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A DISCUSSION OF ACCOUNTING AND FINANCIAL REPORTING TOPICS

by
Catharine Fairweather Mixon

A thesis submitted to the faculty of the University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College.

Oxford, MS
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Approved by:

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Advisor: Dr. Vicki Dickinson

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Reader: Dr. W. Mark Wilder

Abstract

This thesis consists of a series of 12 separate case studies completed during my 2017-2018 school year. Each case was completed separately in an Honors Accounting 420 class that was intended to guide honors accounting students through the completion of the thesis process. Each case study focuses on a separate accounting reporting topic so that a more in depth and better understanding of the accounting procedures is achieved. The cases followed accounting topics that were separately reflected by chapters in the intermediate accounting textbook, therefore the majority of questions were answered using the intermediate accounting textbook. The Honors 420 class worked along side the intermediate accounting curriculum, therefore the cases due usually dealt with topics that were currently being covered simultaneously in intermediate. Therefore the understanding of accounting topics learned in intermediate are reflected throughout the entirety of this thesis.

The skills I have acquired in completing this thesis will be beneficial as I engage in a career in the accountancy world. For one, this thesis has taught me critical thinking skills on accountancy and financial reporting topics. Writing this thesis pushed me to dig deeper into financial reporting questions by understanding why something happens and how it affects the related financial statements. Writing this thesis also taught me time management skills. Junior year of college requires the most hours to be put into

classwork, therefore writing a thesis on top of that requires planning. This is a skill that is necessary to be successful in the working world.

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CASE 1: Home Heaters, Inc.

Financial Analysis of Glenwood Heaters, Inc. & Eads Heaters, Inc.

GLENWOOD HEATING, INC.
FINANCIAL STATEMENTS

Glenwood Heating, Inc. **Income Statement** **For Year Ending December 31, 20X1**		
Net Sales		$398,500
Cost of Goods Sold		$177,000
Gross Profit		$221,500
Rent Expense	$16,000	
Bad Debt Expense	$994	
Depreciation Expense -Building	$10,000	
Depreciation Expense - Equipment	$9,000	
Other Operating Expenses	$34,200	
Income from Operations		$151,306
Other Expenses and Losses		
Interest Expense		$27,650
Income before Income Taxes		$123,656
Provision for Income Tax		$30,914
Net Income		**$92,742**

Glenwood Heating, Inc. **Statement of Retained Earnings** **For Year Ending December 31, 20X1**	
Beginning Retained Earnings	$-
Add: Net Income	$92,742
Total	$92,742
Less: Dividends	$23,200
Ending Retained Earnings	**$69,542**

Glenwood Heating, Inc. Balance Sheet As of December 31, 20X1			
Assets			
Current Assets			
Cash		$426	
Accounts Receivable	$99,400		
Less: Allowance for Bad Debts	$994	$98,406	
Inventory		$62,800	
Total Current Assets			$161,632
Long-term Assets			
Land		$70,000	
Building	$350,000		
Less: Accumulated Depreciation - Building	$10,000	$340,000	
Equipment	$80,000		
Less: Accumulated Depreciation - Equipment	$9,000	$71,000	
Total Long-term Assets			$481,000
Total Assets			**$642,632**
Liabilities & Stockholders' Equity			
Current Liabilities			
Accounts Payable		$26,440	
Interest Payable		$6,650	
Total Current Liabilities			$33,090
Long Term Liabilities			
Notes Payable		$380,000	
Total Liabilities			$413,090
Stockholders' Equity			
Common Stock - Authorized, Issued & Outstanding, $50 Par Value, 3,200 Shares		$160,000	
Retained Earnings		$69,542	
Total Stockholders' Equity			$229,542
Total Liabilities & Stockholders' Equity			**$642,632**

Glenwood Heating Inc. Trial Balance As of December 31, 20X1		
Cash	$426	
Accounts Receivable	$99,400	
Allowance for Bad Debts		$994
Inventory	$62,800	
Land	$70,000	
Building	$350,000	
Accumulated Depreciation - Building		$10,000
Equipment	$80,000	
Accumulated Depreciation - Equipment		$9,000
Accounts Payable		$26,440
Interest Payable		$6,650
Notes Payable		$380,000
Common Stock		$160,000
Dividends	$23,200	
Sales		$398,500
Cost of Goods Sold	$177,000	
Other Operating Expenses	$34,200	
Bad Debt Expense	$994	
Depreciation Expense - Building	$10,000	
Depreciation Expense - Equiptment	$9,000	
Rent Expense	$16,000	
Interest Expense	$27,650	
Provision for Income Tax	$30,914	
Total	**$991,584**	**$991,584**

EADS HEATING, INC.
FINANCIAL STATEMENTS

Eads Heating, Inc. Income Statement For Year Ending December 31, 20X1		
Net Sales		$398,500
Cost of Goods Sold		$188,800
Gross Profit		$209,700
Bad Debt Expense	$4,970	
Depreciation Expense -building	$10,000	
Depreciation Expense - Equipment	$20,000	
Depreciation Expense - Leased Equipment	$11,500	
Other Operating Expenses	$34,200	
Income from Operations		$129,030
Other Expenses and Losses		
Interest Expense		$35,010
Income before Income Taxes		$45,660
Income Tax		$23,505
Net Income		**$70,515**

Eads Heating, Inc. Statement of Retained Earnings For Year Ending December 31, 20X1	
Beginning Retained Earnings	$0
Add: Net Income	$70,515
Total	$70,515
Less: Dividends	$23,200
Ending Retained Earnings	**$47,315**

Eads Heating, Inc. **Balance Sheet** **As of December 31, 20X1**			
Assets			
Current Assets			
Cash		$7,835	
Accounts Receivable	$99,400		
Less: Allowance for Bad Debts	$4,970	$94,430	
Inventory		$51,000	
Total Current Assets			$153,265
Long Term Assets			
Land		$70,000	
Building	$350,000		
Less: Accumulated Depreciation- Building	$10,000	$340,000	
Equipment	$80,000		
Less: Accumulated Depreciation- Equipment	$20,000	$60,000	
Leased Equipment	$92,000		
Less: Accumulated Depreciation- Leased Equipment	$11,500	$80,500	
Total Long Term Assets			$550,500
Total Assets			**$703,765**
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts Payable		$26,440	
Interest Payable		$6,650	
Total Current Liabilities			$33,090
Long-term Liabilities			
Notes Payable		$380,000	

