Accounting for radio and television broadcasting.

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College of Business Administration

Thesis
Accounting for Radio and Television Broadcasting

by

Jerome Philip Solomon
(A.B. Bowdoin College 1954)

Submitted in partial fulfillment of
the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

1956
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PREFACE

Few authors have undertaken the task of preparing descriptive material on the subject of radio and television accounting. I feel that this condition exists due to the newness of the industry and its rapid rise to prominence. In view of this fact, the material presented in this paper, for the most part, has been obtained through personal examination of accounting methods used by broadcasters in carrying on their operations.

At this point, I would like to express my appreciation to the following people who were more than generous in aiding me in my research activities: Joseph Shortall, Gertrude Craven and Marilyn Moulton of Station WNAC and WNAC-TV in Boston; Seymour Handy and Milford Fenster of Station WOR-TV in New York; and A. A. Palmer of Station WBZ and WBZ-TV in Boston. Their help was invaluable to me in the preparation of this thesis.
I. INTRODUCTION

The Problem and its History

A great challenge is facing the men who handle the accounting activities for a radio and television broadcaster. The dynamic characteristics of the broadcasting industry create many complex situations which must be dealt with in an efficient and prompt manner. Top business management is interested in operating results, and unless adequate reports are prepared by the financial department the interpretation and analysis of these results will be extremely difficult. This represents the problem found in the industry. In order to carry on operations at the highest level of expediency possible, some form of accounting system must be created and established as part of the regular pattern of carrying on business activities. The peculiarities found in this industry make such a step a gigantic task, one which, nevertheless, has yielded to the efforts of outstanding accountants and financial advisors of the day.

The most significant characteristic involved in radio and television broadcasting is the continual progress made by scientists. The innovations introduced into the technical segment of operations necessitate alteration of the financial practices as well. Therefore, any accounting method introduced within this field must be capable of absorbing any change caused by factors beyond the confines of the financial department. It is impossible for any business man to change his accounting procedures every time a new device is introduced to his field. The lack of consistency would make comparisons impossible, since each year's results would be determined on a different basis. In order to provide management
with the proper tools to guide its operations, namely, statements prepared on a consistent basis showing operating results, the channels into which transactions are to follow must be pre-determined without losing sight of the need for flexibility. This can be done, and although there is still much to be desired, great progress has been made.

The growth of radio and television and the increased production of equipment required to meet the needs of the industry rivals the economic activity created by the invention and subsequent production of the automobile and the airplane.

The ingenuity and scientific ability of modern man have led thousands of people into this ever-expanding industry. It was only a few short decades ago that people gathered around a tangled conglomeration of metal, wire and tubes to hear the voice, obscured by static and interference, of a famous celebrity of the day. Radio and television have become household words to the American people. The effect of television as a source of entertainment has been clearly reflected in the attendance of the "legitimate theatre", as well as motion pictures. Without a doubt, both radio and television are outstanding milestones in the history of the entertainment world.

When one scans the list of illustrious scientists who have played a part in the development of radio and television he cannot fail to realize the greatness which has been inserted into these two scientific masterpieces. Such outstanding men as DeForest, Donovan, Nicolson, Alexanderson, Fleming, Marconi, Armstrong, Baird, Zworykin and Farnsworth have made valuable contributions through the years in developing the instruments which are prominent parts of practically every home.
Expansion has dominated all phases of communications. The following figures indicate the growth experienced by radio and television during the past years.

From 1930 until the end of 1954 the number of radio sets in use in the United States has increased from approximately twelve million to fifty million. The number of television sets in use in this country has been more than doubled since 1951. There were thirty-three million television sets in use in the United States at the end of 1954.

One must not lose sight of the fact that, although varying types of business enterprises in all phases of the economy have failed due to their inability to fill orders, a like number of firms have ceased operations due to a program of expansion which was poorly planned and unwisely executed. Management constantly must be alert to avoid any unwise change of policy.

The reason for the rapid growth of the radio and television industry is easily determined. The economic drive of man appears to be the answer. Men, seeking new opportunities and sources of income, have flocked to this field, which, from its initial development, has offered unlimited opportunities to men possessing the necessary ability, capital and perseverance.

The fact that radio and television fall into the vital field of communications explains the necessity for the degree of control exercised by the federal government. The particular authority vested in the Federal Communications Commission is designed to prevent any malfunctioning factors from interrupting the broadcasts which must be continuously maintained.
The role played by the government will be discussed at length in a following chapter.

The listening public fails to look beyond its radio speakers. Not only do they forget the technicians behind the scenes, but in addition they ignore the work performed by management which is necessary to carry on the business. The thrills received from fine music, excellently played dramatic roles and exciting sporting events are greatly appreciated by all of us. However, unless the proper attention is given to the financial matters of the enterprise these glowing attributes would be impossible. This proper handling will result if the accounting system installed by a broadcaster is capable of controlling operations completely, yet contains enough flexibility to meet the changing aspects of the industry.

The selection of the accounting system is quite difficult. The peculiar characteristics of the industry do not permit the use of an accounting system which would be suitable for other enterprises. These peculiar characteristics will be discussed in the proper sequence in a subsequent portion of this paper. However, one should keep in mind the fact that no concrete product is sold by a broadcaster. He deals in the abstract element of time. Many difficulties arise because of this factor and they must be included in any accounting procedure undertaken. However, accounting experts are making great progress in finding a solution which will find application in a great majority of cases that may arise.
II. CHARACTERISTICS OF THE INDUSTRY
AND ITS ACCOUNTING SYSTEM

In establishing an accounting system one question should be borne in mind: What is the purpose of this system? The National Association of Radio and Television Broadcasters answers this question exactly:

The purpose of an accounting system is to provide a dollars and cents report of the business. This report is not made for its own sake. It is designed as a tool to help management run its enterprise more efficiently and thus more successfully. This is the basic yardstick for evaluating an accounting system.

Factors which affect the broadcasters of different areas render the establishment of a uniform set of accounting practices impossible. Therefore, it is the duty of the individual broadcaster, within the units of generally accepted accounting procedures, to create and place into operation an accounting system which will answer his own needs.

There are a number of generally accepted accounting practices which are beneficial to the overall program if they become a part of that system. The voucher system is the most widely used method for the recording of operations. To augment the internal control over this voucher system, the personnel of the accounting division of a broadcaster is arranged so that one individual does one particular job. By effecting a system of integrated checks greater control is exerted throughout the entire accounting program.

The accrual system of accounting, rather than the cash basis, is considered by businessmen to reflect the truest picture of operations.
The accrual and cash bases of accounting are both accepted by the Internal Revenue Bureau as methods for determining taxable income, * The following discussion presents a picture of both accounting methods.

Under the cash basis of accounting, one recognizes income when he receives the actual cash or property given in lieu of cash. Expenses are incurred only when cash is actually paid for them.

The accrual method treats as income for a particular accounting period the income actually earned, whether it is received in cash or not. Expenses for the period will include all expenses incurred during the period, whether actually paid or not. **

The accrual method therefore presents a truer picture of all operations, since actual income earned and expenses incurred are reported in the period to which they apply. The great majority of broadcasters employ the accrual method to account for their transactions and eventual reporting on financial statements.

If a broadcaster transmits both radio and television programs it is advisable to separate the transactions of each branch. The value of this distinction will be clearly recognized when one examines the report required by the Federal Communications Commission. In view of such a required report it is expedient for the broadcaster to establish a system of accounts which will facilitate the preparation of this report.

The number and titles of accounts are influenced by the locality characteristics facing the individual broadcaster, but one should keep in mind the goal he is attempting to reach - the simplest procedure. A chart

* 1 P. 2701
** 2 P. 136-137
of accounts provides a picture of the overall system which must be fol-
lowed and will help with the eventual final method. Such a chart of
accounts classifies the component parts of assets, liabilities, revenue
and expenses into a numerical sequence. This classification enables all
members of the accounting department to function in the most feasible
manner possible.

The necessity of adhering to the suggestions made by the
National Association of Radio and Television Broadcasters will clearly be
seen as the methods, problems and practices of the industry are further
presented in the following chapters. One should not lose sight of the
fact that he is dealing with a very complex industry, and the easiest and
most practical way of handling a particular phase of the operations will
be complicated in itself.

When one designs an accounting system for a radio or television
broadcaster he must realize that eventually the broadcaster may become
affiliated with a chain of stations. In order to prepare the proper facili-
ties which will enable the easy handling of any alterations necessitated
by the merger the accounting system must be created with a high degree of
flexibility.

Current economic trends have accentuated the establishment of a
string of enterprises rather than the single unit type of business. As
yet, the chain plan of establishing businesses has not crept into the
television industry. However, there are a number of radio chains in opera-
tion. Locally, the Yankee Network, radio only, is an example of a
broadcaster operating on a chain basis.
A chain of radio stations is a rather loose version of a network's affiliation with its local outlet. As a network compensates its affiliate for transmitting a nationally broadcast program, so the principal of the chain pays the individual member of the chain who relays a program. It is extremely important that the procedure for handling payments to those relaying stations be handled properly. An exact record must be kept of the programs transmitted by the local station. This is extremely important since it is virtually impossible to check physically the airways at all times, and the records are the principal guide the accounting department has upon which to base its payments. It is generally good practice for a principal of a chain to make payments to the subsidiary stations of the chain on a monthly basis, remitting to the station the total amount due them for an entire month's participation. The principal broadcaster of a chain can dictate, if he so wishes, just what programs or events must be carried.
III. CHART OF ACCOUNTS

One suggestion made by the National Association of Radio and Television Broadcasters with regard to the establishment of a proper accounting system is that the correct number and kinds of accounts be opened. Each broadcasting studio has a chart of accounts that is the same or very similar to any other. Copies are distributed to every member of the accounting force and they are an essential guide to the recording of transactions.

Each section of the balance sheet and income statement is assigned a code number, and the various component parts of the section are given numbers to use in combination with this code number. The following discussion of a radio broadcaster's chart of accounts will provide a compact picture of the type of chart necessary.

Account numbers 1 to 99 are assigned to assets. The intervening numbers are given to the individual types of assets such as Cash, Petty Cash, Accounts Receivable; Fixed Assets are followed immediately by the Reserve for Depreciation Account, bearing the same number with the letter A. For example, Account 27 would represent Buildings, and the Reserve for Depreciation Buildings would be Account 27A. Prepaid items are also included in the asset section.

Liabilities and Capital accounts are assigned numbers in the one hundreds. Account 103 is Sales Commissions Payable. The usual Capital accounts - Capital Stock Issued and Surplus are used.

Income, broken down into its component parts, is represented by the two hundred sequence. It is essential that various types of income
be recognized separately. The importance of this will be pointed out in a later section when the frequency discount concept is discussed.

The expenses of the broadcaster are broken down into individually titled segments also. Direct expenses vary as sales volume varies, and therefore are direct deductions from income. Operating Expenses are segregated by department—Technical, Program and Sales. Theoretically, it would be ideal to designate all operating expenses to one of the three departments. However, there are many items of expense which cannot be "pin-pointed" to the exact source of incurrence. Therefore, a special General and Administrative Expense category is recognized to include such items as rent, heat, postage, taxes, interest and depreciation on furniture and fixtures. The total expense here should be apportioned to the various departments so that the expenses incurred in operations may be shared properly by these departments. The basis of distribution may be the departmental area, the production of each department or the payroll of the department.

A suggested chart of accounts is presented in the following illustration:
## CHART I.

### CHART OF ACCOUNTS

#### ASSETS

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Cash</td>
</tr>
<tr>
<td>2</td>
<td>Petty Cash Fund</td>
</tr>
<tr>
<td>3</td>
<td>Accounts Receivable</td>
</tr>
<tr>
<td>4</td>
<td>Notes Receivable</td>
</tr>
<tr>
<td>5</td>
<td>Other Receivables</td>
</tr>
<tr>
<td>6</td>
<td>Reserve for Bad Debts (Credit balance – deduct from Receivables)</td>
</tr>
<tr>
<td>7</td>
<td>Inventories</td>
</tr>
<tr>
<td><strong>Fixed Assets</strong></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Land</td>
</tr>
<tr>
<td>26</td>
<td>Land Improvements</td>
</tr>
<tr>
<td>26A</td>
<td>Reserve for Depreciation – Land Improvements</td>
</tr>
<tr>
<td>27</td>
<td>Buildings</td>
</tr>
<tr>
<td>27A</td>
<td>Reserve for Depreciation – Buildings</td>
</tr>
<tr>
<td>28</td>
<td>Leasehold Improvements</td>
</tr>
<tr>
<td>28A</td>
<td>Reserve for Depreciation – Leasehold Improvements</td>
</tr>
<tr>
<td>29</td>
<td>Transmitter Equipment</td>
</tr>
<tr>
<td>29A</td>
<td>Reserve for Depreciation – Transmitter Equipment</td>
</tr>
<tr>
<td>30</td>
<td>Radiating System</td>
</tr>
<tr>
<td>30A</td>
<td>Reserve for Depreciation – Radiating System</td>
</tr>
<tr>
<td>31</td>
<td>Shortwave Equipment</td>
</tr>
<tr>
<td>31A</td>
<td>Reserve for Depreciation – Shortwave Equipment</td>
</tr>
<tr>
<td>32</td>
<td>Studio Technical Equipment</td>
</tr>
<tr>
<td>32A</td>
<td>Reserve for Depreciation – Studio Technical Equipment</td>
</tr>
<tr>
<td>33</td>
<td>Studio Furniture and Fixtures</td>
</tr>
<tr>
<td>33A</td>
<td>Reserve for Depreciation – Studio Furniture and Fixtures</td>
</tr>
<tr>
<td>34</td>
<td>Office Furniture and Fixtures</td>
</tr>
<tr>
<td>34A</td>
<td>Reserve for Depreciation – Office Furniture and Fixtures</td>
</tr>
<tr>
<td><strong>Prepaid and Deferred Charges</strong></td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>Prepaid Taxes</td>
</tr>
<tr>
<td>61</td>
<td>Prepaid Insurance</td>
</tr>
<tr>
<td>62</td>
<td>Cash Advances</td>
</tr>
<tr>
<td>63</td>
<td>Prepayments – Any Others</td>
</tr>
</tbody>
</table>
## LIABILITIES

