

MANAGEMENT ACCOUNTING ASSIGNMENT II

Title: Profitability Analysis and Cost Optimization for DISNEY Corporation

Case Background:

DISNEY Corporation is a multinational manufacturing company that operates in various countries across the globe. The company produces and sells a wide range of electronic goods, including smartphones, laptops, and smart devices. In recent years, the management of DISNEY Corporation has observed a decline in profitability and an increase in costs, which has impacted the company's financial performance. Therefore, the CFO has decided to conduct a comprehensive management accounting analysis to identify potential cost-saving opportunities and improve overall profitability.

Objectives:

The primary objectives of this case study are as follows:

1. Analyze the financial statements of DISNEY Corporation to identify the key factors contributing to the decline in profitability.
2. Conduct a detailed cost analysis of different cost components to identify areas where cost optimization measures can be implemented.
3. Develop and recommend a strategic action plan to improve profitability while addressing the cost-related challenges.

Tasks:

1. Financial Statement Analysis:

- a. Calculate key financial ratios (liquidity, profitability, efficiency, and solvency) based on DISNEY Corporation's financial statements.
- b. Conduct a trend analysis of key financial indicators over the past three years to identify patterns and potential areas of concern.
- c. Identify any external factors (industry trends, market competition, regulatory changes) that may have impacted DISNEY Corporation's profitability.

2. Cost Analysis:

- a. Analyze the cost structure of DISNEY Corporation, distinguishing between fixed and variable costs.
- b. Conduct a breakeven analysis to determine the sales volume required to cover fixed costs and achieve different target profit levels.
- c. Identify cost drivers, using activity-based costing (ABC) techniques, to allocate costs accurately and assess their impact on profitability.
- d. Analyze the cost behavior (step-variable, semi-variable, or step-fixed) of different cost components to devise appropriate cost optimization strategies.

3. Cost Optimization and Profitability Improvement:

- a. Evaluate cost management techniques such as target costing, value analysis, pricing strategies, and process improvement initiatives.
- b. Identify potential cost-saving opportunities by evaluating various cost control

mechanisms, including overhead reduction, supplier negotiation, and product rationalization.

c. Develop a strategic action plan outlining specific steps to improve profitability, considering the identified cost-saving measures, revenue enhancement opportunities, and potential risks involved.

4. Reporting and Presentation:

Prepare a comprehensive report summarizing the financial statements analysis, cost analysis findings, cost optimization strategies, and the recommended action plan. Additionally, develop a professional presentation to be delivered to DISNEY Corporation's management team.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	2022	2021	2020
Revenues:			
Services	\$ 74,200	\$ 61,768	\$ 59,265
Products	8,522	5,650	6,123
Total revenues	<u>82,722</u>	<u>67,418</u>	<u>65,388</u>
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	(48,962)	(41,129)	(39,406)
Cost of products (exclusive of depreciation and amortization)	(5,439)	(4,002)	(4,474)
Selling, general, administrative and other	(16,388)	(13,517)	(12,369)
Depreciation and amortization	(5,163)	(5,111)	(5,345)
Total costs and expenses	<u>(75,952)</u>	<u>(63,759)</u>	<u>(61,594)</u>
Restructuring and impairment charges	(237)	(654)	(5,735)
Other income (expense), net	(667)	201	1,038
Interest expense, net	(1,397)	(1,406)	(1,491)
Equity in the income of investees	816	761	651
Income (loss) from continuing operations before income taxes	<u>5,285</u>	<u>2,561</u>	<u>(1,743)</u>
Income taxes on continuing operations	(1,732)	(25)	(699)
Net income (loss) from continuing operations	<u>3,553</u>	<u>2,536</u>	<u>(2,442)</u>
Loss from discontinued operations, net of income tax benefit of \$14, \$9 and \$10, respectively	(48)	(29)	(32)
Net income (loss)	<u>3,505</u>	<u>2,507</u>	<u>(2,474)</u>
Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(360)	(512)	(390)
Net income (loss) attributable to The Walt Disney Company (Disney)	<u>\$ 3,145</u>	<u>\$ 1,995</u>	<u>\$ (2,864)</u>
Earnings (loss) per share attributable to Disney ⁽¹⁾ :			
Diluted			
Continuing operations	\$ 1.75	\$ 1.11	\$ (1.57)
Discontinued operations	(0.03)	(0.02)	(0.02)
	<u>\$ 1.72</u>	<u>\$ 1.09</u>	<u>\$ (1.58)</u>
Basic			
Continuing operations	\$ 1.75	\$ 1.11	\$ (1.57)
Discontinued operations	(0.03)	(0.02)	(0.02)
	<u>\$ 1.73</u>	<u>\$ 1.10</u>	<u>\$ (1.58)</u>
Weighted average number of common and common equivalent shares outstanding:			
Diluted	<u>1,827</u>	<u>1,828</u>	<u>1,808</u>
Basic	<u>1,822</u>	<u>1,816</u>	<u>1,808</u>

