Tutorial Letter 102/0/2024

ADVANCED FINANCIAL ACCOUNTING II

FAC4862/NFA4862/ZFA4862

Year module

Department of Financial Governance

IMPORTANT INFORMATION:

This tutorial letter contains important information about your module.

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DUE DATE

DUE DATE FOR THIS TUTORIAL LETTER:	**7 February 2024**
TEST 1 ON TUTORIAL 102:	**02 April 2024**

PERSONNEL AND CONTACT DETAILS

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PRESCRIBED METHOD OF STUDY

1. Firstly, study the relevant chapter(s) in your prescribed textbook so that you master the basic principles and supplement this with the additional information in the learning unit (where applicable).

2. Read the standards and interpretation(s) covered by the learning unit.

3. Do the questions in the study material and make sure you understand the principles contained in the questions.

4. Consider whether you have achieved the specific outcomes of the learning unit.

5. After the completion of all the learning units, attempt the self-assessment questions (open book, but within the time constraint) to test whether you have mastered the contents of this tutorial letter.

SUGGESTED WORKING PROGRAMME

JANUARY/FEBRUARY 2024						
WEDNESDAY	**THURSDAY**	**FRIDAY**	**SATURDAY**	**SUNDAY**	**MONDAY**	**TUESDAY**
31 Revenue	1 Revenue	2 Revenue	3 Revenue	4 Joint arrangements	5 Do self-assessment questions	6 Do self-assessment questions

SAICA'S PRINCIPLES OF EXAMINATION LEVELS

The module is on NQF level 8 and has the following exit level outcomes:

1. Apply sound accounting theory and practice relevant to the accounting function in business.

2. Demonstrate the ability to communicate skills in a rational and logical manner.

3. Practise the ethics pertinent to Accounting, Business, Commerce and Management and in particular those pertinent to an Accountant and Independent Auditor.

4. Demonstrate an advanced understanding of the theories and practices pertaining to the field of Financial Accounting, Management Accounting, Auditing and Taxation specifically and also in the related fields of business, commerce and management studies.

5. Identify and solve problems, specifically pertaining to the field of Financial Accounting, Management Accounting, Auditing and Taxation, but also in the related fields of business, commerce and management studies.

6. Demonstrate proficiency in managing the applied accounting sciences' activity and the ability to conduct applied accounting engagements, both assurance and consulting, in diverse business environments.

SAICA's principles of examination levels provide guidance on how the standards (or topics within a standard) will be examined.

Throughout the study material we will refer you to the following principles of examination levels:

1. Issues that are at a **core** level

   Issues are at a **core** level if
   - they are based on a significant conceptual underpinning/foundation of current financial accounting (i.e., based on identification, recognition, measurement and presentation, and the disclosure of elements); or
   - they are prevalent (i.e., commonly encountered in practice in the course of an entry-level chartered accountant's work). Here, the emphasis is on issues that are of a more general nature.

2. Issues that are at an **awareness** level

Awareness means that an issue is not core, but an entry-level chartered accountant must know about it. It is important for the chartered accountant to be able to identify that it is an issue that potentially has significant accounting implications and requires additional or specialist knowledge of International Financial Reporting Standards (IFRSs). The chartered accountant would need to be able to **identify** and **describe** the accounting issue and read up on it further and would be expected to perform basic processing of the transaction when the numbers are given (e.g., obtained from an expert). A good example might be borrowing costs: an entry-level chartered accountant should be able to prepare the journal for capitalising any qualifying borrowing costs as part of property, plant and equipment when the borrowing cost amount has been supplied.

3. Issues that are **excluded**

The following standards are excluded from the syllabus:

- IFRS 1, *First-time Adoption of International Financial Reporting Standards*
- IFRS 4, *Insurance Contracts*
- IFRS 6, *Exploration for and Evaluation of Mineral Resources*
- IFRS 8, *Operating Segments*
- IFRS 14, *Regulatory Deferral Accounts*
- IFRS 17, *Insurance Contracts*
- IAS 20, *Government Grants*
- IAS 26, *Accounting and Reporting by Retirement Benefit Plans*
- IAS 29, *Financial Reporting in Hyperinflationary Economics*
- IAS 33, *Earnings per Share*
- IAS 34, *Interim Financial Reporting*
- IAS 41, *Agriculture*

Please note the **scope** of all standards is at an **awareness** level, even if a standard is excluded. Exclusions within any standard will be specifically identified in the study material.