### Current Liabilities

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>Notes Payable</td>
</tr>
<tr>
<td>102</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>103</td>
<td>Sales Commissions Payable</td>
</tr>
<tr>
<td>104</td>
<td>Accrued Federal Income Tax</td>
</tr>
<tr>
<td>105</td>
<td>Accrued Federal Old Age Benefit Tax</td>
</tr>
<tr>
<td>106</td>
<td>Accrued Federal Unemployment Insurance Tax</td>
</tr>
<tr>
<td>107</td>
<td>Accrued State Unemployment Insurance Tax</td>
</tr>
<tr>
<td>108</td>
<td>Accrued State Income and/or Franchise Tax</td>
</tr>
<tr>
<td>109</td>
<td>Other Accrued Liabilities</td>
</tr>
<tr>
<td>110</td>
<td>Taxes Withheld at Source</td>
</tr>
</tbody>
</table>

### Long Term Indebtedness

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>125</td>
<td>Mortgages, Bonds, etc., Payable</td>
</tr>
</tbody>
</table>

### Capital — For Corporation

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>130</td>
<td>Capital Stock-Issued</td>
</tr>
<tr>
<td>131</td>
<td>Profit and Loss</td>
</tr>
<tr>
<td>132</td>
<td>Surplus</td>
</tr>
</tbody>
</table>

### Capital (for individuals and partnerships)

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>140</td>
<td>Proprietor's or Partner's Investment</td>
</tr>
<tr>
<td>141</td>
<td>Proprietor's or Partner's Withdrawal Account</td>
</tr>
<tr>
<td>142</td>
<td>Profit and Loss</td>
</tr>
</tbody>
</table>

### INCOME ACCOUNTS

#### Time Sales Income

(Separate accounts for day and night business desirable)

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>201</td>
<td>Local Programs</td>
</tr>
<tr>
<td>202</td>
<td>Local Announcements</td>
</tr>
<tr>
<td>203</td>
<td>National Programs</td>
</tr>
<tr>
<td>204</td>
<td>National Announcements</td>
</tr>
<tr>
<td>205</td>
<td>Network Programs (an account for each network)</td>
</tr>
</tbody>
</table>

#### Other Broadcasting Income

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>210</td>
<td>Sale of Talent</td>
</tr>
<tr>
<td>211</td>
<td>Sale of Special Wire Facilities</td>
</tr>
<tr>
<td>212</td>
<td>Sale of News Service</td>
</tr>
<tr>
<td>213</td>
<td>Sale of Records and Transcriptions</td>
</tr>
<tr>
<td>214</td>
<td>Rent of Special Equipment</td>
</tr>
<tr>
<td>215</td>
<td>Program Rights and Royalties</td>
</tr>
</tbody>
</table>
Account No.

Other Income

220 Recoveries of Bad Debts (previously charged off)
221 Profit on Sale of Fixed Assets

DIRECT EXPENSES
(Deduction from Income)

301 Agency Commissions
302 Cost of Talent Sold - Commercial
303 Special Wire Facilities - Commercial
304 News Service - Commercial
305 Records and Transcriptions - Commercial
306 Other Commercial Program Costs

OPERATING AND OTHER EXPENSES

Technical Department Expenses

401 Salaries
402 Power and Light
403 Fuel
404 Maintenance and Repair - Buildings and Grounds
405 Maintenance and Repair - Technical Equipment
406 Tubes
407 Transmitter Line
408 Outside Engineering Expense
409 Other Technical Expense

Program Department Expenses

501 Salaries
502 Maintenance and Repairs - Studies and Non-technical Equipment
503 Lines and Special Wire Facilities - Sustaining
504 Music, Records and Transcriptions - Sustaining
505 Orchestra - Musicians
506 Talent - Sustaining
507 News Service - Sustaining
508 Royalties and License Fees Relating to Program Material
509 Other Program Expense

Sales Department Expense

601 Salaries
602 Sales Commissions - Local
603 Sales Commissions - Station Representatives
604 Advertising
605 Sales Promotion
606 Other Sales Expense
<table>
<thead>
<tr>
<th>Account No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>701</td>
<td>Salaries</td>
</tr>
<tr>
<td>702</td>
<td>Rent</td>
</tr>
<tr>
<td>703</td>
<td>Light and Heat</td>
</tr>
<tr>
<td>704</td>
<td>Maintenance and Repairs — Office Equipment</td>
</tr>
<tr>
<td>705</td>
<td>Travel Expense</td>
</tr>
<tr>
<td>706</td>
<td>Telephone and Telegraph</td>
</tr>
<tr>
<td>707</td>
<td>Dues and Subscriptions</td>
</tr>
<tr>
<td>708</td>
<td>Stationary and Supplies</td>
</tr>
<tr>
<td>709</td>
<td>Postage</td>
</tr>
<tr>
<td>710</td>
<td>Entertainment</td>
</tr>
<tr>
<td>711</td>
<td>Freight and Express Charges</td>
</tr>
<tr>
<td>712</td>
<td>Depreciation</td>
</tr>
<tr>
<td>713</td>
<td>Amortization of Leasehold Improvements</td>
</tr>
<tr>
<td>714</td>
<td>Write-Off of Goodwill</td>
</tr>
<tr>
<td>715</td>
<td>Bad Debts</td>
</tr>
<tr>
<td>716</td>
<td>Insurance</td>
</tr>
<tr>
<td>717</td>
<td>Legal and Auditing</td>
</tr>
<tr>
<td>718</td>
<td>Collection Expense</td>
</tr>
<tr>
<td>719</td>
<td>Real Estate Taxes</td>
</tr>
<tr>
<td>720</td>
<td>State Unemployment Insurance Tax</td>
</tr>
<tr>
<td>721</td>
<td>State Income and/or Franchise Tax</td>
</tr>
<tr>
<td>722</td>
<td>Federal Old Age Benefit Tax</td>
</tr>
<tr>
<td>723</td>
<td>Federal Unemployment Insurance Tax</td>
</tr>
<tr>
<td>724</td>
<td>Federal Income Tax</td>
</tr>
<tr>
<td>725</td>
<td>Other Taxes</td>
</tr>
<tr>
<td>726</td>
<td>Interest</td>
</tr>
<tr>
<td>727</td>
<td>Loss on Sale of Fixed Assets</td>
</tr>
<tr>
<td>728</td>
<td>Other General and Administrative Expenses</td>
</tr>
</tbody>
</table>

IV. GOVERNMENT CONTROL OF THE INDUSTRY

The radio and television broadcasting industry has many unusual economic characteristics which are peculiar to that industry. All business enterprises today are subjected to government regulations requiring the filing, with the Bureau of Internal Revenue, of forms illustrating the computation of income and the results of operations for the preceding period. Radio and television broadcasters are regulated to a greater extent than the ordinary retail, commercial or wholesale enterprise. Communications are extremely vital to the functioning of both commercial and non-commercial operations throughout the country. In order to insure the proper use of existing facilities and the presentation of creditable broadcasting the federal government has taken upon itself to impose regulations upon parties contemplating entry into the transmission of sound and/or picture.

Government regulation of the field of broadcasting is centered in the Federal Communications Commission, one of the multitude of agencies harbored in the United States Government's executive branch. One would expect strict regulatory policies handed down by this agency. However, this is not the case. The duties of the Federal Communications Commission relative to the radio and television industry are limited to those representing permission and review. The Federal Communications Commission can prescribe accounting practices and procedures only to the telegraph and telephone industries. *

Unless permission, in the form of a license, is issued by the

* 8, P. 60
Federal Communications Commission a broadcaster may not transmit his signal to any area regardless of its size. When one considers the tangled mass that could conceivably occur if broadcasters were given a "free run" of the air waves and frequencies, the need for proper distribution of the existing facilities and available frequencies becomes quite vivid.

In addition to being the sole agency capable of granting organization permission to broadcasters, the Federal Communications Commission requires that all broadcasters operating as a business enterprise file an annual report indicating the sources and amounts of revenue, types and total amount of expenses for the preceding operating period and the net results of operations for that period of time. The Form, Number 324, requires that results be reported on a calendar year basis. Should a broadcaster's accounting procedure be developed on a fiscal year basis which does not coincide with the calendar, the accounting department of that particular broadcaster will be required to prepare a set of figures, adjusted to the calendar basis, to be used for the report required by the government.

If a broadcaster should carry on activities on a non-profit basis, he will not be required to complete all sections of the report. However, it will be necessary to file the basic information which appears on page one of the report. The following report and descriptive material compose the necessary information which a broadcaster must submit in compliance with the regulations of the Federal Communications Commission.
INSTRUCTIONS FOR COMPLETION OF
F.C.C. FORM 324
Revised December, 1953
ANNUAL FINANCIAL REPORT OF
NETWORKS AND LICENSEES OF BROADCAST STATIONS

GENERAL INSTRUCTIONS

1. Who must file reports? All networks and licensees of broadcast stations and all permittees whose stations were operated during the year covered by this report. In the later instructions, the term "licensee" is used for convenience to refer to respondents as so defined.

2. What reports must be filed?

(a) One report shall be filed for each network and for each station of the licensee, whether AM, FM, TV, or other type of station.

(b) If the licensee operates a joint AM - FM station in the same community, one report may be filed covering the joint operation.

(c) If the licensee operates an AM and a TV station in the same community, a separate report shall be filed for each of the stations.

(d) Only one copy of report for each network and each station need be filed.

(e) When report forms are mailed to networks, special instructions will be furnished to adapt the form to meet their requirements.

3. What is the time period covered by the report? The report must cover the full calendar year to which it refers. If respondent's station was operated for part of the year under other ownership, the present and former licensees must file reports covering their respective periods of operation. Licensees are expected to file reports covering the period of the year for which they actually operated.

4. When is report to be filed? On or before April 1.

5. What special provision is made for licensees with revenue under $25,000? A respondent operating a commercial broadcast station and deriving total revenue from the sale of time of less than $25,000 for the year under report, or less than an average of $500 weekly if in operation for less than the year, is required to complete only page 1, line 23 on page 2, line 6 and Note on page 3, and page 4.

6. What special provision is made for non-commercial broadcast stations? Respondents operating non-commercial stations and deriving no revenue from the sale of station time are required to execute only page 1, line 6 and Note on page 3, and page 4.

7. Must cents be reported? No. It is intended that cents be excluded and that the dollars in the several schedules be adjusted to make them consistent with totals shown in the columns. In all cases, totals and sub-totals are to be entered.

8. If the space provided for any schedule is insufficient or if it is necessary to insert additional statements, the insert pages shall be securely fastened in the report and shall be of durable paper conforming to this form in size and width of margin. Each insert shall bear the number and title of the schedule to which it pertains and the call letters.
INSTRUCTIONS FOR REVENUE STATEMENT
Schedule 1

The revenue statement (page 2) is designed to show the revenue of the respondent which has been
derived from all broadcast activities, segregated so as to indicate that which has been received from
networks, that which is of a non-network character, that which has been received from incidental
broadcast activities, and the extent to which those other than respondent participated in those revenues.
A network program is any program furnished to the station by a network or another station.

Lines 4 and 5 of the revenue statement (page 2) are designed to include the gross amounts of
revenue earned from networks as compensation for the time of the respondent which was used by such
networks for broadcasting network commercial programs. "Amounts of revenue earned" means the
amount received or receivable by the station from networks. Amounts paid by the networks for circuit
costs, royalties, and similar items of expense which they furnish under contract are includible in the
expense statement of the network. If, on the other hand, the stations pay for these items, either directly
or through networks, as an offset on amounts receivable, then such payments are includible in the expense
statement of the station. These lines should include revenue earned from the sale of network cooperative
programs to local sponsors.

Line 6 of the revenue statement is designed to include the gross amount of revenue earned by the
respondent for broadcasting commercial programs simultaneously over a combination of two or more
stations. However, the respondent in such operation who assumes responsibility for accounting for all
proceeds involved will report the entire amount earned by the combination of stations on line 6 and
include out-payments to stations on line 14.

Line 9 of the revenue statement is designed to include the gross amount of revenue earned from:
advertising placed by or on behalf of advertisers whose distribution of product or service is in two or
more metropolitan areas, two or more communities located outside metropolitan areas, or one or more
of each kind of area. It makes no difference whether such advertising is solicited directly by the re-
respondent or through advertising agencies, national representatives, brokers, or networks. Line 10 of
the revenue statement, on the other hand, is designed to include the gross amount of revenue earned
from advertising placed by or on behalf of advertisers whose distribution of product or service is limited
to either one metropolitan area or one community outside of a metropolitan area. "Amounts of revenue
earned" in these lines are not to be reduced by amounts paid as commissions to advertising agencies,
national representatives, and brokers, or to staff salesmen or employees.

Line 14 of the revenue statement is designed to include the actual amounts paid or payable by the
respondent to networks from the revenues described heretofore as their part of such revenues for their
participation in the broadcasting. Payments to networks for furnishing cooperative programs from
which revenue was derived also should be included on this line.

Line 19 of the revenue statement is designed to include the gross amount earned by the respondent
from others as compensation for services of talent which is under contract to and in the pay of respondent;
and net commissions, fees, and profits for services in obtaining, or for placing with others, talent not
under contract to and in the pay of respondent.

