Statement of Financial Accounting Standards No. 63

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Financial Reporting by Broadcasters

June 1982

Financial Accounting Standards Board
of the Financial Accounting Foundation
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FAS 63: Financial Reporting by Broadcasters

FAS 63 Summary

This Statement extracts and modifies the specialized accounting principles and practices contained in AICPA Statement of Position (SOP) 75-5, *Accounting Practices in the Broadcasting Industry,* and establishes standards of financial accounting and reporting for broadcasters. Exhibition rights acquired under a license agreement for program material shall be accounted for as a purchase of rights by the licensee. The asset and liability for a license agreement shall be reported by the licensee, at either the present value or the gross amount of the liability, when the license period begins and certain specified conditions have been met. This Statement also establishes standards of reporting by broadcasters for barter transactions and network affiliation 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 and modifies the specialized principles and practices contained in SOP 75-5, *Accounting Practices in the Broadcasting Industry,* and establishes accounting and reporting standards for **Broadcasters.**[2] Appendix C illustrates applications of this Statement.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

License Agreements for Program Material

Financial Statement Presentation

2. A broadcaster (licensee) shall account for a **license agreement for program material** as a purchase of a right or group of rights.

3. A licensee shall report an asset and a liability for the rights acquired and obligations incurred under a license agreement when the license period begins *and* all of the following conditions have been met:

a. The cost of each program is known or reasonably determinable.
b. The program material has been accepted by the licensee in accordance with the conditions of the license agreement.
c. The program is available for its first showing or telecast. Except when a conflicting license prevents usage by the licensee, restrictions under the same license agreement or another license agreement with the same licensor on the timing of subsequent showings shall not affect this availability condition.

The asset shall be segregated on the balance sheet between current and noncurrent based on estimated time of usage. The liability shall be segregated between current and noncurrent based on the payment terms.

4. A licensee shall report the asset and liability for a broadcast license agreement either (a) at the present value of the liability calculated in accordance with the provisions of APB Opinion No. 21, *Interest on Receivables and Payables,* or (b) at the gross amount of the liability. If the present value approach is used, the difference between the gross and net liability shall be accounted for as interest in accordance with Opinion 21.

Amortization

5. The capitalized costs to be amortized shall be determined under one of the methods specified in paragraph 4. Those costs shall be allocated to individual programs within a package on the basis of the relative value of each to the broadcaster, which ordinarily would be specified in the contract. The capitalized costs shall be amortized based on the estimated number of future showings, except that licenses providing for unlimited showings of cartoons and programs with similar characteristics may be amortized over the period of the agreement because the estimated number of future showings may not be determinable.

6. Feature programs shall be amortized on a program-by-program basis; however, amortization as a package may be appropriate if it approximates the amortization that would have been provided on a program-by-program basis. Program series and other syndicated products shall be amortized as a series. If the first showing is more valuable to a station than reruns, an accelerated method of amortization shall be used. However, the straight-line amortization method may be used if each showing is expected to generate similar revenues.

Valuation

7. The capitalized costs of rights to program materials shall be reported in the balance sheet at the lower of unamortized cost or estimated net realizable value on a program-by-program, series, package, or **daypart** basis, as appropriate. If management's expectations of the programming usefulness of a program, series, package, or daypart are revised downward, it may be necessary to write down unamortized cost to estimated net realizable value. A write-down from unamortized cost to a lower estimated net realizable value establishes a new cost basis.

Barter Transactions

8. Broadcasters may **barter** unsold advertising time for products or services. All barter transactions except those involving the exchange of advertising time for network programming [3] shall be reported at the estimated fair value of the product or service received, in accordance with the provisions of paragraph 25 of APB Opinion No. 29, *Accounting for Nonmonetary Transactions.* Barter revenue shall be reported when commercials are broadcast, and merchandise or services received shall be reported when received or used. If merchandise or services are received prior to the broadcast of the commercial, a liability shall be reported. Likewise, if the commercial is broadcast first, a receivable shall be reported.