Lease Payable	$83,360	
Total Long-term Liabilities		$463,360
Stockholders' Equity		
Common Stock - Authorized, Issued, Outstanding, $50 Par Value, 3,200 Shares	$160,000	
Retained Earnings	$47,315	
Total Stockholders' Equity		$207,315
Total Liabilities & Stockholders' Equity		**$703,765**

Ead's Heaters, Inc. Trial Balance As of December 31, 20X1		
Cash	$7,835	
Accounts Receivable	$99,400	
Allowance for Bad Debts		$4,970
Inventory	$51,000	
Land	$70,000	
Building	$350,000	
Accumulated Depreciation - Building		$10,000
Equipment	$80,000	
Accumulated Depreciation - Equipment		$20,000
Leased Equipment	$92,000	
Accumulated Depreciation - Leased Equipment		$11,500
Accounts Payable		$26,440
Interest Payable		$6,650
Note Payable		$380,000
Lease Payable		$83,360
Common Stock		$160,000
Dividend	$23,200	
Sales		$398,500

Cost of Goods Sold	$188,800	
Other Operating Expenses	$34,200	
Bad Debt Expense	$4,970	
Depreciation Expense - Building	$10,000	
Depreciation Expense - Equipment	$20,000	
Depreciation Expense - Leased Equipment	$11,500	
Interest Expense	$35,010	
Provision for Income Tax	$23,505	
Total	**$1,101,420**	**$1,101,420**

ANALYSIS

Due to the fact that both Glenwood Heaters, Inc. and Eads Heaters, Inc. have identical business transactions in the Home Heaters Trial Balance in the Appendix, in order to determine the most advantageous company to invest in, one must analyze the Financial Statements. According to the Financial Statements, Glenwood would be the best option to invest in or lend money to in comparison to Eads Heating, Inc. for a couple reasons. For one, Glenwood's Income Statement shows that they have a higher Net Income of $92,742, while Eads' Net Income is only $70,515. Both companies have identical Net Sales, therefore Glenwood has less expenses and a smaller Cost of Goods Sold than Eads which is more appealing to investors. Another reason Glenwood is more appealing to investors would be the measurement of their liquidity based off of their Balance Sheet. The current liability and current asset figures in both company's balance sheets suggest that Glenwood has a better current ratio, meaning they would be able to pay off their current liabilities more easily than Eads. It is important to investors to have

higher assets than liabilities. Both facts accumulated from the Financial Statements would suggest to investors or lenders that Glenwood would be the best option to give their money to because they display the basic facts that Glenwood has less current liabilities, more current assets, and a higher net income than Eads. Glenwood Heaters, Inc. was able to make decisions based off their first year's transactions that positively affected the company for their future.

APPENDIX

Home Heaters Trial Balance As of December 31, 20X1		
Cash	$47,340	
Accounts Receivable	$99,400	
Inventory	$239,800	
Land	$70,000	
Building	$350,000	
Equipment	$80,000	
Accounts Payable		$26,440
Note Payable		$380,000
interest Payable		$6,650
Common Stock		$160,000
Dividend	$23,200	
Sales		$398,500
Other Operating Expenses	$34,200	
Interest Expense	$27,650	
Total	**$971,590**	**$971,590**

CASE 2: Molson Coors Brewing Company

Income Statement Evaluation

A)

1. Operating Section
   a) Revenues/Sales
   b) Cost of Goods Sold
   c) Selling Expenses
   d) Administrative Expenses
2. Non-Operating Section
   a) Other Revenues/Gains
   b) Other Expenses/Losses
3. Income Tax
4. Discontinued Operations
5. Non-Controlling Interest
6. Earnings per Share

B) Unclassified Balance sheets are a condensed in comparison to the Classified Balance Sheet and only provide a cumulative total of Revenues and Expenses without displaying where the totals specifically come from while classified balance sheets provide specific figures. Under GAAP, companies are required to provide "classified" income statements

because of the full disclosure principle which states that a company must disclose all material information in their income statement.

C) Financial Statement users could potentially be interested in a measure of persistent income because it can be fully expected to reoccur in future years. Therefore, it can be utilized in order to make a realistic prediction for the future. Financial Statement users can exploit persistent income to forecast future stock prices because persistent income is a good indicator of future earnings.

D) Comprehensive Income differs from net income in that comprehensive income is a broader measure. It includes items such as unrealized holding gains/losses on available-for-sale securities, certain pension adjustments, and certain foreign currency translation gains/losses.

E) The difference between "Sales" and "Net Sales" is that net Sales is without Excise taxes while these taxes are still included in Sales in Molson Coors Brewing Company Income Statement. Molson Coors reports these two items separately to display that the only figure that directly takes away from Sales is the Excise tax.

F) In the line Special Items, net, Molson Coors includes items that they believe are not aligned with their core operations. This includes items that are infrequent or unusual, impairment or asset abandonment related losses, restructuring charges and other atypical employee related costs, or fees on termination of significant operating agreements and

gains/losses on disposal of investments.

G) ”Other income, (expense), net” is classified differently from “Special items, net” because it is completely unrelated to the operations of the company. Some “Other income, (expense), net” for Coors includes a gain on sale of non-operating assets, Bridge facility fees, Euro currency purchase loss, and gain from foreign exchange activity. “Special Items, net” is not included in this because “Special Items, net” are gains and losses involved with operations that Coors does not expect to recur in future years and does not believe to be indicative of their core operations.

H)

1. Comprehensive income in 2013 is $760.2 Million while Net income is $572.5 Million.
2. The $187.7 difference between the two incomes is attributed to non operating gains involving the Molson Coors Brewing Company such as Unrealized gain on derivative instruments and Ownership share of unconsolidated subsidiaries’ other comprehensive income.

J) Molson Coors’ effective tax rate for 2013 is 12.8%. This was found by dividing the Income Tax Expense (84) by the Pre-Tax Income (654.5).

CASE 3: Pearson plc

Evaluation of Accounts Receivable

A) An account receivable is a claim held against a customer for money. It is an oral promise of the purchaser to pay for goods and services sold. Another term for this asset is Trade Receivable.

B) Accounts receivable differ from notes receivable because notes receivable are written promises to pay a certain specified amount of money on a specified date in the future and often come with interest while accounts receivables are oral promise to pay for good and services sold.