Line 20 of the revenue statement is designed to include amounts earned by the respondent from others
for furnishing manuscript, transcription, production, or other program material or service. It does not
include amounts earned from others as royalties or other payments for the right to use matter protected
by copyright.

Line 21 of the revenue statement is designed to include amounts earned by the respondent for ser-
vices incidental to the broadcast service such as charge for facilities and special charges in connection
with remote broadcasts; charge for other program transmission circuit services; fees or other charges
for conducting studio tours; rents, fees, or profits received from others for the right to operate con-
cessions; charge for use of studio facilities; etc.
INSTRUCTIONS FOR EXPENSE STATEMENT  
Schedule 2

The expense statement (page 3) is designed to show the direct and indirect expense of the respondent which has been incurred in conducting broadcast activities. The first six lines of the statement relate to broad expense categories. The following are illustrative of subcategories of expense items which should be included in each of the four broad expense categories.

Technical expenses (line 2) should include salaries and wages of officers and employees engaged in supervising or performing technical work; amounts expended for maintenance, repairs, and necessary parts or other expendable items which are not capitalized, such as tubes; amounts expended for power costs; and other miscellaneous technical expenses such as fees and expenses of technical consultants and rent or other amounts paid for the use of transmitter lines.

Program expenses (line 3) should include salaries and wages of officers and employees of the program department; talent expenses; royalties and license fees relating to program material; transcriptions and recordings; circuit costs incurred in delivering programs to the local studio; film expense; and costs incurred in obtaining news.

Selling expenses (line 4) should include salaries and wages of officers and employees engaged in sales work, advertising, promotion, and publicity; commissions to staff salesmen; fees and expenses of promotion experts and consultants; and all other expenses incurred in advertising, promotion, and publicity.

General and administrative expenses (line 5) should include salaries and wages of officers and employees engaged in administrative and general duties the expense of which cannot be otherwise allocated; payments for professional services; insurance; experimental and developmental expenses; depreciation and amortization of broadcast investments; rent paid for use of broadcast property; taxes (other than Federal taxes on income); and losses on notes, accounts, and other amounts receivable.

Lines 7 to 15 are designed to elicit information with respect to some selected items of expense and do not include all the items of expense appearing on lines 2 to 5. Line 8 should include the total salaries, wages, and commissions paid to technical, programming, sales, and general and administrative personnel. Line 9 is a subcategory of the expenses appearing on line 5. Lines 10 to 15 are subcategories of the expenses appearing on line 3.

In reporting employee information requested in the note at the bottom of page 3, include all employees, both staff and non-staff. Count all employees as "full-time" when they are employed for the normal basic work week of the station. Count employees as "part-time" when they are employed for less than the normal basic work week of the station.

INSTRUCTIONS FOR REPORTING OF TANGIBLE BROADCAST PROPERTY  
Schedule 3

Cost when first dedicated to broadcast service. The amounts to be reported in column (b), captioned "Cost when first dedicated to broadcast service," should include with respect to property in broadcast service (1) the cost to the licensee if the property was placed in broadcast service by the licensee or (2) the cost on the books of the predecessor owner if the property was acquired from a predecessor licensee.

Balance in the accrued depreciation account. The amounts to be reported in column (c) should reflect the balance in the accrued depreciation account resulting from accruals, less net charges for property retired, since the property was placed in broadcast service by the licensee, and should also include accrued depreciation, if any, taken over from the predecessor's books in the event that any of the property was acquired from another licensee.

Cost after depreciation. The differences between columns (b) and (c) are the amounts to be reported in column (d).
ANNUAL FINANCIAL REPORT OF NETWORKS AND LICENSEES OF BROADCAST STATIONS

Made to the FEDERAL COMMUNICATIONS COMMISSION
Washington 25, D. C.

If this report does not cover the full calendar year, indicate the period covered:
For Period Begun __________, 19__, and Ended __________, 19__;

1. ___________________________________________________________________________
   (EXACT NAME OF RESPONDENT)

2. ___________________________________________________________________________
   (STREET ADDRESS OR POST OFFICE BOX NUMBER) (CITY) (ZONE) (STATE)
   Before completing the following section, see General Instruction 2.

3.(a) This is a report for the following station:
   Call Letters ________________ Class of Station* ________________________________
   (b) Licensee also owns the following stations for which separate reports are filed:
   Call Letters ______________________ Class of Station* ________________________________
   ___________________________________________________________________________
   ___________________________________________________________________________
   ___________________________________________________________________________
   ___________________________________________________________________________
   ___________________________________________________________________________
   ___________________________________________________________________________
   ___________________________________________________________________________
   ___________________________________________________________________________
   ___________________________________________________________________________

*Indicate the class of station; e.g., AM, FM, TV, International, or AM-FM combined.

Person in charge of correspondence regarding this report:

________________________________________________________________________
(NAME) (OFFICIAL TITLE)

________________________________________________________________________
(OFFICE ADDRESS)

FILE ONE COPY ONLY
<table>
<thead>
<tr>
<th>Line No.</th>
<th>Class of broadcast revenue (a)</th>
<th>Amount (b)</th>
<th>Amount (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 A.</td>
<td>REVENUE FROM THE SALE OF STATION TIME:</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>2</td>
<td>(1) Network -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Sale of station time to networks:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Sale of station time to major networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>(before line or service charges)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Sale of station time to regional networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>(before line or service charges)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Sale of other network time (before commissions and line charges)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Total (lines 4 - 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>(2) Non-network (after trade discounts but before commissions to agencies, representatives, and brokers, or cash discounts to advertisers and others) -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Sale of station time to national and regional advertisers or sponsors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Sale of station time to local advertisers or sponsors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Total (lines 9 - 10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Total sale of station time (lines 7 and 11)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>(3) Deduct participation by others in revenue from sale of station time:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Payment to networks (from sale of time)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Commissions (including cash discounts) to regularly established agencies, representatives, and brokers but not to staff salesmen or employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Total (lines 14 - 15)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Balance, amount retained from sale of station time (line 12 minus line 16)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>B. INCIDENTAL BROADCAST REVENUES (after deduction for commissions):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Sale of talent under contract and commissions, fees, and profits from obtaining or placing talent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Furnishing material or service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Total incidental broadcast revenues (lines 19 - 21)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Total broadcast revenues (lines 17 and 22)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: If a joint AM-FM return is made, please indicate below what amount, if any, of total broadcast revenues is applicable separately to the FM station. FM Revenue $
### Schedule 2. Analysis of Broadcast Expenses

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Class of broadcast expense (a)</th>
<th>Amount (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General categories of expenses:</td>
<td>$</td>
</tr>
<tr>
<td>2</td>
<td>Technical expenses</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Program expenses</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Selling expenses</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>General and administrative expenses</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Total broadcast expenses (lines 2-5)</td>
<td></td>
</tr>
</tbody>
</table>

#### Selected Expense Items (Subcategories of lines 2 - 5 above):

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Description</th>
<th>Amount (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Salaries and wages, including supervision</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Depreciation and amortization</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Film expenses</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Transcriptions and recordings</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Cost of intercity and intracity program relay circuits</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Cost of news services (other than salaries)</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Talent expenses (musicians, artists, and other talent)</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Royalties and license fees relating to program material</td>
<td></td>
</tr>
</tbody>
</table>

Note: Indicate the number of employees as at December 31 whose salaries and wages are includible on line 8:

Full time _______  Part time _______  Total _______
**EXCLUDE CENTS AND ROUND TO NEAREST DOLLAR**

**Call letters**

---

**SCHEDULE 3. TANGIBLE PROPERTY OWNED AND DEVOTED EXCLUSIVELY TO BROADCAST SERVICE BY THE RESPONDENT**

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Item</th>
<th>As at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Cost when first dedicated to broadcast service</td>
</tr>
<tr>
<td>(a)</td>
<td></td>
<td>(b)</td>
</tr>
<tr>
<td>1</td>
<td>Land and land improvements and buildings</td>
<td>$</td>
</tr>
<tr>
<td>2</td>
<td>All other property (including transmitter, studio, office, and other property)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Total, all property (lines 1 and 2)</td>
<td></td>
</tr>
</tbody>
</table>

---

**CERTIFICATION**

(This report must be certified by licensee or permittee, if an individual; by partner of licensee or permittee, if a partnership; by an officer of licensee or permittee, if a corporation or association; or by attorney of licensee or permittee in case of physical disability of licensee or permittee or his absence from the Continental United States.)

I certify that to the best of my knowledge, information, and belief, all statements contained in this report are true and correct.*

(Signed)  

(Date)  , 19  

(Title)

*Any person who willfully makes false statements on this form can be punished by fine or imprisonment.

---

**SOURCE:** Federal Communications Commission  
**Washington, D.C.**
Since the Federal Communications Commission does not charge any fee for the broadcasting license, the Commission requires that a certain number of hours per year must be devoted to non-commercial broadcasting. A broadcaster must dedicate, or allow educational and charitable organizations to receive without expense to the organization, a percentage of the total number of hours broadcast by the individual broadcaster.

A report showing the actual hours on the air, the time subscribed for by sponsors and the time extended to charitable and educational organizations must be submitted to the Federal Communications Commission each year. Should a station fail to comply with the required number of hours of free broadcasts, this could carry a significant amount of weight when the time arrives for the broadcaster to apply for a renewal of his license.
V. REVENUE

Radio and television broadcasters are members of a group of enterprisers who derive their income solely from the sale of the intangible item of broadcast time.

The actual determination of the price of a particular broadcast is based upon the time during which the program is presented. One must remember that the use of the broadcaster's facilities is included in this price, along with the normal amount of talent (announcers) needed to present the show. In the final analysis, however, the sale of time is the only factor in the price determination.

The necessity of an active selling organization and proper connections in the economy is clearly visible. Lack of sale of time would indeed be a grave blow to the industry. Unlike many commercial institutions, exact continuity is essential to successful radio and television broadcasting. Should a period of time not be sold, it would be impossible to stop operations for that period.

Direct negotiations between broadcaster and advertiser are quite rare in the radio and television media. All contracts for the purchase of time, with the exception of political broadcasts, are transacted by advertising agencies and salesmen representing the studio.

In addition to the salesmen employed by the network-affiliated studio who work directly out of the studio, a national sales representative is established in the principal television cities to negotiate for the carrying of nationally advertised programs. The payments to the salesmen will be discussed in the section dealing with expenses and
operations. At this point it should be noted that the final compensation paid the salesman is based on his aggregate sales.

There are many factors which must be considered when the actual contract for the sale of time is drawn up. All of the following items have a bearing in producing the final figure which is agreed upon in the contract.

1. The length of time desired. The contract could possibly call for a period of time from a half minute to one and a half hours.

2. The hour of the day when the broadcast is to take place. Hours are classified by letter, A, B and C, and rates are based upon that distinction. They are as follows:

   A..... 6:00 P. M. to 11:00 P. M.
   B..... 7:00 A. M. to 5:59 P. M.
   C.....11:01 P. M. to 6:59 A. M.

3. The day, or possibly days, when the sponsor wants his show to be aired. A great premium would be placed, for example, upon Sunday afternoon television time as compared to a week day afternoon.

4. The contractors must consider the frequency of spot broadcasts or the number of shows which will be contracted for.

5. Stipulation of the contract itself should clearly reveal charges applicable to time, talent, line charges, news services, and, if possible, a
total per broadcast charge.

It is interesting to note that all rates and charges are registered and can be obtained by request. This is indeed a good advancement since it enables all parties interested to check upon the charges assessed. All rates are registered with The Standard Rate and Data, a publication which contains the rates for the different time of day and evening.

In an effort to match revenue and expenses as closely as possible, billings are made to customers monthly. Actually, the billing is made to the advertising agent. A bill or invoice, such as used by broadcasters, would appear as follows, one copy becoming a part of the studio's records.
### CHART IV.

**A TYPICAL STUDIO BILLING FORM**

<table>
<thead>
<tr>
<th>Studio Copy</th>
<th>Client</th>
</tr>
</thead>
<tbody>
<tr>
<td>X STUDIO</td>
<td>Standard Food Co.</td>
</tr>
</tbody>
</table>

**Agent:**
A. B. C. Advertising Agency  
Boston, Massachusetts

**14 - One Minute Spot Announcements**  
W/E March 24  
$1,000.00

- Monday through Friday: 12:00 Noon; 11:00 P. M.
- Saturday: 1:00 P. M.; 11:00 P. M.
- Sunday: 6:00 P. M.; 11:00 P. M.

**Account Breakdown**

<table>
<thead>
<tr>
<th>#</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>303</td>
<td>$700.00</td>
</tr>
<tr>
<td>320</td>
<td>200.00</td>
</tr>
<tr>
<td>322</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Total:** $1,000.00

**Source:** From Information Supplied by Gertrude Craven,  
Station WNAG and WNAG-TV, Boston
The account breakdown in the lower left hand corner is the necessary information used to distribute the total billed to the various component parts of operations which contributed to the final program construction. In the illustration the account numbers used represent local time sales, talent costs and program material. The amount billed is the actual amount that is to be received from the agency. It does not include discounts at all. The advertising agency usually plans upon a 15% figure as its charge to the client on local sales, except in the case of national network programs, in which case the agent's fee is the equivalent of 7 1/2% of net billing.

Perhaps in an effort to encourage multiple broadcasts, all networks and their affiliated local stations allow discounts to those advertisers who contract for a long-term association or purchase of time. These discounts, called frequency discounts, are based upon the type of program, number of times on the air and continuity of the contract of the program presented.

To account for each discount individually would be an extremely complicated process. The broadcasters have therefore undertaken to establish an accounting method which would bring these discounts into the scheme of financial operations.

