

University of Mississippi

eGrove

Statements of Position

American Institute of Certified Public
Accountants (AICPA) Historical Collection

1976

**Accounting practices in the record and music industry :
recommendation to the Financial Accounting Standards Board.
August 25, 1976 : Recommendation to the Financial Accounting
Standards Board; Statement of position 76-1;**

American Institute of Certified Public Accountants. Accounting Standards Division

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_sop



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Accounting Standards Division, "Accounting practices in the record and music industry : recommendation to the Financial Accounting Standards Board. August 25, 1976 : Recommendation to the Financial Accounting Standards Board; Statement of position 76-1;" (1976). *Statements of Position*. 43.

https://egrove.olemiss.edu/aicpa_sop/43

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Statements of Position by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

**Statement of
Position**
on

76-1

**Accounting Practices
in the Record and
Music Industry**

August 25, 1976

Recommendation to the Financial Accounting Standards Board

Issued by
Accounting Standards Division

American Institute of
Certified Public Accountants

AICPA

Notes

Statements of Position of the Accounting Standards Division are issued for the general information of those interested in the subject. They present the conclusions of at least a majority of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting and cost accounting.

The objective of Statements of Position is to influence the development of accounting and reporting standards in directions the Division believes are in the public interest. It is intended that they should be considered, as deemed appropriate, by bodies having authority to issue pronouncements on the subject. However, Statements of Position do not establish standards enforceable under the Institute's Code of Professional Ethics.



August 25, 1976

Marshall S. Armstrong, CPA
Chairman
Financial Accounting Standards Board
High Ridge Park
Stamford, Connecticut 06905

Dear Mr. Armstrong:

The accompanying Statement of Position presents recommendations of the Accounting Standards Division on Accounting Practices in the Record and Music Industry. It was prepared on behalf of the Division by the Accounting Standards Task Force on Entertainment Companies for consideration by the Financial Accounting Standards Board and for such action as the Board deems appropriate.

The Statement discusses several areas where different accounting practices exist in the record and music industry: revenue recognition, inventory valuation, compensation of artists, costs of record masters, licensor income and licensee cost, and intangible assets acquired in a business combination.

The Statement's major recommendations are briefly summarized below:

- Manufacturers and distributors in the record and music industry must be able to make a reasonable estimate of returns in order to account for shipments to customers as sales.
- The valuation of inventories in this industry should be similar to that of any other manufacturing concern and thus these inventories, including returned records, should be carried at the lower of cost or market.
- When the past performance of an artist provides a reasonable basis for estimating that advances to that artist and the cost of a record master for that artist will be recoverable, such amounts should be recorded as assets.
- In most cases, licensors should record minimum guarantees as deferred income to be amortized

ratably over the performance period. However, when a license agreement is, in substance, an outright sale it should be accounted for as such. Licensees should record minimum guarantees as deferred charges to be expensed in accordance with the terms of the agreement.

The Division would appreciate being advised as to the Board's proposed action on the recommendations set forth in this Statement of Position.

Sincerely yours,

A handwritten signature in cursive script that reads "Seymour M. Bohrer". The signature is written in dark ink and is positioned above the typed name.

Seymour M. Bohrer
Chairman
Accounting Standards Task Force
on Entertainment Companies

cc: Securities and Exchange Commission

TABLE OF CONTENTS

	<u>Page</u>
GENERAL BACKGROUND:	
Record Manufacturing—	
General description	1
The record master	2
Marketing	3
Recording artist contracts	4
Music Publishing—	
General description	5
Royalties	5
REVENUE RECOGNITION:	
Industry Practice	7
The Division's Conclusion	9
INVENTORY VALUATION:	
Industry Practice	13
The Division's Conclusion	13
COMPENSATION OF ARTISTS:	
Industry Practice	14
The Division's Conclusion	15
COSTS OF RECORD MASTERS:	
Industry Practice	16
The Division's Conclusion	17
LICENSOR INCOME AND LICENSEE COST:	
Industry Practice	18
The Division's Conclusion	19
INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION	21
MUSIC PUBLISHERS	22

GENERAL BACKGROUND

Record Manufacturing

General Description

1. The record industry consists of numerous entities, from small operations to substantial divisions of large companies. It has certain unique characteristics. First, success in it depends to a large extent on acceptance by the public of the creative efforts of third-party composers and performers. Since such acceptance is frequently of very short duration, there is a need for prompt saturation of the marketplace to maximize revenues. (Classical and other music which has achieved sustained public acceptance are exceptions to this general rule.) Second, a relatively high portion of the manufacturer's costs consists of royalties or fees which are generally, but not always, based on net sales.

