

Solve gen inc



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Solve Gen Inc. Background By Direct Drugs Inc. (Direct)'s request, an Audit engagement team has perform due diligence procedures, with an emphasis on the review of two separate material agreements between SolvGen Inc. (SolvGen) , that Direct is planning to acquire, and Careway Inc (Careway). First agreement is a research and development agreement , and second agreement is a license and distribution agreement during the first quarter of fiscal year 2010. •What are the deliverables for the arrangement described in the case study above?

According to ASC 605-25-15-2, all deliverables (that is, products, services, or rights to use assets) within contractually binding arrangements (whether written, oral, or implied, and hereinafter referred to as arrangements) in all industries under which a vendor will perform multiple revenue-generating activities. In this case study, two deliverables are described: (1) a five-year research and development agreement and (2) license and distribution agreement.

Under the five-year research and development agreement, this case study described that SolvGen uses its best efforts to further develop proprietary instrument systems that have been under development for nearly 18 months and are expected to be expected to be ready for commercial launch in the near future. In case of license and distribution agreement, Careway will pay SolvGen for each proprietary instrument system as it is purchased by Careway. \$ 1 million of the exclusive negotiation payment paid in December 1, 2009 is recognized as cash in debit and unearned revenue in credit in 2009 because the agreement will start in 2010.

SolvGen can recognize any amount as revenue in credit and as unearned revenue in credit using completed or percentage method until the end of agreement to match expenses incurred in 2010. \$ 2 million of contract signing payment paid January 1, 2010 is also recognized any amount as revenue in credit and unearned revenue in credit using completed or percentage method to match expenses incurred in 2010. The commercial launch of instrument system version 1-\$ 5 million paid in March 31, 2010 upon commercial launch can be recognized as revenue in credit according to ASC 985-605-25-5 even if SolvGen do not deliver the instrument system.

For the last two commercial launch of instrument system version 2 and 3- \$ 5 million unpaid can be recognized as revenue in credit and account receivable in debit according to ASC 985-605-25-5 even if SolvGen do not deliver the instrument system. •When should the milestone payment received to date by SolvGen be recognized as revenue? To recognize the milestone consideration in its entirety as revenue in the period in which the milestone is achieved, the milestone will be substantive in its entirety. ASC 605-28-25) The milestone payments received to date by SolvGen for commercial launch of instrument system version 1 should be recognized as revenue because the commercial launch is satisfied with the condition that the milestone is substantive. A vendor recognizes deliverable consideration or unit of accounting consideration that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved (ASC 605-28-25).