Each month the accounting department of the broadcaster will set aside, in the form of a reserve, a pre-determined percentage (usually less than 10%) of local time sales to cover any discounts that may be realized. The percentage will vary monthly. Since the figure is dependent upon the actual sales, the individual charged with the responsibility of ascertaining the correct figure must be extremely capable of assembling
all the varying factors and arriving at the most accurate value possible. Like the reserves found in accounting statements of business concerns, the accuracy of such a Reserve for Frequency Discounts can never be considered exact. The variable elements of estimation and opinion play an important role in the value determination. The journal entry to bring the reserve for frequency discounts into being is a debit to Frequency Discount Expense and a credit to Reserve for Frequency Discounts.

As the various clients (or their agents) become eligible for the discount, the necessary adjustment must be made to the reserve set aside to account for the realization of the actual discount. The discount must be known, and usually when the parties enter into contract the discount which eventually will be available is determined. The discount is made to the advertising agency, who, at its discretion, may retain it as part of its fee or pass it on to the client. This decision, however, is within the realm of his position as agent. The actual entry to account for the discount would be a debit to the Reserve for Frequency Discounts and a credit to Cash or Accounts Receivable. The agency is given a preference as to the method of settlement it wishes. It may either take the cash settlement immediately or have its account credited for the amount of the discount. In either case the reserve must be debited for the amount of the discount. Despite the elements of doubt involved in the estimations, examination of network accounting records has proven that the estimated discounts closely coincide with the actual discounts eventually given.

Broadcasters who function on a local independent basis derive their income from advertisers who purchase time spots of varying lengths, as was described in the preceding sections. There are numerous broad-
casters, however, who are affiliated with one of the larger networks, National Broadcasting Company, Columbia Broadcasting System, American Broadcasting Company and Mutual Broadcasting System. Occasionally one will find a local studio which has agreements with more than one national network. The affiliation between network and local station is secured by a contract usually for a period no longer than five years. The terms of the contract are extremely specific in that they spell out completely and exactly the obligations of each party to the contract. It is interesting to note that no two agreements are exactly alike. The peculiarities of each location and area of the country are instrumental in bringing about a workable contractual relationship between parties.

If the terms of the contract so stipulate, and they customarily do, the network can insist that an affiliate carry a specified program over its facilities. Since the contract between parties is of a short term nature and must be renewed, it is obvious that very few network orders are disobeyed. A local station will receive a monthly settlement from the national network for the time allotted to network programs. Again, the revenue received is based upon the factors contributing to the differentiation in the time of day.

Occasionally, some technical difficulty or interruption will prevent the local station from carrying out its network schedule in its entirety. When the actual return from the network is computed, the bookkeeper in charge of billing will be required to pro-rate the receipts of the entire program over the entire time and then determine the portion which will be deducted from the remittance due to non-broadcast. Unlike a returned article of merchandise which bears a specific value, time
varies greatly. Should a sponsor's message appear during the time when the program was not carried, a greater weight must be given to that particular period of time. Therefore, extreme care must be taken so that all factors are considered when the apportionment is made.

It is good accounting and sound business practice to retain the documentary evidence related to the transactions entered into by an enterprise. In radio and television broadcasting it is very difficult to maintain complete records of all broadcasts. Since the element of time is intangible, once it is used, it cannot be examined for exactness. Recordings on record, tape or film may be made, but it is impossible to determine the exact time that the original broadcast was made. A recording will reproduce the program as it was originally broadcast; however the exact time of the original broadcast cannot be determined. Since it is the original broadcast that the sponsor pays for the broadcasting stipulations must be met. A sponsor pays for the time he specifies, and it is the duty of the broadcaster to insure the proper fulfillment of this agreement.

In order to provide some means of control, and also provide a control over the billing system, each broadcaster is required to maintain a station log. It is the duty of the announcer or engineer working each program to record on forms suggested by the Federal Communications Commission the events which are transmitted at all times. This report includes time, the entertainment or type of broadcast, the sponsor and signature of recorder. The necessity of maintaining a correct and accurate log is reflected in the penalties assessed on those not reporting properly.

Should an engineer or announcer fail to make a correct entry or
insert a false statement in the log, his license will be subject to
forfeit.

The log is examined daily by the individual in charge of bill-
ing, and the broadcasts which have actually taken place are compared with
the contract originally entered into by the parties. This comparison
serves as the original record to answer any claims which sponsors could
possibly make regarding possible breach of contract. Should a discrepancy
be uncovered by this examination, an immediate meeting between agent and
broadcaster would take place to agree upon an adjustment in the contracted
price.

One principal characteristic of the industry is the close con-
trol exercised over the accounts receivable. A very small percentage of
accounts are written off as bad debts. A number of factors contribute to
this desirable situation. All business is done with reputable agents
who represent responsible clients. Should a client fail to meet his ob-
ligation, his program or advertising would be removed from the air, which
is a significant penalty to pay for an overdue account. Political broad-
casts are somewhat on the risky type and therefore, to insure payment,
the studio will require the organization sponsoring such a broadcast to
pay the agreed-upon cost in advance.
VI. ACCOUNTS PAYABLE AND BOOKS OF ORIGINAL ENTRY

The accounting system used by a radio or television broadcaster is based upon the voucher principle. Since the ideal situation is one which delegates one job to each individual, the Accounts Payable of a broadcaster are usually based upon this principle. All invoices and statements are received by an Accounts Payable clerk. The clerk sends the individual statements to each department charged with its particular portion of the statement. The departments verify the statement and return it to the clerk. The clerk will then prepare the necessary voucher and draw a check for the amount of the statement. As the clerk prepares the voucher he also prepares a voucher ticket.

These voucher tickets are significant to the system. They are segregated according to department and type of expense which they represent. At the end of the month the tickets are totalled and the figure is used in the financial statement. Many common books of original entry are not used in this type of a system. The voucher is entered in the voucher register, which is kept on a daily basis, a new page for each day. By totalling the various expense columns in the voucher register, and comparing them with the totals of each type of expense represented by tickets, a quick check is made on all postings.

After the voucher and check are prepared they are sent, with the documentary evidence, to the proper authorities for signature and final approval. The signed checks and vouchers are returned to the Accounts Payable clerk who sends the payments to the creditors. In addition to using a voucher register, the check issued as payment of a
debt due is entered in a check register.

By employing this system, location of possible errors is easily handled. The fact that one individual does record all the entries on the books may appear to be a bit open for comment, but the control exerted by other department heads and officers compensates for any negative value the plan may appear to have. Under such a system approximately one week is required from the first stage when the statement is received until the check is placed in the mail.

In addition to using the voucher system's register and other books, two other principal books of original entry are used. A Standard Journal is used to record items which are of a relatively fixed or re-occurring nature. Items of income and expense which will generally be repeated monthly, or at least regularly, each year are recorded in this Standard Journal. It is customary to make the entry in advance and enter it in the books without the actual cash values, which are later inserted into the proper place when the actual income or expense is realized. A Regular Journal is used to handle the rare or non-reoccurring items encountered in the transactions of the business each time. Such transactions as the sale of assets or unusual repair expenditures would be found in the Regular Journal.
VII. PAYROLL MATTERS

The payroll policies and methods of a radio or television broadcaster are influenced to a great extent by both the internal and external financial characteristics existing for the particular geographic location of the broadcaster. The radio and television technicians are members of the Independent Brotherhood of Electrical Workers, while all announcers belong to the American Federation of Radio Announcers. Clerical workers, salesmen and executives are not unionized.

Since the unions play an important role in bargaining for its members' demands, the payroll plans of a broadcaster must be adapted to handle possible future wage demands. Therefore, the wages paid these union workers are the result of union-management compromises. Every two years a conference between union, management and payroll department officials is held to agree upon the proper wage rate for the jobs covered by union members. All union employees are paid an hourly wage. Stipulations of the contract between union and management usually establishes the wage rate, overtime pay (usually time and a half), sick leave, vacation pay and the guaranteed weekly wage. In order to account for all these factors, a broadcaster must establish a department whose activities are devoted entirely to the preparation of payroll material and payments.

The sales force of a broadcaster is paid strictly on a commission basis, the commission being a percentage of net sales. The net sales figure is an aggregate total of all net sales, regardless of size. When the salesman reaches a pre-set level, the commission percentage
changes automatically. One can see clearly the extremely detailed records which must be kept by the payroll department in order to avoid errors in payroll computations.

Deductions from wages taken by the radio or television broadcaster do not differ from that of the ordinary enterprise. Deductions from the individual's salary include withholding taxes, 2% Federal Old Age Benefits, Group Insurance and Blue Cross (or a comparable health and accident policy). In addition, the employer pays his contributions and Workmen's Compensation Insurance. Due to the varying degrees of risk involved in the jobs found within the structure of a broadcasting studio, different percentages must be applied to each classification of work.

In order to facilitate the determination of the contribution to be paid by the employees, the payroll should be classified or distributed by department.

A great majority of broadcasters have undertaken a policy of paying employees in advance. The accounting system which most broadcasters follow is one by which all employees are paid bi-weekly, the pay days being the seventh and twenty-second of each month. In actuality, the advance payment represents only one week, since the first pay period covered by the payment on the seventh was terminated on the fifteenth. There are two principal reasons for introducing such a plan. First, the monthly payroll total, withholdings and distribution are available for statements on the twenty-second of each month, at least seven days before the books are closed. Secondly, by paying to a date that coincides with the closing date of the month, there is no need to accrue wages at the end of each month. Any overtime pay that may be earned, however, is not received.
until the pay period following the period during which the additional compensation was earned. The overtime which is carried forward from period to period is usually offset by overtime from previous periods so that a levelling effect is produced.

All office employees and executives receive an annual wage, paid bi-weekly also. Sick leave benefits are available to all employees and may be carried forward into the following year, but no longer. Two weeks per year is the usual length of sick leave allowed with pay. However, employees may receive greater compensation if their length of employment warrants it.

One of the unusual accounting aspects found in a broadcaster's system concerns the distribution of the executives' salaries. All other salaries are departmentalized. The executives' salaries are usually charged to that division of operations which shows the greatest income. This of course applies to a broadcaster transmitting both radio and television broadcasts. Generally, income from television exceeds that of radio, and most broadcasters therefore charge the entire amount of executive salaries against television proceeds.

The handling of payroll activities for a radio or television broadcaster is a rather involved task and great accuracy and care must be exerted to arrive at the proper values and rates. Essentially, there is no deviation from standard payroll methods; however difficulty arises due to the varying rates and bases used for different activities of the enterprise.
VIII. FIXED ASSETS AND INVESTMENTS

A. Fixed Assets

One of the most pressing problems facing the accountant in the radio and television broadcasting field is that of establishing the proper method or methods for handling the fixed assets of the enterprise. As has already been stated, the field is characterized by changes due to research, discovery and improvement of facilities. These conditions are of vital importance when the fixed assets are considered.

Non-technical, as well as technical, assets are used in the broadcasting field. This necessitates the separation of the assets into four categories: Buildings, Furniture and Fixtures, Radio Transmission Equipment and Television Equipment. Government tax regulations have established varying depreciation rates or bases for these four categories, and their separation facilitates the handling of depreciation charges for each fiscal period. The generally accepted accounting procedures establish the following bases for depreciating the four kinds of assets:

a. Buildings. Life of buildings dependent upon type of construction and material used, usually twenty to thirty years.

b. Furniture and Fixtures. Ten year life.


d. Television Equipment. (Including Transmitting Tower)

      Five years. *
It is interesting to note the theory underlying the five-year deprecation allowed for television equipment. Television progress has not ceased, and there is every indication that research and development will continue and many innovations will be introduced to the field. Color television, still in its infancy, has already brought about extreme changes and additions to the transmission equipment needed by the broadcaster. In view of this existing condition the broadcasters have obtained permission from the Bureau of Internal Revenue to depreciate their television equipment over the five-year period. The use of the terminology "depreciation" should be modified here to include the term obsolescence. Actually the write-off period is a result of the equipment becoming outmoded and not usable to its greatest degree of efficiency.

Since a broadcaster's operations are not carried on in one specific location, it is necessary to keep a close inventory of all assets owned. It is extremely possible that the broadcasting studio will be located five or ten miles from the transmitting location. To insure the control over assets, each studio prepares a schedule of assets and their location. Not only does this plan facilitate internal operations, but when an independent auditing company makes its annual audit, the task of accounting for assets is more easily accomplished.

1. Equipment Acquisitions

All asset purchases are made through contracts with various manufacturers of transmission equipment. The contract itself is extremely flexible. Not only are the prices subject to change, but the amount ordered may be, and usually is, altered. The terms of the agreement simply stipulate a minimum quantity of equipment to be supplied. As the
equipment is delivered to the broadcaster the cost is determined from the current market prices. The figure paid the supplier is considered the cost of the equipment and this amount is the value which is to be depreciated.

The price billed to the broadcaster is the price paid by him. Despite the large volume of purchases which a broadcaster may make, no discounts are given on equipment. This factor tends to equalize the asset expenses and depreciation charges made by all broadcasters despite their size.

Old equipment is not turned in when new assets are bought. This applies to the technical equipment. Non-technical equipment is used as part payment towards new office machines, and in such cases the transactions are recorded according to the Internal Revenue regulations. Due to the rapid obsolescence of the technical equipment it is not feasible or practical for a supplier to accept the old equipment in trade. His difficulty in disposing of such outdated articles would be an added and unnecessary expense.

