Case Project for ACCT800 (50 Points)

1. **Revenue Recognition for Multiple-Element Arrangements—The Case of Velocity Cellular** (20 points)

   a. Use Accounting Standard Codification (ASC) 605-25: Revenue Recognition: Multiple Element Arrangements and Accounting Standard Updates (ASU) to determine and support the appropriate method for recognizing revenue for Velocity Cellular’s Power Starterpack. State your reasons and the appropriate ASC and ASU to support or not support the following two alternative treatments:

   1) The activation card is not a separate deliverable and not a separate unit of accounting in accordance with ASC 605-25.

   2) The activation card is a separate deliverable and a separate unit of accounting in accordance with ASC 605-25.

   You should use the criteria listed in ASC 605-25-25-5 (EITF 00-21) when answer the above question.

   b. Assuming that the activation card is a separate unit of accounting, how should the $200 nonrefundable fee for the “Power Starttpack” be allocated between the activation card and the prepaid voucher?

   c. Use the Codification of Staff Accounting Bulletin on SEC website (see Topic 13. A (Selected Revenue Recognition Issues). 3.f (Nonrefundable up-front fees) or ASC 605-10-S99-1) to determine the appropriate method to recognize any nonrefundable up-front fees such as the activation fees charged by cellular phone companies.

2. **Revenue Recognition for Software** (15 Points)

   a. A software vendor sold $300,000 software to a customer. The price includes the software (no addition development or modification needed), the installation of the software and a one-year technical support. If the software can be purchased at a standalone price of $250,000 with the fair values of installation and one-year technical support of $5,000 and $57,500, respectively, how should the company recognize the sales price of $300,000 upon the delivery and the completion of the installation assuming that all conditions in ASC985-605-25-3 are met? You need to provide the supporting documents for your answer (i.e., ASC numbers).

   b. If an arrangement to deliver a software system, either alone or together with other products or services, requires significant future production, modification, or customization, what is the appropriate revenue recognition for the sales price agreed with its customer? Supporting documents for your answer is required.
3. **Revenue Recognition for Bundle Sales of Tangible Products and Software** (15 Points)

Discuss how the revenue recognition of the bundle sales containing both tangible products and software (i.e., Apple’s sales of iPhone) is affected by Accounting Standard Update (ASU) 2009-13 and ASU 2009-14. You should discuss the following:

1. The revenue recognition for the bundle sales containing tangible products and software under ASC 985-605 before ASU 2009-13 and ASU 2009-14.
2. The revenue recognition for the bundle sales containing tangible products and software under ASC 985-605, ASU 2009-13 and ASU 2009-14.