


Review Questions and Final Exam

Course name:	Revenue Recognition in Financial Statements
Course number:	1052N.05
Number of questions:	Review: 26 Final Exam: 26
Prerequisite:	None
Course level:	Basic
Recommended CPE credit:	5 CPE hours
Recommended study time:	5 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference text:	SEC Staff Accounting Bulletin: No. 104 – Revenue Recognition in Financial Statements
	 <p>Free download: http://www.sec.gov/interps/account/sab104rev.pdf 81 pages</p>
Subject classification:	Accounting/Auditing
Course reviewed/updated:	March 3, 2005
Learning objective:	To understand the SEC guidance concerning the application of generally accepted accounting principles to revenue recognition in financial statements.
Instructions:	<p>This copy of the exam can be used to answer questions while offline.</p> <p>Please note that you will still need to enter your answers online by logging into the course system with your User ID and Password.</p>

1) Staff Accounting Bulletin No. 104 provides guidance on Topic 13 of the codification of staff accounting bulletins.

True

False

2) The statements in staff accounting bulletins have the “stamp of approval” of the SEC.

True

False

3) There is authoritative literature that provides specific guidance on revenue recognition for the XYZ industry. Companies in the XYZ industry can most likely apply this industry specific guidance instead of the general guidance offered in SAB 104.

True

False

4) A small tax and accounting firm has obtained several new tax clients this month and started preparing their tax returns immediately. The tax returns have not been completed by January 31st, so the firm should not recognize revenue in January, even though the returns are about 50% completed.

True

False

5) Acme Software Company has delivered the boxed software on June 15th as per the signed contract. The contract stipulated the price and terms of payment (net 30). Acme checked the customer's credit prior to entering into the contract, and the customer has excellent credit.

Acme can record the revenue in June.

True

False

6) Sweet Lemons, a small fruit retailer received a signed purchase order from their existing customer. Sweet Lemons shipped the lemons to the customer with shipping terms FOB shipper. Sweet Lemons business practice is to accept signed purchase orders from any existing customer, and to ship the lemons when the P.O. is received.

Sweet Lemons can recognize the revenue from this shipment.

True

False

7) One of the top salesmen at Acme Software made a side agreement with their best customer concerning some additional rebates that would be passed back to the customer at a later date.

This side agreement will not affect the revenue recognition related to the original agreement.

True

False

8) Big Foot Shoe Company sells a dozen pairs of size 14 women's shoes to the Pretty Feet Shoe Store. Pretty Feet receives title to the shoes and plans to have a shoe sale for people with large feet sometime in the next few months. Pretty Feet does not have to pay for the shoes until they sell them and can return the shoes that are not sold.

Big Foot cannot recognize the revenue from this sale yet.

True
False

9) Company X has completed manufacturing and moved the product to the shipping area of the warehouse in preparation to ship the product to fill customer contracts. Company X can recognize revenue when it has segregated the inventory in an area separate from the inventory of its own products.

True
False

10) Miami Swimsuit Manufacturing has asked their customer to purchase swimsuits on a bill and hold basis. Miami Swimsuit has completed the order for the customer in January and moved the goods ordered into a segregated area of their warehouse. The customer does not need the swim suits until later in the year; no definite delivery schedule has been agreed upon.

Because both parties have agreed to a bill and hold transaction, Miami Swimsuit can recognize the revenue in January.

True
False

11) In July, Specialty Tricycles made a batch of 1,000 red tricycles for a toy store. The toy store contracted for these tricycles on a bill and hold basis, to be delivered in early November for the holiday rush. The week before the trikes are to be shipped, Specialty Tricycles will put on the seat and handlebars, as well as some decals and streamers.

This transaction most likely meets the requirements for Specialty Tricycles to recognize revenue in July.

True
False

12) Company Q ordered some steel shelving from Strong Shelves Company. Installation is included in the contract terms, as well as a provision for customer acceptance which is to be substantiated by a written sign-off.

Strong Shelves Company should not recognize revenue until the shelving is fully installed and accepted by the customer.

True
False

13) Great Copies Company sold a copier to Company Z for \$20,000. Great Copies promised to provide a one hour training session on the advanced features of the copy machine, but they have not done so by month end. They have completed all other training and have a history of completing all training promised in a timely manner.

Assuming all other conditions of revenue recognition have been met, the fact that they have not provided the final one hour training session will NOT prevent them from recognizing the revenue in the current period.

True
False

14) A customer licenses software with a license term beginning on January 1. The software is fully installed in December of the preceding year. The software company that sold the software can recognize the related revenue in December because it was fully installed at that time.

True
False

15) Jessica selects a beautiful spring outfit and puts it on layaway by making a small deposit. The store does not require her to enter into a fixed payment agreement, although it does set a deadline by which they must receive full payment or she will forfeit her deposit.

The store cannot recognize revenue at the time the deposit is received.

True
False

16) Janet signs up for cellular phone service with T-Mobile and pays the \$25 setup fee. She signs a two-year contract for cellular service, with payments of \$45/month. T-Mobile should recognize the \$25 setup fee as revenue pro-rated over the term of the contract.

True
False

17) Reliable Pacemakers, Inc. sells patented pacemakers. Reliable's warranty includes a statement that they will defend and maintain the patent.

Reliable's obligation to maintain and defend patent rights, in and of itself, constitutes an additional deliverable to the customer.

True
False

18) Maryanne purchased one year membership that entitles her to discounted carpet cleaning services from Tidy Vacuums for \$2,000 in May of this year. Although she certainly doesn't anticipate the need to do so, she has the right to a full refund of her membership for one full year, if she is for any reason dissatisfied. Tidy has been unable to reliably estimate the average number of refunds requested per year.

