

Bookkeeping Tips

Recognizing Revenue

As we reported in *The General Ledger* (www.aipb.org/general_ledger.html), the monthly briefing to the 30,000 professional bookkeepers who are AIPB's members, the following Securities and Exchange Commission recommendations would also apply to even the smallest accrual-basis businesses:

- **Product revenue recognition** normally occurs upon delivery when title has passed. You may record revenue even if one item or service specified by the contract has not been delivered if the remaining obligation is inconsequential and the costs associated with the obligation can be estimated and accrued.
- **For multiple element arrangements**, allocate revenue based on the fair market value of the elements. If an undelivered item is needed to make a delivered item functional, do not recognize any revenue.
- **For trials or evaluations**, do not recognize revenue until the earlier of when the customer accepts the product or the acceptance provisions lapse.
- **For standard product models** delivered that the customer has the right to return or have repaired if defective, recognize the sale at delivery and set up a liability account for probable warranty obligations.
- **For nonstandard products**, modified to fit into a specific space, do not recognize revenue until the delivered equipment has met the contract specs—normally when the customer accepts the product.
- **Refundable fees received** generally should be recorded as deposits. In some cases, revenue may be recognized net of estimated cancellations if cancellations can be reasonably estimated.

Example: Claims-processing firms with fees based on a percentage of collections from third-party payers cannot recognize revenue until collected.

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The American Institute of Professional Bookkeepers (AIPB), is the national association for bookkeepers, currently with 30,000 active members

AIPB was founded in 1987 for the following purposes:

- To recognize bookkeepers as accounting professionals
- To make sure that each member has the latest bookkeeping, accounting and tax information

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- To answer members' everyday bookkeeping and accounting questions on the telephone at no charge.
- To provide bookkeepers with low-cost continuing professional education.
- To return the membership fees of any bookkeeper who is dissatisfied with the benefits of membership