Network Affiliation Agreements

9. Network affiliation agreements and other such items ordinarily are presented in the balance sheet of a broadcaster as intangible assets. If a network affiliation is terminated and not immediately replaced or under agreement to be replaced, the unamortized balance of the amount originally allocated to the network affiliation agreement shall be charged to expense. If a network affiliation is terminated and immediately replaced or under agreement to be replaced, a loss shall be recognized to the extent that the unamortized cost of the terminated affiliation exceeds the fair value of the new affiliation. Gain shall not be recognized if the fair value of the new network affiliation exceeds the unamortized cost of the terminated affiliation.

Disclosure

10. Disclose commitments for license agreements that have been executed but were not reported because they do not meet the conditions of paragraph 3.

Amendment to FASB Statement No. 32

11. The reference to AICPA Statement of Position (SOP) 75-5, *Accounting Practices in the Broadcasting Industry,* is deleted from Appendix A of Statement 32.

Effective Date and Transition

12. This Statement shall be effective for financial statements for fiscal years beginning after December 15, 1982, with earlier application encouraged. If application of this Statement results in a change in accounting, restatement of previously issued annual financial statements to conform to the provisions of this Statement is encouraged but not required. If it is not practicable or if the issuer of financial statements elects not to restate any prior year, the cumulative effect shall be included in net income in the year in which the Statement is first applied. (Refer to paragraph 20 of APB Opinion No. 20, *Accounting Changes.*) The effect on income before extraordinary items, net income, and related per share amounts of applying this Statement in a year in which the cumulative effect is included in determining that year's net income shall be disclosed for that year.

13. If previously issued financial statements are restated, the financial statements shall disclose, in the year that this Statement is first applied, the nature of any restatement and its effects on income before extraordinary items, net income, and related per share amounts for each restated year presented. If retroactive restatement of all years presented is not practicable, the financial statements presented shall be restated for as many consecutive years as practicable and the cumulative effect of applying the Statement shall be included in determining net income of the earliest year restated (not necessarily the earliest year presented).

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

This Statement was adopted by the affirmative votes of six members of the Financial Accounting Standards Board. Mr. Sprouse dissented.

Mr. Sprouse dissents from the issuance of this Statement. In his opinion, this Statement is retrogressive in two important respects: (a) it flies in the face of Opinion 21 by permitting the asset and liability arising from a license agreement to be reported at the gross amount of future cash payments necessary to settle the obligation, and (b) it ignores the need for comparability, an important qualitative characteristic of accounting information, by designating as equally acceptable two different methods of accounting for the asset and liability arising from license agreements under identical facts and circumstances. Mr. Sprouse believes that the principles enunciated in Opinion 21 are fundamental and sound. In FASB Statement No. 53, *Financial Reporting by Producers and Distributors of Motion Picture Films,* those principles were applied in measuring the receivable and revenue of the other party to a license agreement. Requiring the seller's receivable and revenue to be reported at the present value of the future license payments and permitting the purchaser's asset and payable to be reported at either the gross amount or present value of those future cash payments can only serve to detract from the credibility and usefulness of financial reporting.

Members of the Financial Accounting Standards Board:

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

Appendix A: GLOSSARY

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

Barter

The exchange of unsold advertising time for products or services. The broadcaster benefits (providing the exchange does not interfere with its cash sales) by exchanging otherwise unsold time for such things as programs, fixed assets, merchandise, other media advertising privileges, travel and hotel arrangements, entertainment, and other services or products.

Broadcaster

An entity or an affiliated group of entities that transmits radio or television program material.

Daypart

An aggregation of programs broadcast during a particular time of day (for example, daytime, evening, late night) or programs of a similar type (for example, sports, news, children's shows). Broadcasters generally sell access to viewing audiences to advertisers on a daypart basis.

License agreement for program material

A typical license agreement for program material (for example, features, specials, series, or cartoons) covers several programs (a package) and grants a television station, group of stations, network, pay television, or cable television system (licensee) the right to broadcast 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 program 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 is not intended to provide continued use of the program material throughout that period but rather to define a reasonable period of time within which the licensee can exercise the limited rights to use the program material.