C) A contra account is an account that offsets the balance of another related account. A contra account is shown on the balance sheet directly below the account that it reduces. The two contra accounts in Pearson's financial statements are allowance for doubtful accounts and allowance for sales returns. Allowance for bad debt includes money that Pearson believes they will not get back from customers who won't end up paying the accounts receivable. Provision for sales returns includes merchandise that was sold on credit and then returned back to Pearson, therefore decreasing accounts receivable. In estimating the balance of both of these accounts, it is important to look at the historical transactions of the company. The

track record of an entity should help on e to make the decision for estimating the balance of these contra accounts.

D) the percentage of sales method is based on the premise that the amount of bad debt is based on some measure of sales. By looking back on prior years, a company can estimate what percentage of the sales measure will not be collected. The aging of accounts method looks at the age of the receivable. The aging method breaks down receivables based on the length of time each has been outstanding and applies a higher percentage to older debts because the older they are the less likely they will be paid. In the percentage of sales method, managers must know the balance of the allowance account and total sales in order to determine the final account balance. For aging of accounts method, the correct account balance can be estimated by separating out receivables based on how long they have been around because this will help determine the probability of how likely they will be collected. The approach that would be the most accurate estimate of bad debts is aging of receivables because it factors in the age of each specific receivable.

E) Although Pearson can anticipate with reasonable certainty that some accounts will be uncollectible, they should still extend credit to customers because they do not know which specific customers will not be able to pay. Therefore, if Pearson continues to extend credit to customers with the knowledge that not all receivables

will be paid, managers must find the most accurate approach to calculating an estimate for an allowance for doubtful accounts.

F)

1. The debited 5 is due to differences in exchange rates of currencies that occurred between the time of the sale and when the cash was physically received by Pearson. The 26 to the credit side of the T account is due to additional bad debt expenses within the income statement. The 20 that was debited was due to actual bad debts during the year, rather than estimated. Lastly, the credit of 3 was from acquisition of bad debts due to business combination, meaning Pearson acquired bad debts from taking over that company.

Allowance for Doubtful Accounts (in millions)	
	72
5	
	26
20	
	3
	76

2. Bad Debt Expense 26 — Income Statement Account
   Allowance for D/A 26 — Balance Sheet Account
   Allowance for D/A 20 — Balance Sheet Account
   Accounts Receivable 20 — Balance Sheet Account
3. Bad Debt Expense can be located in the operating section of the income statement.

G)

1.

Allowance for Sales Returns (in millions)	
	372
	425
443	
	354

2. Estimated: Sales R/A 425

   Allowance for Sales R/A 425

   Actual: Sales R/A 443

   Accounts Receivable 443

3. Estimated sales appear on the income statement as a contra revenue account below sales.

H)

Gross Accounts Receivables (in millions)	
1,474	
5,624	5,216
	20
	443
1,419	

Accounts Receivable 5,624

Sales Revenue 5,624

Cash 5,216

Accounts Receivable 5,216

Allowance for D/A	20	
Accounts Receivable		20
Allowance for Sales R/A	443	
Accounts Receivable		443

CASE 4: Intermediate Problems

Walk Through of Accounts Receivable Textbook Problem

Problem 7-6

Journalize Various Accounts Receivable Transactions

Prepare the Necessary Journal Entries to reflect the transactions above

Startsky Co. Balance sheet as of December 31, 2016

Notes Receivable	36,000	
Accounts Receivable	182,100	
Less: Allow for D/A	17,300	200,800

Transactions in 2017 included…

1) Accounts Receivable of $138,000 were collected including accounts of $60,000 in which 2% sales discounts were allowed

   In order to correctly journalize this entry you must first subtract the 2% from the Accounts receivable to see how much cash you would actually get (138,000-(60,000 x .02). Once you have found that, you may debit cash because it was received, debit sales discounts which would be the difference between cash and accounts receivable and credit accounts receivable.

Cash 136,800

Sales Disc. 1,200

Accounts Receivable 138,000

2) $5,300 was received in payment of an account which was written off the books as worthless in 2016

For this transaction to be made accounts receivable would be debited and allowance for doubtful accounts would be credited because because the payment was finally made after the company had deemed the payment worthless and previously journalized a debit to Allow for D/A and a credit to A/R. Then, cash must be debited because Startsky actually gained cash from the transaction and therefore A/R would be credited to offset the previous amount debited.

Accounts receivable 5,300

Allowance for D/A 5,300

Cash 5,300

Accounts Receivable 5,300

3) Customer accounts of $17,500 were written off during the year.

Startsky company has found that $17,500 worth of Accounts Receivables will not be redeemed. Therefore they must Debit Allowance for Doubtful Accounts and Credit A/R because they now have an exact dollar amount of what they know they will not get back so they can offset both Allowance for Doubtful accounts and Accounts Receivable, decreasing the value of both accounts.

Allowance for D/A 17,500

Accounts Receivable 17,500

4) At year's end, Allowance for Doubtful Accounts was estimated to need a balance of $20,000. This estimate is based on an analysis of aged accounts receivable.

For this transaction Bad Debt Expense would be debited and Allowance for Doubtful Accounts would be credited. These journal entries are used because it is just an estimate on the amount of receivables that will not be redeemed therefore Accounts Receivable is not involved in the journal entries. The amount for this journal entry is found by adding the 2016 year end Allowance for Doubtful Accounts of $17,300 with the Allowance for Doubtful Accounts amount from part 2 and subtract this total from the amount from part 3 ($17,300+$5,300-$17,500 = $5,100). This shows the estimate of money Startsky assumes they will not get back subtracted by the amount of money Startsky actually will not get back from accounts receivables. This figure is then subtracted from the ending Allowance

for Doubtful Accounts of $20,000 to get $14,900. This means that an additional $14,900 was estimated by the company to be uncollected. Therefore Bad Debt Expense would be debited to increase the expense account and Allowance for Doubtful Accounts would be credited and increased as well.

Bad Debt Expense 14,900

Allowance for D/A 14,900

Case 5: Palfinger AG

Analysis of Property, Plant, and Equipment

***All figures in the case are in thousands**

A) The property and Equipment for Palfinger is most likely large warehouses, factories, heavy machinery, and corporate offices. This can be inferred because the company produces cranes, forklifts and railway system solutions which will need large factories and heavy machinery in order to be created.

B) The € 149,990 in the Balance Sheet for property, plant and equipment (PPE) represents the historical cost of the property, plant, equipment, less the value that has been depreciated through straight line depreciation over time.

C) Palfinger's equipment is made up of fixtures, fittings, and machinery with a useful life spanning between 3 – 10 years.