The treatment of any interpretation note will follow the principles of examination levels pertaining to the related standard.

EXAMINATION TECHNIQUE

1. Introduction

Examination technique remains the key distinguishing feature between candidates who pass and those who fail this module. You should practise answering questions under exam conditions by preparing the solutions within the given time limits and then marking your solutions. If you mark your solutions, you will learn from your mistakes.

2. Examination technique

General issues relating to examination technique were identified from a review of candidates' answers to past examination questions. These issues affected the overall performance of candidates. Although these aspects seem like common sense, candidates who pay attention to them are likely to obtain better marks.

To improve your overall examination technique and performance, take note of the following pointers:

- **Discussion questions**

  When you answer a discussion question, lay the foundation of your answer by **applying the relevant theory** and **demonstrating insight** into the question.

  Identify **all** the issues and address all considerations in your application. Remember to provide a conclusion.

EXAMINATION TECHNIQUE

Refer to the video on myUnisa detailing the examination technique for discussion type questions.

Avoid using your own abbreviations (SMS writing style) because the marker will not be able to interpret abbreviations that are not commonly used and will therefore not award marks for the relevant section(s). The increased use of an SMS style of writing in a professional examination is a major concern. **You should pay specific attention to the way in which you write your answers and bear in mind that, in a professional examination, marks are awarded for presentation.**

SAICA has adopted a competency framework that outlines pervasive and technical competencies that entry-level chartered accountants (CAs) must be able to demonstrate. These competencies include a number of professional skills, one of which is the ability to communicate effectively and efficiently. Refer to SAICA’s guidelines for candidates relating to the assessment of communication skills in the Initial Test of Competence.

EXAMINATION TECHNIQUE

Note that **no** marks are awarded for theory in an answer to a discussion question. Marks are awarded for the application of the theory. However, the suggested solutions for discussion questions will include the relevant theory for completeness and to assist you with the application of the theory. Remember that the information in the scenario will determine the applicable theory in the standards to use as basis for the answer.

You should not waste time by including theory in an answer to a discussion question since you will not earn any marks for it.

- **Journal entries**

  Describe the specific accounts that are affected by the journals and clearly convey the classification of the accounts (e.g., P/L, OCI, SFP, SCE). Ensure that the journal entries are processed the correct way around. Indicate the debit and credit of accounts clearly.

  Narrations to journals should be provided, except when it is stated in a question that a narration is not required.

EXAMINATION TECHNIQUE

Refer to the video on myUnisa detailing the examination technique for journal entry type questions.

- **Layout and presentation**

  You should allocate time to planning the layout and the presentation of your answers before committing thought to paper. Very often, candidates start to write an answer without having read the question properly, which invariably leads to, for example, parts of the same question being answered in several places, or facts being restated in different parts. Marks are awarded for appropriate presentation and candidates should answer questions in the required format, that is, in the form of a letter, a memorandum or a report, if that is what is required.

  The quality of handwriting is also an ongoing problem. **The onus is on you, the candidate, to produce legible answers.**

- **Irrelevancy**

  Marks are awarded for quality, not quantity. Long-windedness is no substitute for clear, concise and logical thinking and good presentation. You should bear in mind that a display of irrelevant knowledge, however sound, will not earn you any marks.

- **Calculations**

  Always show **all** your calculations. Your calculations should contain a reference when used in a solution. All calculations are marked, if used. Calculations done in pencil will **not** be marked.

- **Time management**

  Use the reading time allocated to a question wisely. Highlight important issues and try to envisage what is required in the answer.

  Budget time for each question. The marks allocated to a question are an indication of the relevant importance the examiners attach to that question and thus the time that should be spent on it. Beware of the tendency to spend too much time on the first question attempted and too little time on the last. Never overrun on time on any question; rather return to it after you have attempted all the other questions.

- **Recommendations/interpretations**

  Responses to these requirements are generally poor, either because candidates are unable to explain principles that they can apply numerically or because they are reluctant to commit themselves to one course of action. It is essential to make a recommendation when a question calls for it and to support it with reasons. Both the direction of the recommendation (i.e., to do or not to do something) and the quality of the arguments – in other words, whether they are relevant to the actual case and whether the final recommendation is consistent with those arguments – are important. Unnecessary time is wasted by stating all the alternatives.