2. A record manufacturer normally enters into a contractual arrangement (a) with the artist (performer) and possibly with a producer to record a given number of selections over a specified period of time, or (b) with a production company to deliver finished record masters of one or more artists. The phonograph discs and tapes (hereinafter referred to collectively as "records") are then manufactured and shipped for ultimate sale to the customer. The manufacturer may own or be affiliated with the pressing plant, the tape duplicator, the distributor and the retailer, or with some or none of these.

3. The manufacturer will usually grant licenses for the sale or distribution of its products to record clubs and other direct mail operations and, for sales throughout the world, to one or more companies active in the industry in foreign countries. Again, the manufacturer may own or be affiliated with all, some or none of the licensees.

The Record Master

4. A performance is initially recorded on magnetic tape. Usually, each musical instrument and voice is recorded separately and then re-recorded to emphasize or deemphasize each sound in the final product. Such a process, called mixing, is performed by an expert sound engineer to produce a master tape, which is the "record master." The record master, in turn, is used to produce an acetate disc which is subsequently coated with metal and used to produce the molds or stampers used in commercial record production. In addition, the record master is used to make other tapes from which commercial tape cartridges, cassettes and reels may be produced.

5. The costs of producing a record master include (1) cost of the musical talent, (musicians, vocal background and arranging), (2) cost of the technical talent for engineering, directing and mixing, (3) costs for the use of the equipment to record and produce the master, and (4) studio facility charges.

Marketing

6. Marketing in the record and music industry currently includes the following levels of distribution:

- Manufacturers, as discussed above, contract with artists for the recording of selections, arrange and finance the actual recording and provide for the pressing of records and duplication of tapes or sheet music. Manufacturers generally sell to distributors, wholesale merchandisers and record clubs.
- Distributors usually sell the products of a limited number of manufacturers to wholesale merchandisers, record stores and other retail outlets.
- Wholesale merchandisers, sometimes called subdistributors or rack jobbers, function as service agencies for the music departments of chain stores and other retail outlets by supervising individual store inventories, selecting titles and labels, determining quantities to be ordered, and sometimes developing advertising and promotional programs. Wholesale merchandisers usually sell the products of a variety of manufacturers and the services they provide are not normally offered by the distributor.
- Retail outlets purchase from the aforementioned suppliers and sell directly to the ultimate customer. Retail outlets include record stores, the music departments of chain and discount stores, and record clubs.
- Record clubs came into existence in the 1950's and serve as a direct line from the record manufacturer to the ultimate customer. Record clubs, including those operated by a manufacturer, commonly distribute the records of more than one manufacturer and normally offer a number of "free" records (records given free of charge or at a nominal price) as an inducement to join, subject to the new member's agreeing to purchase a certain number of records at or near retail list prices.

- Compilation records are normally manufactured from masters embodying recordings of one or more artists by one or more record manufacturers. They include more than the usual number of selections per record, are sold at prices below those charged for the original records, and are generally offered through television and radio advertising. The customer may purchase the record through the mail or directly from a designated retail outlet.

Recording Artist Contracts

7. As stated previously, a record manufacturer employs artists under personal service contracts. The major portion of artist compensation consists of a participation (measured by sales and license fee income and commonly referred to as a "royalty") and/or a non-refundable advance against royalties based upon contractual terms negotiated between the parties. The artist may agree to bear a portion or all of the costs of the record master and the manufacturer may then recoup that amount from artist royalties otherwise payable. The extent of such arrangements depends on the relative bargaining strength of each party. However, such advances and costs are generally not recoupable from the artist if royalties do not cover them.

8. Generally, in connection with recordings made in the United States, payments are also made to various union funds under contractual arrangements which measure the obligation on the basis of sales activity. Such payments are usually not made with respect to recordings of foreign artists made in studios outside the United States.

Music Publishing

General Description

9. The music itself, as opposed to a given recording, is normally controlled by a music publisher. Publishers are sometimes controlled by a record manufacturer, but in many instances publishers are either affiliates of the artist/composer or independent.

10. The publisher normally obtains the rights to music from composers with the objective of exploiting the music for its maximum revenue. At one time, most music publishers were small, independent entities. Lately, however, there have been two trends: one toward merger with and ownership by record manufacturers, the other toward ownership by composers, who in many cases are recording artists as well.