D) The sub account entitled "Prepayments and Assets under Construction" represents assets that are in progress to becoming PPE that are being built by the company. This subsection is not depreciated because the assets are not ready for their intended use. Once they are finished they will be transferred from this subsection into their specific PPE group. This account is reclassified to € 14,958 in 2007

because completed Prepayments and Self constructed assets were transferred out of this account and into their proper asset group.

E) PPE is depreciated with straight-line depreciation. Palfinger's PPE assets have an allocation ranging from 3-50 years. This policy would appear unreasonable because the Property and Equipment are factories and heavy machinery that are most likely not to depreciate at the same rate each year. Although Straight line offers simplicity, its down side is that it does not accurately reflect any differences in the amount of use in Property and Equipment from period to period which could in turn over or under depreciate an asset if it is getting less or more use in a certain period in comparison to others.

F) Renovations and Value Enhancing Investments are capitalized and depreciated over either the new or the original useful life. Another option for recording renovations and Value enhancing investments would be to charge the changes made to accumulated depreciation. This option would be used when the useful life of the PPE is extended and therefore the company would debit the expenditures to Accumulated Depreciation because the company recaptures some of the past depreciation.

G)

1. The purchase of new property, plant and equipment amounted to €61,444. This figure includes any additional PPE added in 2007.

2. Government grants are €733 and are made up of reductions of the acquisition and manufacturing costs from government assistance in the acquisition of PPE. Grants are deducted from the value of PPE to get their Net Realizable Value because these grants are not earned as part of normal operations and therefore should not offset the expenses of operations on the income statement.
3. The depreciation expense for the year 2007 was €12,557. This figure includes the sum of depreciation expenses from various types of PPE.
4. The net book value of property, plant, and equipment that Palfinger disposed of in 2007 was €1,501. This was found by subtracting the net value from accumulated depreciation (€12,298) from the net value of acquisitions (€13,799).

H) The gain that Palfinger incurred on the disposal of equipment amounts to €154. This gain represents the amount by which the proceeds from the sale of property, plant, and equipment exceeded the carrying value of that property, plant, and equipment at the time it is sold.

I)

1. Straight Line Depreciation of €10,673 added to "Other plant, fixtures and equipment" with a salvage value of €1,273 and a useful life of 5 years.
2.

Year	Initial Value	Depreciation Expense	Accumulated Depreciation	Net Book Value
1	€ 10,673	€ 1,880	€1,880	€8,793
2	8,793	1,880	3,760	6,913
3	6,913	1,880	5,640	5,033
4	5,033	1,880	7,520	3,153
5	3,153	1,880	9,400	1,273

3. Double Declining Balance Depreciation

Year	Initial Value	Depreciation Expense	Accumulated Depreciation	Net Book Value
1	€10,673	€4,269	€4,269	€6,404
2	6,404	2,562	6,831	3,842
3	3,842	1,537	8,368	2,305
4	2,305	922	9,290	1,383
5	1,383	110	9,400	1,273

J)

1. In order to calculate any loss from the sale of equipment from the previous section, the net book value from year one is taken and the proceeds received from the sale is deducted from that(€8,793 - €7,500). This will amount to a loss of €1,293. This figure is then added on to the disposal loss from year 1 depreciation expense when using straight line depreciation (€1,880) to get a total income statement impact of €3,173.
2. If the double declining balance method is used, the net book value for the first year (€6,404) is deducted from the cash received from the sale, resulting in a gain of €1,096 for Palfinger. Once the gain is found, it is subtracted from the

depreciation expense of the prior year (€4,269), resulting in an income statement impact of €3,173.

3. Under the two different depreciation methods, the income statement impact is the same at €3,173. Although these methods used different approaches to reach the same value, they both incidentally found the initial cost of the asset and subtracted the proceeds from the sale (€10,673 - €3,173). Also, straight line depreciation counted a loss for Palfinger, while double declining balance method counted a gain.

Case 6: Volvo Group

Analysis of Intangibles and R&D

A) The research and development expenses shown on the 2009 income statement are most likely costs associated with materials, equipment, facilities and salaries involved with the R&D of new technology. These expenses are either associated with the research phase of the expenditure, cannot be distinguished between research and development or the development phase of the expenditure that do not meet the requirements of IAS 38.

B) In order to decide which R&D factors to capitalize or expense, Volvo must consider whether or not an expenditure is in the research phase of the expenditure, whether or not the research and development phases of the expenditure can easily be distinguished apart, or if the company can foresee future economic benefit from the expenditure.

C) In order to determine the amortization periods for product and software development costs, Volvo must consider the number of periods in which the intangible asset would provide future economic benefit, allowing them to gain knowledge on the useful life of the asset. Volvo must also consider the past periods of useful life for similar intangible assets that can be used to compare to the current intangible asset.

D) Due to the fact that U.S. GAAP enforces that companies must expense all R&D costs, GAAP therefore reflects the idea that R&D does not provide any future economic benefit to companies. On the other hand, IFRS takes into account the future economic benefits of R&D, but IAS 38 guidelines on what is considered development can be interpreted differently by people and can cause inconsistency. Although the GAAP approach ignores the benefits of R&D and IFRS does not, GAAP is a better reflection of capturing costs and benefits of periodic R&D spending because it contains a more accurate and consistent idea of the R&D financials.

E)

1. The amount of the capitalized product and software development costs ($25,148), net of accumulated amortization at the end of fiscal 2009 ($13,739) is $11,409. The line item on Volvo's balance sheet that reports this intangible asset is under assets in "intangible assets".

2. T Account for intangible asset "Product and software development"

   Capitalization of Product & Software Development, net (in SEK millions)

Beg. Balance	12,381	Amortized	3,126
Capitalized	2,602	Adjustment	448
End Balance	11,409		

F)

1. Volvo's Product and software development

	2007	2008	2009
1) Product & Software development costs capitalized during the year	2,057	2,150	1,858
2)Total R&D expense on the income statement	11,059	14,348	13,193
3)Amortization of previously capitalized costs (included in R&D expense)	2,357	2,864	3,126
4) Total R&D costs incurred during the year = 1+2-3	10,759	13,634	11,925

2. Journal Entries:

   a. Total 2009 R&D costs incurred during the year

      R&D Expense 11,925

      Accounts Payable 11,925

   b. Amortization of previously capitalized products & software development costs

      Amortization Expense 3,126

      Intangible Assets 3,126

3. Proportion of Total R&D costs capitalized

	2007	2008	2009
Proportion of Total R&D costs incurred capitalized by Volvo	2,057/10,759= .191	2,150/13,634= .158	1,858/11,925= .156
Percentage	19.1%	15.8%	15.6%

G)

Information taken from Volvo's eleven year summary

1.

