Case 16-2
The Cable Guys

CoAx (the "Company"), a publicly traded company, manufactures and sells coaxial and fiber-optical cable. CoAx is contemplating two separate transactions for which it is evaluating the appropriate revenue recognition.

Transaction 1

CableCo, a customer of CoAx, has entered into a binding written agreement to purchase 1,000 feet of 18 American wire gage (AWG) coaxial cable for $3 per foot. Because CableCo is constructing a new warehouse, it is unable to take delivery of the cable and has requested in writing that CoAx store the cable in its warehouse until construction of CableCo's warehouse is completed. CableCo's warehouse will be completed three months from the time of purchase, at which time CableCo is required to take delivery of the cable. CoAx stores 18 AWG coaxial cable in 10,000-foot spools (spools of cable are considered finished goods and ready for shipment). CoAx will not physically segregate the cable that CableCo will purchase; rather, the Company will designate the quantity in its inventory tracking system as "sold," thereby preventing the use of the cable to fulfill other customer orders. In other words, CoAx will "virtually" segregate the inventory. CoAx and its auditors have concluded the following with respect to the arrangement with CableCo:

- Risks of ownership of the cable have passed to CableCo.
- CableCo has a substantial business purpose for requesting CoAx to hold the cable at its warehouse (waiting on completion of the warehouse).
- CoAx does not have additional performance obligations with respect to the cable purchased by CableCo.

CoAx has concluded that it is appropriate to recognize revenue for Transaction 1 before the date on which CableCo takes delivery of the 1,000 feet of 18 AWG coaxial cable.

Transaction 2

TeleCo, a customer of CoAx, entered into a binding written agreement to purchase 1,500 feet of fiber-optical cable for $3 per foot. TeleCo's shipping terms are freight on board (FOB) shipping point, and CoAx collected payment before the order shipped. Title transfers upon delivery to the carrier, and TeleCo will insure the product while it is in transit. Instead of using a third-party shipper (e.g., FedEx, UPS), CoAx has elected to use its own logistics subsidiary, DeliveryAx,* to deliver the cable to TeleCo.

* CoAx acquired 100 percent ownership interest in DeliveryAx in the previous year. DeliveryAx provides an array of shipping services to third-party customers outside the cable industry. Only 2 percent of DeliveryAx's shipping revenue is expected to be derived from transactions with CoAx in the current year.

Required:

- Is it appropriate for CoAx to recognize revenue associated with Transaction 1 before the date on which CableCo takes delivery of the 1,000 feet of 18 AWG coaxial cable?
- Is it appropriate to recognize revenue upon transfer of the inventory to the carrier in Transaction 2?
- ASC 606, *Revenue From Contracts With Customers*, provides five steps to recognizing revenue; step 5 requires an entity to "recognize revenue when (or as) the entity satisfies a performance obligation." Describe in general the key principles of this step (and any applicable implementation guidance) that would be relevant to determining how to recognize revenue for the transactions described in this case.