ACCOUNTING in the headlines

# What does Walt Disney's Form 10-K communicate about its unearned revenue and accrued revenue?

Over the past year, The Walt Disney Company (DIS) has made the news because it increased its ticket prices at Walt Disney World in Florida, Disneyland Park in California, and other parks around the world. Ticket revenue, however, is not its only source of revenue. The following is an excerpt from the Notes to Consolidated Financial Statements in Walt Disney's Form 10-K for the fiscal year ended September 24, 2014, pages 74 – 75. *(Note: Paragraph numbers added by author.)*

**(Paragraph 1)** Television advertising revenues are recognized when commercials are aired. Revenues from television subscription services related to the Company's primary cable programming services are recognized as services are provided. Certain of the Company's contracts with cable and satellite operators include annual programming commitments. In these cases, recognition of revenues subject to the commitments is deferred until the annual commitments are satisfied, which generally results in higher revenue recognition in the second half of the year.

**(Paragraph 2)** Revenues from advance theme park ticket sales are recognized when the tickets are used. Revenues from expiring multi-use tickets are recognized ratably over the estimated usage period. For non-expiring, multi-day tickets, revenues are recognized over a five-year time period based on estimated usage. The estimated usage periods are derived from historical usage patterns.

**(Paragraph 3)** Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from home entertainment and video game sales, net of anticipated returns and customer incentives, are recognized on the date that units are made available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the content is available for telecast by the licensee and when certain other conditions are met. Revenues from the sale of electronic formats of feature films and television programming are recognized when the product is received by the consumer.

**(Paragraph 4)** Merchandise licensing advances and guarantee royalty payments are recognized based on the contractual royalty rate when the licensed product is sold by the licensee. Non-refundable advances and minimum guarantee royalty payments in excess of royalties earned are generally recognized as revenue at the end of the contract period.

**(Paragraph 5)** Revenues from our branded online and mobile operations are recognized as services are rendered. Advertising revenues at our internet operations are recognized when advertisements are viewed online.

**Questions**

1. Make a list of the sources of revenue that Walt Disney discloses in its 10k, based on the excerpt from its 2014 10k.
2. Which of the listed revenue sources would you expect that Walt Disney could recognize immediately upon sale of product or service?
3. When does cash change hands with accrued revenue? Which of the listed revenue sources would you expect that Walt Disney would need to accrue for?
4. When does cash change hands with unearned revenue? Which of the listed revenues sources would you expect that Walt Disney would initially account for as "unearned revenue"?