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# Accounting for the Independent Producer of Television Films

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To most people Hollywood and the movie or the television industry are synonymous with glamour. It therefore comes as a shock that the extent of the glamour in the accounting department of the independent producer consists of the stars' names on the payroll. The actual accounting is similar to job cost accounting. The main differences stem from the terminology, the large sums of money involved, the speed with which these sums are expended and the fact that a portion of the work may be on a subcontract basis.

In order to understand the problems, one needs first to understand the procedures of becoming and being an independent producer. First someone has an idea for a series. Occasionally a presentation of the idea is made to an advertising agency and a sale consummated on the basis of the presentation. More often, it is necessary to have a sample of the proposed product and a pilot is produced which shows the general nature of a proposed series. If the series is sold, the pilot will be used as one of the series. Since the production of a pilot runs into a considerable sum of money, it is often necessary to find someone to finance the pilot. Sometimes this is done by a wealthy individual who is fascinated with Hollywood and sometimes it is done by a company which wants to show, produce or distribute the series. In either event the one putting up the money for the pilot will want a share in any profits from the series.

When the pilot is on film, the promoter takes it to an advertising agency and persuades them that this is just what one of their clients needs. The agency does indeed think that this is just the series for their client and the client is brought in and sold this particular bill of goods. Of course, in real life it's not that simple. Many more pilots are produced than are ever sold. The sales require much hard work and a few breaks. Should the sale not be made, the pilot itself may still be sold and at least a portion of the cost recovered.

When the series sale is made, the advertising agency will sign a contract agreeing to pay a certain amount of money for distribution rights of each film for an agreed number of films. Series usually run in multiples of thirteen, because thirteen weeks is one-quarter of

a fifty-two week year. Once the contract has been signed by the producer and the agency, the producer is bound to produce this number of shows for the stated amount of dollars. The producer will normally retain title to the films. The sale price will depend not only on the type of show and the amount of talent but also upon the coverage of the sale. If the show has nationwide coverage on its first run, the price will be higher than if it is shown only in one area. One of the very surprising things about the television industry is that so often sales will be made for less than it will cost to produce a show. The theory is that the picture when filmed is an asset which will bring in additional revenue from reruns.

The actual shooting of the picture will usually be partly subcontracted. Sometimes the producer will merely arrange for stories and talent with all of the technicians being obtained from the studio which contracts to do the actual shooting. In other cases, space will be rented from the studio, but key personnel will be in the employ of the producer. However, there will always be some work done by studio employees. The accounting procedures likewise vary. Sometimes the accounting is done entirely by the studio, and the television producer may receive only total costs per picture, broken down by budget categories. In other cases the accounting will be done by the independent producer with the studio rendering bills daily for labor, rent, supplies, etc.

When production is done on a subcontract basis and the accounting is handled by the same organization, it is difficult to have good control over costs. The generally used method is to establish a separate production bank account administered jointly by the production company and the independent producer. In this way a signature of someone representing the independent producer is required for any checks issued by the producing company. Providing the independent producer has someone who is capable and interested in seeing that costs are proper, this system works pretty well. The importance to the producer of a really capable production accountant cannot be over-emphasized. Costs of television production are fantastic. The sizes of the sums involved are

exceeded only by the speed with which they are spent. No matter how speedy the accounting may be, it is always after the fact. In order to achieve control it is necessary that someone be on the job while it is happening. After a set is produced it is very difficult to tell how many carpenters worked on it, or how much lumber was used. Many times the best control for the independent producer is to have someone see that the load of lumber actually reaches location and count the number of carpenters working.

Because of the importance of costs and because of the speed with which they occur, television producers make extensive use of the budget. Each script is budgeted before production is planned to insure that it will fall within the desired cost range. Since the independent producer often receives less than cost for the series, it is important that budgeting be done accurately and with care. After sets have been constructed and contracts signed for talent it is too late to change plans without suffering a big loss. The best control over television costs can be exercised with good budgets and careful checks as to why costs vary from the budget.

The actual accounting for each film is geared to the budget. The budget when prepared from the script is divided into major and sub-classifications. The accounting should be kept in the same classifications. Hence, the production accountant needs to know how to budget and how to classify costs. Terms much used in the industry relating to budgets are "above the line" costs and "below the line" costs. Picture budgets sometimes actually do have a line which separates certain costs. "Above the line" costs are usually those relating to story, cast, producer, director, and music. "Below the line" costs are those relating to the technical aspects such as set construction, cameras, grips, props, sound, film costs, and general overhead. A typical budget might include in part:

#### **Above the Line Costs:**

- Production (Producer, assistants, casting, secretaries)
- Story (Writers, editors, royalties)
- Cast (Regular, guests, extras, stand-ins, casting fees)

#### **Below the Line Costs:**

- Production staff (Production manager, director, assistants, camera cue man, script clerk).

