

Hoffman discount drugs, inc



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Case 7-3 (2) The first alternative of giving Data Systems control of product with exchange for any product after year end implies that the revenue is not earned until the final product is determined after year end. In this situation, Excello cannot recognize its revenue until Data System is totally sure the final products that they are actually want to purchase. For example, this year, Data System bought 1000 fax machines, but next year Data System will change it to another 1000 ones and return the previous products at the same time. Meaning to say, Excello still have control on it and same goes with Data System.

According to FRS, revenue only can be recognize when and the value is determinable. The second alternatives of transfer ownership with guarantee that Excello would purchase equipment with ten year useful life as the sale implies that Excello would have to recognize a liability to Data System in the amount of the revenue. Meaning to say, first Excello needs to transfer the ownership to Data System for the revenue recognition and at the same time Excello needs to recognize the liability towards Data System. Again, if Excello does not recognize the liability to Data System, so it is an offense.

The third alternative allows the return of the merchandise for full credit anytime after year end is conditional sale. Revenue should not be recognized until after the deadline for the full credit. Meaning to say, the value should be determinable in order to recognize it as revenue. If I am the chief financial officer, I would recommend to the Data Equipment System for the second alternatives. Of the three alternatives, the second alternatives has the revenue earned before year end and would be in accordance with GAAP as

long as Excello also recognizes their liability to purchase a product from Data Systems.

The first offer, it is not ethical if we record the revenue too soon because the earning process has not been completed and the conditional exchange still valid. We cannot record the revenue until the product would be exchange. For the third offer, as we know the revenue cannot recognized in the current year. Means that, the actual amount of revenue do not recorded. It is also unethical if we record the revenue since we know the deadline for the full credit is in the next year. We should strive with the virtue perspective such as honesty, objectivity and trustworthiness in recording the revenue.

Honesty requires that the statements should be truthful and recognize revenue using generally accepted accounting principles. Objectivity requires that the company should approach its decision about the proper revenue recognition procedure with fair-mindedness and without partially to one set of stakeholders. Trustworthiness means that the accountants should not violate the investors' faith that the statements are accurate and reliable. Other than that, to make a decision we should consider the greatest good for the greatest number of stakeholders.