

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 accounting profession has developed detailed guidance on revenue recognition. Review the website of the Financial Accounting Standards Board (FASB.org), and determine the status of various projects on revenue recognition. Be prepared to have a general discussion with classmates about current issues and developments in standard setting that pertain to this topic.

Divide your class into ten teams. Each team should obtain the annual reports of three different companies. These reports are usually readily available on the corporate websites, and will ordinarily include a footnote to financial statements that details the summary of significant accounting policies. Within that footnote is apt to be a discussion of general policies relative to revenue recognition. Compare and contrast the revenue recognition policies and issues for the three companies, and select the one that seems to involve the most interesting measurement issues.

In class, have each team discuss their most interesting find, and then have the class "rank" the issues from most complex to least complex. Use this as a basis for discussing a general frame of reference for revenue recognition.