

Accounting revenue recognition

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Based on the five year research and development contract agreement signed by SolvGen Inc. with Careway Pharma Inc. SolvGen has agreed to use its best scientist and engineers to research and developed enhanced commercial ready versions of a proprietary instrument set under development by CareWay for the last 18 months. SolvGen Inc has agreed to three separate deliverables: a) The commercial launch of the first instrument system Version 1- Delivered March 31 b) The commercial launch of an improved instrument system Version 2- Pending development c) The commercial launch of new improved instrument system Version 3-Pending development. The other part of their agreement is the five year distribution and license contract with Careway Inc. Under this agreement Careway will have the right to market and distribute their proprietary instrument systems developed in conjunction with SolvGen. SolvGen is responsible for producing the necessary volume to meet the demand requirements of CareWay after each product launch. The company is responsible to maintain adequate inventory and production quality control to meet client requirements. 2)

Based on the generally accepted accounting principles (GAAP) it is common practice to use the revenue recognition principle which states that any current revenue has to be recognized in the accounting period on which it is earned. Therefore a company cannot realize as current revenue any payments that are part of a long term contract; these payments should be differed and systematically recognized over the remaining time of the agreement or contract. As described in the memo to the Audit Engagement Team, the accounting department of SolvGen, has already received a \$1, 000, 000 nonrefundable exclusive negotiation and \$2, 000, 000 milestone payments from CareWay Pharma Inc. Upon receiving lump payment the <https://assignbuster.com/accounting-revenue-recognition/>

accounting department is only recognizing as current revenue the portion of the five year contract that has been realized. The remaining balance of the lump payment accounts are recorded in an unearned revenue account where they are systemically transferred to the current revenue account quarterly over the remaining life of the contract. In the case of the \$5, 000, 000 payment for the delivery of the first commercial version of their instrument system SolvGen can recognize that payment immediately as revenue since all expenses related to that phase of the contract have been incurred and the requirements to fulfill that part of the contract have been satisfied. Therefore since the company has fulfilled their obligation of that phase of the contract the company can recognize the \$5, 000, 000 payment as current revenue. Likewise the same accounting treatment is used for the remaining \$5, 000, 000 payments since this next two project payments are identical as far as requiring the completion of the next version of the instrument system. It is the opinion of this auditor that Solvgen is using the correct principles for recognizing the revenue over the life of the contract for accounting the receipt of the non-refundable contract signing payments. In general the company is following the general revenue recognition principle and GAAP for accounting all their others transactions . In conclusion it is the opinion of this auditor that SolvGen is following GAAP for the accounting of their non-refundable payments. 3) The U. S. GAAP rules of the recognition are highly detailed and extremely comprehensive (approximately 200 different sources of revenue recognition), the IAS 18 of the IFRS provides only very general rules or guidelines (Nelson). Therefore it is very common for companies to adopt the U. S. GAAP principles as best practice. For example the accounting treatment for the non-refundable one time payments receives by SolvGen

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would be treated the same under IFRS, recording the payment as an unearned revenue payment and recognizing the realized revenue over the life of the contract would also be utilized. Work Cited Page Nelson, D. 8 November 2007. “ Revenue Recognition under IFRS. 25 April 2011.