

Comparison of Accounting of Internet Film and Television Works between China and Foreign Countries

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Keywords: Internet Video Enterprises; Film and Television Works; Follow-Up Measurement

Abstract: This paper uses case analysis method, selects Youku, LeTV and Baofeng Group to compare the follow-up measurement of film and television works, and further analyzes the reasons for the differences in accounting treatment and the impact of accounting treatment. Finally, it puts forward reasonable suggestions from the three aspects of the standard maker, the standard executor and the standard supervisor.

Introduction

According to the "44th statistical report on the development of Internet in China" issued by China Internet Network Information Center (CNNIC) in August 2019, by June 2019, the number of online video users in China had reached 759 million, an increase of 33.91 million over the end of 2018, accounting for 88.8% of the total Internet users. Each major video platform further subdivides the content categories, and professionally produce and operate them. However, what does not match the rapid development of the entire Internet video industry is the lack of research on accounting treatment of film and television works of Internet video enterprises. As the first domestic Internet video company listed on the market, LeTV has grown from its strength when it was first listed to its current decline, which has aroused social attention to the accounting of Internet movies and TV works. How enterprises can flexibly deal with and truly reflect the company's business situation while facing the new business changes in the development of the Internet film and television industry, is of great significance to the standardized development of the industry and integration with international peers.

This paper selects Youku, which operates domestically but performs accounting under the US accounting standards, as a comparative study object, and uses LeTV, which performs accounting under the domestic enterprise accounting standards, as the main line to analyze the selection of the subsequent measurement of film and television productions and the impact of accounting treatment. At the same time, in order to make a better comparison, this article chooses the Baofeng Group which is highly similar to LeTV as a supplement.

Case Analysis

A Case Study of Choosing Amortization Methods of Film and Television Works.
(1) Amortization of film and television works.

In its annual report, Baofeng Group details the straight-line amortization method of intangible assets it used, that is, the amortization of film and television dramas based on authorized period of copyright as the useful life. LeTV also uses the straight-line method of amortization. However, compared with Baofeng Group, LeTV still has some differences in service life: all the copyrights of LeTV's films are required to be amortized within ten years.

Youku, as a NASDAQ-listed company, divides film and television works into several types and uses different amortization methods. Non-exclusive licenses use the accelerated amortization method, exclusive license use the accelerated amortization method during playback, the exclusive right for distribution is amortized using the expected income ratio method, and its useful life includes different

periods within six months to ten years. For example, UGC requires accelerated amortization within two years [1].

Table 1 Comparison of copyright amortization methods of film and television works of various enterprises

| | Amortization method of film and television copyright | Useful life | Economic consequences of amortization method |
|---------------|---|---|--|
| LeTV | Straight-line amortization method. | Term of copyright authorization (generally 10 years). | Intangible assets and high profits in the early stage. |
| Baofeng Group | Straight-line amortization method. | Benefit period. | Intangible assets and high profits in the early stage. |
| Youku | Use accelerated amortization method for non-exclusive copyright; use accelerated amortization method for exclusive licensed copyright when playing, use expected revenue proportion method when distributing. | Six months to ten years. | In general, it is more in line with the real situation, except in special cases. |

(2) Reasonable analysis of amortization of film and television works.

For enterprises, the advantages of the straight-line method lie in its simple accounting and small workload; however, the value of film and television works generally decreases with the increase of time and the number of plays, which obviously cannot match the amortization method of the straight-line method. The straight-line method adopted by LeTV has some unreasonable aspects, such as income and cost mismatch, violation of accounting prudence and impact on corporate solvency [2].

However, as far as LeTV leases or distributes video rights, LeTV can fully and normally obtain regular income from the distribution business, because companies that purchase copyrights regularly pay LeTV relatively stable prices by purchasing copyrights for about ten years or permanently. LeTV recognizes this distribution income on an average every year, but has not reduced revenue recognition due to the decline in copyright value. This reasonably demonstrates the requirement of "amortization methods should reflect the expected inflow of economic benefits", which is in line with LeTV's own operating characteristics.