11. The publisher's two prime sources of revenue are royalties from record companies and royalties from public performances for profit. Other sources include revenue from the use of music in motion pictures and from the sale of sheet music.

Royalties

12. Copyright royalties to publishers are based on the U. S. Copyright Law, but the requirements of the law are normally modified by licenses issued by the publishers. By statute, royalties to publishers are due monthly at \$.02 per selection based on quantities manufactured, whereas licenses often provide for quarterly

accountings at stipulated rates (which are sometimes less than \$.02) based on quantities sold. Substantial changes in the Copyright Law have been suggested and a new Act has been introduced in the last several sessions of Congress which may, if enacted, materially affect royalties. If copyrights have not been obtained or have expired, the music is in the public domain and no royalties are payable.

13. Music publishers are normally affiliated with a collection society for collection of public performance revenue, either ASCAP (American Society of Composers, Authors and Publishers) or BMI (Broadcast Music, Inc.). These societies collect from television and radio stations, the primary source of public performance revenue, as well as from other sources, such as live performances. Stations may supply these societies with broadcasting logs and may be monitored on a test basis. By formula and allocation, the societies determine revenue for each selection and normally pay both publishers and composers their shares directly.

14. Music publishers in most instances have another organization act as their agent for licensing record companies and other users, collecting royalties and verifying the accuracy of the royalties paid. Publishers may sell their own sheet music or may license others to do so for a royalty.

15. Foreign income arises from the same sources (broadcasting, live performances, sheet music, etc.). However, U. S. publishers

normally grant foreign publishers exclusive rights in specific territories for varying percentages of the revenue earned in the territory.

16. The music publishers, in turn, normally pay composers a share of the royalty receipts (excluding performance income which is usually paid directly by the collection society) and a flat rate per unit in the case of sheet music.

REVENUE RECOGNITION

Industry Practice

17. The timing of revenue recognition and the determination of the amount of revenue to be reported for a given period of time can be an accounting problem because of the right of return that normally accompanies sales in the record and music industry. ^{1/}

These return rights can vary from unlimited to a percentage of sales, or may be in the form of exchange privileges which permit the customer to receive other records for those returned. Regardless of the form of arrangement between supplier and customer, sales are generally made with the right of return or exchange, subject to time limits that the manufacturer may establish, such as when the specific record is deleted from its catalog. These return or exchange practices have been established by manufacturers

^{1/} Although the discussion which follows deals solely with records, similar practices and problems are found in the printed music industry; see paragraphs 52 and 53.

to induce customers to carry larger inventories than they might otherwise maintain in an industry subject to volatile swings in consumer preferences. In addition, when a manufacturer changes a distributor, it is customary to permit the former distributor to return all of the manufacturer's records for credit.

18. It is the predominant practice in the industry to record sales when inventory is shipped and where the customer is obligated to pay for the merchandise in accordance with normal trade terms.

19. Some manufacturers discount the price of records by including a number of "free" records in certain shipments. Credits issued for returned records give recognition to such "free" records either by using the average selling price or by reducing the total units returned in proportion to the number of "free" records included in the original shipment.

20. Because of the return or exchange privilege, manufacturers and distributors usually make a provision in their financial statements for the anticipated return of records from current and prior sales. The resultant allowance for returns is usually combined with the allowance for doubtful accounts and deducted from trade receivables in the balance sheet. In the income statement, the provision for returns is generally netted against gross sales recorded for the period, but is sometimes classified as

"sales returns and allowances." However, in some cases the sales transaction is reversed and an inventory is established. In other cases a liability is accrued for the return privilege. The determination of the amount of anticipated returns is based on many factors, including historical experience, popularity of the music recorded, success of the recording artists, marketing techniques, etc.

21. Some manufacturers and distributors (who have return privileges with manufacturers) do not provide in their financial statements for return privileges granted to their customers and recognize losses, if any, arising from returns only when they are incurred.

The Division's Conclusion

22. The question of revenue recognition when right of return exists has been discussed in Statement of Position No. 75-1 of the Accounting Standards Division of the AICPA. That Statement holds that "...if a seller is exposed to the risks of ownership through return of the property, the transaction should not be recognized currently as a sale unless all of certain specified conditions are met." These conditions and their applicability to the record and music industry are discussed below:

"(1) The seller's price to the buyer is substantially fixed or determinable at the date of exchange."

Sales prices are normally fixed at the date of exchange in the record and music industry.

"(2) Either the buyer has made full payment, or the buyer is indebted to the seller and payment is not contractually or implicitly excused until such time as the product is resold."

