Goliath productions inc case study sample

Economics, Money

Report

Contract

Goliath productions, a producer and distributor of motion pictures signed a contractual agreement with Giant Theatres giving them exclusive rights on the five films produced for six months. Goliath acknowledged that Giant needs an integral inducement in the contract as the sole source without competition, for six months ending February 28th 2007. Giant Inc has 475 theatres across United States. The contract is silent on the area of jurisdiction. However, in the agreement, Giant only purposes to show the film in the 475 (approximately) theatres in United States and therefore, Giant cannot limit Goliath from entering into a contract with a company in Canada since the Canadian company does not pose a direct competition threat to Giant.

Cash flow Versus GAAP

Cash flow statement

For the period ended Dec 31st 2006

Cash inflows from operations

July ‘ 062500000

1st Sep ‘ 06 2500000

5, 000, 000

Cash flow summary

Cash flow statement gives a summary of cash movements in and out of the organization/business. The cash flows are classified into three categories; cash from financing, cash from investing and cash from operations. Cash from operations refers to the amounts generated from sales and expenses surrounding the generation of revenues like purchases, costs and tax.

In the case of Goliath, above, cash flows were only from the signing of contractual agreements between the company and Giant, leading to a payment of $2, 500, 000 in July 2006 and another similar amount on September 1st 2006. The costs associated with the production of the films are not reported; hence the cash flow statement includes revenues only. The resulting figure, $5, 000, 000, therefore, cannot be said to be Net cash flow. LDC financial concept 5 and GAAP allow for preparation of cash flow statement from a set of transactions. Therefore, it was okay for Giant to give a statement on the film shows. The cash flow statement gives a summary of income from the film shows.

Revenue Budget

The above revenue budget shows the amount of money Goliath productions is expecting from the deal with Giant. Goliath charges $500 for each film shown in each location. Kombat Rex will be shown for a maximum of 42 times since it is a hit film and will be featured in the top box. Taking a charge of $500 per show, 475 theatres across United States and each theatre showing the film 42 times, Goliath will expect to make $9, 975, 000 from Kombat Rex only.

On the other hand, KRII to KRV will be shown a minimum of 18 times in each theatre charged at $500. 18 multiplied by the number of theatres (475) and multiplied again by the charge ($500), give a total of 4, 275, 000 each film. The total revenue expected from the shows is $27, 075, 000. The fee for signing the contract is $5, 000, 000 paid into two installments of $2, 500,

000. The total revenue expected, therefore, is $32, 075, 000.

GAAP revenue recognition is considered straight, though it has many loopholes that usually confuse accounting professionals. The two step process for recognition is; revenue is realized or realizable, then earned to qualify for recognition. In the Goliath case, revenue is realizable upon the signing of the agreement with Giant. The agreement has a clause requiring payment of $2, 500, 000 upon signing the document. This amount is earned since there is a transfer of showing rights from Goliath to Giant. It is the same case with amount paid September 1st (the remaining $2, 500, 000).

In preparation of the December 31st accounts, 2006, I'd recognize revenue earned as $10, 462, 500. This is a sum of the amount paid during the signing of the contract, amount paid on September 1st and income from showings by December 31st, ($2, 500, 000 +$2, 500, 000 + $5, 462, 500). The principle to recognize the $5, 462, 500 would be that the service has been already rendered hence the amount qualifies as income for Goliath Productions.

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Works Cited

Kimmel, Paul. D., Weygandt, Jerry. J. & Kieso, Donald. E. (2006). Financial Accounting: Tools for Business Decision Making (4th ed.). Hoboken, NJ: John Wiley & Sons.

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