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And Now a Brief Message from Your Local Radio and TV Accountant

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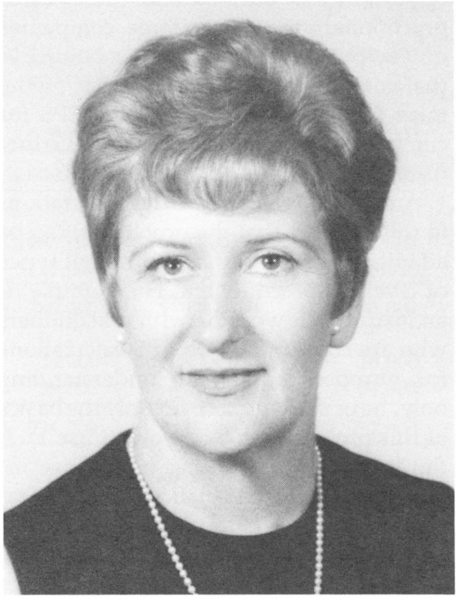
The author highlights some of the unique features in accounting for a broadcasting station.



Ruth H. Doumlele served for several years as the Business Manager of WXEX-TV and WLEE-Radio in Richmond, Virginia, until she had to resign recently for reasons of health.

Ms. Doumlele holds a Certificate in Commerce with a concentration in accounting from the University of Richmond. She is a member of the National Association of Accountants, American Women in Radio and Television, and the American Society of Women Accountants. She is presently serving her second year as President of the Richmond Chapter of ASWA.

Floors shine. Stains vanish from a T-shirt. A cartoon stomach flutters in waves of hideous hues (color them nausea) — all close on the paws of little dogs and cats scampering after pet foods. WCPA, your local TV station, is making money. Even though the intended audience may be out in the kitchen peeling cheese from a refrigerator package, the cats will still meow "chow-chow-chow" and the pup will chase a miniature chuck wagon until it vanishes into the cabinetry. The moment passes, but the advertising revenue remains.

Corner billboards, the sides of the local buses and the backs of the taxicabs all assure the observer that the DINN radio station has the latest news, the most popular music and the most interesting personalities. A salesman boasts of its huge listening audience to his clients. During broadcasting hours each pause between records and each break for news or weather is filled with urgent entreaties to buy the best car at the lowest price, to make a deposit at the advertiser's bank and get a free wig, or to purchase furniture before leaving on the honeymoon. The radio station, like its TV counterpart, is making money, too.

Meanwhile, back at the broadcasting studio, the business manager, or station accountant, sits behind a desk that would make a perfect prop for an upset stomach commercial, because accounting reports are both multiplied and accelerated by the demands peculiar to the broadcasting industry.

Initially an application for a license must be filed with the Federal Communications Commission (FCC). This application must set forth the intent of the broadcaster in the areas of newscasts, community involvement, commercial load to be broadcast (minutes of commercial announcements per hour) and compliance with federal requirements, such as those of the Office of Equal Employment Opportunity. The business manager has the responsibility of assisting upper management in fulfilling the commitments made, once the license has been granted. If commitments are ignored the station may be deemed to be in violation of FCC regulations and its license may be removed, or subsequent license renewals may not be approved.

Unique Accounts

In lieu of inventory accounts a broadcasting station's ledger contains such accounts as Film Contracts, Program Rights, and Trade Sale Proceeds. The fixed assets, in addition to the usual accounts, contain towers, a transmitter, transmission lines and studio and technical equipment.

Income categories include local time sales, national time sales, network income, production and talent income, and trade and barter sales. Barter sales are derived from commercial TV time given in return for shows, such as Lawrence Welk and That's The Way It Was. Trade sales are commercial announcements given in return for goods or services used by the station, such as prizes or travel cards. The value of the air time is not always considered equivalent to the service or goods traded. In these cases air time may be given in the ratio of two to one, or two dollars of air time in return for one dollar of service or goods. Separate customer accounts must be kept on this type of transaction, since the air time is written down to the fair cash value for book purposes. All trade and barter sales are offset by charges to the appropriate expense accounts.

Expenses are usually departmentalized into such cost centers as Program and Production, Sales and Advertising, Technical and Engineering, and General and Administrative.

Income

Time is the primary product for sale by a broadcasting station. Unfortunately, time that is not sold cannot be stored until next week's redoubled sales effort or moved at a year-end clearance sale. Unsold TV or radio time is comparable to empty seats on a commercial airliner on a regularly scheduled flight. It is gone forever and with it the revenue it might have produced.