Payment for merchandise in the record and music industry is usually required within thirty days under the terms of sale, or, in the case of deferred billing, within sixty to ninety days of shipment.

"(3) The buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the property."

The risk of loss with respect to record and music merchandise is transferred to the buyer under usual trade practices upon transfer of physical possession of the merchandise.

"(4) The buyer acquiring for resale has economic substance apart from that provided by the seller; that is, the buyer is not a straw party or a conduit."

It would not be common to find a buyer who is a straw party or a conduit in the record and music industry.

"(5) The seller does not have significant obligations for future performance to bring about resale of the property by the buyer."

The seller would not normally undertake obligations to bring about resale of the property by the buyer in this industry.

"(6) The amount of future returns can be predicted."

Predicting the amount of future returns in the record and music industry can be difficult, as indicated below.

23. Although each of the conditions listed above must be met and the usual conditions for recording sales not involving the right of return must also be satisfied, the sixth condition is usually the most troublesome.

24. The Statement of Position acknowledges that the "ability to make a reasonable prediction of the amount of future returns is dependent on the existence of many factors," and that "only general guidelines can be established." It lists five factors which "would appear to impair the ability to make a reasonable prediction," all of which must be considered; however, the factor that requires the most consideration in the record and music industry is the following:

"Absence of historical experience with similar types of sales of similar types of property, or inability to apply such experience because of changing circumstances."

25. Rates of return in the record and music industry vary from company to company and from year to year and very little information is published regarding returns. High volume and reasonably stable rates of return have enabled many established companies to make a reasonable estimate of returns on the basis of their own historical and forecasting experience. However, companies expanding to a different type of music (classical, jazz, rock, etc.) and companies engaging a large number of unproven artists, among others, may not possess sufficient experience of their own on which to make a reasonable estimate of future returns. In those instances, or where a company is new and has no historical experience, reference to the experience of other enterprises, if such experience is applicable and obtained in sufficient detail, may provide useful information in determining a reasonable estimate of returns.

26. The Division believes that manufacturers and distributors in the record and music industry must be able to make a reasonable estimate of returns in order to account for shipments to customers as sales. This conclusion is consistent with the provisions of paragraph 23 of FASB Statement No. 5 with respect to uncollectible receivables.

27. Certain types of music may be susceptible to dramatic swings in popularity; artists may have no prior experience and uncertain futures; the market for certain types of music may be monopolized by a few artists; distribution channels may be narrow and promotional endeavors limited; and the quantity of returns may be large when a manufacturer changes a distributor. All of these conditions create difficulty in making a reasonable estimate of the amount of future returns. When the presence of such conditions precludes a manufacturer or distributor from making a reasonable estimate of the amount of future returns, the transaction should not be recognized currently as sales. Transactions for which sales recognition is postponed should be recognized as sales when the return privilege has substantially expired.

28. As required by Statement of Position No. 75-1, amounts of sales revenues and cost of sales reported in the income statement should exclude the portion for which returns are expected and, because sales returns are a significant factor in determining the results of operations in the record and music industry, the amount of gross sales and the related accounting policies should be disclosed.

INVENTORY VALUATION

Industry Practice

29. Inventory valuation in the record and music industry is difficult because of the severe obsolescence problem resulting from changing consumer tastes and return or exchange practices. This problem is even more pronounced when the inventory valuation of returned records is being determined. For this reason, some companies assign no value to returned records. Others carry them at estimated salvage value, cost, or the lower of cost or market. The valuation policy may depend on whether the records are singles, LP albums or tapes. In addition, the determination of market value is complicated by the existence of two markets: one for the resale of records on a marked-down basis, and another for the scrap value of the physical components.

The Division's Conclusion

30. The valuation of inventories in this industry should be similar to that of any other manufacturing concern. Inventories should be carried at the lower of cost or market. ^{2/} Inventories of salable records and inventories of records to be scrapped should be separately valued. The market value of records to be scrapped should be their expected net salvage value. Although manufacturing cost is usually minor relative to the selling price of most records, cost may exceed market value when drastic reductions to selling price have been made.

2/ See ARB No. 43, Chapter 4, for guidance.

COMPENSATION OF ARTISTS

Industry Practice

31. As noted elsewhere in this Statement, artists are usually compensated on a royalty basis; the royalty provisions are set forth in the artist's contract and may vary substantially among artists, since they depend on the artist's bargaining power.

