

Week 2 - DQ 1

What are the different criteria for recognizing revenue?

Response #1 According to SAB 101--GENERAL REVENUE RECOGNITION RULES organizations "should not recognize revenue until is realized or realizable and earned." Before revenue is recognized, transactions must meet the following criteria:

- There is a persuasive evidence of an arrangement.
- The seller's price to the buyer is fixed or determinable.
- Delivery has occurred or services have been rendered.
- Collectability is reasonably assured.

Response #2 According to Kieso, Weygandt, and Warfield, the two conditions for recognizing revenue is when it is 1) being realized or realizable or 2) being earned. The text goes on to say that revenues are realized when goods or services are exchanged by a company for cash or claims to cash. This is different from being realizable which is when a company receives assets that are convertible to understood amounts of cash or claims to cash. Finally, revenue is earned when the company does what it is required to do to in order to lay claim to the revenue. Perhaps one buys tickets to a concert. This may happen weeks or sometimes months before the event. That revenue is not recognized until the concert takes place. Revenue can be recognized at the point of sale, before or after deliver, or for special sales transactions (Kieso, Weygandt, & Warfield, 2007). It depends on the contract between the company and consumer. Sometimes a purchase is refundable and sometimes it isn't. There are many areas that must be studied for each possibility.

Reference: Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2007). *Intermediate accounting (12th ed.)*. Hoboken, NJ: John Wiley & Sons.

Response #3 There are four different criteria's for recognizing revenues. The first would be at the point of sale. For example, the text uses delivery as a point of sale period. The second would be prior to delivery of the product. We use this method for some of our sales, especially if the customer is purchasing for the first time and does not have credit with us. The third is after delivery of the product. This means that the product ships and delivers to the customer and the customer pays thus the revenue would occur after the product has delivered. We handle customers that have credit with the company this way as well. The last is based on special sales transactions such as franchises and consignment transactions.

Response #4 The criteria that must be met for recognizing revenue is the proof of manufacturer and sales activity must exist. The next criteria is the delivery of the product or service must occur before revenue can be recognized. Another criteria would be the seller's price of the product or service must be predetermined or fixed. Lastly, the seller's must have a measure in price for assurance of collecting payment.