Revenue Recognition Case Study

TRANSPORTATION INDUSTRY:

SCENARIO:

Buses 4 Everyone has contracted with ABC Schools to provide transportation for one school year (180 days). The Contract includes transportation to and from the school as well as two field trips. ABC Schools agrees to pay Buses 4 Everyone $200 per bus used for the 180 school days.

The contract requires a base usage of 80 buses daily. However, ABC Schools receives a discount of $10 per bus if the school district uses more than 100 buses on any day. At the end of each month of service, Buses 4 Everyone is required to submit a detailed daily log of bus routes and riders in order to determine the use for the month and prepare a bill estimate based on the daily bus rates.

ABC Schools holds two field trips each school year with one taking place in the fall and another taking place in the spring and would require 80 buses for approximately 4 hours.

Buses 4 Everyone's basic daily rate, covering a four hour period (normal to and from school commute) for non contract customers is $250.

STEP ONE - IDENTIFY THE CONTRACT WITH A CUSTOMER

Buses 4 Everyone is providing transportation to ABC Schools for one year term.

STEP TWO - IDENTIFY PERFORMANCE OBLIGATIONS IN THE CONTRACT

What is the total number of Performance Obligations?
182, because ABC Schools receives daily transportation so each school day is a distinct performance obligation AND there are two field trips.

STEP THREE - DETERMINE THE TRANSACTION PRICE

Buses 4 Everyone believes an estimate of 80 buses a day for the life of the contract is reasonable. The base transaction price would be based on 80 buses for 180 days at $200 a piece or a total of $2,880,000.

STEP FOUR - ALLOCATION OF TRANSACTION PRICE

The transaction price should be allocated to the performance obligations based on standalone price of each performance obligation.

	CONTRACT	STANDALONE	ALLOCATION
180 School Days	$2,880,000	$3,600,000	$2,848,350
Fall Field Trip	-	$20,000	$15,825
Spring Field Trip	-	$20,000	$15,825
	$2,880,000	$3,640,000	$2,880,000

STEP FIVE - RECOGNIZE REVENUE

Below are the required journal entries to recognize the above transactions:

THE SCHOOL STARTED AUGUST 31 THUS REQUIRING BUSES 4 EVERYONE TO SUBMIT ONE DAY OF LOGS WHICH SHOWED 80 BUSES WERE USED FOR THE FIRST DAY OF SCHOOL.

	Debit	Credit
Accounts Receivable	$16,000	
Transportation Revenue		$15,824
Contract Liability		$176

Entry records daily bus use at $200 per bus with use of 80 buses. Transportation revenue is total allocated revenue divided by 180 school days, or $15,824. Record difference as contract liability for the free transportation for the two field trips.

The fall field trip occurs 60 days into the school year. Contract liability at 60 days is calculated as $176 a day (as noted in first journal entry above) totalling $10,550. The field trip has an allocation price of $15,825. As a result, recognition of the revenue results in a contract asset in order to recognize the free bus transportation for field trips due to timing of field trip compared to accrual for contract liability. Once this adjustment is made, future daily entries would be a credit to the contract asset until the contract asset is eliminated, at which time it would switch back to a credit to contract liability.

	Debit	Credit
Contract liability	$10,550	
Contract Asset	$5,275	
Transportation Revenue		$15,825

The performance obligations are satisfied after the completion of each school day or the field trip.

STEP FIVE - RECOGNIZE REVENUE *CONTINUED*

Assume that after the first semester (90 days and a fieldtrip) the school sees expanded enrollment. The new estimated bus usage is 110 buses to be used for the final 90 days of school.

Buses 4 Everyone shall allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognized as revenue or as a reduction in revenue, in the period in which the transaction price changes.

	CONTRACT	STANDALONE	ALLOCATION
180 School Days	$3,321,000*	$4,275,000	$3,284,505
Fall Field Trip	-	$20,000	$15,367
Spring Field Trip	-	$27,500	$21,128
	$3,321,000	$4,322,500	$3,321,000

* (200*80*90) + (190*110*90) = $3,321,000 ($10 discount since over 100 buses)

	DAILY BUSES	FIELDTRIP
Revenue Recorded (90 * 15824)	$1,424,160	$15,825
Revised Revenue to be recorded	$1,642,253	$15,367
Difference (additional Revenue)	$(218,093)	$458

When the estimated contract changes, an adjustment to revenue and contract asset/liability would be made. This is not a contract modification, but a change in the estimated transaction price.

DO YOU UNDERSTAND THE IMPACT OF THE NEW ACCOUNTING STANDARDS ON YOUR TRANSPORTATION COMPANY?

Implementation of these rules may be a relatively simple process with the help of a CPA with an expertise in your industry.

Smith Schafer is a recognized leader in providing accounting, auditing and consulting services to the transportation industry since 1971. Our Transportation Group is committed to **serving over 110 Minnesota transportation entities** and stays on top of industry issues, trends, tools and technologies to ensure we give you the best possible advice.

For additional details on the new revenue recognition rules or to learn more about how we can help, please contact a Smith Schafer professional at info@smithschafer.com.

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