Network affiliation agreement

A broadcaster may be affiliated with a network under a network affiliation agreement. Under the agreement, the station receives compensation for the network programming that it carries based on a formula designed to compensate the station for advertising sold on a network basis and included in network programming. Program costs, a major expense of television stations, are generally lower for a network affiliate than for an independent station because an affiliate does not incur program costs for network programs.

Appendix B: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

15. SOP 75-5 was developed to narrow the range of acceptable alternative accounting practices among broadcasters, particularly accounting for program rights and related license fees. Before 1975, some broadcasters treated the unpaid fees stipulated in license agreements for program material as commitments and recorded neither the program rights nor the related obligations on their balance sheets. Other broadcasters recorded the program rights and the related obligations as assets and liabilities, respectively, but practice varied with respect to measuring the amount at which the asset and liability were reported and with respect to classification and method of amortizing the assets. SOP 75-5 concluded that assets and liabilities should be reported at the present value of the future license payments determined using an imputed discount rate, that interest should be accrued on the liability, that assets should be classified based on estimated usage, and that accelerated amortization based on estimated future showings generally should be used. The Board has been informed that the variety of practices in existence prior to the issuance of SOP 75-5 has continued to date.

16. The Board has extracted the specialized accounting and reporting principles of SOP 75-5 without significant change except for providing an option in paragraph 4 to report the asset and liability for a license agreement at the gross amount of the liability. Some of the background material, discussion of accounting alternatives, and general accounting guidance have not been

carried forward from the SOP. The Board's conceptual framework project on accounting recognition criteria will address issues of recognizing contractual rights and obligations 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.

17. An Exposure Draft of a proposed Statement, *Financial Accounting and Reporting by Broadcasters,* was issued June 12, 1981 for a 90-day comment period. The Board received 45 letters of comment on the Exposure Draft. Two issues were addressed by the majority of respondents: (a) Should a license agreement for television program material be treated by a licensee as a purchase of a right or as an operating lease, and (b) if the license agreement is treated as a purchase of a right, and an asset and a liability are reported, should the liability be reported in accordance with Opinion 21 at its present value determined by discounting future license payments using an imputed rate of interest? This appendix discusses the factors deemed significant by the Board in reaching the conclusions of this Statement. The Board members who assented to this Statement did so on the basis of the overall considerations; individual members gave greater weight to some factors than to others.

Reporting the Asset and Liability

18. Many respondents believe that a license agreement for program material should be accounted for as an operating lease, that no receivable or payable should be reported at the inception of the agreement, and that footnote disclosure of program commitments is adequate. They believe that such an agreement has many characteristics of an operating lease, even though FASB Statement No. 13, *Accounting for Leases,* does not apply to license agreements. They further believe that if license agreements were classified in accordance with the criteria of paragraph 7 of Statement 13, a majority would be considered operating leases rather than capital leases. They note that if a license agreement were accounted for as an operating lease, no asset or liability would be reported by the licensee and Opinion 21 would not be applicable. A few respondents believe broadcast license agreements are similar to executory contracts and that an asset and liability should therefore not be reported.

19. Many other respondents believe that a license agreement for program material should be reported as a purchase of a right to broadcast that material. Programs available under license agreements are an important source of future advertising revenue to a broadcaster. Those respondents believe that reporting an asset that will produce future revenues and a liability that will require future license payments is necessary for readers of financial statements to assess the resources, obligations, and future cash flows of the enterprise. They rejected accounting for license agreements as operating leases because under that approach the balance sheet of a broadcaster would reflect only a net debit or a net credit representing the difference between cumulative license payments and cumulative amortization of program costs to date.

20. Some respondents stated that reporting program license agreements as a purchase of a right and the incurrence of a liability is consistent with the definitions of an asset and a liability in FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises.* The right to broadcast program material during the license period is an asset—a probable future economic benefit that is obtained by the broadcaster as a result of a past transaction—signing the license agreement. Similarly, the broadcaster's obligation to make future payments under the license agreement is a liability—a probable future sacrifice of cash that arises from a present obligation of the broadcaster as a result of a past transaction. They also believe that symmetry in accounting is desirable and that both parties to a contract generally should account for it similarly. Statement 53 considers a license agreement to be a sale of a right by a producer or distributor (licensor) of program material.