To sum up, the amortization method selection problem of film and television copyright is mainly based on the copyright management mode of each video enterprise. As an intangible asset, the one-time sold-out copyright transaction does not need to be amortized for a long time. However, for the distribution transaction caused by the broadcasting right of the movie and TV series and the long-term film screening right obtained, the choice of amortization method needs to be considered, so that enterprises can better calculate the book residual value of copyright through amortization. Each enterprise has not fully carried out the amortization accounting of the company in accordance with the requirements of the accounting standards for intangible assets. The main reason is that the existing accounting standards for intangible assets cannot effectively reflect the copyright accounting information of film enterprises, and there is no clear requirements for amortization methods, resulting in confusion in the use of the current video copyright amortization policy.

Case Analysis of Film and Television Works Impairment Scheme. (1) Film and television works impairment scheme.

LeTV's accounting policy for impairment of copyright of film and television works is that the overall copyright value of the film and television play library is impaired as an asset group. In the impairment test, the company calculates the expected future cash flow present value of all kinds of incomes brought by all copyright of film and television plays as the expected recoverable amount, and compares it with the book value of all intangible assets of films. Thus, it is concluded that "the company does not need to reduce the value of relevant copyright assets in this year. "In fact, the

impairment of LeTV's films and TV plays is considered from the perspective of the overall film and TV library, which is only used by the company in China.

Baofeng Group judges whether there is any sign of possible impairment of film and television works on the balance sheet date. If there is any indication that the copyright is impaired, the company estimates its recoverable amount based on the estimated revenue (including advertising revenue, paid business income, etc.) less its estimated cost after its lifetime.

Youku's impairment of the copyright of film and television works is mainly based on the accounting standards of the US, which guarantees that the listed copyright value is not less than its fair value-that is, the fair value is used to account for the recoverable amount and compare it with the book value. If the book value exceeds its fair value, the impairment loss is recognized as the difference.

Table 2 Comparison of copyright impairment schemes of film and television works among enterprises

| | Accounting of recoverable amount | Impairment plan | Economic consequences of impairment schemes |
|---------------|--|---|---|
| LeTV | Present value of estimated future cash flow of all kinds of income from all copyrights of film and TV series. | Film and television library as a whole. | Decrease the amount of accrued impairment due to the impairment of the overall film and television Library. |
| Baofeng Group | Income expected to be generated during the duration of copyright of film and television works minus the discounted amount of estimated cost. | Single film. | The accounting of expected revenue and cost is affected by the accounting policies of enterprises. |
| Youku | Fair value. | Single film. | More true. |

(2) Reasonable analysis of film and television works impairment plan.

Based on the impairment scheme of the copyright of film and television works, the standards and specifications of China and the United States have their own clear requirements based on the individual pricing method, then LeTV made an overall impairment of the film and television library and concluded that “there is no need for impairment this year” is obviously lacking in rationality. The only difference between the standards and specifications of China and the United States is how to select the accounting of the expected recoverable amount.

Comparing the impairment of domestic film and television works enterprises, it can be found that the vast majority of film and television enterprises think that all their film and television copyright does not need to be impaired, and their book value after amortization are lower than their net realizable value. Judging from the amounts disclosed in the financial reports of various companies, it is reasonable to not need impairment, but obvious signs of impairment must exist. For example, film and television enterprises are expected to sell as “phenomenon play” but fail to invest. They have invested a lot of capital but have not got a high return. In this case, the net realizable value of the play should be very low. At present, the amortization method commonly used by enterprises cannot fully carry forward this part of the cost, so there will be a difference that should be impaired.

In addition, the accounting standards for intangible assets have a relatively clear description of the recoverable amount. However, Baofeng Group and LeTV are still not implemented in accordance with the standards. The mixed use of the standards will cause the confusion of accounting information in the Internet video industry, which is not conducive to the investment and decision-making of Internet video enterprises in China.

Reasons for Differences in Accounting Cost Treatment of Film and Television Works between Chinese and American Internet Video Enterprises. Although the Internet video industry represented by LeTV and Baofeng Group has recorded the copyright of film and television works as intangible assets, it is similar to the measurement of the copyright of film and television works by the

U. S. intangible assets related accounting. However, as two countries with different political systems, economic systems, and development levels, it is inevitable that there will be differences in the subsequent measurement of film and television works and related accounting standards [3].

(1)Political factors.

The United States is a capitalist country with a dictatorship of the bourgeoisie, states have legislative powers and can formulate accounting standards as needed. China is a socialist country with a people's democratic dictatorship. The state participates in macro-control. The Ministry of Finance is responsible for formulating accounting standards. It is impossible for China, like the United States, to let regions formulate relevant accounting standards based on the situation. Because the development is relatively special, it is not possible to formulate corresponding accounting standards based on the generation of needs as in the United States.

