

REVENUE RECOGNITION

Revenue were determined as the increase of net current assets that cause from the delivery, sale of goods, production of goods for sales, service providing from activities which normally happen in business such as: Sales, Fees, Interest, Dividends, Rent,

Revenue were measured base on reasonable value or equivalent value received or allowed account receivable.

Revenue recognition is the time determined problem. Whether, when revenue was record, mean that the revenue was recorded in financial statement. In summary, accountant must select the point of time which was recognized. Recognition can occurred

- During production
- at completion
- at point of sale
- when cash is ultimately received from a credit customer

A . Prior to Delivery

- from a credit customer is the contract which clearly negotiated for current asset establishment.
 - Fixed price contract
 - Cost plus contract
- Accounting and Recording

1. Percentage of Completion

This method was used when we can estimate the size of work completed.

2. Completed Contract

This method was used when we can not estimate the size of work completed.

Example: Information about construction company.

Contract Price \$500,000	1998	1999	2000
(1) Construction cost incurred to date	100,000	250,000	437,000
(2) Estimated costs to completion	300,000	175,000	0
(3) Estimated Total Construction Costs	400,000	425,000	437,500

<u>REVENUE RECOGNITION</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Estimated %of completion(1)/(3)	25%	58.8%	100%
Contract Price	500,000	500,000	500,000
(3) Est. total construction costs	<u>- 400,000</u>	<u>- 425,000</u>	<u>- 437,000</u>
= Est. total income	100,000	75,000	62,500
Estimated %of completion	<u>25%</u>	<u>58.8%</u>	<u>100%</u>
= Income to be recognized to date	25,000	44,100	62,500
Less total income recognized in Prior years	0	(25,000)	(44,100)
= Income recognized in current year	<u>25,000</u>	<u>19,100</u>	<u>18,400</u>

Account Receivable Analysis	1998	1999	2000	Total
Billing on contract	90,000	245,000	165,000	500,000
Cash Payment by Purchaser	(850,000)	(120,000)	(295,000)	(500,000)
Net Difference	5,000	125,000	(130,000)	0

1998 Entries	Percentage to complete		Completed Contract	
	Debit	Credit	Debit	Credit
<u>RECORD COSTS</u>				
(a). Construction In Progress	100,000		100,000	
Construction Expenses		100,000		100,000
<u>RECORD BILLINGS</u>				
(b). Accounts Receivable	90,000		90,000	
Billing on Construction Contract		90,000		90,000
(c). Cash	85,000		85,000	
Accounts Receivable		85,000		85,000
<u>INCOME RECOGNIZED</u>				
(d). Construction In Progress	25,000		No entry	
Construction Expenses	100,000		No entry	
Construction Revenue		125,000		No entry

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1999 Entries	Percentage to complete		Completed Contract	
	Debit	Credit	Debit	Credit
<u>RECORD COSTS</u>				
(e). Construction In Progress	150,000		150,000	
Construction Expenses		150,000		150,000
<u>RECORD BILLINGS</u>				
(f). Accounts Receivable	245,000		245,000	
Billing on Construction Contract		245,000		245,000
(g). Cash	120,000		120,000	
Accounts Receivable		120,000		120,000
<u>INCOME RECOGNIZED</u>				
(h). Construction In Progress	19,100		No entry	
Construction Expenses	150,000		No entry	
Construction Revenue		169,100		No entry

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2000 Entries	Percentage to complete		Completed Contract	
<u>RECORD COSTS</u>	Debit	Credit	Debit	Credit
(i). Construction In Progress	187,500		187,500	
Construction Expenses		187,500		187,500
<u>RECORD BILLINGS</u>				
(j). Accounts Receivable	165,000		165,000	
Billing on Construction Contract		165,000		165,000
(k). Cash	295,000		295,000	
Accounts Receivable		295,000		295,000
<u>INCOME RECOGNIZED</u>				
(l). Construction In Progress	18,400		No entry	
Construction Expenses	187,500		No entry	
Construction Revenue		205,900		No entry
COMPLETE CONTRACT				
Construction Expense			437,500	
Construction In Progress			62,500	
Construction Revenue				500,000
CLOSSING ENTRIES				
(m). Billing on Construction Contract	500,000		500,000	
Construction In Progress		500,000		500,000