21. The Board concluded that exhibition rights acquired under a license agreement for program material should be accounted for as a purchase of rights by the licensee. The Board believes that reporting an asset and a liability for such an agreement is consistent with the definitions of an asset and a liability in Concepts Statement 3 and that information concerning the resources and obligations of the enterprise is necessary for readers of financial statements to assess future cash flows. It also believes that a broadcast license agreement differs from an executory contract because the obligation to make license payments is absolute and because the subject of the agreement—program material—is at hand and available for use.

Date of Recording the License Agreement

22. The Exposure Draft stated that a broadcaster should report the asset and liability for a license agreement when the license period begins, the program is available for its first broadcast, and other specified conditions have been met. A few respondents believe the asset and liability should be reported on the date the agreement is signed. They believe that signing the agreement is the event by which the licensee acquires rights to use the program material and that reporting the asset and liability on that date best portrays in the financial statements the broadcaster's rights to future program material and obligations for future cash payments.

23. The Board believes that an asset and a liability for a license agreement should be reported when the conditions specified in paragraph 3 are met. The Board believes that at the date of signing, a substantial degree of uncertainty about cost, acceptability, and availability exists, particularly if a license agreement is signed for program material that does not yet exist. The major uncertainties are eliminated when the conditions specified in paragraph 3 are met, and the asset and liability should be reported then.

Recognition of Imputed Interest

24. Many respondents in the broadcasting industry stated that if an asset and a liability for a license agreement are reported, the asset and liability should be reported at the gross amount of future license payments rather than at the present value of those future payments determined

using an imputed discount rate. Some believe that accruing interest on the liability would not properly match revenue and expense. They believe that the gross amount of the license payments should be amortized to expense in the periods in which the program is broadcast and generates advertising revenue. Accruing interest on the liability would result in recognizing interest expense in different periods from those in which advertising revenue is earned. Other respondents believe that accruing interest results in timing of expense recognition similar to that which would exist if the broadcaster paid the cash equivalent amount of the liability at the outset of the arrangement using borrowed funds. They believe that interest expense arises from the way in which the license agreement asset is financed. In their opinion, recognizing interest expense in a different pattern from amortization of the asset is a faithful representation of the different patterns of license payments and utilization of the licensed rights.

25. Several respondents stated that, for many license agreements, accounting separately for interest expense would not have a material impact on the pattern of expense recognition. They believe that imputing interest is burdensome, especially when it must be applied to the large number of contracts a broadcaster may have. They infer from this that an accounting requirement that would call for the asset and liability to be reported initially at their present values is inappropriate. Others similarly observe that many individual contracts would be excluded from the scope of Opinion 21 because they are short-term or because the timing of payments is based on the uncertain timing of future broadcasts.

26. Some respondents stated that they view the entire program cost as an operating expense. They do not recognize interest as a component of this cost, either during negotiations with licensors or later as payments are made. They believe the reporting of that "noncash" interest expense distorts operating results and segment disclosures and will confuse readers and management. Other respondents believe that a cash payment of interest is included in each cash payment for the license and that the concept of the time value of money, and therefore interest, is implicit to some degree in every license agreement, regardless of whether interest is specifically discussed during negotiations or separately identified as a component of license fee payments.

27. Some respondents believe that Opinion 21 excludes program license agreements from its scope. They believe that a license agreement is by its nature a prepayment because the payments are made over a period generally shorter than the broadcast period. Paragraph 3(b) of Opinion 21 excludes certain advance payments from the scope of that Opinion. Other respondents stated that a license agreement is not an advance payment because the licensor has fulfilled all of its responsibilities at the time the programs are made available to the licensee.

28. A few respondents believe that Opinion 21 does not apply because, even if a complete package or series of programs is made available to the broadcaster at the inception of a license agreement, it cannot use those programs all at once but will instead use them over an extended period of time as marketing and scheduling factors permit. They believe that, in substance, this is equivalent to delivery of the programs over time and that an ongoing flow of product in exchange for an ongoing payment stream does not involve a payment for interest.

