Faculty Breakout-Additional Examples
Extra Mini-Cases on Revenue Recognition
2013 Deloitte Foundation/Federation of Schools of Accountancy Faculty Consortium

Extra Case A: Car with maintenance and warranty

High Volume/Low Margin Charlie's (Charlie's) is an established car dealer. Charlie's service center provides all scheduled maintenance at no additional charge (other than for parts) for any customer who buys a car from Charlie's. The service is available for as long as the customer owns the car. The customer may choose to have maintenance performed by others without affecting the vehicle's warranty. Most customers use Charlie's maintenance service unless they move to a distant location. Charlie's sells maintenance services separately to customers who did not purchase their vehicles from Charlie's. The autos are sold subject to a limited warranty and there are no refund rights in the arrangement. Customers must pay Charlie for the car and services when they take possession of the car.

1. When should Charlie's recognize revenue for the car?
2. What is the appropriate accounting for the maintenance services?
3. What is the appropriate accounting for the warranty?

Extra Case B: Multiple-element software arrangements

On December 1, 2012 a calendar year vendor and a customer enter into a licensing arrangement that provides the customer a license for software products A, B, and C in exchange for a nonrefundable fee of $90. Products A and B are delivered in December. They are sold separately for $30 each. Prior to product C's February delivery the vendor's pricing committee will meet to determine the price at which vendor will sell product C separately. Customer's intended use of products A and B depends on the delivery of product C.

1. How much revenue can the vendor recognize in 2012?
2. How would your answer change if the vendor's pricing committee met in December 2012 and set a firm stand-alone price of $40 for product C?
3. How would your answer change if product C were the promise of upgrades if and when they became available during the six month period following delivery of product B?

Extra Case C: Cable Television hookup

Customer Bob signs up for cable service on January 31, 2013 and is required to pay (1) an initial hookup fee of $100 and (2) a monthly subscription fee of $40. On average, subscribers remain customers for three years. The total direct selling cost for connecting a customer is $60.

1. How much hookup revenue should Cable Service Company recognize in January 2013?
2. Which revenue recognition concept is inherent in the revenue recognition criteria for hookup fees for cable television arrangements?