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Construction In Progress			
(a)	100,000	500,000	(m)
(d)	25,000		
(e)	150,000		
(h)	19,100		
(i)	187,500		
(l)	18,400		
	<u>500,000</u>	<u>500,000</u>	

Construction Expense			
(d)	100,000	100,000	(a)
(h)	150,000	150,000	(e)
(l)	187,500	187,500	(i)
	437,500	437,500	

Account Receivable			
(b)	90,000	85,000	(c)
(e)	245,000	120,000	(g)
(j)	165,000	295,000	(k)
	<u>500,000</u>	<u>500,000</u>	

Billing on Construction Contract			
	500,000	90,000	(b)
		245,000	(f)
		165,000	(j)
	500,000	500,000	



Construction Revenue		Cash	
	125,000	(d)	85,000
	169,100	(h)	120,000
	205,900	(l)	295,000
	500,000		500,000

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INCOME STATEMENT	Percentage to complete			Completed Contract		
	1996	1997	1998	1996	1997	1998
Revenues	125,000	169,100	205,900	0	0	500,000
Less: Costs	(100,000)	(150,000)	(187,900)			(437,500)
= Gross Profit	25,000	19,100	18,400			62,500
BALANCE SHEET						
Current Assets						
Account Receivable	5,000	130,000	0	5,000	130,000	0
Inventories						
Construction in progress	125,000			100,000		
<u>less: Billings on Construction Contracts</u>	<u>(90,000)</u>			<u>(90,000)</u>		
Current Liabilities						
Billings on Construction Contracts		335,000			335,000	
<u>Less: Construction in Progress</u>		<u>(294,100)</u>			<u>(250,000)</u>	
		40,900			85,000	

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AFTER TO DELIVERY
INSTALLMENT SALE

Installment Sale is the method that used for sale with contract of installment payment, when problem occur with the cash collection.

When there is impossibility of cash collection from installment sale this method was used.

Ex:

Installment Sale	500	100%
Cost of Item sold	<u>-300</u>	<u>60%</u>
Gross Profit	\$200	40%

Then, we implement the percentage of gross profit 40% on each collection. This will provide the amount of gross profit was recorded to be the periods' income of cash receiving.

<u>YEAR</u>	<u>COLLECTION</u>	<u>% OF GROSS PROFIT</u>	<u>GROSS PROFIT</u>
1	80 *	40% =	\$ 32
2	120 *	40% =	\$ 48
3	140 *	40% =	\$ 56
4	<u>160 *</u>	40% =	<u>\$ 64</u>
TOTAL	500 *	40% =	\$ 200

GROSS PROFIT RECOGNITION

Year 1

Cash	80
Installment Receivable	420
Inventory	300
Realized Gross Profit	32
Deferred Gross Profit	168

Journal Entries

	Debit	Credit
(1) Installment Receivable	500	
Installment Sales		500
(2) Cost of Installment Sales	300	
Inventory		300
(3) Cash	80	
Installment Receivable		80
(4) Installment Sales	500	
Cost of Installment Sales		300
Deferred Gross Profit		200
(5) Deferred Gross Profit	32	
Realized Gross Profit		32

INCOME STATEMENT
End of year 1

Sales	\$ XXXX
Cost of Goods Sold	XXX
Gross Profit	\$ XX
Realized Gross Profit	32
(Installment Sales method)	\$ X XXXX

Part of BALANCE SHEET
End of year 1

Current Assets

Cash		XXXX
Installment Receivable	\$ 420	
<u>Less: Deferred Gross Profit</u>	<u>168</u>	252
Inventory		XXX

Cash	
(3)	80

Installment Sales	
(5)	500
	500 (1)

Deferred Gross Profit	
(5)	32
	200 (4)
	bal: 168

Cost of Installment Sales	
(2)	300
	300 (4)

Realized Gross Profit	
	32 (5)

Lay Away Sales:

Lay Away Sales is the sales that occurred when customers were not allowed to possess goods until full amount of payment be made. So, the prior cash receive of total amount was considered as deposit amount that can be refundable or none refundable rely on retail policy. This mean that, if refundable it is liabilities: Lay away deposits refundable, till the customer did not pay the remaining balance. If none refundable it is Unearned Revenues till once limited time as mention above.

