

Technical Guide Accounting for Motion Picture Films



Research Committee
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

The Indian film industry mainly produces motion picture films across India. A motion picture film is a bundle of rights emanating from contractual arrangements or otherwise and in accounting terms it is an intangible asset as it is a collection of rights owned by an enterprise for deriving economic benefits through exploitation.

The objective of this publication 'Technical Guide for Accounting on Motion Picture Films' is to enhance the comparability and reliability of financial statements of companies engaged in the business of production and distribution of motion picture films. Since there is no specific guidance in this important area at present, I am happy to note that Research Committee of the Institute in this direction taken an initiative to provide guidance in respect of accounting for motion picture films and has come up with this publication on "**Technical Guide for Accounting on Motion Picture Films**".

I would like to compliment CA. Babu Abraham Kallivayalil, Chairman, Research Committee, CA. Satish Kumar Gupta, Vice-Chairman, Research Committee and other esteemed members of the Research Committee for their efforts.

I hope that this endeavor of the Committee in the form of a Technical Guide will be immensely useful to the members and also to others concerned.

New Delhi
June 28, 2019

CA. Prafulla P. Chhajed
President

Preface

Motion picture is a medium used to simulate experiences that communicate ideas, stories, perceptions, feelings and atmosphere by means of recorded or programmed moving images along with other sensory stimulations and motion picture films, or movies, are a story conveyed with moving images. The Income Tax Act, 1961 provides specific treatment for claiming expenses incurred in connection with feature films. However, currently there is no specific guidance on accounting for motion picture films under Indian Generally Accepted Accounting Principles (GAAP). A motion picture is an intangible asset. Film-making or film production is the process of making a motion picture film, from an initial story idea or commission, through scriptwriting, shooting, editing, directing and distribution to an audience. This typically involves a large number of people and takes from a few months to several years to complete.

The objective of this '**Technical Guide for Accounting on Motion Picture Films**' is to provide a perspective on the various accounting issues in the context of the activities of the producer and distributor / the owner and the exploiter, of a motion picture film, which are unique to the industry and provides guidance on applying accounting principles relating to recognition and measurement.

This Technical guide is not a comprehensive document on all the accounting issues faced in accounting for motion picture films and only deals with some specific issues. This Technical Guide also provides a perspective under IFRS converged Indian Accounting Standards ('Ind AS') on each of the issues.

I would like to take this opportunity to place on record my appreciation of the effort put in by CA. Rajesh Mehra the expert in the area and CA. Bhavna Doshi, former Council Member who contributed in the preparation of the basic draft of this Technical Guide.

I would like to thank all members of the Research Committee especially the Vice-Chairman CA. Satish Kumar Gupta. I also compliment CA.

Vidhyadhar Kulkarni, Technical Consultant, for his invaluable contribution and efforts at various stages of the finalisation of this Technical Guide. I also appreciate the dedicated efforts of entire Secretariat of Research Committee.

I sincerely believe that this Technical Guide will go a long way in establishing sound accounting and reporting principles in the motion picture films industry.

New Delhi
June 25, 2019

CA. Babu Abraham Kallivayalil
Chairman, Research Committee

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1. Introduction

1.1. India's Film industry is one of the largest in the world with more than 2,000 motion picture film ('movie') releases per year and over 3 billion movie-goers annually. It is a ₹ 183 billion industry and is expected to grow to ₹ 259 billion by 2024¹. The Indian Film Industry comprises of motion picture films produced across India. This industry enjoys mass appeal and is probably the most important content feeder to other businesses in the Media & Entertainment space.

1.2. The industry has seen some extensive changes in recent years, including:

- Increased corporatisation;
- Tapping of capital markets for raising funds;
- Investment by Private Equity and Venture Capital;
- Newer and dynamic means of creation, acquisition and exploitation of rights;
- International forays by Indian Production Houses and entry of global players in India;
- Growth of multiplexes and experiences;
- Development of markets in Tier II and Tier III cities
- Expansion of regional markets;
- Shorter theatrical life of movies as compared to previous decade; and
- Advent of online platforms as a mood of content consumption.