For the accountant working for the independent producer, "above the line" and "below the line" costs often assume additional importance because the independent producer usu-

ally incurs the former directly, but may contract for the latter with a studio.

Talent which is a major "above the line" cost is on a contract basis. The stars and cast other than extras will be obtained through the casting director. Extras will be obtained through a casting agency which will send them and bill the producer for the salaries plus the payroll charges plus a fee for the agency. The wages will be reported on the payroll returns of the producer. Under union contract actors are entitled to additional salaries upon reissue of films unless they specifically waive such rights. The contract will state the payments to which they are entitled for each reissue. The Screen Actors Guild contract provides the minimums which may be paid. A reissue means another showing in the same area. In case of a national sale the original issue covers all of the United States. Sometimes a film is sold originally for syndication. Often reruns are exploited by this method. By syndication we mean that a separate deal will be made for each area. Thus a sale may be consummated for the city of New York and the northwestern United States. Later a sale may be made for the state of Texas. In such cases no rerun payments are due to actors until the film is repeated in the same area. Once payment is made to an actor for a second showing, the film may be shown anywhere for the second time with no further payment. As soon as it is shown for the third time, however, another payment is due.

As costs come into the accounting department they are accumulated for each show. Television accounting differs from ordinary cost accounting in the length of time involved in production. The major costs are incurred almost immediately. Many filmed television shows are shot in two days. However, after the films are developed, the editing may not be completed until close to air date. It is possible to have costs continuing to come in on a picture for six months or longer. After the original costs are in, someone estimates costs to complete the picture. The actual cost of the picture may not be available by the time of the air date. Here again in order to give management an idea of how they stand, the production accountant needs a knowledge of costs so that he may make an intelligent estimate of the total cost of the film. One of the major costs of producing a show is labor. The television industry is strictly a union industry and the minimum salary payable for each work classification is determined by union contract. The union contracts also set forth overtime, meal penalty, golden time (2½ times straight rates), health and welfare payments, etc. The production accountant needs to be familiar

with the union contract requirements in order to estimate costs, and to know that costs are correct.

Once the cost of film is determined, the problem then becomes how to amortize this cost. It is a principle of accounting that costs should be matched against income. In the television industry we have the total cost of a film, the amount of an original sales price, the possibility of reissues for an unknown time and for an unknown amount of money. The problem is how to spread cost in order to match it against income. There has been no way to determine the answer to this problem. The only revenue that the television producer can be sure of is that from the original sale. Most independent producers do not have sufficient history to know what their experience would show in the way of future returns. Once a picture has been shown to a nationwide audience, its future value is limited. Sales may be made to small stations, or to large stations for summer use or for unpopular hours. Sales may also be made for various other countries such as Great Britain, Canada and Australia. All of these sales will require re-editing incurring additional costs. As sales are normally made through a syndicating company there is also a sales commission. By the time the money gets to the producer it is likely to be rather small in comparison with the over-all cost. Some shows are only suitable for issue at a certain time and thereafter would hold little interest for viewers. Others, such as Westerns, seem to have no age limit and may be reissued years after they were originally shown. When all of these factors are taken into consideration it is difficult to estimate the revenue producing life of television films. Thus, while there is no established rule in the industry, the practice of many has been to use the cost recovery

basis for amortization. In the cost recovery method no profit is reported until the gross receipts exceed the cost of the film.

In the past, cost recovery amortization has been allowed by the Internal Revenue Service, but currently there is a movement on the part of some agents to insist upon percentage amortization. One agent is now trying to secure a ruling limiting amortization during the first year to 50% of cost. Should this become established, it would be fatal to most independent producers. It is easy to see why. Suppose that a producer contracts to produce a series of 13 hour shows for \$100,000 each. Suppose that each show costs \$120,000. Against gross receipts of \$1,300,000 he has a cost of \$1,560,000, or a cash deficiency of \$260,000. Now assume amortization at the rate of 50% for the first year. He will be allowed to deduct only \$780,000 of the cost on his income tax return. This will leave him a profit of \$520,000 for tax purposes. Thus he will not only have to finance the initial cash deficit of \$260,000, but he will also have to finance income taxes of approximately \$265,000, assuming that the taxpayer is a corporation. The television industry to date has no statistics on reissues and income from reissues. It seems that it would be wise for the independent producers to accumulate such statistics in order to provide an equitable basis of amortization rather than to risk being driven out of business by an arbitrary basis which might possibly be forced upon them.

Thus we see that the television industry does have some special problems in accounting, but, on the whole, they are not too different from other cost accounting and property accounting problems. The main difficulties facing a novice in the field stem from terminology rather than accounting.