(2)Economic factors.

The US economy is relatively developed, the main goal of its accounting standards is to serve the users of the statements (shareholders and investors), and to provide users with a basis for decision-making. The US accounting standards are not directly interfered by the government, and the high economic level of the United States determines the diversification and complexity of its economic operations, so the specific content of its accounting standards is relatively complete. China's economic development is relatively slow, accounting information is mainly for government services, and accounting standards are also formulated by government departments. Due to the low level of economic development in China, Internet video companies have appeared relatively late, and no accounting standards for film and television works in the Internet video industry have appeared. Internet video companies represented by LeTV and Baofeng Group carry out relevant accounting treatments in accordance with "Enterprise Accounting Standards No. 6-Intangible Assets", and the specific content of the accounting treatment of film and television works in the Internet video industry is less.

(3)Educational factors.

The level of education is specific to accounting standards, which refers to the quality of accounting education and the quality of the accounting professional team. This difference in education level also affects the content and methods of accounting standards in China and the US. As far as the level of accounting education is concerned, the US is quite high in this regard. Almost any citizen needs to use accounting knowledge in daily life, such as taxation and company management. Correspondingly, the quality of its accounting professional team is relatively high. Compared with the US, China is not as good as the US in terms of the level of accounting education or the quality of the accounting professional team. Although we have carried out various continuing education on accounting and financial knowledge through various channels and achieved certain results, there are still some gaps with the US reference.

Impact of Accounting Cost Treatment for Film and Television Works of Internet Video Enterprises. The existence and development of any kind of business expansion behavior cannot be separated from the support of the internal financial system of the enterprise. Especially, the risk effects of penetrating the financial system of the enterprise will be reflected to varying degrees in the accounting statements. Although LeTV and Baofeng Group are facing bankruptcy in succession, as the only two or two domestic listed Internet video companies in China, the research value of accounting treatment methods for film and television works also lies in the fact that the accounting treatment methods adopted by enterprises are bring a chain reaction [4].

Take LeTV as an example. In 2011, LeTV mainly caused the purchase of 798 million yuan of copyright to make the book value of intangible assets 891 million yuan (an increase of 799 million yuan this year), the growth rate of intangible assets reached 313.34%, the proportion of intangible assets in total assets in 2010 was 20.78%, and at the end of 2011 it reached 49.94%; in 2011, cash paid for the purchase of fixed assets, intangible assets and other assets was 812 million yuan, of which 98.28% were purchased for copyright. The above data shows that LeTV's copyright assets have become more serious and are intensifying. The so-called heavy copyright asset refers to the financial expansion behavior that the size and growth rate of the copyright asset significantly exceeds other

assets and has a significant impact on corporate asset structure, cash flow and economic returns. There are multiple complex reasons for the escalation of copyright assets. First, through the rapid expansion of copyright, the industry's competitive comparative advantage can be obtained in the shortest time. Secondly, in order to continue to stabilize its upstream advantages in the industry, it will continue to increase investment in copyright, and the inertia of the distribution model of copyright has further strengthened the heavyening of copyright assets. Finally, at a deeper level, the seriousness of copyright assets lies in the fact that no new profit point with a more obvious substitute value has been found. The severe infringement of copyright assets has led to the rapid expansion of the company's intangible assets, the uncontrollable cost of copyright sources, the impact of cash flow shocks and the risk of amortization of intangible assets.

Severe copyright assets and explicit financial risks have exacerbated the risk of "puffiness" in financial statements brought by the straight-line amortization method. On the surface, the recent profit of LeTV, which just went public in 2010, was as high as 70.225 million yuan, in the same year, Youku lost more than 200 million yuan. Net profit in 2011 was 13112100 yuan, a year-on-year increase of 87.05%. The "beautiful" statement affects investors' decisions, but this statement does not inform investors of the potential crisis, such as the uncertainty of the value of 856 million copyright intangible assets. The copyrighted intangible assets purchased in 2011 were nearly 800 million yuan, and the new accounts payable in 2011 were close to 220 million yuan, which means that nearly one third of the intangible assets purchased had not been paid by the end of 2011, there are cases where the right is withdrawn in the future without timely payment. Such uncertain risks have not been disclosed in the notes to the statements.