1.3. The above has resulted in a vast change in the business environment and, as an offshoot, has led to significant complexities in accounting and financial reporting.

1.4. There is currently no specific guidance on accounting for motion picture films under Indian Generally Applied Accounting Principles (GAAP). This coupled with the peculiar nature of the industry, warrants guidance on

¹ **Source** : KPMG in India's Media & Entertainment Report 2019. India's Digital Future – Mass of Niches.

and need to outline principles relating to industry-specific accounting as regards recognition and measurement.

1.5. This guide aims to enhance the comparability and reliability of financial statements of companies engaged in the business of production and distribution of motion picture films.

2. Scope of this Technical guide

2.1. This technical guide aims at providing a perspective on the various accounting issues in the context of the activities of the producer and distributor/ the owner and the exploiter, of a motion picture film, which are unique to the industry and provides guidance on applying accounting principles relating to recognition and measurement. This technical guide does not deal with accounting in the context of other players in the chain of exploitation such as a broadcaster, music company, etc. The guide also does not deal with the accounting and revenue recognition by the Producer where the motion picture film has been commissioned by a customer and is being produced to order. The Guide also provides a perspective under IFRS converged Indian Accounting Standards ('Ind AS') corresponding to International Financial Reporting Standards on each of the issues. Also, it specifically deals with the following aspects:

- Motion picture film - an asset?
- Nature - Tangible v/s Intangible
- Classification – Current v/s Non-current
- Useful life
- Accounting for costs
- Commencement and closure of a project
- Borrowing costs related to motion picture films
- Amortisation
- Impairment
- Revenue recognition

2.2. This Technical guide is not a comprehensive document on all the accounting issues faced in accounting for motion picture films and only deals with some specific issues as highlighted above. It should be noted that it is mandatory to refer to the relevant authoritative pronouncements in all cases.

3. Making of a motion picture film

Participants in motion pictures creation				
The entire production process involves a number of participants and activities, including the following:				
Story writer, Script writer, Dialogue writer	Director & Direction Team	Cast & its assistants	Music Director, Lyricist, Singers, etc	Production team
Director of Photography & Camera Department	Production Design team, Art Director, etc	Costume Designer and Make up & Hair Dresser	Action Direction Team	Sound – Production & Post
Choreographer & team	Other Technicians	Suppliers – Equipment, Raw stock, etc	Post Production – Lab, DI, Sfx, Dubbing, Editing, etc	Financier, Completion Guarantee Bond & Insurance



MOTION PICTURE FILM MAKING PROCESS		
Pre-production process <ul style="list-style-type: none"> • Story Selection • Script Development • Synopsis & Bound Script • Appoint Director • Project 		Production process <ul style="list-style-type: none"> • Music recordings • Permissions for Locations • Ordering of Production Material • Ordering of Unexposed Film Stock
		Post-production process <ul style="list-style-type: none"> • Processing of Exposed Stock • Telecine • Editing • Dubbing • Sound mixing & Sound Negative • Dolby/DTS

<p>Green-lighting</p> <ul style="list-style-type: none"> • Casting of all characters • Finalisation of all agreements • Finalisation of shooting schedule • Submission of master production budget 		<ul style="list-style-type: none"> • Production Call Sheet circulated to all • Coordination with all artist & crew • Shoot Begins • In-film brand placements • Time Management & Supervision • Circulation of Daily Progress Report • Depositing of Exposed Stock with Lab • End of Principal Photography 	<p>license</p> <ul style="list-style-type: none"> • DI, SFX, Titles & Graphics • Premix & Final Mix • First Copy • Censor • Final Print
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**MOTION PICTURE
FILM READY FOR
EXPLOITATIONN**



STREAMS OF REVENUE – The various streams of Revenue available for exploitation includes the following.

