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Intermediate Accounting 301 Writing Assignment

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According to the FASB, there are five steps towards accounting for revenue recognition. The first step is to identify the contract or contracts with the customer. This applies to all contracts that are legally binding, with two or more parties that creates enforceable rights and obligations. The second part states to identify the performance obligations of the contract. The performance obligations are the specific promises of the contract, whether it be a good or service. The step proceeding the identification of performance obligations is to determine the transaction price. After finding out the presence of the contract and what each side is obligated to carry out, the cost or price of the contract must be determined and stated. Along with identifying the transaction price, An entity typically allocates the transaction price to each performance obligation on the basis of the relative standalone selling prices of each distinct good or service promised in the contract (FASB 606-10-05-04). The fifth and final step to account for revenue recognition is to recognize the revenue whenever the performance obligations are satisfied, and the contract is complete. The performance obligation could be paid and fulfilled at a point of time or over a period of time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation (FASB 606-10-05-04).

Under FASB guidance, there is a contract present between MM and Stone. FASB states that there is a contract as long as both sides have approved of the contract, even if it is orally, and both parties are committed to carry out their duties. Other pieces of evidence of a contract are that there are clear statements of the goods and services being transferred, and payment terms are

identifiable in the contract. The last qualification for there to be a contract is “It is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer” (FASB 606-10-25-01).

In order for the contract to be valid, there must be performance obligations. In this case between MM and Stone, these are present. MM’s performance obligation is to provide a TV commercial, an app, and a social media page for Stone, and Stone is required to pay the note of \$1.5 million to MM upon completion of the project. Stone is required to pay MM for performance completed to date if Stone cancels the contract with MM for reasons other than MM’s failure to perform under the contract as promised. MM’s end of the deal does qualify as a performance obligation, as the entity can identify that the commercial, app, and social media page would be the goods and services that will be delivered. Stone’s obligation in this contract is clear in that the entity can identify that the \$1.5 million payment is clear payment terms for the goods or services to be transferred.

For this contract to be correctly accounted for, the allocation of payments for the performance obligations must be recognized. According to FASB guidelines, all three parts of the performance obligations must be accounted for individually. The first step is find the standalone price of each part without the discount, as described in step four of FASB 606-10-05-04. For the TV commercial, dividing the \$1 million cost by the total package before discount of \$1.75 million would show that the commercial accounts for 57.14% of the contract. Multiplying the 57.14% by the total discounted package of \$1.5 million would give you roughly \$857,100, meaning the discount on the commercial was \$142,900. By doing the same process for the app, the app would account for 28.57% of the total package, equal to \$428,550 and a

discount of \$71,450. Finally, the social media page holds a 14.29% share of the total contract which when equated to the discounted price, comes to be \$214,350 meaning a discount of \$35,650. By computing each part of the contract, we can now correctly account for each part of the performance obligation and follow FASB standards provided to us in 606-10-05-04 and 606-10-25-1.