Case Study 7:
Financial Statements for the Corporation

Instructions:

1. Print and read the following case study.
2. On your own, complete the **Accounting Application** questions.
3. As a class, complete the **Class Interaction and Discussion** questions.
4. Optional: Complete the **Small Group Extension Activity** and **Internet Exploration and Research Activity**.
5. Complete the **Summary Questions**.

Objectives:

After completing the following case study, you will be able to:

- Calculate operating income, income before taxes, and net income
- Describe the stockholders' equity section of a balance sheet
- Explain the difference between revenue and operating income
- Find the Walt Disney Company earnings release on the Internet

---

Study Tips:

Complete this case study after Chapter 20, Glencoe Accounting, First-Year Course. Approximate time to complete: 11/2 hours.

Overview:

At Disney, the company's primary financial goals are to maximize earnings and cash flow from existing businesses and to allocate capital profitably toward growth initiatives that will drive long-term shareholder value. On August 1, 2002, Disney released the details of its revenues, operating income, and net income for its fiscal third quarter ended June 30, 2002. The Dow Jones News Service then reported the information in newspapers throughout the country.

Revenues for that period were down 3% to $5.8 billion from $5.9 billion reported the year before the same period. Net income for the quarter was also down from $392 million in 2001 to $364 million in 2002.

Disney's revenues come from four divisions:

1. Studio Entertainment, where movies are made.
2. Media Networks, which includes ESPN and the Disney Channel.
3. Parks and Resorts, which includes Disneyland, Walt Disney World and related hotel facilities.
4. Consumer Products, which includes Disney Stores and Disney product licensing.

The Parks and Resorts revenue and operating income decreased 5% and 17%, respectively, over the third quarter of 2001. Disney attributes the decrease to continued softness in the travel and tourism industry as a result of the terrorist attacks in 2001. In the Studio Entertainment division, revenues increased, while operating income decreased. Both revenues and operating income decreased for the Media Networks division.

Accounting Applications:

Instructions: Now that you have reviewed the case study above, answer the following questions on your own.

1. Use the following categories and amounts to calculate operating income, income before taxes, and net income for the quarter ended June 30, 2002. (All amounts are in millions.)

Revenue	$5,795
Costs, expenses, amortization, and interest expense	5,237
Gains on sale of business	34
Equity in the income of investees (treat as income)	44
Corporate activities and other expense	19
Income taxes	253

Operating Income:

Income before taxes:

Net Income:

2. Studio Entertainment revenues increased by 3% to $14 billion but operating income decreased 66% to $22 million. How can revenue increase and operating income decrease?

3. If Disney were to retain all of its net income, and Capital Stock had a balance of $500,000,000, what would the Stockholders' Equity section of the balance sheet look like for the third quarter of 2002?

Stockholders' Equity:

Class Interaction and Discussion:

Instructions: Read the following question. As a class, discuss your responses.

The information for Accounting Application question 1 came from Disney's Consolidated Statements of Income for the Quarter Ended June 30. It does not break out sales or cost of merchandise sold, nor does it list operating expenses. It shows only the categories given and calculated in Accounting Application question 1. Why do you think Disney would choose to present the information in this way?

Optional Small Group Extension Activity:

Instructions: Break into pairs and complete the following activity.

Calculate the percentage change between the third quarter of 2002 and the same quarter of 2001 (pro forma). Round to the nearest whole percent.

	Third Quarter 2002	Third Quarter 2001	Percent Change
Revenue:			
Media Networks	$2,126	$2,169	
Parks and Resorts	1,847	1,946	
Studio Entertainment	1,327	1,365	
Consumer Products	457	518	
Segment operating income:			
Media Networks	$ 288	$ 439	
Parks and Resorts	467	560	
Studio Entertainment	22	65	
Consumer Products	51	58	

Optional Internet Exploration and Research Activity:

Instructions: Using the Internet, research the following activity.

Find Disney's Investor Relations Web page and answer these questions.

1. What menu choices are available on this page?

____

____

____

____

2. What does FAQ stand for?

____

____

____

3. Find the Disney Earnings Release statement. What is the revenue reported for the current year?

Summary Questions:

1. What is operating income?

2. What is the difference between the balance sheet of a sole proprietorship and the balance sheet of a corporation?

3. What is the difference between operating income and revenue?