Tidy Vacuums can recognize the revenue from the membership purchase in May of this year.

True
False

19) Clever Software Company sells software through distributors and these distributors have rights of return. By using some trip incentives, Clever has been able to encourage their distributors to purchase more than the usual amount of software for this time of year. They are glad to move the software since they are about to release a new version of their product, which will make the old version obsolete.

Clever Software's ability to make reasonable and reliable estimate of product returns may be impaired at this time.

True
False

20) Bountiful Baskets has only been in business for one year and returns have been irregular. The president want to just estimate the maximum returns that might come in during the return period, and recognize revenue for the portion of the sales that exceeds the maximum estimated return rate. His accountant doesn't think this approach is an appropriate and wants to delay revenue recognition until the return period lapses.

Who has the more reasonable approach?

- a) Accountant
- b) Company President

21) Yummy Hot Dogs has rented space in the shopping mall food court for over 10 years. Yummy pays a fixed rent of \$300 per month to the shopping mall, plus 5% of net sales. Yummy has as solid client base and has enjoyed stable, but highly seasonal sales for the last five years.

Since Yummy has stable sales, the shopping mall can recognize the 5% contingent rents on a straight line basis, based on estimated annual sales.

True
False

22) Tastee Ice Cream Treats signed a five year lease that includes scheduled rent increases every year, instead of signing a lease based on net sales. The lessor can most likely recognize the lease income from this lease on a straight line basis.

True
False

23) Quick and Easy Medical Billing provides medical billing services for doctors. They prepare and submit billings to third parties and collect amounts billed. Their fee is based on collections. Quick and Easy can record revenues as a percentage of billings based on historical collection percentages, as long as they maintain a reserve for uncollectible accounts.

True
False

24) If a registrant has different types of revenue transactions, it may be necessary to disclose the revenue recognition policies for each material type of transaction.

True
False

25) Management's Discussion and Analysis (MD&A) is expected to evaluate changes in revenue solely in terms of volume and price changes, with very little specific detail about the factors contributing to the variance.

True
False

26) Not all registrants will be required to apply the accounting and disclosures described in this bulletin; certain industries are specifically excluded.

True
False

Exam Name: Revenue Recognition-Final Exam

- 1) SEC Staff Accounting Bulletin No. 104 - Revenue Recognition was issued in:
- a) 2001
 - b) 2002

- c) 2003
d) It has not been issued yet and is still in preliminary form.
- 2) The statements in the Staff Accounting Bulletins are not rules or interpretations of the Commission, nor are they published as bearing the Commission's official approval.
True
False
- 3) This Bulletin supercedes all other authoritative literature regarding revenue recognition.
True
False
- 4) Revenue should not be recognized until it is realized or realizable and earned.
True
False
- 5) Revenue generally is realized or realizable and earned when:
a) Persuasive evidence of an arrangement exists.
b) Delivery has occurred or services have been rendered.
c) The seller's price to the buyer is fixed or determinable.
d) Collectibility is reasonably assured.
e) All of the above.
- 6) When it is a customary business practice for a company to enter into written sales agreements, that company can record revenue on a verbal agreement if it is probable a written agreement will be signed.
True
False
- 7) The existence of a "side" agreement may affect revenue recognition.
True
False
- 8) Products delivered to a consignee pursuant to a consignment arrangement are not sales and do not qualify for revenue recognition until a sale occurs.
True
False
- 9) In a "bill and hold" sale, the seller may recognize revenue when risk of ownership has not passed.
True
False
- 10) In a "bill and hold" sale, the seller may recognize revenue only if the buyer requests the transaction be on a "bill and hold" basis.
True
False
- 11) In a "bill and hold" sale, the seller may recognize revenue even when the inventory is commingled with other finished goods.

True
False

12) Revenue may be recognized after delivery even when there is uncertainty about customer acceptance.

True
False

13) Revenue may be recognized even if the seller has some inconsequential obligations left to perform to complete the contract.

True
False

14) If a product is a licensed product, the seller cannot recognize revenue until the license period begins.

True
False

15) Revenue may be recognized on layaway sales if the inventory is segregated.

True
False

16) Up front non-refundable fees should be recognized as revenue when paid.

True
False

17) A company sells a patented device to customers and guarantees that they will defend and maintain the patent.

Because the company intends to provide ongoing services to the customer, revenue recognition should be pro-rated over the remaining life of the patent.

True
False

18) The sales price in arrangements that are cancelable by the customer are neither fixed nor determinable until:

- a) The cancellation privilege lapses
- b) The published or publicized "sale dates" have ended
- c) The seller is reasonably sure the cancellation won't occur
- d) All sales documents have been signed by both the buyer and the seller

19) The staff believes that the newness of a product may impede the company's ability to make a reasonable and reliable estimate of product returns.

True
False

20) If a company has been unable to reasonably estimate the actual return rate of their products, the company can use a conservative estimate of the maximum returns and recognize revenue that exceeds the maximum return rate.

True
False

21) If a shopping center receives part of its rental income as a percentage of merchant sales, that part of the income attributable to merchant sales cannot be recognized until the sales actually occur.

True
False

22) Scheduled rent increases that are unaffected by future events are treated differently from contingent rental income.

True
False

23) A claims processing and medical billing service that receives fees based on a percentage of billings collected can record revenue at the time of billing, rather than waiting until collections occur.

True
False

24) APB Opinion No. 22, Disclosure of Accounting Policies, requires disclosure of the revenue recognition policy.

True
False

25) Management Discussion and Analysis (MD & A) would be expected to include an evaluation of changes in revenue that analyzes the reasons and factors contributing to the increase or decrease.

True
False

26) Registrants must restate financial statements for the preceding five year period if these past financial statements do not comply with the accounting described in this bulletin.

True
False