Theatrical Distribution	Music & Digital Rights.. ...contd	Television rights contd	Other Rights
<ul style="list-style-type: none"> • Commercial Theatrical Rights 	<ul style="list-style-type: none"> • Clip Rights – downloadable 	<ul style="list-style-type: none"> • Near Video on Demand Rights 	<ul style="list-style-type: none"> • Airborne Rights
<ul style="list-style-type: none"> • Non Commercial Theatrical Rights 	<ul style="list-style-type: none"> • Wallpaper Rights 	<ul style="list-style-type: none"> • Near Movies on Demand Rights 	<ul style="list-style-type: none"> • Internet & Broadband Rights
<ul style="list-style-type: none"> • Theatrical Video Rights 	<ul style="list-style-type: none"> • Music Video Downloads 	<ul style="list-style-type: none"> • High Definition TV rights 	<ul style="list-style-type: none"> • Title Rights
<ul style="list-style-type: none"> • Embassy rights 	<ul style="list-style-type: none"> • Mobile Streaming Rights 		<ul style="list-style-type: none"> • E-books Rights
<ul style="list-style-type: none"> • Festival Rights 	<ul style="list-style-type: none"> • Wallpaper Rights – Mobile 	Home video rights	<ul style="list-style-type: none"> • Gaming Rights
<ul style="list-style-type: none"> • Sub Titling & Dubbing Rights 	<ul style="list-style-type: none"> • Mobile Telephone Rights 	<ul style="list-style-type: none"> • DVD, VCD, Blu Ray, HD Disc, etc sell through 	<ul style="list-style-type: none"> • Ship Rights
	<ul style="list-style-type: none"> • VidCast 	<ul style="list-style-type: none"> • DVD, VCD, Blu Ray, HD Disc, etc Rental Rights 	<ul style="list-style-type: none"> • Hotel rights
	<ul style="list-style-type: none"> • Podcast 		<ul style="list-style-type: none"> • Prequel/Sequel rights
Music & Digital	Television	In-film	<ul style="list-style-type: none"> • Remake

Rights	Rights	Advertising	rights
• Music Rights	• Pay Television Rights	• In-film rights	• Serialization rights
• Caller back Rights	• Satellite Television Rights	• Character Co-branding rights	• Surface Transport Rights
• Mobile Contest Rights	• Terrestrial TV Rights		• Internet Streaming Rights
• Mobile Gaming Rights	• DTH	Merchandise	• Internet animation Rights
• Mobisodes Rights	• IPTV Rights	• Merchandising Rights	• Animation Rights – Commercial
• Performance Rights for Films / TV / Theatre	• Pay cable Television Rights	• Character Rights for Films/TV/internet / books	
• Radio Broadcasting Rights	• Pay per View		
• Ringtones Rights	• Near Video on Demand Rights		
• Mobile Video Downloads	• Video on Demand		
• Mechanical Music Rights	• VOIP Rights		
• Synchronization Music Rights	• Free Cable Television Rights		

4. Motion Picture Films

Motion picture film - an 'Asset'?

4.1. Motion picture films, or movies, are a story conveyed with moving images. It is produced by recording photographic images with cameras, or by creating images using animation techniques or visual effects and is necessarily stored on a medium such as master/ Beta tapes, reels, CD, external drives and more recently on cloud based platforms. The product is generally registered with the relevant trade association as also under copyright laws. The registered owner therefore has the right or liberty to deal with it as he deems fit, subject to rights, if any, retained by the script writer.

What is the nature of a motion picture film for accounting purposes?

4.2. *The Framework for the Presentation and Preparation of Financial Statements* (the Framework) issued by Accounting Standards Board (ASB) defines an asset as follows:

An *asset* is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

4.3. Thus a motion picture film being a resource controlled by the producer legally, from the exploitation of which he expects to derive economic benefits, satisfies the definition of an asset.

Classification of the Asset

Inventory (Current) v/s Intangible (Non-current)

4.4. An asset may be classified as a current or non-current asset.

4.5. Schedule III – Division I to the Companies Act, 2013 ('the Act') applicable to non-Ind AS financial statements states that an asset shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is expected to be realised within twelve months after the reporting date; or