P116T100007 West Los Angeles College

INTER-OFFICE CORRESPONDENCE
LOS ANGELES COMMUNITY COLLEGES

October 24, 2013

TO: Larry Packham, FIPSE IMRI Project Director
Olga Pech, FIPSE IMRI Co-Project Director
FROM: Nyame-Tease Prempeh, Bookstore Accountant

SUBJECT: GAAP ACCOUNTING FOR BOOKSTORE RENTAL MODEL

This report seeks to examine Financial Accounting Issues related to the sustainability of the College Bookstore Rental Module. The sustenance of this module depends on its revenue generation ability and related cost structure.

Generally Accepted Accounting Principles (GAAP hereafter) require that income and cost are recognized following a matching principle. This module follows such principle by following a cost recovery system that is conservative. At the same time, the module is structured to recognize revenue whiles extending competitive pricing to students. That is to say, the uniqueness of our model is the ability to compete on price, which in turn produces enough revenue to cover cost and possibly generate profits.

Our analysis is informed by GAAP section 840-20-30, Accounting for Operating Leases. We have assumed that the value of a title will not be guaranteed by the end of its useful life, which is an average of four rentals. Therefore, any value realized, whether through another rental or sale of the title, will go towards reducing cost of goods for that period. GAAP allows for the present value of unguaranteed residuals to be applied towards current COGS, however, in order to be conservative, we will apply any such value in the period in which it is realized.

Finally, we have made assumptions, in an accelerated fashion, how fast cost will be recovered from period to period. Our assumption is based on the other assumption that a title will be rented for an average of four periods. The four periods will cover approximately two years; spring and fall semesters in each year. Cost will be recovered as titles are rented each of those semesters. Any rentals that occur during the winter and summer inter-sessions will be accounted for as 50% cost reduction and 50% gross profit. This will enable us to assign cost on a more consistent basis. As we continue to collect more and more intelligent data and become well informed, our assumptions will be updated accordingly.