2. Depreciation of Assets

The straight line method of depreciating assets is generally used by all broadcasters. Where the life of the assets varies, this method aids operations and simplifies the work of the bookkeeping department. The depreciation is charged monthly, the credit being made to the Reserve for Depreciation account of the particular type of assets being depreciated. Therefore, the accounts of the broadcaster will include separate reserve accounts for assets such as television equipment, radio equipment, buildings and furniture and fixtures.
Should a new asset be acquired, the cost will be depreciated on the proper basis, commencing the month following purchase. Any equipment purchased during the month of May, notwithstanding the actual date of purchase, would be depreciated from June first, the initial write-off taking place on June thirtieth. This delayed action allows the accounting department to gather all cost data regarding the particular asset purchased.

3. Maintenance and Sale of Equipment

The cost of all repairs made to equipment is charged to an expense account. Should parts require replacement, they are also charged to expense. Should an item such as a camera lens require replacement, if the cost be unusually large, it will be capitalized and depreciated for the full five or ten years, depending upon the category of assets within which it falls.

Under no circumstances is the estimated life of an asset revised. Regardless of any major alterations made to a particular piece of equipment the initial cost of the asset is written off during the original estimated life, while the repairs made, should they be capitalized, are written off over a full lifetime (five or ten years).

When an asset is sold, the depreciated value of that asset is adjusted by correcting the depreciation charges up to the time of sale. Since the transaction will result in a long or short term capital gain or loss, the accountant must perform extreme caution when he computes the results of the sale. The importance of keeping an accurate data schedule of assets owned is more vividly seen here. Tracing the documentary evidence on one asset out of hundreds is an extremely arduous
task and is greatly facilitated by the proper scheduling.

Radio and television tubes, which are mostly operating expenses, fall into a peculiar category. They may be considered an inventory item, operating supplies or strictly an expense. I found in my observation of the handling of tube items the following procedure was both adequate and acceptable. When tubes are purchased they are debited to a prepaid expense account. Each month a portion of the prepaid cost is credited and charged as expense. The method of apportionment is open to criticism. If the tubes are purchased on March first, equal portions of the cost will be written off from March through December. If tubes are bought on November first, they will be charged in entirety to expense within the two months, November and December. The use of this method is designed to keep the expenses on a yearly basis and avoid the necessity of making adjusting entries at the end of the year. Without doubt the variety of assets found on the books of an operator require careful consideration. Only the use of a proper accounting procedure can make this operation an integral and well-coordinated part of the overall financial plan of the enterprise.

B. Investments

The average local independent station or network affiliate practices a very conservative investment plan. The tendency on the part of the broadcaster is to avoid lending actual cash, namely on bond issues. The broadcaster will strive for investment policies which will bring him some degree of control over an enterprise closely allied with his own. Common investments found on the books of a radio or television broadcaster would be stocks representing enterprises dealing with enter-
tainment, motion pictures or program production companies. A vivid example of the type of investments entered into by a broadcaster would be the recent purchase of R. E. O. Pictures by the General Teleradio Corporation, the operator of Stations WNAC and WNAC-TV in Boston. Since motion picture films are extremely popular in the television broadcasting field, the beneficial aspects of maintaining a controlling interest in a producer of such films is a significant economic factor. The subject of films and the procedures advocated in handling them will be discussed in a subsequent chapter.

A few methods used in accounting for the investments of a broadcaster warrant attention. All investments are carried at the value paid by the broadcaster. Current market values are very seldom reflected on the statements of the individual broadcaster. The value of the investments is set and maintained at the original price.

In addition to the stocks of enterprises of a correlative nature, the investments may include mortgage notes in the form on long-term notes receivable. In the course of carrying on broadcasting operations, a broadcasting company acquires certain property which it converts into affiliated broadcasters. As the operations of these smaller companies expand, the parent companies sell the individual stations to private management. Since the new enterprises are relatively speculative, the selling company accepts long-term mortgage notes in lieu of cash. A portion of the principal is paid off each year, along with the payment of interest. Therefore, the value of this investment is a diminishing one. As payments of principal are made the note value decreases by the amounts of these payments.

Basically, the discussion here represents the two types of in-
vestments held by the independent radio or television broadcaster. Contrary to popular belief, networks seldom sell their own stock to their affiliates. There is the ever present drive to keep investments down to the barest necessity possible. In order to foster this plan, the networks themselves have helped the individual broadcaster by not requiring or offering their stock to be bought.

The matters applicable to a broadcasting company's own stock will be discussed in the capital section of this paper.
 IX. TELEVISION FILM COSTS

Despite the many advances and developments made by the television industry, great reliance is placed upon the use of films and filmed programs. In view of this situation, any thesis dealing with television accounting would be incomplete without a section devoted to the accounting problems found with regard to filmed presentations and the methods used to handle these problems.

The expense of maintaining an adequate film library would be prohibitive to the average broadcaster. It is therefore necessary for a source of films to be found. The television broadcaster no longer contracts with a film distributor for his films. Due to the large volume of films used, direct negotiations are made with the film companies themselves. All films are rented under strict contract terms. The contract usually contains stipulations limiting the number of times each film may be shown, the price per film and the rental period. Films are usually rented in a package deal where one contract will cover ten to forty films.

Since there are varying lengths and types of films involved, accounting for the cost of the films must be handled in a manner which is most functionable for the broadcaster's financial and economic circumstances. Since different types of films require different accounting procedures, I should like to discuss them by subdividing the various aspects.

A. Full Length Feature Films

Films which fall into the category of feature films are those of a classical nature, or movies produced approximately ten years ago.
They are the type of films that usually are shown as features on the late evening shows. Two contracts are involved in the presentation of feature movies. The broadcaster contracts with a film company for the rental of a number of films "of good quality". The advertising agency in turn contracts with the broadcaster, for a period usually thirteen weeks in length, with an option to renew, to sponsor a particular show. The advertiser is charged a rate based upon the cost of film plus the particular rate applicable to the time when the movie is to be shown.

Since the films are purchased in a package deal, the task of determining the cost per run of the film is very difficult. In order to produce a workable plan the cost per film is found by a simple division of the total cost of the package. Since the contract allows more than one showing per film, the cost is written off at a diminishing rate, depending upon the number of times the film may be shown. From both the theoretical and practical viewpoint this plan appears to be sound. The number of people watching a picture for the first time is much greater, usually, than any of the subsequent showings. Therefore, each time a film is shown a portion of the cost of that film is written off, at a pre-determined rate, against the revenue of that particular program. The cost written off is estimated due to the factors mentioned previously.

To illustrate the procedure followed with regard to these films, let us assume that a broadcaster rented twenty feature length films at a cost of $40,000.00, with the stipulation that each film be shown only three times over a period of nine months. Management estimates that the audience reached by the film would be on a diminishing
ratio of 5:2:1 for the three showings.

Therefore, the cost of the film will be apportioned to each showing — 5/8 of the cost to the first performance, 1/4 to the second and 1/8 to the last showing. Using the above data, the cost of the film for the first showing will be $1,250.00 (5/8 of $4,000.00 / 20). The second and third showings will be charged with a cost of $500.00 and $250.00, respectively.

B. Half Hour Filmed Programs

Many weekly programs are shown on film. In addition, these shows are usually sponsored by more than one advertiser. If the show should be one of those weekly shows which happens to be sponsored by one advertiser, the price billed the client is computed by totalling the cost of the film and a fifteen per cent of cost markup, in addition to the established time rate for the particular hour of the day. In the half hour filmed shows the participating sponsors share the cost and fifteen per cent of the film, in addition to the amount of time consumed by their advertisement.

From a broadcaster's standpoint, the cost of the half hour films are easily determined since they are covered by a separate contract. The cost of the film, therefore, used on the weekly show can be easily charged off against the show's revenue.

C. Network Shows

Due to previous local commitments or other network obligations, a local network affiliate may be unable to carry a live program. In such cases the show is filmed (a process known as kinescope) and shown at a later time by the local broadcaster. The broadcaster is paid by the net-
work for the particular time that he uses to present the delayed broadcast. Since this is a network show the local affiliate does not charge any film expense against that particular show. He merely receives the revenue due him.

D. Filmed Commercials

Filmed advertisements vary in length from a ten second station break to a full one or two minute announcement. The broadcaster in no way enters into the production of the actual film used on the commercial. It is the duty of the advertising agency to obtain the film and submit it to the broadcaster.

The charge billed by the broadcaster to the agency is based on time only. Again, the cost or expense of the film does not enter into the accounting methods used by the broadcaster. Here he is merely concerned with the time revenue for the time consumed by the advertisement.

E. Network Film Procedures

When a network presents a show which is to be filmed, many problems arise concerning the proper method used to write off the cost of production. The program will be re-shown many times, and a portion of the cost of the show must be charged against the revenue received from each showing. There are four principal methods which could be used to amortize the film costs.

1. Flow of Income Method. Under this plan a percentage of the film cost, computed by dividing the actual income for the period by the expected total income, is written off each period.
2. **Cost Recovery Method.** This method was widely used in regard to legitimate theatre productions. Its basis is that production costs must be settled before any profits become due the producers.

3. **Straight Line Method.** Detailed explanation of this method is not necessary. The cost is written off in equal amounts over the expected life of the film.

4. **Sum of the Digits.** This method has become more prominent since its acceptance by the Internal Revenue Bureau as a depreciation method. The cost of the filmed program is written off over a pre-determined period. *

By adding the digits in the years of life \(1 + 2 + 3 + 4 + 5 = 15\) and subsequently amortizing the film at a decreasing rate starting with a ratio equal to the digit of the highest year over the total, i.e., \(5/15\) or \(1/3\), the total expense of the film will be written off.

The following chart shows a comparison of the results achieved when the four different methods of film cost amortization are applied to identical situations. The cost of the film to be amortized is $50,000.00, the period of time is five years and the anticipated revenue is $100,000.00.

* 8, p. 64
### INCOME REMAINING AFTER AMORTIZATION OF FILM COSTS UNDER FOUR DIFFERENT METHODS

<table>
<thead>
<tr>
<th>Period</th>
<th>Revenue</th>
<th>Flow of Income</th>
<th>Cost Recovery</th>
<th>Straight-Line</th>
<th>Sum of the Digits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$30,000</td>
<td>$15,000</td>
<td>$20,000</td>
<td>$13,333</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>25,000</td>
<td>12,500</td>
<td>15,000</td>
<td>11,667</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>20,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>15,000</td>
<td>7,500</td>
<td>5,000</td>
<td>8,333</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>10,000</td>
<td>5,000</td>
<td>10,000</td>
<td>6,667</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$100,000</strong></td>
<td><strong>$50,000</strong></td>
<td><strong>$50,000</strong></td>
<td><strong>$50,000</strong></td>
<td><strong>$50,000</strong></td>
</tr>
</tbody>
</table>

**Sources:**
- The Journal of Accountancy
- "The Accounting Picture in the Television Industry"
- John H. Regan, May, 1955, Page 64
F. News and Weather Telecasts

News and weather "fotcasts", as they are commonly called, are completely covered by contract. The broadcaster contracts with a news agency for daily films covering the news and weather picture. The agency in turn supplies all the films required by the broadcaster. The revenue received results from the sale of the news time to a sponsor, the price being based on the time of the broadcast and its length.

G. Miscellaneous Film Expense

In order to insure continuity of his telecasts, the broadcaster must maintain a small library of films to be used as time consumers should a regularly scheduled program be cancelled for some reason. The initial cost of these films (usually cartoons, travelogues and athletic documentaries compose a library) is written off monthly over a predetermined period of time. It is reasonably possible for the cost of a film to be written off completely before the film is actually shown. However, the films are to television as the record is to radio, and are indispensable to the telecaster. The fact that the films are accounted for by simple procedures is a helpful step in the right direction for the accountant. The advocates of the theory calling for writing off the cost as these particular films are used find themselves in a minority since it would almost be prohibitive to attempt to keep records reflecting the exact financial status of the films on hand.

H. Trends in Filmed Programs

At the present time there is every indication that filmed presentations will continue to play a prominent role in the television field. As long as this situation exists the necessity of developing and main-
taining proper accounting procedures to handle this situation will be of prime importance. The initial expenditure by a network for films is extremely large. In order to insure that a proper charge is made against the periodic revenue for film expense, a pre-determined system to be used is an unavoidable aspect of television accounting.

There is a definite tendency toward the elimination of the serial shows which have appeared on television. This is indeed important to the accounting department of a studio. The use of serial shows increased the necessity of adjusting entries to correct the accounts with respect to prepaid income and expenses. From financial, accounting and audience reaction this type of presentation has vanished from most television stations, the current tendency being one-half hour children's shows.

Undoubtedly, network shows will continue to be recorded on film in order to enable the greatest audience possible to see the performance. The coaxial cable system which will carry the network programs to all sections of the country is, unfortunately, incomplete at this time. This situation, coupled with the individual broadcaster's obligations to more than one network, causes discrepancies which are only alleviated by the filming of network programs.
X. FINANCIAL STATEMENTS

All statements prepared by the accounting department of a radio and television broadcaster are done on a comparative basis. The advocates feel that since the revenue and expense of a broadcaster are fairly stable, critical financial difficulties or errors are easily spotted when figures are compared with those of the previous month. In addition, the figures are compiled by two methods, for the individual month and on a year-to-date basis. Not only can any monthly error be reflected, but also any discrepancies in the year’s total to date can be noted.

At the end of every month the accounting department prepares two principal statements, the Profit and Loss Statement and the Balance Sheet. Approximately one week is required for the preparation of the statements. Since these monthly statements are primarily prepared for management, copies are mimeographed and distributed. Any suggestions or orders regarding financial accounting matters emanating from the executive level of the organization are usually based on the figures presented in the statements.

Formal statements are prepared at the end of the fiscal year and, on the network level, are usually published in the report to the stockholders. The statement to the Federal Communications Commission must also be filed at the end of the calendar year so that the method used to produce the formal statements should be adapted to make the report to the Federal Communications Commission a less arduous chore.

