

How will the reservation, purchase agreement, and the delivery of a Model 3 impact Tesla's financial statements?

Since 2016, Tesla has been accepting reservations for its Model 3 car, which is a mid-size all-electric four-door sedan. The long-range battery Model 3 (310 miles on a single charge) starts at \$50,000 while the standard range battery Model 3 (220 miles) starts at \$35,000.

Production cannot keep up with demand for this model. Tesla produced and delivered 1,772 units during 2017. Tesla has said it plans to produce 5,000 units per week in the latter half of 2018. Currently there are more than 400,000 reservations for the Model 3, with 1,800 reservations being added per day.

If a customer wants to purchase a Tesla Model 3, the customer will first make a reservation for a Model 3 which puts the customer in line. A reservation requires a \$1,000 reservation payment. When the production of that customer's Tesla would be scheduled within the next 1 – 3 months, Tesla invites the customer to place an actual order. The \$1,000 reservation payment is applied to the customer's purchase agreement. If the customer changes their mind at any point before making the purchase agreement, the \$1,000 reservation payment is refundable to the customer. Full payment for the Model 3 (less the \$1,000 reservation payment) is collected at the time of delivery to the customer.

Questions

1. When Tesla receives a \$1,000 reservation payment from a customer, what Tesla general ledger accounts does this \$1,000 impact? Explain.
2. Now assume that a customer orders a Model 3 by completing the purchase agreement. Will this purchase agreement directly impact Tesla's balance sheet or income statement at the date of the purchase agreement?
3. When the Model 3 is delivered to the customer and payment is received, how will Tesla's balance sheet and income statement be impacted at the point of delivery?