

Revenue recognition associated with frequent flier miles assignment

[Business](#)



Revenue is deferred and recognized when transportation is provided.

Revenue is realized and earned. The carrier has performed its duty, the service has been performed. The amount of the claim is known AMR

(American): Revenue is deferred and recognized over the period

approximating mileage credits are used • Because there is no actual way of knowing when/if mileage will be used, it is not appropriate. Revenue may have not been earned at time of recognition.

UAL (United): Revenue is recognized when the credits are sold • Revenue has been realized, but not yet earned as the service has not been provided Delta

Airlines: Revenue is recognized as operating revenue at time of sale • This is not part of operating revenue as it is not the primary line of business. • At

time of sale, revenue is realized but has not been earned yet US Airways

Group: Revenue is recognized as other operating revenue when credits are

sold • It is better to place this revenue under other operating revenues

• When credit is sold, revenue has been realized, but not yet earned.

Case 7. 3 Restatement of Xerox Revenue a.) 2001 2000 1999 1998 1997

Leases Total 3.07% 0.27% -2.92% -4.16% -4.21% b.)

2001 2000 1999 1998 1997 Earning Change 50217-620-592-718 % Change-

366.4% 4.4% -32.5% -102.2% -35.8% c.) \$ Change % Change Total

Revenue 5063.1% Sales -585-7.3% Services, etc. 109112.9% Total Costs

and Expenses 40.0% Net Loss 22275.8% d.) The revisions were made on

June 28, 2002. According to the stock chart, trading activity increased with a higher volume end of June/beginning of July.

The stock price dropped substantially also. This shows investors reacted negatively to the news. As for performance, the years 1997-9 were negatively impacted with lower revenues and lower earnings. However, for 2000 and 2001, revenue was increased as were earnings and the net loss was reduced. The stock used to outperform the Dow Jones Industrial Average occasionally as it closely mirrored it. However, it is now well below the DJIA after the announcement of earnings manipulation.