29. Some Board members believe the asset and liability for a broadcast license agreement should be reported at the present value of the liability determined using an imputed interest rate, and that interest should be accrued on the liability in accordance with Opinion 21 and consistent with SOP 75-5. They believe that interest arises from the manner in which the acquisition of program materials is financed and that recognizing the difference between the gross and net liability as interest is a faithful representation of that cost.

30. Some Board members agree that the asset and liability for a license agreement should be reported at the present value of the liability. However, they believe that (a) in each period the amortization of discount on the liability should be accounted for as additional program cost rather than as interest cost as would be required under Opinion 21 and (b) program expense should be determined by amortizing undiscounted program cost, that is, the aggregate of all payments under the license. That approach was described in paragraph 31 of the Exposure Draft. The Board members who support the approach believe it should be followed whenever a normal business arrangement calls for later payment for supplies or services that is linked to use of the related specific assets in future operations. Those Board members believe such an approach should not be required in this Statement because in their opinion it would be premature to decide whether accounting for broadcast license agreements should reflect imputed interest on an interest method or on a program cost method like the one described in this paragraph until broader issues concerning recognition of contractual rights and obligations have been examined.

31. In the "Notice for Recipients" of the Exposure Draft, the Board stated that changes may be needed in the accounting principles and reporting practices to be extracted from SOP 75-5 if those principles and practices are not being followed. The Board has been advised by the FASB Task Force on Specialized Principles for the Entertainment Industry, and by many respondents, that for the reasons cited in paragraphs 18 and 24-28, (a) some broadcasters do not report an asset and a liability for rights acquired and obligations incurred under a license agreement and (b) few of those who report an asset and a liability recognize imputed interest. Some Board members support the view in paragraph 29; others support the view in paragraph 30. One Board member supports the view in paragraph 18. In addition, some Board members believe broadcasters should not be required to report the asset and liability for a license agreement at the present value of the liability until the broad subject of discounting has been considered by the Board. The assenting Board members have concluded that a standard is required, however, to reduce the number of reporting practices now used by broadcasters. Therefore, the Board believes that the option in this Statement that permits reporting the asset and liability for a license agreement at either the present value or gross amount of the liability will be an improvement in financial reporting by broadcasters.

Other Issues

32. SOP 75-5 concluded that broadcasting intangibles are subject to the amortization provisions of APB Opinion No. 17, *Intangible Assets.* Several respondents stated that this

Statement should specifically exempt intangible assets such as network affiliation agreements and broadcasting licenses from the provisions of Opinion 17. They believe such intangibles are marketable assets whose values do not diminish over time and, therefore, the intangibles should not be required to be amortized.

33. The Board did not consider the accounting for broadcasting intangible assets because a reconsideration of the provisions of Opinion 17 is beyond the scope of this project.

34. Some respondents requested guidance regarding the treatment of changes in estimates of net realizable value during interim periods. SOP 75-5 did not provide guidance in that area and the Board concluded that it should not address that matter at this time.

35. 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 paragraphs 12 and 13 are advisable in the circumstances.

Appendix C: ILLUSTRATION OF ACCOUNTING FOR LICENSE AGREEMENTS FOR PROGRAM MATERIAL

36. This appendix illustrates accounting for a license agreement for television program material in accordance with this Statement.

37. 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 From	Stated License Periods To [4]	Film Availability Dates
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			

g. Telecast Dates and Revenues:

Film	First Telecast Date	First Telecast Percent of Total Revenue	Second Telecast Date	Second Telecast Percent of Total Revenue
A	3/1/X2	60%	6/1/X3	40%
B	5/1/X2	70%	7/1/X3	30%
C	6/1/X3	75%	6/1/X4	25%
D	12/1/X4	65%	8/1/X5	35%

38. For purposes of imputing interest 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.

Film	Payment Date	Payment Amount	Discounted Present Value (rounded to 000s) As of Date	Discounted Present Value (rounded to 000s) 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. Asset and Liability Recognition (Present Value Approach)

Film	License Period From	License Period To	Year of Asset and Liability Recognition 19X1	19X2	19X3
A	10/1/X1	9/30/X3	$7,401,000 (a)		
B	10/1/X1	9/30/X3	4,625,000 (a)		
C	9/1/X2	8/31/X4		$3,219,000	
D	9/1/X3	8/31/X5			$2,163,00

(a) Discounted present value of $12,026,000 allocated 8/13 to film A and 5/13 to film B based on stated license fees.

