

# Automotive essay



**ASSIGN  
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## **Automotive industry analysis**

### **PART B: ESSAY**

#### **Introduction**

Industries similar to businesses are started with a motive of making profits. Profitability of the Firm is an essential element in determining the success and future investments in the industry. In particular, automotive industries are the major world economic drivers as they are linked directly or indirectly to major macroeconomic elements. For growth, expansion into different niche and improvement of investment capacity, revenue recognition must take place at the right time. In any organized system aimed at achieving revenue, time is an essential element. Revenue is a dynamic component and may be obtained based on several criteria involving performance, collectability, and measurability. About performance, the aspect of income considered occurs when the perils and rewards have been shifted from the industry to buyers, and when the industry lacks complete control over the purchased vehicle. And finally, as a result, that the funds for which the vehicle is bought will be submitted.

On the other hand, Collectability comes in because the automobile product has been purchased and the industry is expecting some income in return. The final frame of revenue majors on measurability, aspects asserting that the cost and income that is likely to accrue from the sales can be measured and verified as soon as the transfer process is finalized. Automotive being a multi-billion institution and world economic base, centers in proper timing as any miscalculation or delays in transaction recording may result in

accounting error that risks too high losses (Bonham, Ernst & Young 2008). It is an event that is likely to shake the financial stability and bring in issues questioning accountability and transparency of the concerned employee.

### **Position Regarding Timing and Recognition of Revenue**

The international financial reporting standards provide five criteria of revenue recognition categorized under the above three earlier on mentioned categories which are collectability, measurability, and performance. The three basis are centered on deferred or accrued revenue depending on when payments are issued or received (Paola, Niela & Lucrezia, 2007).

According to my research, I have come to a conclusion that the best method in the interest of time and competition purposes is the percentage of completion approach. Besides the mentioned revenue recognition method, the best alternative to it is revenue timing at the point of sales. This approach though an alternative is critical regarding the accuracy of the figures and accounting error prevention but consumes a lot of time compared to the selected method. The percentage of job completion is assessed to ascertain the degree of work done. This method is the best especially in companies that carry out technical duties, construction and even in the automotive industries can be best applied (Keith, 1999). For example, before a given number of sales is done, a rough estimation of the total sales for the day and other expenses are estimated so as to enable the customers and the owners of the industry budget on their spending. At the same time taxation, transportation cost, human resources, and other hired technicians are planned for in the calculations. For efficiency and proper

estimation of the expenses regarding requirements and other miscellaneous items makes this method necessary.

## **Revenue recognition principle**

To emphasize on this, during the signing of the contract, for example, that of supplying vehicles to some other institutions, the concerned people typically agree on the exact value of the expenditure. On the other side, the contractor must find a way of recognizing revenue at the right time, and that's what makes it the best method. For example, milestones are usually set. One may estimate sales for a particular period to be \$1000000, but after the completion of the actual work, he realizes that \$5000000 was achieved. In this case, 50% extra of the total expectation was obtained, and therefore the rest becomes the revenue. In a similar note, the overall task may be categorized into several percentages with a given sum assigned to each. Any surplus from the total amount expected is what is considered as the revenue.

Percentage of completion approach is the best method as not all profit making institution can base revenue recognition on cash issued or received. Furthermore, it is important to note that when this method is being applied, a long-term contract is signed hence making it illegal. Comparing this to the other methods, it features to be the best when others are not efficient in revenue determination. Notably, determination of income at a given milestone of achievement may be paramount in recruiting more employees, in this case, more salesperson or distributors (Alexander, Britton ; Janssen, 2007). For example, at times there maybe revenue realized which may be significant in determining the number of staff to be added so as to speed up

the pace at which the job is being done. Also, promotion of workers and increment in salaries of the employees are dependent on the realized revenue. For this reason, because of timely recognition, this method of percentage computation is preferred for estimations. Importantly, when this method is not applied, an alternative which is revenue recognition at the point of sales may be used as it is accurate and very efficient.

### Evaluation of the Findings

The above-identified findings are very crucial to the performance of the industry. For example, Taxation which is key to the development of the nation can be easily computed, and a rough estimation assumed. (Sondhi ; Taub, 2008). Also, it has been proven beyond doubt that these institutions that deal with billions of shillings need a percentage of completion method because it is faster and does not require finer details which may be unnecessary. As a result of their financial potential, they have to borrow funds from stronger economic, monetary bases like World Bank. Before this is done, the proper assessment must take place for issuance to occur (The United States, 1997). It is always, therefore, significant for automotive industries to have estimation so as to be able to detect a possibility of profitability or losses before the amount exceeds to an unacceptable level. Besides this, a considerable alternative such as recognizing revenue at the point of sales may be paramount. Generally, because of time and competition, the percentage of completion method still stands out.

### Conclusion

In Conclusion, the automotive sector is one of the pillars that every country depends on for revenue collection. The fact that it controls billions of shillings makes it be viewed as a productive sector capable of providing employment, controlling oil consumption of the country and influencing operations of all other aspects of the economy including a transport system. Other issues captured in the findings that hold proper significance includes the importance of total percentage of completion method as the best option and revenue identification at the point of sales as an alternative approach. They are essential for the expansion of new markets, investments, employment, loans from financial institutions, advertisements, sponsorships and even donations. An important aspect such as research and development which is essential for the future planning of the industry is also part and parcel to the future and expectations of the industry. Success is believed to be a step by step journey that requires strategic planning fueled by proper decision making and adequate funding. I, therefore, support the notion since it has been proven beyond doubt.

#### PART A:; REFERENCES

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The United States. (1997): Financial Accounting Standards Board's rule: Hearing before the Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises of the Committee on Banking and Financial Services, House of Representatives, One Hundred Fifth Congress, first session, October 1, 1997. Washington: U. S. G. P. O.

PART C: LETTER

To: Manager, Automobiles Company

RE: Revenue recognition

It is my pleasure to air out the following issues concerning the position of your company. I must confess that your business is doing better regarding revenue maximization, but on the other note, it seems like much income can still be gathered from the daily sales. According to my investigation, it is clear that your company is not doing proper revenue assessment that results in incompetent decisions, making it not to compete effectively.

According to the current company position, it seems that you've been spending much time doing the calculation to ascertain revenue instead of applying the percentage of completion method, investments in the new niches have been limited, and your business has failed to invest in research and development. These are the pillar that can make your company successful and therefore you should adjust, find ways of recognizing revenue at the right time to prevent delays as this may pose problems to the operations of the enterprise.

Another important area that captured my attention is the fact that as at now you cannot borrow loans of a certain amount. Restrictions have been made against your company, and therefore you stand no chance of borrowing money. Furthermore, an accurate alternative must be provided to enable you to seek finances from the banking sectors and for investment purposes as they are institution centered on accuracy.

To assist you, I believe it will be better if you make use of the percentage of completion method for faster revenue estimation and computation at the time of sales as an alternative for the accuracy needed in financial institutions. This proposal may be helpful in determining the amount of loan the company can request and also to sideline some amount that can be used for promotional purposes and even taxation. When long durations are taken in tax and other expenditure computation, a lot of losses may occur. I believe you are aware as this is one of the challenges facing your company. Implementation of this approach plus an alternative may be of relevance to your business's success as it is among the performing and most critical institutions in the economic world.



Thanks in advance.