

# Biovail harvard business review case

Business



Therefore, if the contract between the distributor and Bolivia is " FOB Shipping Point", then Bolivia should recognize the revenue once the truck left its manufacturing facility in Manitoba, Canada. Under " FOB Destination" contract structure: Since " FOB Destination" contract requires the seller to be responsible for the delivery of goods to the final destination of the buyer, under this contract structure, Bolivia should not recognize the revenue or income based on the timing of their shipment. They should recognize the revenue when the distributor receives and collects the goods. . How does the accident affect the stated revenues under the different FOB contract structures? Explain your reasoning. The traffic accident does not affect the revenues under the " FOB shipping point" contract because Bolivia has to recognize the product sales revenue of \$10 million right after the product leaves the shipping point. This means that the revenues are recognized in the quarter ending September 30, regardless of whether the product arrives safely or not. However, the accident does affect the revenue recognition under the " FOB destination" contract.

If the traffic accident had not happened, Bolivia could recognize the revenue in the 4th quarter, since that is when the truck would have arrived at its destination. By contrast, since the accident happened and the products were not delivered to the customer, Bolivia is not supposed to recognize the revenues according to the " FOB Destination" contract. This condition does not meet the criteria for revenue recognition stated by SAAB 101 that " delivery has occurred or services have been rendered" and " collectibility is reasonably assured".

Rather in this case, Bolivia should report it as loss of inventory (since products were shipped but revenue as not earned), recorded in the 4th quarter. Therefore, for the above reasons, the accident affects the revenue recognition method of Bolivia significantly. 4. Are you concerned about the company's treatment of analysts who cover the stock? Would you want to be an analyst covering this company? Yes. According to ten case, Avowal's treatment AT analysts is not tentative.

The company intentionally acted against the analysts who recommended "Sell" for Bolivia stocks. For example, when analyst Jerry Trapper was covering "Bolivia", even though the prescription volumes of Viola's popular medicine "Cardamom" were "expected to decline as competing generic formulations became more readily available", Bolivia reported very aggressive growth for the same medicine. Trapper was not convinced and recommended a "Sell" on Viola's stock. Bolivia was not happy and tried to persuade BAS first to retract the report.

When the company could not do that, it acted against the analyst until he resigned. Even now, Bolivia was not transparent about their revenue forecast. The company associated the loss of revenue and income with the in-transit shipment loss of a medicine Wellington XSL due to the traffic accident. However, the revenue loss from the truck accident was estimated \$10 to \$20 million, whereas Bolivia indicated that revenues will be in the range of \$21 million to \$235 million which is \$25 to \$45 million less than its prior guidance of approx. 260 million (even though the manufacturing cost value of the products had been fully insured). Also, Viola's distributor had denied Viola's claim of loss of revenue and income due to the revenue

<https://assignbuster.com/biovail-harvard-business-review-case/>

recognition method of " FOB Shipping point," saying that the actual contract was " FOB destination," whereas Bolivia CEO insisted that the revenue should be agonized as a " third quarter item," which would only apply for the " FOB Shipping Point" contract.

For these reasons, the analyst covering Bolivia was not convinced about its transparency. Yet he hesitated to recommend " Sell" because of Trapper's defamation caused by Bolivia. From these examples, Bolivia appears to be quite aggressive and hostile towards BAS analysts when the recommendation is not in their favor. Just like Trapper, any analyst can fall victim to Viola's allegation and face defamation. Therefore, we would not prefer to be an analyst covering this company.