(In SEK millions)	2007	2008	2009
Net Sales, Industrial Operations	276,795	294,932	208,487
Total Assets, from Balance Sheet	321,647	372,419	332,265

2. Proportion of Total R&D costs incurred to net sales from operations

Volvo	2007	2008	2009
(1) Total R&D costs	10,759	13,634	11,925
(2) Net Sales, industrial operations	276,795	294,932	208,487
Proportion of (1) to (2)	.039 or 3.9%	.046 or 4.6%	.057 or 5.7%

Navistar	2007	2008	2009
(1) Total R&D costs	375	384	433
(2) Net Sales, industrial operations	11,910	14,399	11,300
Proportion of (1) to (2)	.031 or 3.1%	.027 or 2.7%	.038 or 3.8%

In comparison to Navistar, Volvo is increasing its R&D spending in proportion to net sales by around 1% each year over the course of the 3 years. Navistar on the other hand decreases its proportion of R&D spending to net sales from 2007 to 2008 but increases it by over 1% in 2009.

Case 7: DOMO for Data Analytics

Analysis of a data analytics software

A) The purpose of Domo is to turn data into insights and give users the context they need to make, faster and better informed business decisions. Domo automates traditional reporting methods by connecting data in real time through a single cloud based platform. Domo allows users to create visualizations, collaborate with stakeholders and transform data to make it simple and user friendly. Domo was created in 2010 by a Josh James, who had previously founded the web analytics software company called "Omniture" which was sold to Adobe Systems in 2009. James then started Shacho Inc. which grew immensely when it a few months later it purchased Corda Technologies to establish the data visualization component of the product. Eventually the James changed the company name to Domo.

B) Some of the basic skills necessary to navigate Domo are card building, collaboration and data sharing. Users should be familiar with chart properties, connection and transformation of data. These skills necessary to fully utilize Domo are taught by Domo University in order for its users to get the most out of their investment. In these courses offered by Domo, users are able to master the skills of creating and sharing pages, data visualization principles in card selection, developing wireframes for business questions, formulating data governance, running workbench transformations, importing large datasets and using Magic ETL to perform various data transformations. Obtaining these skills prior to use will make Domo more simple and helpful for its users.

C) 1. Auditing

a. Domo can be used in the auditing process by allowing auditors to more easily gather a company's data into one database. Auditors can efficiently and effectively audit a company because they have easy access to financial statement data and data of each transaction that are all combined in the same place. Domo will allow auditors to spend little to no time on site because the resources they will need is all in one place and can easily be mined. Domo therefore can help quicken the audit process and allow auditors to make more informed decisions in a more timely manner.

b. Domo's data visualization function can heavily influence the auditing process. Data visualization is known to be a solution that presents information in a manner that sparks the human cognitive and visual abilities. Domo aids auditors by converting raw data into a graphics and visuals that can be utilized by auditors to gain more accurate insights of the data. The audit process is therefore improved because the auditor is able to draw a better conclusion because they have a stronger understanding of the data being presented.

c. Domo can be utilized in the auditing process because of its internal checklist. Much of the audit process involves running through a checklist to determine the accuracy and efficiency of what you are auditing. Domo has already deployed its own checklist in order to audit its cards. This checklist is used in the auditing process to ensure that an action can be taken from the data and that questions can be answered from the data. A checklist can help auditors determine whether or

not any additional data can come from the data, and whether or not other business users would be able to comprehend the meaning of the data. Domo also allows its users to determine the quality of the data so they can create more meaningful and accurate data to be audited. Domo's checklist ensures that the information being audited is accurate.

2. Tax Planning

   a. For companies dealing with property taxes, Domo can be utilized to understand changes in tax rates. In the past, it was much more difficult to comprehend big data such as forecasting property values. Not only does Domo allow users to pull data from several sources, but it also allows its users to visualize data in a meaningful way. If a company owning several properties wants to determine its total property taxes, it can pull data from inside and outside sources to determine the current values of each property. By easily understanding the specific values of each property, Domo users can determine property taxes in a timely manner.

   b. Domo can also be used to minimize future surprises in tax rates. Users have the ability to pull data from a single cloud based source that can efficiently be mined to display past tax rates. Past trends such as book income, effective tax rates and cash taxes on a corporation can all be utilized to predict future taxes. Domo allows its users quick access to past data in one centralized database in order for them to plan for taxes in the future.

c. Most companies deal with indirect taxes on a daily basis and the process of determining those taxes is tedious. Domo speeds up the process by automating the indirect tax deduction process. Users can take advantage of Domo's data fusion capabilities to link the most current tax code to their business transactions. Domo users benefit from Domo's indirect tax planning by being able to gain insight on their indirect tax position and be able to establish a more effective tax control framework based on findings.

3. Financial Statement Analysis/Valuation/Advisory

a. At the end of each year, companies can better analyze financial statements with Domo. For example, financial statement ratios can be key performance indicators for companies. Domo's data visualization allows corporations to not only be able to come up with these ratios but also be able to interpret them more effectively. Seeing the meaning behind the ratios gives Domo users a better understanding of the state of their financials. Managers can spend less time interpreting these ratios and more time coming up with solutions to weaknesses found from them.

b. Domo offers its users a digital dashboard in order to more efficiently evaluate company performance. A digital dashboard allows users to get an extensive look on various aspects of performance indicators. For example, a sales segment could better valuate their performance with a digital dashboard that displays new customer acquisition, demographics of customers, bad debts from customers, and online page views per month. With a single dashboard

displaying performance indicators of each segment of the corporation, Domo users can more efficiently understand their position.

c. Domo allows users in advisory to make more informed and error free decisions. The visual aspect of Domo allows advisory users to view current strengths and opportunities. Also, Domo will let advisors see the physical visualization of the results of several potential pathways they may be deciding between. Seeing the results in front of them will let advisors make more informed decisions on the best processes the company should make. This is much more effective than making decisions and not being completely confident if the decision will benefit the corporation or not.

