

Although the basic principles for revenue recognition are straightforward, complex business transactions often give rise to difficulties in reaching an appropriate accounting conclusion. More than half (and perhaps as high as 80%) of all accounting failures are attributable to misapplication of accounting rules relating to revenue recognition.

The USA Securities and Exchange Commission has issued a Staff Accounting Bulletin (SAB No. 104) that gives additional guidance on revenue recognition. You can access this SAB from the SEC website (<http://www.sec.gov/>).

Divide your class into ten teams. Each team should select one of the issues below (the page numbers refer to SAB No. 104).

Read pages 9, 10, and 11 of the SAB. Afterwards, study the issue for your team found at the indicated page number. Develop a thorough understanding of your issue and prepare a "role-playing" presentation. In other words, your team is to do an in-class presentation, as though it is an actual situation encountered by "your" company. Clearly explain the business circumstance, related accounting issue, and proposed revenue recognition outcome.

Persuasive evidence of an arrangement issues:

TEAM 1 : Page 12, Facts: . . . a written sales agreement . . . does not sign

TEAM 2 : Page 14, Facts: . . . deliver products . . . on a consignment basis

TEAM 3 : Page 18, Facts: . . . seller to retain a form of title . . . until . . . payment

Delivery has occurred or services have been rendered issues:

TEAM 4 : Page 20, Facts: . . . customers may not yet be ready to take delivery

TEAM 5 : Page 30, Facts: . . . acceptance to occur after . . . tested by the customer

TEAM 6 : Page 39, Facts: . . . intellectual property . . . license to use

TEAM 7 : Page 40, Facts: . . . offers "layaway" sales

TEAM 8 : Page 42, Facts: . . . arrangements . . . nonrefundable fees

The seller's price to the buyer is fixed or determinable issues:

TEAM 9 : Page 53, Facts: . . . discount retailer . . . revenue from annual membership

TEAM 10 : Page 70, Facts: . . . leases . . . payments . . . plus one percent . . . sales