Professional Simulation

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

Wi-Fi Solutions manufactures a variety of Internet connection devices with enhanced authentication features for commercial use. Its most popular device is a Wi-Fi hub, called the Guest-Hub, which has a retail price of $1,500 and costs Wi-Fi Solutions $740 to manufacture. The company sells the Guest-Hub on a standalone basis directly to businesses, as well as provides installation services. Wi-Fi Solutions also distributes the Guest-Hub through a consignment agreement with Best Buy. Income data for Wi-Fi Solutions' first quarter of 2015 from operations other than the Guest-Hub are as follows.

- Revenues: $5,000,000
- Expenses: $3,850,000

Wi-Fi Solutions has the following information related to three Guest-Hub revenue arrangements during the first quarter of 2015.

1. Wi-Fi Solutions entered into an arrangement with the Berkshire Hotels in New England to deliver Guest-Hubs for use in Berkshire lobbies and meeting rooms. Wi-Fi Solutions provides a 4% volume discount for Guest-Hubs purchased by Berkshire if at least $450,000 of Guest-Hubs is purchased during 2015. By March 31, 2015, Wi-Fi Solutions has made sales of $360,000 (240 units) to Berkshire. Based on prior experience with this promotion in two neighboring districts, Wi-Fi Solutions will meet the discount threshold for the year if more than one-half of the target has been achieved by mid-year.

2. Wi-Fi Solutions ships 300 Guest-Hubs to Best Buy on consignment. By March 31, 2015, Best Buy has sold three-fourths of the consigned merchandise at the listed price of $1,500 per unit. Best Buy notifies Wi-Fi Solutions of the sales, retains a 6% commission, and remits the cash due to Wi-Fi Solutions.

3. On January 1, 2015, Wi-Fi Solutions sells 10 Guest-Hubs to Don's Muffler Shops. Don's signs a note due in 6 months at an annual interest rate of 12%. Wi-Fi Solutions allows Don's to return any Guest-Hubs that it cannot use within 60 days and receive a full refund. Based on prior experience, Wi-Fi Solutions estimates that 3 units will be returned (using the most likely outcome approach). Wi-Fi Solutions' costs to recover the products will be immaterial, and the returned Guest-Hubs are expected to be resold at a profit.

Determine net income for Wi-Fi Solutions for 2015. (Ignore income taxes.)

Prepare the journal entries to record the consignment sales.

Wi-Fi Solutions is negotiating contracts with some new customers, which are more uncertain as to their ability to make all payments. Briefly discuss the relevance of collectibility for revenue recognition.