- **Open-book examination**

  You **must** familiarise yourself with the open-book policy, specifically with respect to the following:

  - No other sources (i.e., tutorial letters etc.) are allowed to be used or accessed during the assessments and examinations.

- Candidates are only allowed to highlight, underline, side-line and flag in the permitted texts. Writing on flags is permitted for reference and cross-referencing purposes only, that is, writing may only refer to the name or the number of the relevant discipline, standard, statement, or section in the legislation.

  Any contravention of this regulation is considered misconduct.

EXAMINATION TECHNIQUE

Refer to the video on myUnisa detailing the examination technique for presentation type questions.

THE UNITED NATIONS GLOBAL COMPACT PRINCIPLES

INTRODUCTION

The United Nations Global Compact (UNGC) is underpinned on the principle of corporate sustainability which emphasises the value- and principles-based approach to doing business.

It established the ten principles based on the four main values: **human rights**, **labour practices**, **environmental concerns,** and **anti-corruption**.

The summary of the principles is provided in the table below.

OBJECTIVES/OUTCOMES

After you have engaged this topic, you should be able to demonstrate an awareness of the importance of the UNGC principles.

This topic is **not** examinable, but it is important that you should have a sufficient awareness of these principles as they are applicable in practice.

The summary of the 10 UNGC principles

UNGC ten principles	**Human rights**	1. Businesses should support and respect the protection of internationally proclaimed human rights; and 2. Make sure that they are not complicit in human rights abuses.
	Labour	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. The elimination of all forms of forced and compulsory labour; 5. The effective abolition of child labour; and 6. The elimination of discrimination in respect of employment and occupation.
	Environment	7. Businesses should support a precautionary approach to environmental challenges; 8. Undertake initiatives to promote greater environmental responsibility; and 9. Encourage the development and diffusion of environmentally friendly technologies.
	Anti-corruption	10 Businesses should work against corruption in all its forms, including extortion and bribery.

Source: Greenstone, 2014

LEARNING UNIT 1 – REVENUE

INTRODUCTION

IFRS 15 establishes a single framework for the recognition and measurement of revenue. The core principle is that a vendor recognises revenue when control over the good or service is transferred to a customer.

The UNGC principle 10 is applicable here, stating that businesses should work against corruption in all its forms, including extortion and bribery.

OBJECTIVES/OUTCOMES

At the end of this learning unit, you should be able to

1. identify contracts with customers within the scope of IFRS 15
2. identify a combination of contracts and contract modifications
3. identify separate performance obligations
4. determine the transaction price and the allocation thereof to separate performance obligations
5. recognise revenue when performance obligations have been satisfied
6. account for contract costs
7. present and disclose revenue in the annual financial statements

PRESCRIBED STUDY MATERIAL

The following **must** be studied before you attempt the questions in this learning unit:

1. IFRS 15 *Revenue from Contracts with Customers* (including the illustrative examples)

THE REST OF LEARNING UNIT 1 IS BASED ON THE ASSUMPTION THAT YOU HAVE ALREADY STUDIED THE RELEVANT PRESCRIBED STUDY MATERIAL.

SECTION A – SAICA'S PRINCIPLES OF EXAMINATION LEVELS

The SAICA **principles of examination levels** provide guidance on how the standards (or topics within a standard) will be examined.

The principles of examination levels for **IFRS 15** are as follows:

Description	Paragraph	Level	Notes
Objective	1 2 – 4	Core Core	 Meeting the objective
Scope	5 – 8	Awareness	
Recognition	9 – 17 18 – 21 22 – 45 26 (i) B52 – B63B 26 (j) B39 – B43 34 B64 – B76 B28 – B33 B34 – B38 B44 – B47 B48 – B51 B77 – B78 B79 – B82 B83 – B86	Awareness Awareness Core **Excluded** **Excluded** Core Core Core Core Core Core Core Core Core Core Core	Identification and combination of contracts Contract modifications Identifying performance obligations Licensing Licensing Customer options for additional goods or services Customer options for additional goods or services Repurchase agreements Repurchase agreements Warranties Principal versus agent considerations Customers' unexercised rights Non-refundable upfront fees Consignment arrangements Bill-and-hold arrangements Customer acceptance
Measurement	46 – 49 50 – 58 B20 – B27 59 – 65 66 – 69 70 – 72 73 – 90	Core Core Core Core Core Core Core	Determining the transaction price Variable consideration Sale with a right of return Significant financing component in the contract Non-cash consideration Consideration payable to a customer Allocating the transaction price to performance obligations
Contract costs	91 – 94 95 – 98 99 – 104	Core Core Core	Incremental costs of obtaining a contract Costs to fulfil a contract Amortisation and impairment

