## RECOGNITION PRINCIPLE

**REVENUE IS RECOGNIZED WHEN:**
- It is realized or realizable **AND**
- The earnings process is complete or virtually complete.

## POINT OF SALE (DELIVERY)

- Sales with Buyback Agreements
  - SFAS No. 49
- Sales When Right of Return Exists
  - SFAS No. 48
- Trade Loading and Channel Stuffing

## COMPLETION-OF-PRODUCTION METHOD

**Criteria for use:**
- Immediate marketability at quoted prices
- Unit interchangeability
- Costs of selling and distributing the product are insignificant and can be reasonably estimated
- Production is the most critical event in the earnings process

## COMPLETION-OF-PRODUCTION METHOD

**Advantage over point-of-sale method:**
- Provides earlier signals about future net cash flows
- **Inventory**
  - Net realizable value or expected exit value
- **Examples:**
  - Agricultural products
  - Precious metals

## PERCENTAGE-OF-COMPLETION METHOD

**Criteria for use of percentage-of-completion:**
- Long-term construction, property, or service contracts
- Total price of the contract is known
- Dependable estimates of extent of progress and cost to complete
- Reasonable assurance of collectibility of contract price

## PERCENTAGE-OF-COMPLETION METHOD

**Implementation:**
- Gross profit is recognized periodically, based on the percentage of the job that is complete, rather than when the entire job is completed.
- Extent of progress toward completion is usually measured by a cost-to-cost method:
  - Total Costs to Date \( \div \) Estimated total costs = \% Complete
PERCENTAGE-OF-COMPLETION METHOD

- CONSTRUCTION IN PROGRESS
  » Inventory account
  » Debited for:
    - Costs incurred in completing the project
    - Gross profit recognized on project (% of completion method only)

BILLINGS ON CONSTRUCTION CONTRACT

- Accumulated billings sent to the purchaser at intervals as various points in the project are reached.

PERCENTAGE-OF-COMPLETION METHOD

- If CIP > billings
  Difference is reported as a current asset
- If CIP < billings
  Difference is reported as a current liability

INSTALLMENT SALES METHOD

- Emphasizes collection rather than sale; installment sales lead to income recognition in the periods of collection rather than in the period of sale.
- Widespread use for tax accounting.
- Only acceptable for financial accounting under special circumstances since it is not in accordance with accrual accounting.

INSTALLMENT SALES METHOD

- Criteria for use:
  » Absence of a reasonable basis for estimating degree of collectibility.
- Cost of goods sold is deferred proportionately to the deferred sales by deferring gross profit.

COST-RECOVERY METHOD

- No income is recognized on credit sales until the cost of goods sold has been fully recovered through cash collections.