15.515 Recitation Session 3:

Revenue Recognition, A/R Concepts and Inventory Valuation

Agenda

1. Review of Revenue Recognition
2. A/R Concepts and Inventory
3. Problems
4. Questions

Revenue Recognition

KEY QUESTIONS

- Has revenue been earned?
  - e.g. warranty, deferred revenue/income, discounts, price protection policies

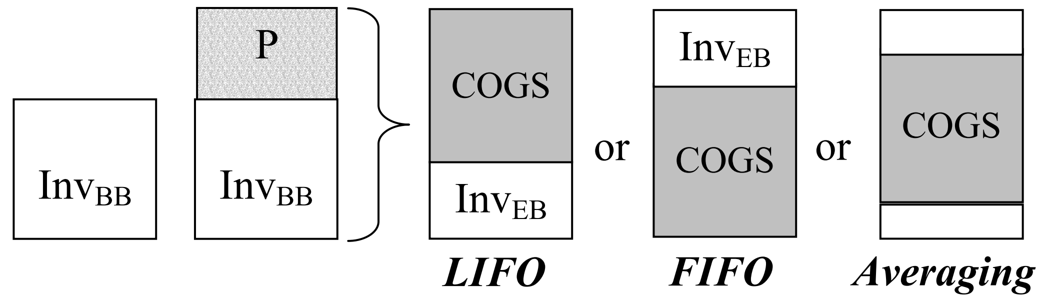
- If sales are on credit, is the cash collectible?

CRITERIA FOR REVENUE RECOGNITION

- A significant portion of the production and sales effort has been completed
- The amount of revenue can be objectively measured
- The major portion of the costs has been incurred, and the remaining costs can be reasonably estimated
- The eventual collection of cash is reasonably assured

Inventory

$Inv_{EB} = Inv_{BB} + P$[1] $- COGS$



COST FLOW ASSUMPTIONS

(1) Specific Identification
Used when specific products can be tracked (e.g. cars)

(2) FIFO: First In, First Out
Cost of goods sold are assumed to be equal to the costs of the oldest available units in the financial records

(3) LIFO: Last In, Last Out
Cost of goods sold are assumed to be equal to the costs of the most recently purchased units in the financial records

(4) Averaging
COGS are assumed to be equal to a per-unit weighted average cost at the end of the period

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[1] Purchases, production