D) In today's day and age, it is critical for public accounting firm's to stay up to date in the aspects of data analysis. Tools like Microsoft excel are great on their own, but cannot work to process and store the amount of Big Data that exists in the corporate world. Companies that choose to invest in business intelligence (BI) have proven to be more productive in decision making processes at every level of management while simultaneously improving strategic management processes. BI tools serve as a key framework for organizing more efficient business processes by allowing for corporations to gain a better understanding of customer demographics, company wide visibility and areas in need of improvement to name a few.

It is critical for our team to not only invest in BI tools, but specifically Domo. Domo specializes in data analtics processes, and offers users the ability a to store data in a single cloud based database, quick data mining, and customizable digital dashboards

and visualtization to aid in comprehension of data. Our team could greatly benefit from this software because the key aspects of it as mentioned earlier can completely transform the way we look at data. Domo can give us access to endless sources of data and gives us the tools to better utilize that data to make informed decisions. This will lead to increase in productivity, as we will spend less time figuring out what data we need and how to analyze it and more time finding solutions and opportunities from the data we have found. Clients will expect more from us as our roles as accountants will change when we spend more time with discretionary information and less on mandatory information for clients.

The biggest downside to Domo is the price of the investment. Although it is expensive to completely change over to Domo's platform, the potential it gives users in terms of data far outweighs this cost. Domo also offers users to be trained on the software through several classes offered by Domo University. This will allow our team to all be trained together by the creators of the software who know it better than anyone. This training will also outweigh the high cost of the software because the training will ensure that our team is able to use Domo to its full potential and get the most out of our data analytics capabilities.

Case 8: Rite Aid Corporation

Long term Debts

A)

1. Rite Aid's secured bonds are backed by a pledge of some sort of collateral of the company's assets while their unsecured bonds are not secured by collateral but by he promise of Rite Aid to repay the debt. These two bonds are distinguished because it provides information to lenders and investors what amounts of debt are tied to collateral and what amounts are not.

2. In order for debt to be guaranteed, there must be a legal agreement in which someone promises to pay the debt if Rite Aid fails to do so. All of Rite Aid's wholly-owned subsidiaries guarantee the obligations under the senior secured credit facility.

3. The term "senior" refers to debts that hold a priority over other debt owed by the issuer. In the case that the issuer goes out of business or goes bankrupt, these bonds must be repaid first. Fixed rate bonds refer to bonds with a predetermined interest rate attached to it. A convertible bond is a bond that can be converted into a specified amount of company equity at certain times throughout the bond's life.

4. Rite aid holds several different types of debt because investors in the company each have different needs needed to be met that cannot be satisfied by one type of debt option. Also, several interest rates are exhibited in Rite Aid's debt

because much of the debt is issued at different times. This shows how several different interest rates occur because the interest rates reflect the market interest rate of when they were issued.

B) As of February 27, 2010, Rite Aid's total debt amounts to $6,370,899. Of this debt found in note 11, current debt is $51,502, long term debt is $6,185,633 and lease financing is $133,764.

C)

1. The 7.5% senior secured notes due in March of 2017 hold a principal of $500,000. This is clear because the carrying amount of the note has not changed between 2009 and 2010, showing that a $500,000 note was issued at par.
2. Issuance of Notes:

   Cash 500,000

   Notes Payable 500,000
3. Annual Interest Expense:

   Interest Expense 37,500

   Cash 37,500
4. Maturity of notes:

   Notes Payable 500,000

   Cash 500,000

D) The face value of these notes is $410,000, while the current value is $405,951. The face value differs from the carrying value because the note has not matured and because it was issued at a discount, the discount has therefore not been fully amortized.

1. The cash interest paid on the notes in 2009 was $38,438

2. Cash interest expense for fiscal 2009 was $38,438 while discount amortized was $705, therefore the total interest expense amounted to $39,143.

3. Annual Interest Expense:

Interest Expense	39,143	
Cash		38,438
Discount on N/P		705

4. The total rate of interest recorded for fiscal 2009 is 9.659%

E)

1. Issuance of Notes:

Cash	402,620	
Discount on N/P	7,380	
	Notes Payable	410,000

2. These notes were issued at an effective interest rate of 10.1212%

3.

Date	Interest Payment	Interest Expense	Discount Amortization	Carrying Value of Debt	Effective Interest Rate
6/30/09	--	--	--	402,620	10.12%
6/30/10	39,975	40,750	775	403,395	10.12%
6/30/11	39,975	40,828	853	404,248	10.12%
6/30/12	39,975	40,915	940	405,188	10.12%
6/30/13	39,975	41,010	1,035	406,223	10.12%
6/30/14	39,975	41,115	1,140	407,363	10.12%
6/30/15	39,975	41,230	1,255	408,618	10.12%
6/30/16	39,975	41,357	1,382	410,000	10.12%

4. February Interest Expense:

Interest Expense	27,167	
Discount on N/P	517	
Interest Payable		26,650

5. Net book value of the notes on February 27, 2010 is $403,137

Case 9: Merck & Co.

Evaluation of Common Stock

A)

1. Merck is authorized to issue 5,400,000,000 shares
2. As of December 31, 2007, Merck has issued 2,983,508,675 shares
3. The dollar amount of common stock found on the balance sheet is $29,835,086.75 ($29.8 million on the balance sheet). This was calculated by multiplying the issued shares by the 1 cent par value of common stock.
4. The number of shares held in treasury is 811,005,791
5. The number of shares outstanding is 2,172,502,884. This is found by subtracting treasury stock from issued stock.
6. The market capitalization price of Merck on December 31, 2007 is $125,157,891,147.24

C) Companies pay dividends on their common shares to reward their stockholders for investing in the company. It also displays the wealth of the company to have the financial stability to payout dividends whether it be with cash, property or additional stock. Once dividends have been paid out, the share price of the company drops because its value is determined by the future cash flows of the company, which would decrease because there is no longer a potential dividend to value.

D) Companies typically repurchase their own shares as treasury stock because earnings per share will increase. Earnings per share is based off of net income

divided by the shares outstanding, companies can therefore buy their own stock to decrease the number of shares outstanding and therefore manipulate earnings per share in their favor. Companies will also obtain treasury stock as a means to increase their ownership in the company. A greater number of shares owned leads to a greater amount of ownership.

E) Common Dividend Activity for 2007:

Dividends Declared	3,310,700,000	
Dividends Payable		3,307,300,000
Cash		3,400,000

G)

1. In order to account for their treasury stock transactions, Merck Company uses cost method. Under this method, treasury stock is accounted for by the reacquisition price and treasury stock is therefore debited and cash is credited. Par value is ignored in accounting for treasury stock when using this method.
2. Merck purchased 26.5 million shares off the open market in 2007.
3. Buying back stock falls under the financing portion of cash flows. In total, Merck paid $1,429,700,000 to repurchase its shares, which amounts to an average of $53.95 a share.