Commercial air time is sold to advertisers, either direct or through an advertising agency, in ten-second, thirty-second or sixty-second increments. The cost "per spot" is usually determined by the number of units purchased, based on a published rate card. Rates may be increased or decreased depending upon numbers of viewers or listeners. This information is furnished by independent research groups and is based upon surveys made in the market (community). Two popular methods of applying rates, in comparison with other stations in the market, are CPM's (cost per thousand), used mostly in radio, and TRP's (total rating points), used in TV.

Cost per thousand is computed by dividing each thousand of listeners into the cost per spot for a particular part of the day. For example: if the morning news delivers (has) 78,000 adult listeners and is sold for $85 per spot, then the cost per thousand would be approximately $1.10. This method can also be applied to television. For instance: if All In The Family, seen during prime time, delivers 290,000 viewers in the market and the cost per spot is $580, then the cost per thousand viewers is around $2.

Total rating points, on the other hand, are percentages of viewers rather than numbers of viewers. Each rating point is a percentage of the total homes in the market. The rating points are determined by independent research groups. If a rating point has a value of $13 and a TV station has 27 rating points, then the cost per spot would be $13 x 27, or $351.

Information provided by demographics forms the basis for all bargaining between the station and an agency wishing to make a buy in the market.

Local sales to advertisers are generated by the local sales staff. Inducements by savings and loan institutions, ballyhoo for the gigantic clearance sale of furniture, the pitch for a neighborhood restaurant chain, and the incessant advertising of regional breweries are all typical of regional sales. They comprise approximately 60% of the commercial time and tend to cluster around "drive time" (6-9 a.m. and 4-7 p.m.) hours for radio and prime time (evenings) for television.

Time sales for nationally advertised products are arranged by agencies in the larger cities, such as J. Walter Thompson, the largest agency in the world. These sales are usually handled by a sales representation company, known as the "national rep." Viewers across the United States all know the names of highly competitive detergents and personal hygiene products. Though sometimes in questionable taste, such advertising is designed for high impact and staying power and reflects optimum merchandising talent.

Network sales are announcements included in national programs, news or features. Stations are also obligated, through license applications, to air a certain amount of free public service announcements (PSA). These announcements have no dollar value on the station's books. They are nevertheless tabulated to verify FCC compliance. These PSA's include the familiar "cancer's warning signals," those ominous discouragements to smokers, and seasonal community chest fund promotions.

After the daily broadcast log has been performed on the air, the spots run are posted to the advertising customer's order. The advertiser is billed on a Standard Broadcast Month basis for all spots run through the last Sunday in each month. An affidavit of performance, notarized and verifying that the announcements were broadcast as scheduled, may be furnished with the bill. Recognized advertising agencies may be allowed a 15% agency commission, deducted from the gross amount of the bill. The agency is then responsible for collecting from the advertiser and submitting the net amount to the broadcaster.

Expenses

Subsequent to the completion of the monthly sales journal computations must be made for advertising agency commissions, national rep commissions, local sales people's commissions and talent fees to be paid. In addition music license fees, program rights, film amortization and regular depreciation must be computed. If film contracts are negotiated allowing unlimited runs, the cost is amortized straight line over the life of the contract. If runs are specifically outlined in the contract, they are amortized 60% for the first run, 30% for the second run, 10% for the third run, and nothing for all other runs. Insurance expense allowance must cover such categories as business interruption (protection when the station goes off the air and based on estimated earnings) and broadcaster's liability (libel and slander) arising out of dissemination or utterances of defamatory material. After these and other usual elements of expense have been recorded, a financial statement is prepared.

Evening Newscast

Many different kinds of costs may be involved in televising a news program. Salaried news personnel film and write the stories using station transportation, cameras and raw film stock. Later the voice-overs are recorded, the film is processed and delivered to the show's producer, i. e. Mary Tyler Moore. The producer must make certain that the set is in order and that the appropriate slides are ready. The logs must indicate the exact times for the commercials to be broadcast. The videotapes are loaded onto the reels, ready for insertion into the program at the exact tenth-second logged. In the newsroom last minute bulletins are ripped from the news services and network TWX machines. The personalities (i. e. Ted Baxter and Walter Cronkite) inspect make-up for the last time, the weather forecaster tears off the latest weather reports, the studio camera operators stand ready, the engineer checks the monitors, and the director begins the count in seconds to air time.

Business Manager's Functions

Deodorant commercials guarantee that the user will remain fresh under the most harrowing circumstances. There are times when the accounting office of a broadcaster would be an apt testing area. And if composure cannot always be spritzed on, where better could the reaction time to various aspirins be proved?

