

# Coconut telegraph essay sample

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1. Is Coconut's February 1, 2012, arrangement with Buffett within the scope of ASC 985-605? ASC 985 -605 Software — Revenue Recognition “ provides guidance on when revenue should be recognized and in what amounts for licensing, selling, leasing, or otherwise marketing computer software.” It defines “ Software arrangements range from those that provide a license for a single software product to those that, in addition to the delivery of software or a software system, require significant production, modification, or customization of software.” (ASC 985-605-05-3 ). And the Scope and Scope exception is in ASC 985-605-15 (The Scope in 985-605-15-13 and Scope exception 986-605-15-14) In accordance in ASC 985-605-15-3, “ The guidance in this Subtopic applied to the following transactions and activities:

- a. Licensing, selling, leasing, or otherwise MARKETING computer software.
- b. Subparagraph superseded by Accounting Standards Update No. 2009-14
- c. The software and software-related elements of arrangements that include software that is more-than-incidental to the products or services in the arrangement as a whole.

Indicators that software is more-than-incidental to the products or services in an arrangement as a whole include (but are not limited to):

1. The software is a significant focus of the marketing effort or is sold separately.
2. The vendor is providing postcontract customer support.
3. The vendor incurs significant costs that are within the scope of Subtopic 985-20.

In such arrangements, the guidance in this Subtopic applies to the software and software-related elements in the arrangement unless a scope exception in paragraph 985-605-15-4 is present. Software-related elements include software products and services such as those listed in paragraph 985-605-

25-5. A service is within the scope of this Subtopic if software in the arrangement is essential to the functionality of that service”

In this case, Coconut signed an arrangement to deliver the Volcano System and provide one year of PSC to Buffett. The Volcano System is customer billing and management system consisting of integrated hardware and related software. Coconut has never sold, nor does it offer to sell, the Volcano System without the software since the software is necessary for the Volcano System to function as intended . So, the software and software-related elements are more-than-incidental to the products or services in the arrangement as a whole, and it is not included in the scope exceptions in ASC 985-605-15-4. Arrangement with Buffett is within the scope of ASC 985-605.

2. On the basis of the response to Question 1, discuss the revenue recognition accounting literature that would be applied to each unit of accounting in the February 1, 2012, arrangement. Provide the cumulative revenue recognized and deferred revenue balance related to the Buffett arrangement as of April 30, 2012. ASC 985-605-25-5 Software arrangements may provide licenses for multiple software deliverables (for example, software products, upgrades or enhancements, postcontract customer support, or services), which are termed multiple elements. A number of the elements may be described in the arrangement as being deliverable only on a when-and-if-available basis. When-and-if-available deliverables shall be considered in determining whether an arrangement includes multiple elements.

Accordingly, the requirements of this Subtopic with respect to arrangements that consist of multiple elements shall be applied to all additional products and services specified in the arrangement, including those described as being deliverable only on a when-and-if-available basis. ASC 985-605-25-8 If a discount is offered in a multiple-element arrangement, a proportionate amount of that discount shall be applied to each element included in the arrangement based on each element's fair value without regard to the discount. However, as discussed in paragraph 985-605-25-45, no portion of the discount shall be allocated to any upgrade rights. Moreover, to the extent that a discount exists, the residual method described in paragraphs 985-605-25-10 through 25-11 attributes that discount entirely to the delivered elements. So Arrangement with Buffett is a multiple elements arrangement. And at Feb 1st, 2012, The Fair Value of Customer Management system was \$12, 000 and One year of PCS was \$2, 000, while Buffett paid \$12, 000 to both. Coconut gave a discount in the multiple-element arrangement, to recognize revenues; we have to allocate the value of each element base on Fair value of it.

3. Should the February 1, 2012, agreement and the May 1, 2012, agreement be accounted for separately or as a single arrangement? To determine these agreements should be accounted for separately or as a single arrangement, we would consider in ASC 605-25 Revenue Recognition to Multiple-elements agreements As ASC 605-25-25-3 Units of Accounting In applying the guidance in this Subtopic, separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and shall, therefore, be evaluated as a single

arrangement in considering whether there are one or more units of accounting. That presumption may be overcome if there is sufficient evidence to the contrary. ASC 605-25-30-4 To the extent that any separate unit of accounting in the arrangement is required by guidance included in another Topic to be recorded at fair value (and subsequently measured at fair value each reporting period thereafter), the amount allocated to that unit of accounting shall be its fair value. Hence, the February 1, 2012, agreement and the May 1, 2012 agreement are two separately arrangements

4. On the basis of the response to Question 3, how should Coconut account for the execution of the May 1, 2012, agreement? Provide the deferred revenue balance and cumulative revenue recognized related to the Buffett arrangement upon execution of the May 1, 2012, agreement.

IFRS Addendum:

5. Identify the IFRS literature applicable to the Buffet arrangement and discuss how the accounting analysis for Questions 2–4 might differ under IFRSs. IAS 18 Revenue is the general guidance, but there is a lack of detailed guidance Revenue is not recognized until it is both realized (realizable) and earned. Revenue recognition at the time of sale: under IFRS, there is no specific requirement that persuasive evidence of a sale must exist before revenue is recognized as there is under US GAAP. Relative Fair Value Method: allocates discount across all separately identifiable components; total proceeds are allocated based on relative Fair value of all deliverables in a single arrangement. As April 30th, 2012, under IFRS we have the same result with under US GAAP . – The cumulative revenues recognized : total of

\$10, 572 included in : + Volcano Systems: \$10, 286 + 2months of PCS: \$286  
-Deferred revenue: PCS \$1, 428

May 1, 2012 :

IAS 18 require that two or more transactions to be considered a single arrangement “ when they are linked in such a way that the commercial effect cannot be understood without reference to series of transactions as a whole.” Thus, May 1, 2012 agreement and February 1, 2012 agreement should be accounted for as a single arrangement. As under IFRS these agreements would be accounted for a single arrangement, we have to allocate the value of each element base on Fair value as following ( differ under US GAAP).

The FASB and the IASB jointly issued ASU 2014-09 and IFRS 15 the new standard Revenue from Contracts with Customers. The new standard provides specific guidance on contract combinations and modifications. Specifically, an entity would be required to combine two or more contracts entered into at or near the same time with the same customer (or related parties) if certain criteria are met. Additionally, an entity would be required to consider the changes to both the promised goods or services and the consideration under a contract modification to determine if the modification would be accounted for as a separate contract.

If the modification is not accounted for as a separate contract, the entity would be required to determine whether it would account for the modification (1) as the termination of the old contract and the creation of a new contract (i. e., prospective accounting), (2) by updating the measure of

progress toward complete satisfaction of the performance obligation and recording a cumulative catch-up adjustment (i. e., retrospective accounting), or (3) as a combination of both of the above methods.(ASC 606-10-25). Even that, ASU 2014-09 and IFRS 15 have not be effective for applied.