

TO: PROFESSOR HUGHES
FROM: FRANK COLAVITO AND ARMIN MILAK
SUBJECT: CASE 14-3 CATAMOUNT TELEGRAPH
DATE: OCTOBER 6, 2014¹

The purpose of this memo is to evaluate the revenue recognition policies which Catamount Telegraph Corporation should follow during these transactions.² Catamount Telegraph Corporation's February 1st, 2017 arrangement with Buffett Worldwide Inc. is within the scope of ASC 606. It states that an entity shall account for a contract with a customer that is within the scope of this topic only when all of the five criteria listed in ASC 606 10-25-1 are met.³

As stated in ASC 606 10-32-36, a customer will receive a discount on the transaction price if the standalone prices exceed the promised consideration in the contract. Separately, the sum of the standalone selling prices would be \$14,000.00, but the promised consideration in the contract was \$12,000.00, which warrants a discount. As of April 30, 2017, the total recognized revenue is \$0.00⁴, because according to ASC 606 10-25-31 for each performance obligation satisfied over time, an entity will recognize revenue by measuring the progress towards complete satisfaction of that performance obligation. Catamount has not fulfilled either of its two performance obligations yet, so they are not permitted to recognize any revenue.⁵ However, they do have a cumulative deferred revenue account balance of \$12,000.00. \$10,285.71.00 is unearned sales revenue for the customer management system and \$1,714.29 is unearned service revenue for postcontract customer support.⁶

The agreement made on May 1st, 2017⁷ is accounted for separately based on the criteria from ASC 606 10-25-9. It does not meet any of the three criteria as it is not negotiated as a package with a single objective, the consideration to be paid in one contract does not depend on the price or performance of the other contract, and it does not have a single performance obligation. The contract made on May 1st, 2017 will entail a debit to cash for \$4,500.00, a credit to unearned service revenue training for \$2,700.00, and another credit to unearned service revenue-PCS for \$1,800.00. The revenue for the sale of the customer management system is recognized at the time of this new agreement, hence debiting unearned sales revenue for \$10,285.71 and crediting sales revenue for

¹ Insert a professional looking header, with proper sections To, From, Subject, and the Date.

² Have a strong, straightforward purpose statement briefly describing what the subject of the memo is. Don't be afraid to use "The purpose of this memo is...."

³ When citing in a memo for an accounting class and you used the ASC database, reference it like this. Paraphrase what the section you are referencing said, and then intertwine the citation with the sentence.

⁴ The purpose of this memo was to discuss the revenue recognition policies of a specific company, so this sentence clearly states what revenue should be recognized at that specific date.

⁵ Again, a clear and straight-to-the-point sentence describing the correct amount of revenue to recognize.

⁶ More straight-to-the-point sentences describing the purpose of the memo.

⁷ Be consistent with how you write things such as dates and currency, it looks better.

\$10,285.71. Along with ASC 606 10-25-36 an entity shall recognize revenue performance obligation satisfied over time if the entity could reasonably measure its progress toward complete satisfaction of the performance obligation.⁸ The progress made toward completing the postcontract customer support entails a debit of \$485.57 to unearned service revenue and a credit of \$485.57 to service revenue. The cumulative revenue recognized as of May 1st, 2017 is \$10,744.28. With three months of the postcontract customer support service being earned and the new yearlong extension of PCS, the unearned service revenue (PCS) balance sits at \$3,085.72. The cumulative deferred revenue balance with both PCS and employee training is \$5,785.72.⁹

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⁸ If you are making an assertion, as this entire memo does, you must back up your assertion with proof and reasoning. You want the reader to believe what you are saying.

⁹ Make sure your memo answer all questions. Keep in mind that this memo is very specific to this class. Other memos will require different approaches. For example, in the business world if you were a manager sending out a memo to address an issue of productivity, you would end your memo with directions/next steps to take. Also, remember that most memos are 1 page, but could potentially be 2 pages. Check with your instructor for their expectations.