Accounting 325

Individual Research Case

Accounting for the iPhone at Apple Inc.

Read the following materials:

1. Accounting for the iPhone at Apple Inc. (Harvard Business School Case 9-111-003)
2. Accounting Standards Codification Topic 605
3. Accounting Standards Codification Topic 985

Required:

Write a memo to your accounting manager stating whether under current accounting standards, Apple may abandon “subscription accounting” and change to a method of accounting where most of the revenue from the iPhone is recognized at the point of sale.

In your memo, include a discussion of the following:

1. Does ASC 985 apply to the iPhone? Explain and provide citation from the codification.
2. Does ASC 605 apply to the iPhone? Explain and provide citation from the codification.
3. What is a multiple element arrangement? Explain in simple language.
4. If Multiple Element Arrangement accounting were to apply to the iPhone, clearly identify and name the elements. Explain (for or against) if Multiple Element Arrangement accounting applies to the iPhone. Provide citation.
5. If Multiple Element Arrangement accounting were to apply to the iPhone, under the current codification, explain in simple language when the elements may be separated into separate units of accounting (provide citation). If the elements can’t be separated into separate units accounting, explain why (simple language) and provide citation. What is the significance of separate units of accounting?
6. Under the current codification, explain the methods that may be used to assign value to the elements of the iPhone, assuming they may be separated into separate units of accounting (provide citation and support which method Apple could use).
7. Explain when revenue may be recognized for the iPhone (provide citation from the codification).
8. Develop an example with numbers to illustrate the differences between subscription accounting and Multiple Element Arrangement accounting (assuming separate elements). Provide journal entries.