32. Generally, the total amount of royalty accrued (adjusted for anticipated returns) is charged to expense in the period in which the sale of the record takes place. However, the accounting for advances paid to artists which are recoupable (recoverable) out of future royalties is not consistent among companies. The common alternatives are summarized below:

- (1) The advance is recorded as an asset with subsequent royalties earned offset against it until the advance has been fully recovered or determined to be unrecoverable. Some believe this method achieves the best matching of revenue and expense.
- (2) The advance is recorded as an asset but expensed when the record is released. Some believe this is a practical method to achieve a reasonable matching of revenue and expense, since the bulk of record revenues are received in a relatively short period of time.
- (3) The advance is recorded as expense when paid by those who emphasize the difficulty of predicting the sales and returns of a particular record.
- (4) The advance is included as part of inventory cost by those who believe that such advances are another element of the cost of producing a record and should be amortized on the same basis as any other recording cost.

The Division's Conclusion

33. The Division believes that advances should be recorded as an asset (a prepaid royalty, current or noncurrent, as appropriate) when the past performance of the artist to whom the advance is made provides a reasonable basis for estimating that it will be recouped (recovered from future royalties). The advance should be charged to income as subsequent royalties are earned by the artist. However, it is a generally accepted accounting principle that losses should be provided for when they become evident. Therefore, as soon as it is estimated that all or a portion of the unrecouped advance will not be recovered from future royalties earned by the artist, that portion of the advance should be charged to expense.

34. Management should evaluate the artist's past performance, the success of the particular release, market trends, contractual or other arrangements, and other pertinent information in determining whether the advance is recoverable. The right to recoup advances from a number of records of an artist may complicate the recoverability determination. However, failure to recover a proportionate amount of the advances from royalties payable on each release would normally establish a presumption that at least a portion of the advance should be written off.

35. Commitments for artist advances payable in future years and future royalty guarantees should now be disclosed in a note to the financial statements, if material, and evaluated currently to determine if a loss provision is required.

36. Inasmuch as artist royalties, as well as copyright and other royalties, are generally a significant cost, a careful review of the contracts and possible interpretations thereof is essential to a determination of an appropriate accrual.

COSTS OF RECORD MASTERS

Industry Practice

37. Under the standard type of artist contract, the cost of producing a record master can be separated into costs borne by the record company and costs recoverable from artists out of designated royalties earned. Typically, the stronger party to the contract bears a lesser portion of the costs; the more successful artists often do not bear any of the costs of record masters. On the other hand, recoupment of costs recoverable from the artist is usually not limited to royalties on a specific record.

38. The portion of the costs of a record master recoverable from artists is accounted for as a royalty advance using one of the methods discussed in the section on "Compensation of Artists."

39. Several methods are employed to account for record master costs borne by the record company:

- (1) Record the cost of the record master as an asset and amortize it on the income forecast method. Advocates of this approach believe that it achieves an appropriate matching of income and expense.

- (2) Defer the cost of the record master and charge it to expense in the period of the record's initial release. Supporters of this approach believe that it is a practical method to achieve a reasonable matching of revenues and expense. Since the bulk of record revenues are derived within the first six months of release, they believe this method matches costs with revenues unless the release is near the end of an accounting period.
- (3) Expense the cost of the record master when incurred. Those who believe this approach is appropriate point out the difficulty of predicting the sales of a particular record.
- (4) Include the cost of the record master as part of inventory cost. Those who prefer this alternative believe that the cost of a record master is another element of the cost of producing a record and should be amortized on the same basis as any other recording cost.

The Division's Conclusion

40. The Division believes that when the past performance of an artist provides a reasonable basis for estimating that the cost of a record master borne by the record company will be recovered from future sales, that cost should be recorded as an asset and, when material, that asset should be separately disclosed. The cost of record masters should be amortized using a method that reasonably relates the cost of the record master to the net revenue expected to be realized. The Division believes that records, other than those of classical and other music which has achieved sustained public acceptance, have a very short life and costs relating thereto should be amortized accordingly. The portion of the costs recoverable from the artist's royalties should be accounted for as discussed in the preceding section on "Compensation of Artists."

LICENSOR INCOME AND LICENSEE COST

Industry Practice

41. As noted in a previous section of this Statement, substantial revenues may be realized by the owner of a record master or copyright by licensing it to third parties. Minimum guarantees are usually paid in advance by the licensee. Additional payments are normally required if license fees based on actual sales exceed the minimum guarantee.