⁽¹⁾ Total may not equal the sum of the column due to rounding.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	2022	2021	2020
Net income (loss)	\$ 3,505	\$ 2,507	\$ (2,474)
Other comprehensive income (loss), net of tax:			
Market value adjustments, primarily for hedges	735	41	(251)
Pension and postretirement medical plan adjustments	2,503	1,850	(1,476)
Foreign currency translation and other	(1,060)	77	115
Other comprehensive income (loss)	<u>2,178</u>	<u>1,968</u>	<u>(1,612)</u>
Comprehensive income (loss)	<u>5,683</u>	<u>4,475</u>	<u>(4,086)</u>
Net income from continuing operations attributable to noncontrolling interests	(360)	(512)	(390)
Other comprehensive income (loss) attributable to noncontrolling interests	143	(86)	(93)
Comprehensive income (loss) attributable to Disney	<u>\$ 5,466</u>	<u>\$ 3,877</u>	<u>\$ (4,569)</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	October 1, 2022	October 2, 2021
<i>ASSETS</i>		
Current assets		
Cash and cash equivalents	\$ 11,615	\$ 15,959
Receivables, net	12,652	13,367
Inventories	1,742	1,331
Content advances	1,890	2,183
Other current assets	1,199	817
Total current assets	29,098	33,657
Produced and licensed content costs	35,777	29,549
Investments	3,218	3,935
Parks, resorts and other property		
Attractions, buildings and equipment	66,998	64,892
Accumulated depreciation	(39,356)	(37,920)
	27,642	26,972
Projects in progress	4,814	4,521
Land	1,140	1,131
	33,596	32,624
Intangible assets, net	14,837	17,115
Goodwill	77,897	78,071
Other assets	9,208	8,658
Total assets	\$ 203,631	\$ 203,609
<i>LIABILITIES AND EQUITY</i>		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 20,213	\$ 20,894
Current portion of borrowings	3,070	5,866
Deferred revenue and other	5,790	4,317
Total current liabilities	29,073	31,077
Borrowings	45,299	48,540
Deferred income taxes	8,363	7,246
Other long-term liabilities	12,518	14,522
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interests	9,499	9,213
Equity		
Preferred stock	—	—
Common stock, \$0.01 par value, Authorized – 4.6 billion shares, Issued – 1.8 billion shares	56,398	55,471
Retained earnings	43,636	40,429
Accumulated other comprehensive loss	(4,119)	(6,440)
Treasury stock, at cost, 19 million shares	(907)	(907)
Total Disney Shareholders' equity	95,008	88,553
Noncontrolling interests	3,871	4,458
Total equity	98,879	93,011
Total liabilities and equity	\$ 203,631	\$ 203,609

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	2022	2021	2020
<i>OPERATING ACTIVITIES</i>			
Net income (loss) from continuing operations	\$ 3,553	\$ 2,536	\$ (2,442)
Depreciation and amortization	5,163	5,111	5,345
Goodwill and intangible asset impairments	—	—	4,953
Net (gain) loss on investments	714	(332)	(920)
Deferred income taxes	200	(1,241)	(392)
Equity in the income of investees	(816)	(761)	(651)
Cash distributions received from equity investees	779	754	774
Net change in produced and licensed content costs and advances	(6,271)	(4,301)	397
Equity-based compensation	977	600	525
Pension and postretirement medical cost amortization	620	816	547
Other, net	595	190	125
Changes in operating assets and liabilities			
Receivables	605	(357)	1,943
Inventories	(420)	252	14
Other assets	(707)	171	(157)
Accounts payable and other liabilities	964	2,410	(2,293)
Income taxes	46	(282)	(152)
Cash provided by operations - continuing operations	<u>6,002</u>	<u>5,566</u>	<u>7,616</u>
<i>INVESTING ACTIVITIES</i>			
Investments in parks, resorts and other property	(4,943)	(3,578)	(4,022)
Other, net	(65)	407	172
Cash used in investing activities - continuing operations	<u>(5,008)</u>	<u>(3,171)</u>	<u>(3,850)</u>
<i>FINANCING ACTIVITIES</i>			
Commercial paper payments, net	(334)	(26)	(3,354)
Borrowings	333	64	18,120
Reduction of borrowings	(4,016)	(3,737)	(3,533)
Dividends	—	—	(1,587)
Proceeds from exercise of stock options	127	435	305
Acquisition of redeemable noncontrolling interests	—	(350)	—
Other, net	(839)	(771)	(1,471)
Cash provided by (used in) financing activities - continuing operations	<u>(4,729)</u>	<u>(4,385)</u>	<u>8,480</u>
<i>CASH FLOWS FROM DISCONTINUED OPERATIONS</i>			
Cash provided by operations - discontinued operations	8	1	2
Cash provided by investing activities - discontinued operations	—	8	213
Cash used in financing activities - discontinued operations	(12)	—	—
Cash (used in) provided by discontinued operations	<u>(4)</u>	<u>9</u>	<u>215</u>
Impact of exchange rates on cash, cash equivalents and restricted cash	(603)	30	38
Change in cash, cash equivalents and restricted cash	(4,342)	(1,951)	12,499
Cash, cash equivalents and restricted cash, beginning of year	16,003	17,954	5,455
Cash, cash equivalents and restricted cash, end of year	<u>\$ 11,661</u>	<u>\$ 16,003</u>	<u>\$ 17,954</u>
Supplemental disclosure of cash flow information:			
Interest paid	<u>\$ 1,685</u>	<u>\$ 1,892</u>	<u>\$ 1,559</u>
Income taxes paid	<u>\$ 1,097</u>	<u>\$ 1,638</u>	<u>\$ 738</u>

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