ACCT-GB3149 Entertainment Accounting

Revenue Recognition Analysis of

The Walt Disney Company and Netflix

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Company 1: The Walt Disney Company

The total revenues of The Walt Disney Company are generated from the following five categories: Media Networks, Parks and Resorts, Studio and Entertainment, Consumer Products and Interactive.

With respect to the Film Production segment, revenues from all sources are added to determine the Ultimate Revenues. The timeline assumed by Disney for forecasting of revenues is about 10 years from the date of the film release in theaters. Licensing revenue is recorded when the content is available for telecast by the licensee. There is a high correlation between the revenue performances of domestic theatrical release and revenue from other subsequent markets. Similarly for television series the Ultimate Revenues include revenues earned for the next 10 years from the delivery of the first episode or if production is still continuing then five years from delivery of the most recent episode. TV Ad revenue is recognized when commercials are aired and Ad revenue from Internet operations when ads are viewed online. Online & Mobile operations revenue is recognized as services are rendered. In case of annual programming commitments revenue recognition is deferred until they are satisfied.

Merch-Licensing and guarantee royalty payments are recorded as per the royalty rate and generally at the end of the contract term. Home Entertainment and Software Product Revenues are reduced due to the consideration of contra acting factors such as returns, customer programs and incentives etc. With respect to Theme Parks revenues are recognized as and when the tickets are used. Historical usage patterns are considered to estimate revenues over 5 years for Non Expiring & Multiday Tickets.

Company 2: Netflix

The major component of the revenues of Netflix is the use subscription fees. The revenues are recognized based on the monthly subscription of each subscriber. Netflix uses a 'ratable' revenue recognition policy, which recognizes monthly subscription revenues continually throughout the year. Taxes are deducted from the revenues presented as collected from subscribers and remitted to the government. Gift Subscriptions that have not been redeemed or subscription revenues billed to subscribers but have not been utilized are recognized as deferred revenues.

Effect of Digital Trends:

The growth of digital media is largely affecting both of the companies and can be seen from the recent strategic decisions made by them. Disney is finding it hard to generate solid revenues from the Internet content. The Form 10-K shows a 14% decline in Interactive revenues for the year 2012 as compared to 2011.

As the consumption of digital content is cannibalizing the traditional mediums, Disney has started to focus more towards its interactive and digital business domain. Disney is expanding the recently entered multiyear content licensing agreement with Netflix. On the other hand they have established an ownership stronghold in the already invested in, "Hulu" by acquiring the 10% stake from Providence Equity Partners. Netflix on the other hand sees tremendous growth in the digital media via streaming. According to analysts it has agreed to pay $350 Million annually as a part of the Disney contract that will enable it to stream Disney movies sooner after their theatrical release.