Adjusting Accounts

You are the chief financial officer (CFO) for a growing sporting goods store and want to boost December revenue before the end of the year. The store uses AI to analyze promotional strategies. As CFO, you must check the AI analysis for errors (hallucinations). The following is a chat between you (CFO) and AI.

CFO: The store is considering the following three promotions and uses accrual basis accounting. Determine how much additional revenue should be recorded for December and January under each promotional strategy.

Promotion	Description
Strategy A	Sell $120,000 worth of pre-orders for limited edition shoes. The shoes will be sent to customers in January of next year. Customers pay in December.
Strategy B	Increase bicycle sales by $80,000 in December by providing a free tune-up with each purchase; customers pay at the time of sale.
Strategy C	Perform $75,000 of equipment repair services in December of this year; payments are not due until January of next year.

AI Chatbot: Using the revenue recognition principle, the following revenue should be recorded in December and January under each promotional strategy.

Promotion	December	January
Strategy A	$120,000	No revenue recognized
Strategy B	$ 80,000	No revenue recognized
Strategy C	$ 75,000	No revenue recognized

Question 1

We discover a hallucination in the AI response. So, we must be careful in answering the following questions.

a) In which month should we recognize the revenue from Strategy A?
b) In which month should we recognize the revenue from Strategy B?
c) In which month should we recognize the revenue from Strategy C?

Question 2

a) What amount of revenue would be recorded in **<u>December</u>** if all three of the promotions are implemented?
b) What amount of revenue would be recorded in **<u>January</u>** if all three of the promotions are implemented?