

Financial Accounting

Part C: Revenue Recognition

Recall...

Decisions we made about capitalization influence profit because of **timing**.

We seldom get paid in the same period in which we earn.

Revenue Recognition

- All about timing
- **Deciding** how much revenue we earned in a period
- Most important on large, long running projects run by public companies

Only half the story, what's missing?

Matching Principal

Match expenses to revenue.

Back to BitCo

BitCo receives an order for 100 external hard drives to be delivered next year.

When do we record the sale as revenue?

- today
- first day of next year
- when we ship the first drive
- when we ship the last drive
- after the warranty period is over

BitCo has been contracted to develop a web site for SitCo.

- SitCo will pay \$100,000
 - \$20,000 on proto-type completion
 - \$70,000 on delivery
 - \$10,000 when all major defects are fixed
- The project will take 6 months (3 this year)
- The proto-type will take about 3 months
- Work will be done by a sub-contractor, Sally, who is paid \$100/hr. (estimated 700 hrs)
- You will pay Sally a \$5,000 bonus if no major defects are found
- Sally invoices you monthly

Complete a revenue and expense schedule for the project.

a) using milestones

b) using percent complete

Would your choice of method be affected by:

- a) Need to submit financials for a loan in 2 months
- b) You're paid a bonus of 10% of all profits at year end.
- c) The maximum bonus you can get is capped, and you have hit the cap for this year.
- d) Your partner in BitCo is going through a nasty divorce.