4. Treasury stock is considered a contra equity account and is therefore not considered an asset. Merck uses assets such as cash in order to purchase treasury stock but the treasury stock itself is not categorized as an asset.

I) From 2006 to 2007, the ratio with the biggest increase was the payout ratio. This occurred because of the decrease in net income from one year to the next. Other than this, Merck's dividend ratios remained fairly constant between the 2 years with a couple slight changes due to increase in cash flow and assets.

Merck & Co.		
(in millions)	**2007**	**2006**
Dividends Paid	$3,307.30	$3,322.60
Shares Outstanding	2,172,502,884	2,167,785,445
Net Income	$3,275.40	$4,433.80
Total Assets	$48,350.70	$44,569.80
Operating Cash Flows	$6,999.20	$6,765.20
Year-end Stock Price	$57.61	$41.94
Dividends per share	$1.52	$1.53
Dividends Yield	2.64%	3.65%
Dividend Payout	100.97%	74.94%
Dividends to Total Assets	6.84%	7.45%
Dividends to Operating Cash Flows	47.25%	49.11%

Case 10: State Street Corporation

Evaluation of Investments

A)

1. Trading Securities are debt and equity investments that are bought with the intent to be sold within a short period of time.
2. A company would record $1 of dividends or interest received from trading securities as such:

   Cash 1

   Dividend Revenue 1

   Cash 1

   Interest Revenue 1
3. The journal entry to record an increase in the market value of the trading security is as such:

   Investment in Trading Security 1

   Unrealized Holding Gain – Income 1

B)

1. Available-for-Sale securities are debt or equity investments that are purchased with the intent to sell before it reaches maturity or to be held for a long period

of time if it does not have a maturity date. Gains and losses incurred from AFS securities are reflected in the equity section under comprehensive income.

2. A company would record $1 of dividends or interest received from trading securities as such:

    Cash 1
        Dividend Revenue 1
    Cash 1
        Interest Revenue 1

3. The journal entry to record an increase in the market value of the AFS security is as such:

    Investment in AFS Security 1
        Unrealized Holding Gain – Equity 1

C)

1. Held-to-maturity securities are debt investments that the company has both the positive intent and the ability to hold until maturity. Equity investments cannot be classified as Held-to-maturity because they do not have a maturity date.
2. Held-to-maturity securities are not measured by fair value, therefore a change in the market value of a security does not increase or decrease its value. Instead, Held-to-maturity securities are accounted for at their amortized cost.

D)

1. The balance in the trading securities account at year end 2012 is $637 million which represents the market value of the account
2. The adjusting entry used to adjust the trading securities account to fair value (in millions) would be as such:

   Investment in Trading Security 85

   Unrealized Holding Gain – Income 85

E)

1. The balance in the Held-to-maturity securities account at year end 2012 is $11,379 million
2. The market value for the Held-to-maturity securities account at year end 2012 is $11,661 million
3. The amortized cost of the Held-to-maturity securities at year end 2012 is $11,379 million. This represents the carrying amount of the security. The amortized cost of the security differs from the purchase price of the security because it factors in discounts/premiums as time passes.
4. The difference between the market value and amortized cost shows that the market value of the security is currently higher than the price of the security at the time of purchase. The difference in between these values suggests that the market interest rate has dipped below the stated interest rate of the security.

F)

1. The year end balance of the AFS securities in 2012 is $109,682 million. This balance represents the current market value of the security at year end 2012.
2. The amount of net unrealized gains/losses for AFS securities held by State Street at year end 2012 is a gain of $1,119.
3. The amount of net realized gains/losses from sales of AFS securities at year end 2012 is a gain of $55 million. This realized gain from a sale would therefore increase the investing section of cash flows as well as net income in 2012.

G)

1. The journal entry made to record the purchase of AFS securities in 2012 (in millions) is as such:

Investment in AFS Securities	60,812	
Cash		$60,812

2. The journal entry made to record the sale of AFS securities in 2012 (in millions) is as such:

Cash	5,399	
Unrealized Holding Gain – Equity	67	
Investment in AFS Securities		5,411
Realized Gain on Sale		55

3. The original cost of these investments was $5,344 million

Case 11: ZAGG Inc.

Evaluation of Deferred Income Taxes

A) Book income is in accordance with GAAP standards in terms of revenue recognition and allowable expenses. It appears on the financial statement and is therefore given in order to provide its viewers a clear view of company performance. Taxable income differs from book income in that taxable income is created for tax returns and is in accordance of the tax code. Taxable income uses a modified cash method while book income uses a full accrual method. The number in ZAGG's statement of operation that captures book income for fiscal 2012 is $23,898,000 (Income before tax provision).

B)

1. Permanent tax differences are differences between book income and taxable income that do not reverse as time passes. The difference will therefore never be eliminated. An example of a permanent tax difference is dealing with municipal bond interest. Municipal bond interest is recorded as part of book income but never recorded as part of taxable income therefore causing a permanent difference.
2. A Temporary tax difference occurs when revenues and expenses are recognized in a different period on the financial statement than on tax returns. This would result in a temporary difference because these irregularities would eventually reverse over time. An example of a temporary tax difference is dealing with unearned revenue. If a payment for work is received before the

work has been done, the financial statements do not record this as part of income because the revenue has not been recognized. However, it is included as part of income on a tax return, resulting in a temporary difference.

3. The statutory tax rate is the tax rate that is legally enforced. The amount of the tax rate is dependent on income level.
4. The effective tax rate is the average tax rate paid on all taxable income. It rarely matches the statutory tax rate.

C) Companies report deferred income taxes as part of their total income tax expense because the deferred income taxes are a liability to the company and would therefore be misleading to leave out. It is included in the expense because the revenue has already been accrued but will be taxed in a future period. Book income uses the accrual method to recognize revenues and expenses and therefore creates a liability to be included as part of income tax expense. The matching principle requires that the expense be reported at the same time period as its related revenue. Therefore, despite the liability due to the deferred income tax, it is also included as part of income tax expense because the related revenue is part of the current period. In recognizing the corresponding liability, this liability will remain in the financial records until paid off. Simply recording the current tax bill as the income tax expense on the income statement would cause the financial statements to be inaccurate, as this would understate the corresponding liabilities. This treatment of deferred income taxes as part of the income tax expense is expressed in the ASC 740 codification released by FASB. ASC 740 serves as a

set of accounting standards for reporting income taxes. ASC 740 states that companies must include deferred income taxes as a part of income tax expense in the current period. Once the deferred income tax is match to its corresponding revenue, it can be allocated to the specific financial statement. ASC 740 also requires that in reference to deferred income taxes, the accounting guidelines used must be disclosed.