40. Expense Recognition (Present Value Approach)

	Year of Expense Recognition				
Film	**19X1**	**19X2**	**19X3**	**19X4**	**19X5**
A	$204,000(I)(a)	$ 396,000(I)(b)			
		4,441,000(A)(c)	$2,960,000(A)(d)		
B	127,000(I)(e)	247,000(I)(f)			
		3,238,000(A)(g)	1,387,000(A)(h)		
C		129,000(I)(i)	402,000(I)(j)		
			2,414,000(A)(k)	$805,000(A)(l)	
D			87,000(I)(m)		
				1,406,000(A)(n)	$757,000(A)(o)
	$331,000	$8,451,000	$7,250,000	$2,211,000	$757,000

(I) Accrued interest expense
(A) Amortization of program cost
(a) Interest at 12% for 3 months on liability of $11,026,000 allocated 8/13 to film A
(b) Interest at 12% for 1 year on liability of $5,357,000 ($11,026,000 plus $331,000 less 1/1/X2 payment of $6,000,000) allocated 8/13 to film A
(c) $7,401,000 x 60%
(d) $7,401,000 x 40%
(e) Interest at 12% for 3 months on liability of $11,026,000 allocated 5/13 to film B
(f) Interest at 12% for 1 year on liability of $5,357,000 ($11,026,000 plus $331,000 less 1/1/X2 payment of $6,000,000) allocated 5/13 to film B
(g) $4,625,000 x 70%
(h) $4,625,000 x 30%
(i) Interest at 12% for 4 months on liability of $3,219,000
(j) Interest at 12% for 1 year on liability of $3,348,000 ($3,219,000 plus $129,000)
(k) $3,219,000 x 75%
(l) $3,219,000 x 25%
(m) Interest at 12% for 4 months on liability of $2,163,000
(n) $2,163,000 x 65%
(o) $2,163,000 x 35%

41. Asset and Liability Recognition (Gross Approach)

	License Period		Year of Asset and Liability Recognition		
Film	**From**	**To**	**19X1**	**19X2**	**19X3**
A	10/1/X1	9/30/X3	$8,000,000		
B	10/1/X1	9/30/X3	5,000,000		
C	9/1/X2	8/31/X4		$3,750,000	
D	9/1/X3	8/31/X5			$2,250,000

42. Expense Recognition (Gross Approach)

Film	19X1	19X2	19X3	19X4	19X5
	Year of Expense Recognition(a)				
A		$4,800,000 (b)	$3,200,000 (c)		
B		3,500,000 (d)	1,500,000 (e)		
C			2,813,000 (f)	$ 937,000 (g)	
D				1,463,000 (h)	$ 787,000 (i)
	$ —	$8,300,000	$7,513,000	$2,400,000	$ 787,000

(a) Under the gross approach, all costs under a license agreement are recorded as amortization of program cost.
(b) $8,000,000 x 60%
(c) $8,000,000 x 40%
(d) $5,000,000 x 70%
(e) $5,000,000 x 30%
(f) $3,750,000 x 75%
(g) $3,750,000 x 25%
(h) $2,250,000 x 65%
(i) $2,250,000 x 35%

Footnotes

FAS63, 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.

FAS63, Footnote 2--Terms defined in the glossary (Appendix A) are in **boldface type** the first time they appear in this Statement.

FAS63, Footnote 3--As the definition of **network affiliation agreement** in the glossary to this Statement describes in further detail, a network affiliate does not incur program cost for network programming it carries; likewise, it does not sell the related advertising time but instead receives compensation from the network.

FAS63, Appendix C, Footnote 4--The actual license periods expire at the earlier of (a) the second telecast or (b) the end of the stated license period.