

Case 14-3s: Coconut Telegraph - Solution Appendix A

Solution 2

Initial Arrangement Consideration \$ 12,000

Initial Relative Selling Price Allocation:

Standalone Selling Prices:	Standalone Selling Price	Percentage	Allocation
Volcano System	\$ 12,000	86%	\$ 10,286
One Year PCS	2,000	14%	1,714
	<u>\$ 14,000</u>	<u>100%</u>	<u>\$ 12,000</u>

Journal Entries Since Arrangement Inception:

Upon Receipt of Arrangement Consideration:

Dr. Cash 12,000
Cr. Deferred Revenue (12,000)

Upon Delivery of Volcano System:

Dr. Deferred Revenue 10,286
Cr. Revenue (10,286)

- To recognize revenue upon product delivery

To Recognize 2 Months of PCS*:

Dr. Deferred Revenue 286
Cr. Revenue (286)

- Recognized straight-line (\$1,714 / 12 months) x 2 months

Discussion 2 - Solution:

Cumulative Revenue Recognized as of April 30, 2012:

Revenue Recognized - Product	\$ (10,286)
Revenue Recognized - PCS	(286)
Total	<u>\$ (10,571)</u>

Deferred Revenue Balance April 30, 2012: \$ (1,429)

* NOTE - straight-line recognition of PCS was assumed for all solutions

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Solution 4:

Method #1 - Retroactive Method

Initial Arrangement Consideration	\$ 12,000
Additional Consideration	4,500
Total Arrangement Consideration	<u>\$ 16,500</u>

Retrospective Relative Selling Price Allocation:

	Standalone Selling Price	Percentage	Allocation
Volcano System	\$ 12,000	63%	\$ 10,421
Training	3,000	16%	2,605
Two Years PCS	4,000	21%	3,474
	<u>\$ 19,000</u>	<u>100%</u>	<u>\$ 16,500</u>

Cumulative Revenue as of April 30, 2012: \$ (10,571)

Cumulative Revenue Upon Application of Retroactive Method:

Revenue Recognized - Product	\$ (10,421)	
Revenue Recognized - PCS	(289)	(3,474 / 24 months x 2 Months)
Cumulative Revenue to be Recognized	<u>\$ (10,711)</u>	

Journal Entries upon Modification:

Dr. Cash	4,500	
Cr. Deferred Revenue	(4,500)	
Dr. Deferred Revenue	139	
Cr. Revenue	(139)	(\$10,711 - \$10,571)
<i>- To recognize "catch up" revenue upon modification execution</i>		

Solution 4 - Alternative 1 Solution - As of May 1, 2012:

Cumulative Revenue:	\$ (10,711)
Deferred Revenue Balance:	(5,789)
	<u>\$ (16,500)</u>

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Solution 4:

Method #2 - Prospective Method

Deferred Revenue as of April 30, 2012:	\$	1,429
Additional Consideration		<u>4,500</u>
Consideration to Allocate:	\$	5,929

Prospective Relative Selling Price Allocation:

	Standalone Selling Price	Percentage	Allocation
Training	3,000	45%	2,668
22 Months PCS*	<u>3,667</u>	<u>55%</u>	<u>3,261</u>
	6,667	100%	5,929 **

* $(4000/24) \times 22$ months

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As total unrecognized consideration is less than the stand-alone selling price of the undelivered elements, the entity allocates consideration to the remaining deliverables using the relative-selling-price method.

Journal Entry upon Modification:

Dr. Cash	4,500
Cr. Deferred revenue	(4,500)

Alternative 2 Solution - As of May 1, 2012:

Cumulative Revenue:	\$	(10,571)
Deferred Revenue Balance:		<u>(5,929)</u>
	\$	(16,500)