The dynamic nature of the industry requires a quick picture
of operation results. Although a week is not a lengthy period, the accounting department of a broadcaster will prepare in little time an informal operating statement. Such statements, called "Flash Reports", usually require two days for preparation. The report quite accurately reflects the financial picture of the preceding period. However, since the time spent preparing these reports is so short, greater accuracy is acquired by re-examining the recorded transactions of the period. This naturally takes the additional time. In addition, these "Flash Reports" only reflect the items of income and expense related to operations. Any extraordinary transactions would not be shown in this report.

As one can see, the reports prepared in this industry do not differ from those in other enterprises. In spite of the regulating doctrines of the government little of the influence is reflected in the financial reports. Except for the annual report to the Federal Communications Commission, no other official report must be submitted. However, should the government at any time wish to examine the records they must be given access to all statements.
XI. TAXES

Radio and television broadcasting companies are subject to the same taxes that affect all other commercial enterprises. The taxes are levied by local, state and federal government.

A. City or Town Taxes

All owners of real estate are subject to property tax levied by the town or city in which the property is located. The tax rate of the locality is applied to the valuation of the property made by a local assessor. In addition to the real estate tax there are also taxes on the personal property of the enterprise. This tax, also, is based upon valuation.

Generally, a broadcaster will own or lease property in more than one location, one for the studios and offices, the other site for the transmitter. In view of this situation, accounting for the tax expense on property is a rather involved process. In this situation examination of the aforementioned chart, showing the location of the assets, is of considerable importance. Since it is highly probable that the tax rate in different communities will vary, it is necessary to acknowledge the assets affected by each rate.

The taxes for the year are estimated from the taxes of the previous year. Property tax rates are usually established and announced some time during the year of operations. In view of this situation no actual tax can be established in advance. As the year's operations are carried on a monthly charge, based on the tax estimation, is made against the revenue for the period. When the adjusting entry is made it is done
in the form of a debit to Property Tax Expense and a credit to Accrued Property Tax Payable. When the taxes are paid the accrual account will be eliminated and the balance of the amount paid distributed to the prepaid tax and tax expense account. Consider the following example:

The estimated real and personal property tax is $1,200.00. The broadcaster paid the tax on June 30th. The following entries would be made on that date:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued Property Tax Payable</td>
<td>$500.00</td>
</tr>
<tr>
<td>Property Tax Expense</td>
<td>$100.00</td>
</tr>
<tr>
<td>Prepaid Property Tax Expense</td>
<td>$600.00</td>
</tr>
<tr>
<td>Cash</td>
<td>$1,200.00</td>
</tr>
</tbody>
</table>

On July 31st the following entry would be made:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax Expense</td>
<td>$100.00</td>
</tr>
<tr>
<td>Prepaid Property Tax Expense</td>
<td>$100.00</td>
</tr>
</tbody>
</table>

By making the preceding entries the tax liability is correctly apportioned over the monthly operations of the broadcaster in equal, or as equal as possible, parts.

B. State Tax

The taxes to which a broadcaster is subjected by the state government varies from state to state. Since my observations were made within the state of Massachusetts, I should like to discuss the taxes due to that state.

An enterprise operated within the state of Massachusetts as a corporation is subject to a State excise tax, based partly on earnings. Each month a charge is made to Excise Tax Expense and a credit to Accrued Taxes Payable. The amount of this figure is based on the tax paid in the previous years. The charge is not subject to correction. Should the
accounting department feel that the tax will be greater than that of the previous year, it will estimate the probable increase and reflect the alteration by changing the monthly figure. Since this is an estimation, the figure may require adjustment at the end of the year when the correct amount is known. In most cases the adjustment is very small and will not affect the financial statements.

C. Federal Income Tax

The income of a broadcaster subject to the federal income tax is usually quite high, since the volume of business and revenue derived are large. Should the tax obligation be ignored until the end of the year the monthly statements, reflecting the results of the operations, would be incorrect. Therefore, in order to spread the burden of the tax throughout the year, the broadcaster must charge the income tax expense account with a percentage of the income earned during each month.

The determining of the proper charge to be made always will involve some degree of difficulty in finally arriving at the percentage to be used. The examination of the records of a broadcasting operation shows that fifty-two percent of the net profits were delegated to a reserve account each month as the income tax expense applicable to operations for that period.

Under current federal regulations estimated taxes must be declared and paid on specific dates. This, too, applies to corporations whose tax is expected to be over $100,000.00. The tax is due and payable in instalments. As the taxes are paid the adjusting entries can be made to adjust the accrued taxes payable, and bring the accounts into line at the time of payment. The payment of taxes in this manner serves as an
aid in keeping the expense as accurate as possible. Although this may be rare in most cases, nevertheless, one must keep the method in mind.

D. Miscellaneous Taxes

All employers are subject to taxes on the payroll paid their employees. In addition to the deductions taken from the employees' salaries, the employer must meet certain tax obligations. A broadcaster is subject to these taxes also. The obligations are based on the gross wages and salaries paid, and payment must be made quarterly, accompanied by the required forms showing the computation of the taxes.

An employer must contribute 2% of gross wages as his share of the Federal Old Age Benefits tax. The employer's contribution to the state unemployment tax (in Massachusetts) varies from 1% to 2.7%, depending upon the merit rating of the employer. These taxes are paid quarterly. In addition, a .3% tax is paid annually for the federal unemployment taxes.

In computing the social security F. I. S. A. and state unemployment tax, the accounting department must be ever alert to the fact that there are limits to the gross income of the employee which is subject to the tax. The social security tax ceiling is $3,200.00 and the state level is $3,000.00. Once an employee attains this sum within a taxable year the employer need not contribute the required percentages.

There are no peculiar or special taxes involved in the accounting activities of the radio and television broadcasting field. The government exerts no special taxable power over the broadcaster despite the nature of the enterprise and fact that it is partially controlled by it.
XII. GENERAL AND OPERATING EXPENSES

The types of expenses encountered in the radio and television broadcasting industry vary in certain instances from those found in other enterprises. These variances are in the form of additions rather than alterations. Despite the fact that there are many unusual economic aspects peculiar to the industry one should not lose sight of the fact that the usual operating expenses must be recorded, as in any business. Salaries, heat, light and power, advertising, rent, repairs and maintenance, interest and insurance are large components of the total cost of operating this type of firm. In addition, however, there are many expenses, expenses which are of no concern to other businesses, which require a prominent place in the accounting system of the broadcaster.

In addition to the peculiarities created by the very nature of the industry, the economic conditions in the particular geographic area of operations will also have great weight in shaping the ultimate procedures adopted with regard to these "different" expenses.

It is extremely important that all expenses be departmentalized with the greatest degree of accuracy possible. This is important, since these expenses which are not definitely assigned to a special department are charged to the General and Administrative Expense account, which is subsequently apportioned to the other departments. The basis for this distribution is the result of an estimate. Since one continually strives for consistency in accounting practices it is quite possible that one unit of measurement would be used to apportion the total amount of these General and Administrative Expenses to the other departments. For example, should
the expense be distributed on a basis of the number of personnel employed within a department, such items as rent and utilities, which are general expenses, would also be apportioned on this basis. One can clearly see that this is a deviation from realistic operations. The only way to avoid this problem is to eliminate sizable charges to the general expense category. Strict adherence to the departmental method of accounting has resulted in accurate statements based upon the actual expenses incurred by each segment of operations.

One must not stop at the departmental subdivisions. If a broadcaster is operating a radio and television business he must further apply the expenses to the proper media. In certain instances expenses will fall into the proper classification very easily since certain items are strictly identifiable with radio or with television. On the other hand, many items would be applicable to both phases of operations. These items must be allocated to the correct account immediately. A distorted picture of results can be drawn easily from accounts saturated with incorrect figures. Management depends upon the results produced in accounting statements as a basis for their decisions regarding future planning. How fatal to operations can inaccurate figures be! The misdirected use of capital has resulted in many business failures which could have been avoided by more effective financial reporting.

A. Expenses Peculiar to the Industry

1. Line and Cable Expenses. The reception and transmission of audio and/or visual programs is carried on through a virtual maze of wires, cables and lines which ultimately produce the product found in the homes all over the world. To undertake the task of constructing the lines
would be beyond the scope of a broadcaster's financial abilities. Therefore, one of the unusual expenses found on the records of the broadcaster will be large payments made for the use of transmission lines. The lines fall into two categories — basic lines and other lines. Basic lines include those which are of a permanent nature. Existing cables between principal cities (Boston and New York, Chicago and New York, for example) would be considered basic lines since they remain fixed. All other lines not classified by a strict title are also of importance. These lines are temporary in nature and are seldom used for more than one event or broadcast. The need for these lines is recognized in programs originating from remote areas or places away from the main studio. The basic methods of accounting for the expense created by this condition vary.

The cost of maintaining his own lines would be prohibitive to the small or medium size broadcaster. He must therefore obtain this service through some rental contract. The principal supplier of lines is the American Telephone Company. Each month the telephone company bills the broadcaster for the services it has rendered. Included in the charges would be cost of maintenance, repairs and installation and removal of lines, plus a fixed charge for basic lines. The total expenditure for lines is a relatively large item for the broadcaster.

On the national level of broadcasting it is often the choice of the broadcasters to expend funds to construct their own lines, capitalizing the costs of construction and subsequently writing off the cost in the form of depreciation over the estimated life of the asset. This method of handling lines is financially impractical and almost impossible for any broadcaster smaller than a national network. The initial capital
outlay required for such activity is prohibitive to a small enterpriser of limited financial means. It is interesting to note that many larger broadcasters have also preferred to refrain from constructing their own lines and capitalizing the cost and turned to an outside supplier, treating his charges as periodic operating expenses.

2. Royalty and Rights Expenses. Any commercial use of music or its recorded reproductions subjects the user to the payment of royalties. It would be extremely difficult for a broadcaster to maintain complete records of all music used during an operating period. In view of this situation the royalties paid are based on the gross sales of broadcast time and programs using music. The creators, publishers and recorders of music are members of organized groups and they receive their share of royalties through these associations. Payments of royalties by the broadcaster are made monthly to the American Society of Composers, Authors and Publishers (ASCAP) and Broadcasters Music Inc. (BMI). The amount paid is found by applying a pre-determined percentage to the gross time sales of programs using music. No discrimination is made as to whether one or twenty musical selections were used. The expense paid must be based solely on the sales of time.

All royalties paid are based on local time sales of the broadcaster. The cost of royalties on network shows is charged to the broadcaster of the show at its point of origin. It is extremely important for the creator of the accounting system to consider this when he originates the accounting records and procedures to be used. At all times one must maintain separate accounts reflecting local sales of programs not subject to royalties on music, those subject to the royalty charge and shows on
the network level. This procedure will enable the bookkeeper to determine the amount payable to the various professional musical associations each month with a minimum of difficulty. In order to facilitate the work of the outside auditor, the broadcaster generally keeps a complete and detailed record of all data which will have a bearing on the payments made to these associations. Documentary evidence should clearly refer to the authority or method used to set the percentage being paid.

In addition to the royalties paid on music, often times a broadcaster must pay for the right to transmit a certain event. This is very common with regard to athletic events. The cost of program rights is directly assignable to particular programs. In negotiations with prospective sponsors it is the duty of the accounting department to present a concise breakdown of the costs which the broadcaster has incurred in obtaining permission to carry a particular broadcast. In accounting for the expenditures made in relation to the purchase of program rights, close control must be maintained over all transactions and each purchase, and subsequent sale to a sponsor must be clearly identified. Unless the records are kept accurately, the much strived-for matching of income and expense is destroyed.

All costs of rights are not deducted from the sales proceeds of each program. They are treated as an expense and the amount is entirely deducted from the gross income of the period as an expense. It is possible that the purchase of a right may be recorded in one accounting period and sold at another time. It is generally agreed upon by the accounting heads of broadcasting studios that the cost of program rights follows a course within the financial operations which tends to match
the expenditures with the eventual income. The important aspect from the accounting point of view is the great importance of accounting records needed to present the correct cost figures at all times. Such a task must be borne by the accounting department of a broadcaster up to and including the final disposition or re-sale of the rights.

3. Sustaining Expenses. The inherent characteristics of the radio and television broadcasting industry necessitate the continuity of broadcasting at all times. In order to meet this condition additional accounting records must be maintained to reflect the costs of operations not being reimbursed by the sale of time. These charges generally fall into the category of "sustaining expenses" which in simple terms are the costs of unsponsored programs which must be borne by the broadcaster.

The principal factors contributing to the sustaining expenses are the costs of talent, and, in television, film expense. The fact that some expenses are not applicable to revenue-producing productions necessitates adjustments to those expense accounts. The method of handling films used for such "fill in" shows has already been discussed in the chapter devoted to the topic of films. Mention should be made here of the fact that when the films held for "fill in" shows are charged off, the charge should be made to the sustaining expense account and not to the account which reflects expenses pertaining to revenue-producing programs.

The adjustment of the talent expenses presents somewhat of a problem. The original charge to operations is made when the payroll is calculated and distributed to various departments. The charge must be adjusted to clearly reflect the portion of salary expense which is appli-
cable to sustaining operations and that which represents costs against revenue-producing activities. In the final analysis, all the expense items are deducted from the gross sales. However, should a broadcaster fail to distinguish between these two types of expenses the effect produced would be similar to that which would result from keeping rent, utilities and heat under one expense account.

In order to produce the proper account balances, an analysis of operations for the period must be made. The only method of preparing this analysis is the scrutinization of the station log for the period. When the final balances are determined the adjusting entry is made to correct the operations expense account and reflect the sustaining expense.