D) Deferred income tax assets represent the increase in taxes refundable in future years as a result of deductible temporary differences existing within the current period. Deferred tax assets are created from temporary differences called future deductible amounts. An example of a deferred tax asset would be litigation accruals included in book income but deferred in taxable income. This results in a deferred tax asset because the expense is recognized in the books in the current period before it is to be recognized in the tax return, leading to a greater amount to be taxed now and less to be taxed later once the accruals are recognized on the tax return. Deferred income tax liabilities represent the increase in taxes payable in future years as a result of taxable temporary differences existing at the end of the current year. Deferred tax liabilities are caused by temporary differences called future taxable amounts. Anytime financial income reported in the current period is greater than taxable income in the current period, a deferred tax liability will occur. An example of a deferred tax liability would be if a company uses straight line depreciation for book income and double declining method of depreciation for taxable income. With these methods, book income depreciation is

$200,000 and taxable income depreciation is $240,000. This would cause income tax expense to be greater than income taxes payable in the current period. Because the amount of depreciation will eventually even out over time, this is a temporary difference that gives rise to a future taxable amount and a deferred income liability. Deferred tax assets and deferred tax liabilities arise from temporary differences and not permanent differences because temporary differences will eventually smooth out while permanent will never be reversed.

E) A deferred income tax valuation allowance is a line item used to offset the deferred tax asset account on the balance sheet. It is used by companies if there is more than a 50% chance the company will not be able to realize a portion of the deferred tax asset.

F)

1. The journal entry recorded for income tax provision in fiscal 2012 (in thousands) is as such:

Income tax expense	9,393,000		
Deferred tax asset	8,293,000		
		Income tax payable	17,686,000

2. The journal entry recorded to decompose the amount of "net deferred income taxes" recorded in the income tax journal (in thousands) is as such:

Income tax expense	9,393,000
Deferred tax asset	8,002,000

Deferred tax liability	291,000	
Income tax payable		17,686,000

3. The difference between the statutory rate and ZAGG's effective rate is that the effective rate is found by taking $9,393,000,000 and dividing it by $23,898,000,000. In this case, the total tax expense is divided by the total taxable income which comes out to an effective rate of 39.3%. The statutory rate is most likely different from the effective rate because tax rates are constantly changing as years pass.

4. The amount of deferred income tax of $13,508,000 includes the deferred income tax amount that has already been netted out by the valuation allowance account and the deferred tax liability account. The balance sheet displays deferred tax assets in two parts, a current ($6,912,000,000) and a noncurrent ($6,596,000,000) portion.

Case 12: Apple Inc.

Analysis of Revenue Recognition

A) Revenues are defined as the earnings made by a company from their main operations, whether that be from the sale of goods or services. Revenues are calculated by taking the number of products or services sold and multiplying it by the sales price (while also factoring in any sales returns and discounts). Revenues are different from gains, in that gains increase a company's holding that result from peripheral activities unrelated to main operations. An example of a gain would be from the sale of equipment.

B) Under ASC 606, revenue recognition occurs when an entity has satisfied its obligations under a contract by transferring goods or services to a customer. There is a five step process involved with revenue recognition with includes identifying a contract, identifying performance obligations, determining transaction price, allocating the transaction price to the performance obligations, and recognizing the revenue when the performance obligation is satisfied. The specific accounts that are affected by revenue recognition are an increase in accounts receivable in the Balance Sheet as well as an increase in a revenue account on the Income Statement. Revenue recognition will also affect the Statement of Retained Earnings due to its impact on net income.

C) Apple’s criteria for recognizing includes the following: when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed, and collection is probable. For the most part, this criteria is met and Apple’s revenues are recognized when the product is shipped, or in the case of sales to an individual it is met when the product is delivered. For the most part, this revenue recognition undertaken by Apple reflects the criteria under ASC 606 except for the fact that Apple does not mention in note 1 the allocation of transaction prices to performance obligations satisfied.

D) Multiple element contracts occur when a vendor agrees to provide more than one product or a combination of products and services to a customer in a bundle. Multiple element contracts many include additional installment services or warranties on a product. This poses an issue to revenue recognition because it is difficult to determine the individual costs of each element within the contract and different parts of the contract are recognized as revenue at separate times. For example, sale of an appliance might also include installment, therefore a company must find the value of each individual aspect of the sale because revenue is recognized at separate times because performance obligations may not occur simultaneously.

E) Revenue from both hardware and software products are recognized by Apple managers. Managers must figure out a way to maximize the amount of revenue in each accounting period for all sales on hardware and software. Managers may

receive personal incentives such as bonuses for establishing higher revenues on the income statement.

F)

1. Under ASC 606, Apple should recognize revenue for Itunes songs sold once it is clear there is a contract, performance obligations, a set and allocated price, and the song has been downloaded onto the purchaser's device. This treatment of determining revenue recognition is in accordance with ASC 606 because Apple's performance obligation has been fulfilled once the song has been transferred onto the device of the user. Apple is not the primary obligor to Itunes sales transactions and runs its software through a third party, therefore sales are accounted for on a net basis.
2. Accessories sold both in store and online must have a clear contract, performance obligations, set and allocated prices and Apple's performance obligation must be fulfilled in order to recognize the revenues. These items sold can be recognized once the sale has occurred.

3. IPods sold to a third party reseller in India can be recognized as revenue when the first four criteria for ASC 606 are met and once products have been shipped and delivered to the third party in India. Revenue isn't recognized until delivery because that is when their performance obligation is fulfilled because title and risk of loss have been transferred.

4. For the sale of Gift cards, the first four criteria for revenue recognition for ASC 606 must be met along with the fulfillment of Apple's performance obligation. During the sale of the gift card, Apple recognizes a deferred revenue due to the advancement of cash. Revenue is not recognized by Apple until the redemption of the card by the customer, whenever that may occur. This is in accordance with ASC 606 because revenue is not recognized until Apple has fulfilled their agreement established during the sale of the gift card.