board adopted that suggestion in paragraph 4 of this Statement.

36. Several respondents suggested other changes to the Exposure Draft. None of those proposed changes met the criteria for change included in the Notice for Recipients of the Exposure Draft. Accordingly, the Board did not adopt those suggestions.

Appendix C: ILLUSTRATION OF REVENUE RECOGNITION CONCEPT

37. This appendix illustrates when revenue shall be recognized under a license agreement for television program material in accordance with paragraphs 5-9 of this Statement.

38. Assumptions

a. End of Fiscal Year—December 31
b. Contract Execution Date—July 31, 19X1
c. Number of Films and Telecasts Permitted—4 films, 2 telecasts each
d. Payment Schedule—$1,000,000 at contract execution date, $6,000,000 on January 1, 19X2, 19X3, and 19X4
e. Appropriate Interest Rate for Imputation of Interest—12 percent per year
f. Fees, License Periods, and Film Availability Dates:

Film	Total Fee	Stated License Periods		Film Availability Dates
		From	To[3]	
A	$ 8,000,000	10/1/X1	9/30/X3	9/1/X1
B	5,000,000	10/1/X1	9/30/X3	9/1/X1
C	3,750,000	9/1/X2	8/31/X4	12/1/X1
D	2,250,000	9/1/X3	8/31/X5	12/1/X2
	$19,000,000			

For purposes of determining the present value of the payments in accordance with Opinion 21, it is assumed that the $1,000,000 payment on July 31, 19X1 and the $6,000,000 payments on January 1, 19X2 and 19X3 relate to films A and B and the $6,000,000 payment on January 1, 19X4 relates to films C and D. Other simplifying assumptions or methods of assigning the payments to the films could be made.

	Payment		**Discounted Present Value (rounded to 000s)**	
Film	**Date**	**Amount**	**As of Date**	**Amount**
A&B	7/31/X1	$ 1,000,000	10/1/X1	$ 1,000,000
	1/1/X2	6,000,000	10/1/X1	5,825,000
	1/1/X3	6,000,000	10/1/X1	5,201,000
		$13,000,000		$12,026,000
C	1/1/X4	$ 3,750,000	9/1/X2	$ 3,219,000
D	1/1/X4	$ 2,250,000	9/1/X3	$ 2,163,000
		$ 6,000,000		

39. Income Recognition

	License Period		Year of Income Recognition		
Film	From	To	19X1	19X2	19X3
A&B	10/1/X1	9/30/X3	$12,026,000 (R)		
			331,000 (I)(a)	$ 643,000 (I)(b)	
C	9/1/X2	8/31/X4		3,219,000 (R)	
				129,000 (I)(c)	$ 402,000 (I
D	9/1/X3	8/31/X5			2,163,000 (I
					87,000 (I
			$12,357,000	$ 3,991,000	$2,652,000

(R) Revenue
(I) Imputed interest income
(a) Interest at 12 percent for 3 months on receivable of $11,026,000
(b) Interest at 12 percent for 1 year on receivable of $5,357,000 ($11,026,000 plus $331,000 less 1/1/X2 payment of $6,000,000)
(c) Interest at 12 percent for 4 months on receivable of $3,219,000
(d) Interest at 12 percent for 1 year on receivable of $3,348,000 ($3,219,000 plus $129,000)
(e) Interest at 12 percent for 4 months on receivable of $2,163,000

Appendix D: ILLUSTRATION OF INDIVIDUAL-FILM-FORECAST-COMPUTATION METHOD OF AMORTIZATION

40. This appendix illustrates the individual-film-forecast-computation method used by a licensor to amortize film costs.

41. Assumptions

• Film cost	$10,000,000
• Actual gross revenues:	
First year	12,000,000
Second year	3,000,000
Third year	1,000,000
• Anticipated total gross revenues:	
At end of first year	24,000,000
At end of second and third years	20,000,000

42. Amortization

				Amount of Amortization
First-year amortization				
$12,000,000 / $24,000,000	X	$10,000,000	=	$5,000,000
Second-year amortization (anticipated total gross revenues reduced from $24,000,000 to $20,000,000) (a)				
$ 3,000,000 / $ 8,000,000 (b)	X	$ 5,000,000 (c)	=	$1,875,000
Third-year amortization				
$ 1,000,000 / $ 8,000,000(d)	X	$5,000,000 (d)	=	$ 625,000

(a) If there were no change in anticipated total gross revenues, the second-year amortization would be as follows:

$$\frac{\$\ 3{,}000{,}000}{\$24{,}000{,}000} \quad \times \quad \$10{,}000{,}000 \quad = \quad \underline{\underline{\$1{,}250{,}000}}$$

(b) $20,000,000 minus $12,000,000 or anticipated total gross revenues from beginning of period.

(c) $10,000,000 minus $5,000,000 or cost less accumulated amortization at beginning of period.

(d) The $8,000,000 and $5,000,000 need not be reduced by the second-year gross revenue ($3,000,000) and second-year amortization ($1,875,000), respectively, because anticipated gross revenues did not change from the second to the third year (refer to paragraph .111). If such reduction were made, the amount of amortization would be the same as follows:

$$\frac{\$1{,}000{,}000}{\$5{,}000{,}000} \times \$3{,}125{,}000 = \underline{\underline{\$\ 625{,}000}}$$

Footnotes

FAS53, Footnote 1--The term *specialized* is used to refer to those accounting and reporting principles and practices in AICPA Guides and Statements of Position that are neither superseded by nor contained in Accounting Research Bulletins, APB Opinions, FASB Statements, or FASB Interpretations.

FAS53, Footnote 2--Terms defined in the glossary (Appendix A) are in **boldface type** the first time they appear in this Statement.

FAS53, Appendix C, Footnote 3--The actual license periods expire at the earlier of (a) the second telecast or (b) the end of the stated license period.