The net final result received by reflecting sustaining expenses separately or allowing them to remain a part of operations is similar. However, the accounting methods and practices require that the distinction be preserved. One can appreciate the importance of this principle when he considers the similarity of sustaining expenses in broadcasting and idle time in the manufacturing industry. One of the essential elements of any cost accounting system is the separation of all expense items according to their contribution to the actual production of the enterprise. Since non-production time is isolated in a manufacturing industry, so must the cost of talent be applied to sustaining shows.

The role of planning for financial operations must be handled well so that the final adjustments can be inserted into operations with little difficulty. A good accounting system will include provisions which will enable the broadcaster to institute this change without any revision of the basic plan of operations.
h. Public Interest Programs. In an effort to keep the listening public informed of events which have been of vital importance to the nation as a whole, radio and television broadcasters have undertaken extensive coverage of these events. Two events of a rather current nature are typical of "public interest programs". The coverage of the McCarthy-Army Hearings and the Presidential Conventions and Elections were done as a public service to the nation. The nature of these two kinds of programs is characteristic of all broadcasts within this category. They do not lend themselves to commercial sponsorship. In view of this fact provisions must be made to account for the costs incurred relative to the production and transmission of such programs.

The typical accounting methods used to report public interest program costs would be similar to the following. The cost of transmitting the program is incurred by the network affiliate located in the place of the broadcast's origin. The local studio bills the network for the expenses incurred in connection with that particular show. Included in these expenses would be line expenses, salaries paid to technicians and other technical employees and actual talent used in the broadcast on the air. Therefore, one will find on the books of the local broadcaster a receivable due from the network.

On the network level the task is much more complicated. The accounting department receives a statement listing the costs incurred for the broadcast by the affiliate. It is then the responsibility of the department to pre-rate the cost of the entire production (without doubt there will be expenses to the network itself in addition to the charges from the point of program origin) over the number of affiliates which
actually carried the program. After billing the individual affiliates, the network will settle all expenses incurred by the smaller studies relative to that particular broadcast. A system of charge and re-charge is practiced. The affiliate charges the network for the expenses they incurred and the network, in turn, re-charges the local broadcaster for his share of the total cost of the production.

In order to avoid violating the basic concept of not offsetting accounts receivable against accounts payable from the same party, these two accounts on the books of the network and affiliate at the source of the original broadcast are maintained in total and settled in their total amount. One account is not charged off against the other. A violation of accounting principles would take place if this were done, and the industry, in its attempt to conform to generally accepted accounting practices, maintains a firm policy regarding transactions of this kind.

The network will remit to the local affiliate the amount billed for the expenses, and the broadcaster, along with the other members of the network, is expected to pay the network for his share of the program.

When the remittance is received from the network the accounting department of the local broadcaster must segregate the compensation received from sales of network time from this repayment of expense. If the entire amount received were credited to national time sales, the income for the period would be overstated and the eventual statements would produce inaccurate results. The following hypothetical case illustrates the handling of such a situation:
CHART VI.

ACCOUNTING PROCEDURES FOR RECORDING PUBLIC INTEREST PROGRAM COSTS

**DATA:**

- **TOTAL EXPENSE OF BROADCAST** $10,000.00
- **NUMBER OF AFFILIATES PARTICIPATING** 100
- **REVENUE DUE STATION "A" FOR NATIONAL TIME SALES** $1,500.00

---

**FINANCIAL TRANSACTIONS ON INDIVIDUAL RECORDS**

<table>
<thead>
<tr>
<th>Station &quot;A&quot;</th>
<th>Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Local Network Affiliate at Point of Origin of Program)</td>
<td>Expense of Special Program</td>
</tr>
<tr>
<td>Expense of Special Program $4,000.00 (Accounts Receivable Network)</td>
<td>$6,000.00</td>
</tr>
<tr>
<td>Payment Due Station &quot;A&quot; $1,000.00 Receivable from &quot;A&quot; ($10,000/100 = $100)</td>
<td>Reimbursed from &quot;A&quot; $100.00</td>
</tr>
</tbody>
</table>

**Month End Transactions:**

<table>
<thead>
<tr>
<th>Time Sales Income $1,500.00</th>
<th>Remittance Sent &quot;A&quot; $5,500.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network Receivable $1,000.00</td>
<td>Received from &quot;A&quot; $100.00</td>
</tr>
<tr>
<td><strong>Total</strong> $5,500.00</td>
<td></td>
</tr>
<tr>
<td>Remittance to Network $100.00</td>
<td></td>
</tr>
<tr>
<td>(Share of Program Expense)</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Original Data Prepared by the Author.
One must realize that the preceding transactions are found only when a program is transmitted in the public interest. Only in the case of an unsponsored show is the expense shared by all the participants. If the show carried is sponsored, then the only record of that particular broadcast received by the individual affiliates would be the receipt of that share of the income. No expenses are charged the local broadcaster on national shows. The expenses incurred by him in his own studio or location relative to the national network program, however, must be borne by him and accounted for through his own operating expense account.

5. Maintenance and Leasehold Improvements. Among the peculiar operating characteristics of a radio and television broadcaster are the highly flexible policies established to account for the necessary repairs or improvements to the existing studio facilities. The flexibility spoken of relates solely to the accounting aspects of the improvements.

The tendency to avoid capitalisation was clearly pointed out in the section dealing with fixed assets. This characteristic also holds true with regard to repairs made to structures rented or covered by a long-term lease. As long as the income of the period in which the repairs take place is in an amount sufficient to handle the improvement expense, the cost of such repairs will be charged through the usual profit and loss accounts. Should the income be at a level where the absorption of the repair costs would result in the realization of a net loss, the improvements made, if sufficiently significant in character, must be capitalized.

The practices mentioned have been sanctioned by Internal Revenue authorities despite the fact that they do approach the borderline of un-
allowable practices. In this particular case the accounting department must assume a role subordinate to that of active management. It is the duty of the accountant to make management aware of the existing limits to which it must adhere, and actively advise him of the financial concepts by which he must abide. Knowledge of the current tax regulations regarding the amount of expenses allowed, depreciation limitations and the general pattern of economic activity is essential.

The ultimate effect of management's decision in this case will be reflected in the financial statements of the operating period. Should large items be charged to expenses a very low income figure will result. On the other hand, should only a portion be charged to expense in the form of the depreciated part of the value of an asset, then the income would be relatively high. The overall picture must be examined before any drastic action is taken in either direction.

In examinations of the accounting practices of radio and television broadcasters it has been found that perhaps the only improvements which have been consistently capitalized over the years are material additions to the existing facilities. The problem facing management is the definition of the term "material addition". Consider the studio which recently renovated its facilities which were in a rented building, and charged the entire cost to expense. Now, the same broadcaster is planning to expand the air-conditioning system currently in use in the building. This he intends to capitalize and to write off periodically, a portion of the total cost being charged as an expense in the form of depreciation or amortization. The initial decision is that of management; the actual method used to follow this decision is in the hands of the
accounting department. The role of the accountant is of great consequence since his advice must be given great consideration by management in the process of making its decision.

6. Research and Development Expenses. In view of the rapid growth and advancements made by the industry in the last few years the individual broadcaster finds himself faced with the need of keeping abreast with progress. In order to better his own position every broadcaster establishes a program designed to stimulate research which will eventually create better and more efficient operating tools. Funds are similarly directed to those conducting the research and development program. A number of factors involved in the allocation of the funds used in research and development are the direct responsibility of the accounting department.

Accounts must be adjusted to produce the expenses applicable to research and development. As is the case with regard to sustaining expenses, a number of charges made to operating accounts must be removed and correctly transferred to those accounts reflecting the costs of the specific department. In addition to maintaining an actual research staff, a broadcaster often sends his technicians to schools sponsored by the larger suppliers, such as the Radio Corporation of America, Westinghouse and General Electric. While the man is attending these schools he still remains a salaried employee of the broadcaster. Therefore, the account reflecting the labor charge for income production must be adjusted and the cost of labor for education charged to the research and development category.

Basically, the work of the accounting department is the same in this respect as it is with regard to the sustaining expenses. Effort
must be exerted to avoid mis-statement of operating results because of incorrect allocation of the funds allotted for research activities. The cost of research and development must be segregated from charges made in the course of producing revenue. From the accounting point of view a definite plan must be drawn to spell out the expenses which are to be considered costs associated with this specific segment of operations.

7. **Promotion Expense.** One of the larger departments found within the organizational pattern of a radio and television broadcaster is that section of the enterprise devoted to promotional activities. The current trend in business activities within the field shows that more and more emphasis is being placed on such promotion plans.

This increase in activities necessitates the inclusion of any proposed promotional ventures in the budgetary plans of the organization. Therefore, the accounting department should calculate the actual expenditures for such activities and control the funds specified for those proposals.

Included among the promotional activities are the following operations.

a. **Surveys.** In order to ascertain the effectiveness of advertising campaigns and determine the area covered by certain broadcasts, members of the promotion department will contact proprietors of enterprises either personally or by letter, and question them concerning any increase in sales of a product which has been extensively advertised on the air. By interpreting the results and information received from these inquiries the well-educated personnel of a broadcasting company can quickly come to a sound conclusion concerning the return resulting in-
directly from the advertising. In view of this situation the accounting
department must maintain records or be capable of producing figures point-
ing out the cost to the advertiser which will then be compared, by the
promotion department, with the computed "increase in sales due to adver-
tising" figures. The possibility of complication in such a process
necessitates the cooperation of all factors to insure accuracy of results.

b. Studio Advertising. In addition to promoting products of
their subscribers, broadcasters find it necessary to promote their own
enterprise to a certain extent. This function is left to the promotion
department. Included in this advertising are outdoor posters and bill-
boards, which are quite costly, and gifts to the broadcaster’s own em-
ployees which tend to constitute advertising. Often times one has seen
small trinkets or articles of clothing with the call letters of some broad-
caster imprinted upon the item. These serve to keep the station before
the eyes of the public and constitute good promotional planning. In all
cases the activities are extremely costly and must be controlled. An ex-
 pense allotment is useless unless one can adhere to it. The accounting
department must prepare the allowance for such activities and at all
times retain close control over all phases of the program from both ac-
counting and administrative aspects.

3. Program Surveys. Just as surveys are undertaken on the part
of the advertisers of a broadcaster, these surveys are also conducted by
the studio to determine the popularity of its own particular shows. These
program surveys are financed by the broadcaster and may be conducted by
employees of the organization itself or by an independent outside agency
engaged primarily in activities associated with that type of activity.
The expenses incurred in carrying on these program surveys are classified as selling expense. The underlying reason for this can be clearly seen. The sale of programs or program time to advertisers is based upon the popularity of such programs. In drawing up the sales agreement the salesman must be able to present documentary evidence advising the client of the prospective capabilities of the particular program in question. It is necessary for the accounting department to segregate all expenses involved in conducting program surveys from advertising surveys since these two items of expense are chargeable against different classifications of expense.

The results of the program surveys are presented in ratings. The ratings are based on the number of viewers or listeners of the particular show. An example of such ratings would be the famous Hooper Ratings, which are conducted by an independent agency outside the organization of the broadcaster. Often times the ratings are published in newspapers when a certain controversial battle between two programs of a high caliber is in the public interest.

9. License Fees. Contrary to popular belief, the individual broadcaster is not indebted to the federal government in any amount for the operating permit granted by the Federal Communications Commission. Generally speaking, there are no major obligations by the broadcaster to outsiders for any license or permit. Nevertheless, should a change of policy be enacted, the accounting system must be designed to enable such expenses to be handled with ease.

However, there is one obligation which must be met. Entertainers who are citizens of a foreign country are organized in a society to
which a broadcaster must pay a fee. The organization is the "Society of European Singers, Authors and Composers". When a broadcaster transmits programs consisting, in part, of individuals who are members of the society, he must subscribe to this organization. Generally speaking, in order to insure his complete adherence to the rules of the group, a broadcaster pays a fee covering himself for the entire year.

10. "Remote Pick-Up" Expense. Occasionally a network affiliate is called upon by the network to carry on some technical activities in the local area. This work is called a "remote pick-up" since it usually originates from a location other than that of the studio. An example of such a "remote pick-up" would be the portion of a national network show devoted to interviews of a local dignitary.

All expenses incurred by the local studio will be paid by the network completely. Since this type of show would be sponsored it would not fall into the category of a public interest program, and therefore the local affiliate will receive the full amount of his expenses.

It is the duty of the accounting department to maintain a high degree of consistency of procedures so that all charges for which the local broadcasters are to be fully reimbursed must be billed properly to insure that adequate payment is made. On some occasions it will be necessary for the account to be followed up completely since the expensiveness of operations on the network level will sometimes obscure this payable for an unnecessary period of time.

11. Auditing Expense and Internal Control. Like all large or medium size business enterprises, a broadcaster usually hires an outside auditing firm to perform the annual audit of the books. This audit is a
complete one, covering all phases of operations for the enterprise during the accounting period. The expense of the audit is charged to each department at a pre-determined rate. In all cases the total cost of the audit is beyond the duty of the accounting department. The fee is set by the management of the broadcaster and a principal of the accounting firm. The bookkeeper's duty is merely to enter and post the correct figures.

No internal audit is performed by the staff of the broadcaster. Actually, the preparation of the monthly statements serves as a form of internal control in itself. Since all statements are prepared on a comparative basis, any deviation in a figure as compared to a similar figure in previous years would be carefully checked in order to determine the underlying cause for the change. An internal control plan or routine is one which gives a series of steps to be taken in order to control the efficiency of operations. The evaluation of the internal control system can be determined from the results of operations which are reported at the end of each month. Therefore, the broadcaster attempts to rely upon a system of internal control, which is self-initiated, the monthly statements providing the answer to the question of adequacy.

