

Priceline.com

Business model

In this unique model known as “demand collection system” the orders placed by the customers are fulfilled by the participating sellers. So the **company essentially acts as a facilitator/agent intermediating payments between both the parties** and provides the platform for bringing together of both the parties.

Key features

- a. **Services offered:** Air lines, Hotels, Rental Cars etc
- b. Transactions were secured through **credit card**
- c. The company is the “**Merchant of Record**” in these transactions. This means that all payments are made to the Company which in turn pays to the seller. Any charge back that happens on the account of credit card payments has to be paid by company.
- d. The orders in the system once placed remained opened for some time and once accepted these could not be cancelled.
- e. The system required flexibility from customer’s end with respect to their choice of brand, product features and sellers.
- f. Benefit o the customers: economical transactions
- g. Benefit to the sellers: incremental source of revenue

Answer 1

The extracts of the annual report of the company indicates that the company recognizes the offer price paid by customers as revenue and the cost of services ordered as product cost.

Price of the Plane ticket = \$250

Amount of commission= 20% of the ticket price = \$50

Therefore, Cost of ticket for the company = \$250 - \$50 = \$200

So the accounting entry passed by the company to record the transaction would be:

1) Purchase (Plane ticket) A/cDr.	\$200	
To Bank A/c		\$200
(Being tickets purchased)		
2) BankA/c.....Dr.	\$250	
To Sale (Plane Ticket) A/c		\$250
(Being tickets sold to customer)		

Answer 2

If Priceline.com is working only in the capacity of the agent/facilitator and the terms of service are such that it does not have to bear the charge backs, the commission received from the customer should appear in his books of account under the head commission other than as revenue and product cost.

Though the impact on the final profit remains same in both the cases but in the 1st case it gives the impression that the company is engaged in processing the offerings and thus has a larger scale of operation.

The entry for the above transaction will be:

Bank A/c Dr.	\$50	
To Commission on Ticket A/c		\$50

(Being commission earned on sale of tickets)

Answer 3:

CFO of Priceline.com would recommend the use of method demonstrated in question 1.

This is because in this dotcom era the investors relied heavily on revenues and gross margins for valuing the dotcom companies. Greater the revenue in the books of accounts higher will be the value of the stocks of the company. So it was in the best interest of the companies to show grossed up revenues

Alternative 2 can be used when the company is acting only as the agent and bringing together the buyers and sellers. It does not assume significant risks and rewards of ownership and does not bear any risk either. So the revenue recording would be in terms of the commission or fee.

Answer 4

According to FASB the reporting of revenues should be done in such a manner that it reflects true and fair view of the statement of affairs and the correct financial position of the company. Also there should be uniformity in the preparation and presentation financial statements across the industry.

In the US, EITF 99-19 provides guidance for Internet sellers on whether to report the entire amount collected from customers as revenue and payment made to sellers as cost of sales or just to report the net amount as revenue. Generally, the process of determination of this depends on the relationship between the seller, the customer and the company.

Gross reporting should be done in cases where company acts as the principal (assumes significant risks and rewards of ownership- loss in collection, delivery, or returns) and the primary obligor.

Net reporting should be done in cases where the company acts as the agent (does not assume significant risks and rewards of ownership) and does not bear the credit risk.