

Case 14-3
Coconut Telegraph

Coconut Telegraph Corporation (Coconut) is a developer and provider of specialized customer billings and management software and systems. Coconut's flagship product, the Volcano System, is a customer billings and management system consisting of integrated hardware (user interfaces and consoles) and related software. Coconut has never sold, nor does it offer to sell, the Volcano System without the software since the software is necessary for the Volcano System to function as intended.

On February 1, 2012, Coconut entered into an arrangement with Buffett Worldwide Inc. (Buffett), a restaurant servicer, to deliver the Volcano System and provide one year of postcontract customer support (PCS) beginning March 1, 2012. Buffett paid \$12,000 on February 1, 2012, for the Volcano System and the related PCS. The PCS includes telephone support, repair or replacement of defective parts, any available software updates, and any necessary bug fixes for the software. There is no general right of return on the arrangement. Coconut determined that the arrangement consists of the following two units of accounting with the respective standalone relative selling prices:

1. Customer management system	\$12,000
2. One year of PCS	2,000

On May 1, 2012, and in a separate contract, Coconut agreed to provide Buffett with (1) training services on the customer management system and (2) an additional year of PCS. Under the terms of this agreement, Buffett immediately paid consideration of \$4,500 for the additional services. Coconut determined that the standalone relative selling price of the training services and additional PCS were \$3,000 and \$2,000, respectively. At the time of execution of this agreement, the customer management system had been delivered and all other revenue recognition criteria related to the system were met. The training services are scheduled to begin on June 1, 2012.

Required:

1. Is Coconut's February 1, 2012, arrangement with Buffett within the scope of ASC 985-605?
2. On the basis of the response to Question 1, discuss the revenue recognition accounting literature that would be applied to each unit of accounting in the February 1, 2012, arrangement. Provide the cumulative revenue recognized and deferred revenue balance related to the Buffett arrangement as of April 30, 2012.
3. Should the February 1, 2012, agreement and the May 1, 2012, agreement be accounted for separately or as a single arrangement?
4. On the basis of the response to Question 3, how should Coconut account for the execution of the May 1, 2012, agreement? Provide the deferred revenue balance and cumulative revenue recognized related to the Buffett arrangement upon execution of the May 1, 2012, agreement.

IFRS Addendum:

5. Identify the IFRS literature applicable to the Buffet arrangement and discuss how the accounting analysis for Questions 2–4 might differ under IFRSs.