Revenue Recognition Rules

Revenue is a measurement item that lets a company know what it is getting in return for the efforts exerted or the goods it surrenders.

Revenue is recognized when it is:
- Realized: when goods or services are exchanged for cash or claims to cash
- Or Realizable: when assets received in exchange for sales of goods or services are readily convertible to cash
- And Earned: when the entity has substantially accomplished what it must do to be entitled to benefits that the revenue represents (complete process)

Applications: when to recognize revenue
- Product sales: date of sale or delivery to customer
- Services: when performed and billable
- Use of enterprise assets such as interest, rent or royalties: as time passes
- Disposal of assets other than sales: at the date of sale

Departures from the rule
- Can recognize earlier if there is a high degree of certainty of the amount
- Can delay recognition beyond the date of sale if amount are uncertain or costs are high or if sale does not represent completion of earning process

Recognition at the point of sale
- No sale if there is a buyback agreement
  - A buyback agreement is when seller has the right to repurchase the asset sold
- If there is a right of return given to the buyer, the seller recognizes the sale when the privilege of return given to the buyer has lapsed (expired)
- Trade loading is when a wholesaler increases sales beyond the ability to resell to a retailer, accelerating profits to the present
- Channel stuffing is the same, just in a retail capacity- selling too much product to customers to the detriment of future years sales figures to inflate sales in earlier years