Licensors treat such guarantees as either:

- (1) Revenue when received.
- (2) An advance, allocated ratably over the period covered by the guarantee.
- (3) Revenue to the extent of the portion earned during the reporting period, reflecting unearned balances, if any, as income at the expiration of the period covered by the license agreement.

42. Licensees treat minimum guarantees as costs using similar methods.

43. When no minimum guarantee is received, or when actual license fees exceed the minimum guarantee, revenue is not normally recognized by the licensor until an accounting is received from the licensee.

44. In certain situations, other fees may be required under the license agreement. For example, further payments may be required from a record club if it ships "free" records in a quantity which

exceeds a specified percentage of sales of the licensor's records over the term of the agreement. Such fees have generally been recorded as revenue by the licensor and as expense by the licensee upon expiration of the agreement.

The Division's Conclusion

45. The Division believes that in most cases licensors should record minimum guarantees as deferred income to be amortized ratably over the performance period, which is generally the period covered by the license agreement. License agreements for the use of records and music (unlike those, for example, for television exhibition of motion picture films) normally do not specify the total amount of the license fee. Also, the licensor normally has an obligation to furnish music or record masters during the license period. Ratable amortization is appropriate because in many cases it is impossible for the licensor to ascertain whether the actual amount of license income earned under the terms of the agreement exceeds a ratable portion of the minimum guarantee. (This is particularly true with respect to foreign licensees, who frequently do not render accountings on a timely basis.) However, when the licensor can determine that license fees earned under the agreement exceed a ratable portion of the minimum guarantee, it is appropriate to record that greater amount in income.

46. In some cases, however, a license agreement may, in substance, be an outright sale. When the licensor has signed a noncancellable contract, has agreed to a specified fee, has delivered the rights to the licensee who is free to exercise them, and has no remaining significant obligations to furnish music or records, the earnings process is complete and the fee may be recorded as revenue when collectibility of the full fee is reasonably assured. In such circumstances, neither the licensee's use of the rights transferred nor the passage of time during the license period has any significance in relation to the recognition of revenue by the licensor.

47. The licensee should record minimum guarantees as a deferred charge which should be expensed in accordance with the terms of the agreement. However, as soon as it is estimated that all or a portion of the minimum guarantee will not be recovered through future use of the rights obtained under the license, that portion of the minimum guarantee should be charged to expense.

48. The Division believes the licensor should not recognize in revenue the other fees (e.g., those for excess "free" records) discussed previously under "Industry Practice" until the agreement has expired and the amount is fixed and determinable. Prior to the expiration date of the agreement, the licensor normally would have no information as to the number of "free" records distributed. In addition, an estimate of income based on such information, if available, would be contingent on future events. However, the

licensee should provide for such expenses on a license-by-license basis for each period covered by the respective financial statements.

49. Appropriate consideration should be given to matching artist royalties and other costs to recognition of revenue from licensees.

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

50. The acquisition of a record manufacturer or music publisher in a business combination accounted for as a purchase normally entails, among other things, the acquisition of various intangible rights and assets such as record masters, unexpired artist contracts and copyrights. These rights and assets are normally specifically identifiable and have determinable lives and, therefore, should be recorded in accordance with APB Opinion No. 17, paragraphs 24 to 26.

51. An allocation of the purchase price should be made for financial statement purposes in accordance with APB Opinion No. 16, paragraph 68, based on fair value. (Experience indicates that in many cases no material amount of goodwill results from such allocations.) Appropriate amortization over the useful life (as opposed to the legal life) of each such type of asset should be provided. The benefits expected to be received from such intangible assets may follow an irregular pattern during the estimated lives of those assets. When this is the case, the Division believes that a method of amortization that reasonably relates the cost of such assets to the net revenue (benefits) expected to be realized is more appropriate than the straight-line method.

MUSIC PUBLISHERS

52. The problems, practices and recommendations discussed elsewhere in this Statement are applicable to music publishers, where appropriate.

53. However, the Division recognizes that all or substantially all of a music publisher's revenues are from licensees. The determination of revenue may be difficult since reports from licensees, particularly those in foreign countries, are often delayed. The Division believes that revenue for a period should include reasonable estimates of revenue from each material license for the full period.

ACCOUNTING STANDARDS TASK FORCE
ON ENTERTAINMENT COMPANIES

Seymour M. Bohrer,
Chairman
Charles N. Johnson
Harold D. Kassel
Roger C. Marcellin
Alan May, Jr.
Robert G. McLendon

Frank H. Spearman, III
Leo Strauss, Jr.
Finis E. Williams

Thomas P. Kelley,
Director
Accounting Standards