Composite weekly logs of the station's broadcasts must be sent to the FCC where they are checked for conformity with government guidelines. The FCC monitors commercials to be sure that claims made by the advertisers are legal and reasonably realistic.

A yearly financial statement must be submitted to the FCC, together with reports on the implementation of various federal requirements. License fees are computed and paid to the FCC on a formula based on the highest rate for a spot per the current rate card.

In addition certain records must be retained and must always be available for the FCC Inspector.

Do you have anything for a headache?

Budget forecasts and projections are

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BUYING		LEASING	
$123.73	Monthly payment	$107.26	Monthly payment
× 36	Number of payments	× 36	Number of payments
$4,454.28	Total payments	$3,861.36	Total Payments
987.50	Down payment	1,250.00	Option to buy
$5,441.78	Total cost	$5,111.36	Total cost of lease and purchase

The cash requirements by year are shown below:

	BUYING		LEASING
First year — 12 payments	$1,484.76		$1,287.12
Down payment	987.50		
last month's lease			107.26
	$2,472.26		$1,394.38
Second year — 12 payments	1,484.76		1,287.12
Third year — 12 payments	1,484.76		
— 11 payments		$1,179.86	
Option price		1,250.00	2,429.86
	$5,441.78		$5,111.36

The tax deduction situation compares as follows:

	BUYING				LEASING
	Tax & License	Interest (Rule of 78)	Depreciation $1,250 Salv. S/L 3 years	Total	Lease payments
First year	$198.50	396.50	1,083.34	1,678.34	1,287.12
Second year	11.00	240.50	1,083.33	1,334.83	1,287.12
Third year	11.00	84.50	1,083.33	1,178.83	1,287.12
Three-year totals	$220.50	721.50	3,250.00	4,192.00	3,861.36

In addition, the purchase would yield an Investment Credit of $150.00 in the first year.

Notes:

A 6.5% yearly add-on interest rate is competitive for individual purchasers. Corporations may be subject to higher rates.

The lease rate is that of an Ohio corporation, which is very strong in the field of leasing cars to professionals, assuming 15,000 driving miles per year for a closed-end lease.

Add-on interest rates would not generally be used for purchases that are financed longer than 3 years. A bank loan at simple interest or other borrowing at straight rates will prove a lot less costly. And, of course, there are those businesses that are able to purchase equipment out of funds generated in the ordinary course of business.

Over-all Economic Conditions

The final ingredient in any decision to buy or lease is related to today's fast developing technology and the general state of the economy.

Even though in many cases leasing may be more costly than buying, the possibilities of obsolescence must be given due weight. At the end of the initial lease period, the equipment may not be truly obsolete, but there may be other machines available that would be capable of increasing the efficiency and productivity of the business to the point where it may be very valuable to be able to switch. Where the equipment was purchased, the trade-in value of the old equipment may be unattractive, especially where the newly developed machinery is offered by a competitor.

Finally, these are inflationary times, and the dollars paid out 3-10 years hence are "cheaper" than today's dollars. The business will have an opportunity to use this cash by turning over inventory, taking advantage of cash discounts, or saving interest by reducing short-term borrowing.

Of course, leasing obligations will affect repayment ability — which is a very important criteria used by bankers and other financial institutions in making new loans. But it will not make inroads into an established line of credit.

In conclusion, it is obvious that there is no ready answer to the question of whether a business should buy or lease. The decision will be influenced by giving properly weighted considerations to the cash flow position, tax problems and the technological pace of the particular business and equipment under consideration.

And Now a Brief Message

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made on the basis of the station's standing in the community and the percentage of total national dollars expected to be spent in the market as well as the prestige of the network affiliation. For instance, in a certain market CBS may get 40% of the national orders, and NBC and ABC might get 30% each. Expenses to be considered are anticipated costs of market surveys, talent fees, extensive outdoor billboard and bus advertising campaigns and promotions, in addition to all the usual items on business budgets, like wages and supplies. It might be necessary to make a decision whether to budget for a new film processor and raw film stock or whether to acquire minicameras where the film shot may be used immediately, obviating the need for the film processing equipment and the photo lab technician.

To make a meaningful contribution to the success of the local station the business manager must have up-to-date knowledge of all local and federal regulations affecting the broadcast industry, must feel the pulse of both the local and the national economy in order to guide collections and personnel practices, and make proper decisions on forecasts. Finally, the business manager must be able to apply generally accepted accounting principles.

This message was sponsored by WCPA, the journal for the professional woman accountant. We now return to our regular programming.