

Potential deliverables in the arrangement: homo-tech inc

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Potential Deliverables in the Arrangement: Homo-Tech Inc.

Q1. Hemo identified the five units of equipment, 50 boxes of equipment supplies, installation, one-year monitor and test services, and three-year screen and report services as deliverables in the arrangement. Has Hemo identified all the potential deliverables in the arrangement? If not, what are the other potential deliverables? Explain how you determined whether an item is a deliverable.

Though Hemo identified these deliverables, they did not exhaust all the deliverables which are possible with the agreement. There are other deliverables which are possible in the agreement. Examples of these deliverables are the payment by Extract for the upgrade of materials based on the fact that there are new regulations every two or so years and the contract was spanning a whole five years. The identification of the FDA requirements as a deliverable is motivated by the fact that the changes may affect an aspect that needs to be changed in their products and the Hemo would incur tremendous expenses to meet such eventualities.

Thus, to caution against all such unforeseen circumstances, the company should include thee factor as a potential deliverable. Another possible deliverable is the training of the Extract employees on how to use the new instruments for best results. Extract company should be charged for that service. The identification of this as a deliverable is based on the criteria of time, where Hemo will spend time resource to train Extract employees.

These are the potential deliverables which Hemo should have considered also.

Q2. In order to allocate the arrangement consideration to all the deliverables identified, Hemo needs to determine the selling price for each deliverable. Should Hemo use vendor-specific objective evidence (VSOE), third-party evidence (TPE), or its best estimate of the selling price (ESP) to determine the selling price of the following deliverables: (1) equipment, (2) discount on future supplies, and (3) screen and report services?

In determining the selling price of the equipment deliverables, Hemo should use its best estimate of the price (ESP) to estimate the price. This is because the company have invested much of its resources to research and development and considered various players in the market including the different competitors that they have. Through this, they can be able to use a best estimate of the price which will allow them to arrive at a price that is convenient for the company and the customers. To determine the selling price of discount on future supplies, the company should best apply the third party evidence. This is because, such evidence is important to the company to be able to foretell and to estimate the actual state of affairs on a later date in the economy [Acc09].

For this reason, Hemo should appropriately integrate evidence from dependable third parties. Lastly, in the case of determining the selling price of screen and report services, they should use the vendor specific objective evidence method. This is a method which is used to recognize revenue used by companies in recognition of revenue on some specific items which is based on company-specific evidence where the product is delivered.[08Ma]. This method is therefore the best since screen and report services are specific to specific hospitals and cannot be generalized. Through these

means the company will be able to achieve the best equitable deliverables selling prices, them that will be comfortable both to her clients and to her profit maximization of the 20% margin.

Q3. What accounting literature would Hemo look to under IFRSs to answer the above accounting questions?

There are various literature related to IFRS accounting standards which the company can use in answering the accounting questions named above. First the company should consider the time value of money. That though the company is striving to achieve lower price for their goods, time is of essence and it should be considered in setting deliverables selling prices. The company should also include the amended guidance separation requirements of IFRS into separating the various deliverables into the methods that they can use to determine the selling prices for each of them. [Ric10] Through the use of all these methods and following the literature from IFRS Hemo company can be able to solve the accounting problems easily.

References

Acc09: , (Accounting Info, 2009),

08Ma: , (Stuart, 2008),

Ric10: , (Cleveland, 2010),