

ACC1701XA
SEMESTER 1 2025 / 2026

POST LECTURE SUPPLEMENT
LECTURE 03

Updated Slide: Revenue Recognition Example – XBird's journal entries

The Revenue Recognition Principle
An Example

In March, Eelon Consulting received \$100k cash in advance from XBird Co. for consulting services to be delivered in June.

Q: When should Eelon Consulting recognize revenue?

June!

**Q: What transactions should Eelon Consulting record in March and in June?
(journal entries)**

March	Cash (A)	\$100k
	Unearned Consulting Revenue (L)	\$100k
June	Unearned Consulting Revenue (L)	\$100k
	Consulting Revenue (SE)	\$100k

Bonus Q: What are the journal entries for XBird in March & June?—

March:	Prepaid Expense	\$100k
	Cash	\$100k
June:	Consulting Expense	\$100k
	Prepaid Expense	\$100k

In-class PollEV Activities: Revenue Recognition & Matching Principle

- 1) Netflix receives total of \$15,000 today from subscribers. The subscription however begins next year. Does Netflix recognize this as revenue this year? **No**
- 2) Pop Shop orders 10,000 blind boxes from LaBoo Inc. at \$15 each, to be paid in full within 30 days of delivery. LaBoo Inc. has not delivered the bags. Does LaBoo recognize revenues? **No**
- 3) LaBoo Inc. delivered 10,000 of the blind boxes to Pop Shop. Pop Shop received the shipment and paid LaBoo Inc. \$50,000 cash upon delivery. How much revenues should LaBoo Inc. recognize? (recall that LaBoo sold each blind box at \$15 each to Pop Shop)
 - a. \$50,000
 - b. \$100,000
 - c. **\$150,000**
 - d. No revenues recognized

Poll Q#3 Explained

Q: LaBoo Inc. delivered 10,000 of the blind boxes to Pop Shop. Pop Shop received the shipment and paid LaBoo Inc. \$50,000 cash upon delivery. How much revenues should LaBoo Inc. recognize? (recall that LaBoo sold each blind box at \$15 each to Pop Shop)

LaBoo recognizes the **full amount of \$150,000** ($10,000 \text{ bags} \times \15) as revenues.

The journal entry is:

Dr Cash	50k
Dr Accounts Receivable	100k
Cr Sales Revenue	150k

- 4) You went to Pop Shop and bought a blind box for \$35, paying by credit card. You also bought a small plush doll for \$20, and paid for it with cash. How much revenues, if any, should Pop Shop recognize from these transactions?

- a. None
- b. \$20
- c. \$35
- d. **\$55**

Poll Q#4 Explained

Q: You went to Pop Shop and bought a blind box for \$35, paying by credit card. You also bought a small plush doll for \$20, and paid for it with cash. How much revenues, if any, should Pop Shop recognize from these transactions?

Pop Shop recognizes the **full amount of \$55** ($\$35 + \20) as revenues.

The journal entry is:

Dr Cash	20
Dr Credit Card Receivables	35
Cr Sales Revenue	55

- 5) Pop Shop entered into a 6-months social media campaign with a group of influencers starting on Oct 2025. The whole campaign costs \$43,200 payable at the end of the campaign. How much marketing expenses, if any, should Pop Shop recognize for 2025? (Pop Shop is on a calendar year end)

- a. No expense recognized for 2025
- b. \$43,200
- c. **\$21,600**
- d. \$7,200

Poll Q#5 Explained

Q: Pop Shop entered into a 6-months social media campaign with a group of influencers starting on Oct 2025. The whole campaign costs \$43,200 payable at the end of the campaign. How much marketing expenses, if any, should Pop Shop recognize for 2025? (Pop Shop is on a calendar year end)

Pop Shop will recognize 3 months (Oct to Dec) of marketing expense for FY2025.

The journal entries could look something like this:

@ 30th Dec 2025	Dr Marketing Expense (for 3 months)	21,600
	Cr Accounts Payable	21,600
@ 31 st Mar 2026	Dr Marketing Expense (for 3 months)	21,600
	Dr Accounts Payable	21,600
	Cr Cash	43,200

6)

Poll Q#6 - Calculating Net Income

- The following data is available for LaBoo Inc. for the year ending 31 Dec 2025:

Salaries earned by employees	\$ 40,000
Salaries paid to employees	50,000
Total sales revenue	300,000
Cash collected from providing goods & services	350,000
Utilities expense incurred	4,500
Utility bills paid	4,200
Tax assessment for the year	5,000
Taxes paid	3,500
Rent expense	30,000
Rent paid	25,000

Q6: Compute LaBoo Inc.'s net income for 2025 using cash-basis accounting.

Poll Q#6 Explained

Q: Compute LaBoo Inc.'s net income for 2025 using cash-basis accounting.

Net Income on Cash Basis:

Cash collected from providing goods & services	\$350,000
Cash expenses:	
Salaries paid	\$50,000
Utility bills paid	4,200
Taxes paid	3,500
Rent paid	<u>25,000</u>
Total cash expenses	<u>82,700</u>
Net Income (cash basis)	<u>\$267,300</u>

7) Compute LaBoo Inc.'s net income for 2025 using accrual-basis accounting.

Poll Q#7 Explained

Q: Compute LaBoo Inc.'s net income for 2025 using accrual-basis accounting.

Net Income on Accrual Basis:

Total sales revenue	\$300,000
Expenses:	
Salaries expense	\$40,000
Utilities expense	4,500
Tax assessment	5,000
Rent expense	<u>30,000</u>
Total expenses	<u>79,500</u>
Net income	<u>\$220,500</u>