Recommendations

Standard Setter. LeTV, Baofeng Group, and other video companies have different accounting treatments, resulting in measured profits that are not consistent and comparable, which has caused great confusion for users of accounting information. The main reason is that the existing corporate standards and guidelines are not detailed enough to effectively reflect the copyright situation of film and television works, lack of pertinence, and give companies operating space without clear requirements. It is recommended that standard makers improve the relevant standards and reduce the "ambiguity" zone in the standards.

At the same time, the current "Accounting Standards for Business Enterprises No. 6-Intangible Assets" cannot fully meet the needs of the Internet video industry for accounting treatment of film and television copyrights, for example, the definition of intangible assets does not cover film and television works for sale or transfer. Existing accounting standards for the amortization method of intangible assets are too simple [5], etc. In this regard, our country can refer to the US accounting standards and supplement and refine the accounting methods of film and television works based on our own conditions, such as separate listing, this can better highlight the asset status and value of film and television works in Internet video companies. In the end, the Internet video industry should form a relatively complete set of accounting systems in line with its current status [6].

Executor of the Code. (1) Subsequent measurement method.

The straight-line amortization method used by LeTV and Baofeng Group exposes many unreasonable points. The accelerated amortization method is theoretically closer to the characteristics of the year-on-year decline in the copyright balance of film and television works. There is also a feasibility analysis of using accelerated amortization method for intangible assets in references [7]. However, the author believes that although the Internet video industry uses the intangible asset method for accounting treatment, the characteristics and accounting issues of the film and television industry are special. Therefore, it is recommended that the Internet video industry can refer to Youku to divide film and television works into several types and use different amortization methods way of doing. This can more truly reflect the true situation of the enterprise.

Although the standard has a relatively clear description of the recoverable amount of intangible assets, this requirement must check the book value of intangible assets once a year, which will undoubtedly make accounting more difficult and increase the workload of accountants. Provisions for

estimating the recoverable amount of intangible assets provide the possibility of interference by human factors [7]. The US has a relatively complete explanation of the devaluation plan for film and television works copyright. China's film and television work copyright can learn from the US depreciation program, such as strengthening interaction with the public, and compare the effect of movies, actors, producers, directors, etc. with the effects of previous movies and the effect of this time. In this way, it is possible to accurately determine the signs of impairment of the copyright of each film and television work.

(2) Optimize business model.

Choosing a more realistic accounting treatment that reflects the business situation of the enterprise can reduce the financial risks brought about when accounting for film and television works as intangible assets. However, based on the requirements of the Internet video industry itself for the adequacy of funds, the company's own profit level is the fundamental guarantee for the long-term operation and development of the company in the face of the new business development of the Internet business. Enterprises can optimize their business model by optimizing the expansion of paid service areas that provide direct revenue for websites [8].

First, according to the development needs of video websites, it is necessary to improve audience viewing satisfaction and classify paid content. For example, you can charge for content in image quality such as HDR or Blu-ray 1080P. At the same time, creating unique content products can attract users to improve the differentiated market advantage of enterprises; In addition, actively innovate and personalize business models, and increase the viscosity and interaction between the audience and the platform, such as strengthening communication with the audience through barrage and other methods.

Secondly, improve users' paid watching thinking and awareness. As Internet companies are more adept at using the "free model" to expand the market, this model will hinder the long-term operation and development of websites. Therefore, on the one hand, you can increase the number of paying users on the website by using bundled consumption or promotions, for example, Youku and Taobao 88VIP are bundled to increase the number of Youku paid members. You can also promote the platform audience's payment awareness by launching content-related preferential products degree. On the other hand, actively promote and publicize the platform audience to develop paid thinking.

Code Supervisor. The relevant supervisory agencies such as the Securities Regulatory Commission should first strengthen the supervision of whether the enterprise strictly performs accounting treatment in accordance with the requirements of relevant standards and guidelines. To avoid the occurrence of events where the CSRC defaults that the company does not perform accounting treatment in accordance with the methods defined by the accounting standards.

Secondly, given that the standard gives companies a choice in amortization methods, and the differences in the accounting treatment of LeTV and Baofeng Group film and television works affect the comparability of accounting information, the supervision department of the standard needs to pay attention to the comparability of accounting information. Pay attention to whether the accounting treatment method selected by the enterprise truly reflects the business situation of the enterprise.

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