

## B-03.02

Accounting "failures" occur when reported results are not presented in accordance with generally accepted accounting principles. These failures can produce significant financial losses to investors and creditors. Oftentimes, an accounting failure results from an incorrect application of revenue recognition concepts. Revgression Corporation included each of the following described transactions in revenue during 20X5. Three of these transactions were appropriate, and three were not. Determine which are "ok" and which are "not ok."

- (1) Goods were sold and shipped in late 20X5, but the product still requires substantial installation and setup services. The price and terms of sale stipulate that seller must satisfactorily complete all installation and setup at the buyer's location.
- (2) Goods were produced according to a customer purchase order, but had not yet been shipped by the end of 20X5.
- (3) Goods were delivered to customers during early 20X5, but the customers had ordered and paid for the goods during 20X4.
- (4) Customers purchased goods and services during late 20X5, but credit terms permitted them to delay payment until early 20X6. Full payment is expected eventually.
- (5) Advance payment from a customer in a foreign country was received in 20X5, for services to be provided in 20X6.
- (6) Goods were purchased and paid for by customers during 20X5, but customers may return defective goods for warranty work or a refund. The expected warranty/refund claims are subject to reasonable estimation and not anticipated to be significant.