12. News Department Expense. Any media of communication must be capable of presenting a clear, concise and prompt account of any event which may be of more-than-ordinary interest to the public. In view of this situation every broadcaster must devote a section of its operations to news reporting and analysis. In order to acquire a source of news supply a broadcaster will enter into a contract with one or more news agencies. Among these agencies are the United Press (UP), Associated Press (AP) and the International News Service (INS.). These agencies
supply the broadcaster with the necessary teletype machines which gives the studio a direct news line.

The contracts are carried for a period of one year, and the broadcaster makes monthly payments. It is a very rare case when one finds that a broadcaster does not subscribe to such a news service. The demands of the public must be met and the current developments of world affairs are of prime importance to the listening audiences.

The presentation of news reports on television creates another problem for the broadcaster. Such presentation must be visual, in addition to the usual audio portion of the program. The work involved in preparing such film reports would be well beyond the normal capacity of the individual broadcaster. The news agencies again become suppliers. In addition to securing the films the advertising agency will edit and prepare the program according to the time limit set upon it. Monthly payments are made to the news agency upon a contract of a year's duration.

B. A Broadcaster's Cost System

A cost accounting system is represented by an established set of procedures which are developed to allow management to arrive at a figure which, as accurately as possible, presents the cost per unit of production. Mr. Ervin S. Palmer of the Case Institute of Technology has prepared the following summary which illustrates the three principal factors which will be involved in determining the cost for a particular program.

Direct expense - the amount which will be paid for talent, announcers, film, etc. for the program.

Indirect expense - obtained by multiplying the length of the program by the transmitter rate, hours
the studio will be tied up by the studio rate, hours of work necessary by the director, floor man, engineers, newsmen, music library, etc., by their respective rates and adding together the results for the total indirect expense.

Marketing and administrative expense - obtained by multiplying the marketing and administrative rate by the hours a program is on the air.

The method suggested by Mr. Palmer appears to be a very simple and easily followed routine. However, after examining the procedures followed by broadcasters, one will find that the average broadcaster will not attempt to ascertain the cost of a particular program beyond that of the direct expenses which are easily determined.

The feasibility of operating under a single-program cost system is beyond the consideration of the average broadcaster. The necessity of the expanded accounting facilities needed to undertake such a task is a costly item. Therefore, broadcasters are content with their over-all operating picture. The cost system of a broadcaster is a "modified cost system". It is designed to present the results which management requires, and as long as the reports received by management are adequate the accounting system will remain as it is now, reporting all necessary information.
XIII. NET WORTH

A. Capital Stock. The individual broadcasting studies are generally controlled by a larger corporation in a field compatible with the radio and television industry, or one dissimilar in many respects. Among the local studies one finds that Station WNAC (General Teleradio Company) is owned by the General Tire Company; WEZ is controlled by The Westinghouse Corporation; and WHDH by the Herald-Traveler Corporation.

When one examines the capital stock issued by a broadcaster he will find that the corporation is closely held and generally controlled entirely by the one larger group. In addition to this type of control, there are a number of stations which are owned by the network itself. Station WBZ in Boston, owned by the Columbia Broadcasting System, is an example of such an arrangement. A network will rarely own part of the stock of one of its affiliates. Unless the network entirely controls the studio it will refrain from any active management or ownership of the station.

The type of stock issued by a studio will vary, but a broadcaster will generally attempt to avoid issuing more than one type of stock; therefore, usually common stock will be issued. However, the broadcaster may decide upon an issuance of preferred (cumulative, non-cumulative or participating) stock. The issuance of no-par value stock will be dependent upon the individual requirements of the state of incorporation of the studio. Therefore, when one compares the statements of broadcasters operating in different states he must bear in mind that regulatory statutes of a state may have a direct influence upon the financial activi-
ties of the individual.

B. Surplus. In an effort to minimize the number of transactions made directly to the Earned Surplus or Retained Earnings Account, the radio and television broadcasters have supported the "Clean Surplus Theory". This theory suggests that all transactions undertaken during the accounting period be handled through accounts other than the surplus account. The only entry that should be made is the one at the end of the period reflecting the results of operations for that period.

It is common practice among the radio and television broadcasters to avoid direct entries to the surplus account. In the examination of accounting systems in this field, one finds that one entry was usually made to the surplus account, and this entry was made to reflect the results of operations at the end of the accounting period (month or year).

Provisions are also made to handle any surplus which may arise from capital stock transactions. Therefore, a Paid-In Surplus account is necessary to complete the picture of the surplus segment of the Net Worth Section of the Balance Sheet. The use of the Paid-In Surplus account will enable the broadcaster to record only results of operations in the Earned Surplus account and further facilitate his adherence to the "Clean Surplus Theory".
XIV. CRITICAL ANALYSIS AND FUTURE TRENDS

In view of the inherent characteristics of the radio and television broadcasting industry a strict adherence to rigid theoretical standards and procedures is impossible. Therefore, criticism based upon any deviations from the generally accepted procedures would be impractical. Consequently, my analysis will evaluate the system as a system applicable to the industry and the type of problems that will face the operators using this particular plan.

From an examination of the practices followed with regard to repairs or improvements made to assets, it appears that little consideration is given to the fact that the alteration of an existing asset may prolong the useful life of that asset. Therefore, the tendency to adhere to the initial estimate of the useful life of the asset is a definite weakness. Recognition should be given to the fact that the development of a particular addition to a machine may make the asset available for a longer period of operation.

One must not confuse the five year period used by a broadcaster to write off the expense of the asset with the government's accelerated depreciation provision for emergency facilities. In that case the asset will be useful for more years than the five used, but a tax benefit is given by permitting the use of the shorter period. The radio and television engineering experts feel that the life they assign an asset is the actual period of time that it will be useful to the broadcaster. This estimated life should be altered if improvements dictate an increased life, and the reason is expressed in the following hypothetical case.
A broadcaster purchases a television camera and estimates its useful life as five years. Three years after purchase of the camera, a lens assembly is placed on the market which, if used to replace the old arrangement, will place the camera on a par with the latest developments. Under the accounting methods used, the broadcaster would depreciate the old camera over the remaining two years and depreciate the addition over a full five years. This would produce a situation in which a fully depreciated asset would be used as part of an asset not yet fully written off. This is not a practical method of handling such an addition to an asset. More accuracy would be obtained if the total of the book value of the old asset (original cost less sixty per cent) and the cost of the new lens addition were depreciated for five full years — the true useful life of the asset in its present condition.

The solution to the preceding case will, of course, necessitate a certain amount of additional computation on the part of the accounting department. However, the results reflected in the financial statements will be expressed more accurately and present a clearer picture of the actual transactions which have taken place with regard to the handling of assets in the accounting period.

In radio and television accounting a great deal of flexibility is required of the accounting system in order to enable an easy solution of all problems which may arise. Flexibility may be advantageous on the one hand, but on the other hand it may serve as a detriment to operations if it comes too prominent a part of the overall financial plan.

The foundation of any cost system is laid on the idea that costs will be apportioned to the various departments and phases of operations,
A true cost system of accounting is not followed by the broadcasters. A number of decisions involving allocation of expenses are handled in an arbitrary manner, based upon the discretion of management or the operating results of the period.

The reference made here is to the administrative expenses of a broadcaster operating both radio and television facilities. It is common practice to charge all the administrative expenses against the revenue of the media which has shown the larger profit. It is entirely possible for the radio activities of a broadcaster to be charged with none of these expenses. This is a violation of the fundamental theory of the cost system.

The dynamic aspects of television have placed it above radio in the ability to produce revenue. Therefore, the broadcaster will attempt to deduct all his administrative expenses from this television revenue. The statements reporting the results of operations in this case will show an overstatement of income derived from radio broadcasting and an understated television income. When the two figures are combined the net result will be the same as would be achieved if the expenses were apportioned. This is not the correct assumption. Statements are the tools of management. Should management consider the possibility of discontinuing opera-
of one or the other media a look at the results on the above mentioned statement would provide him with the wrong information. There is a tendency toward decreasing use of the radio since the inception of television, but the figures presented here would place radio in a solid position. This is a definite weakness in the system.

If one undertakes the adoption of a cost system he must install
the complete plan to obtain maximum efficiency. Under the plan followed by the broadcasters there is a great deviation. One whole group of expenses is not shared proportionately by all departments. The work connected with making such an apportionment is of minor proportion. Such being the case, the administrative expenses can and properly must be shared by all phases of operations.

One will often find on the statements of radio and television broadcasters an inventory of supplies. On the other hand, however, there are a few instances where an inventory of radio and television tubes appears. The method described in a preceding chapter dealing with the tube situation is somewhat unsatisfactory. Charging all tubes purchased during the accounting period as expense will result in an overstatement of expense since a number of tubes will remain unused at the end of each period.

The use of an inventory account would prevent this overstatement of expense. All purchases of tubes should be recorded as a debit to the inventory account. At the end of the accounting period the final inventory (on either a perpetual or physical basis) would be deducted from the total debits, resulting in the appropriate tube expense for the period. This expense will be based on the actual number of tubes put into use and will not contain any items which are still unused in the stock room.

Considering the method of operating used by a broadcaster, one easily can find why the use of a perpetual inventory might be difficult and impractical. If management institutes a small degree of control a physical inventory can be made to function properly and produce results of a more accurate nature than was experienced under the system where an
inventory was not maintained. The size of the expenditure made for tubes is too large to be given passive attention. A definite program must be established and an inventory holds the solution to the problem.

The peculiar characteristics of the industry necessitates the handling of discounts in a manner which many accounting authorities would consider improper. The discussion concerning the frequency discounts for continuous business offered an advertiser by a broadcaster indicated that the disbursement of these discounts were considered an expense and were transacted through a pre-established reserve account. Under the circumstances this is the most feasible way to handle the problem.

Charging, as expense, a certain portion of the air time sales serves to reduce the profits of the period by an amount which is extremely accurate in the final analysis. The experience of a broadcaster enables him to identify those accounts which will be lengthy ones and therefore eligible for discounts. Good accounting methods would suggest the deduction of discounts directly from the sales in determining the net sales. In essence, this is accomplished by the reserve method used. Instead of a direct deduction from the sales the deduction is included among the expense items which will eventually produce the same net results. The method used is basically a sound one, necessitated by the characteristics of the industry.

One must not fail to keep in mind that the industry has many characteristics which preclude standardization. This is clearly evidenced in the numerous methods used to account for the films used in telecasting. The task of the broadcaster's accounting department would be greatly lessened if one overall procedure could be established with regard to
film expenses. The inherent problems related to this phase of the field of telecasting prohibit such a program being initiated.

There are various types of programs requiring film. In view of this situation consideration must be given to varying lengths and types of film being used. The practices followed by broadcasters are not only the most feasible but, in addition, they are effective and produce accurate results on the financial statements.

Contrary to popular opinion, the use of filmed programs in telecasting appears to be increasing rather than decreasing. Along with the continued use of the films one will have to face the same problems regarding the financial recording. However, an innovation which is currently being initiated presents the possibility of greater problems in the future. The new phase is the so-called "live-filmed" program whereby a regular weekly show is shown nationally at the same time. At the present time, little has been done with the possible accounting problems which may be created by this new technique. However, it appears from an examination of the basic features of this new practice that revenue and expenditures connected with such programs will be dealt with like regular "live" shows. Needless to say, research and future improvement in this new development will eventually require changes in the financial and accounting aspects also. At this time any prediction beyond the preceding would be completely speculative, and based upon theoretical doctrines which have been found in the past, to be incompatible with the characteristics of the industry.

One of the outstanding features found in the accounting methods used by radio and television broadcasters is the excellent preparation of
financial statements. The reader can make immediate comparisons regarding the results reported since figures for the preceding year are also incorporated into the statements. Greater polish could be given to financial reporting if all statements were prepared on a comparative basis showing the results of the period’s operations, as well as an analysis of the year-to-date figures.

The value of these statements to the internal control of a broadcaster is immeasurable. Significant changes which are reflected in the statement figures would be easily spotted by management. Therefore, the use of this reporting eliminates a portion of the usual degree of internal control which is practiced by many other industries. In order to insure proper control, however, a broadcaster will maintain certain practices, as was described with regard to Payables, which will enable a broadcaster to control his transactions. The assignment of one job per individual eliminates any chance of an individual having complete control over the disbursement of cash.

The use of “voucher tickets” to facilitate postings and aid in the location of any errors which may occur is a significant contribution to the accounting system. Results obtained by using this method have been very favorable and a valuable asset to the broadcaster’s accounting department.

Accounting in radio and television broadcasting produces problems which are not encountered in other industries. The systems of accounting that have been established and put into use are all capable of producing accurate results and concise statements reflecting the true picture of operations. Aside from the few aspects I have criticized,
the methods used to record the financial transactions of a broadcaster are excellent and perfectly adapted to the peculiarities of the industry.

As long as research and development continues, new problems will be found in all phases of operations, including accounting. A firm foundation has been established and enough flexibility has been inserted into the basic accounting methods to allow for future programs of expansion.

The future of radio and television are extremely bright and there is no limit to the innovations that will find their way into the fine product we now know. Colored television, still in its "childhood", will grow into one of our most spectacular creations, carrying along with it many hours of enjoyment to the public, as well as problems to the broadcaster and his staff. One must not lose sight of the fact that the road to success is not smooth. However, the great progress made by the networks, their affiliates and the independent broadcasters has paved the way for a better understanding of the problems and their solutions.

Accounting in the economy of today has reached unprecedented heights. Accounting in radio and television broadcasting, still in its experimental stages, shows every indication of becoming equally as important to the communications industry.
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