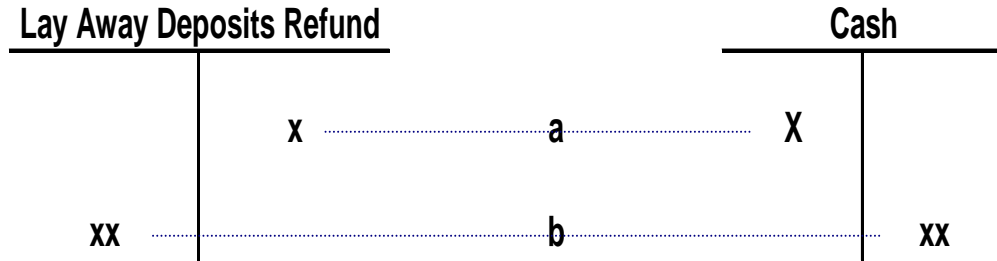
Cost Recovery Method:

Under the cost recovery method, no income is recognized on credit sales until the cost of the merchandise sold has been fully recovered through cash collections. After the cost of the merchandise sold has been recovered, all remaining cash collections are reported as income in the period in which they are collected.

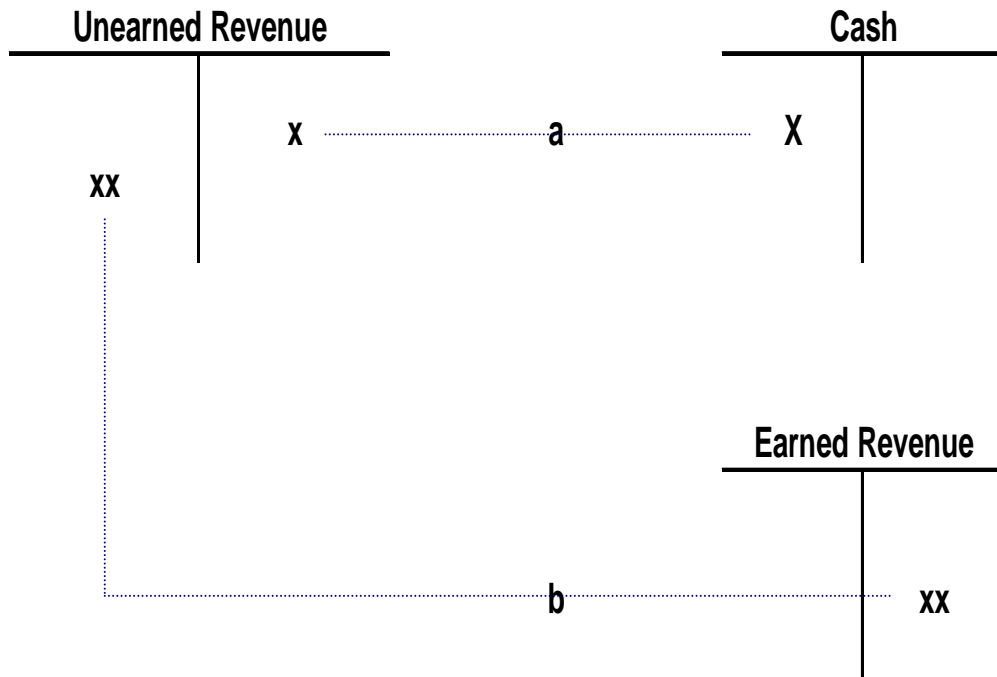
	<u>96</u>	<u>97</u>	<u>98</u>
Sales	\$ 30,000	\$ 40,000	\$ 60,000
Costs	-20,000	-28,000	-40,800
Gross Profit	\$ 10,000	\$ 12,000	\$ 19,200
<hr/>			
<u>Cash Collections</u>			
1996 Sales	\$ 60,000	\$ 15,000	\$ 6,000
1997 Sales		14,000	16,000
1998 Sales			20,000

Lay Away Sales

Deposit is refundable



Deposit is not refundable





	1	2	3	4	5	6	7
Year	Cash Received 96 Sales	Cash Received 97 Sales	Cash Received 98 Sales	Total Cash Received	Less Cost not yet Recovered	Difference	Gross Profit Recognition
1996	6,000			6,000	-20,000	-14,000	0
1997	15,000				-14,000	1,000	1,000
1997		14,000			-28,000	-14,000	0
Total 97				29,000			<u>1,000</u>
1998	6,000				0	6,000	6,000
1998		16,000			-14,000	2,000	2,000
1998			20,000		-40,800	-20,800	<u>0</u>
Total 98				42,000			8,000

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