Chapter 18 Revenue Recognition

Professional Simulation

In this simulation, you are asked to address questions related to revenue recognition issues. Prepare responses to all parts.

Nomar Industries, Inc. operates in several lines of business, including the construction and real estate industries. While the majority of its revenues are recognized at point of sale, Nomar appropriately recognizes revenue on long-term construction contracts using the percentage-of-completion method. It recognizes sales of some properties using the installment-sales approach. Income data for 2013 from operations other than construction and real estate are as follows:

Revenues $5,500,000
Expenses 4,200,000

1. Nomar started a construction project during 2012. The total contract price is $500,000, and $100,000 in costs were incurred in 2013. Estimated costs to complete the project in 2014 are $200,000. In 2012, Nomar incurred $100,000 of costs and recognized $25,000 gross profit on this project. Total billings at the end of 2013 were $230,000, and total cash collected as of the end of 2013 was $202,500.

2. During this year, Nomar sold real estate parcels at a price of $480,000. Nomar recognizes gross profit at an 18% rate when cash is received. Nomar collected $220,000 during the year on these sales.

Determine net income for Nomar for 2013. Ignore income taxes.

Prepare the journal entries to record the costs incurred and gross profit recognized in 2013 on the construction project.

For 2013, show how the details related to this construction contract would be disclosed on the balance sheet.

Nomar is negotiating real estate sales with some new customers which are more uncertain as to the customers’ ability to make all payments. Is there a more appropriate revenue recognition policy for these customers? Explain.

The general concepts and principles used for revenue recognition are similar between IFRS and GAAP. Where they differ is in the details. As indicated in the chapter, GAAP provides specific guidance related to revenue recognition for many different industries. That is not the case for IFRS.

RELEVANT FACTS

- The IASB defines revenue to include both revenues and gains. GAAP provides separate definitions for revenues and gains.