Description	Paragraph	Level	Notes
Presentation	105 – 109	Core	
Disclosure	110 – 122	Core	
	B87 – B89	Core	Disclosure of disaggregated revenue
	123 – 129	Core	Significant judgements in the application of this Standard
Effective date and transition	Appendix C	**Excluded**	

OVERVIEW OF THE FIVE-STEP REVENUE MODEL

Five-step revenue model

	IFRS
Step 1 – Identify the contract	15.9-.21
A **contract** with a customer must meet all five criteria for recognition as revenue.	15.9
Combination contracts Two or more contracts with the same customer are treated as a single contract if one of three criteria are met.	15.17
Contract modifications A contract modification is accounted for as an additional contract if two conditions are met.	15.18-.21
Step 2 – Identify the performance obligations	15.22-.30
• Determine if the contract contains more than one performance obligation.	15.22-.25
• A performance obligation is a good or service that is distinct (two criteria have to be met). • Determining if a good or service is distinct is therefore critical to identify separate performance obligations in a contract.	15.26-.30
Step 3 – Determine the transaction price The effects of the following on the transaction price should be considered:	15.46-.72
• variable consideration	15.50-.59
• a significant financing component	15.60-.65
• non-cash consideration	15.66-.69
• consideration payable to a customer	15.70-.72
Step 4 – Allocate the transaction price to separate performance obligations (This step only applies to a contract with more than one performance obligation.)	15.73-.86
Step 5 – Recognise revenue	15.31-.45
Recognise revenue when performance obligations are satisfied: • a good or service is transferred to a customer; and • the customer obtains control of that good or service.	15.32-.34
Performance obligations may be satisfied over time (measure of progress) or at a point in time.	15.35-.45

SECTION B – QUESTIONS ON REVENUE

EXAMINATION TECHNIQUE

There are 63 examples provided in IFRS 15, illustrating the various aspects of revenue recognition and measurement. These examples provide a practical overview of the applicable sections in the standard.

QUESTION 1.1 (10 marks – 15 minutes)

Mega Construct Ltd is a construction and project management company. Mega Construct Ltd has a December year end. On 1 June 20.21, Mega Construct Ltd entered into a contract with a local municipality whereby they agreed to refurbish an old office block used by the municipality as offices for an amount of R8 000 000. The refurbishing included painting, the tiling of all office floors and the repairing of service counters. In terms of the requirement of the contract, the municipality made a R1 000 000 cash payment to Mega Construct Ltd on the date they entered into the contract. The municipality will settle the outstanding contract price in two equal progress payments on 31 December 20.21 and 31 July 20.22. The refurbishing project has to be completed by 31 July 20.22. The total expected cost of the project is as follows:

	R
Painting	1 250 000
Tiling	2 500 000
Repairs to service counters	1 750000
Total expected costs	5 500 000

The entity uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. Based on the accountant's cost schedule for the year ended 31 December 20.21, Mega Construct Ltd incurred the following costs for the year:

	R
Painting	900 000
Tiling	1 200 000
Repairs to service counters	100 000
Total costs	2 200 000

The above costs were journalised by the accountant in the financial records of Mega Construct Ltd for the year ended 31 December 20.21. The accountant is however unsure of the accounting of all the other amounts related to the refurbishing contract and has not yet processed any other journals in respect of the refurbishing contract for the year ended 31 December 20.21.

Mega Construct Ltd concludes that the advance payment made by the municipality contains a significant financing component. In terms of IFRS 15.64, the rate that reflects Mega Construct Ltd's credit characteristics is the entity's own incremental borrowing rate of 6% per annum.

REQUIRED

		Marks
(a)	Calculate the revenue from the refurbishing contract that should be recognised by the accountant in the financial statements of Mega Construct Ltd for the year ended 31 December 20.21.	2
(b)	Provide the accountant with the additional journal entries necessary to account for the refurbishing project of Mega Construct Ltd for the year ended 31 December 20.21.	8
Please note:		
•	Ignore any normal income tax implications.	
•	Ignore any value-added taxation (VAT) implications.	
•	Journal narrations are not required.	
•	Your answer must comply with the International Financial Reporting Standards (IFRS).	

QUESTION 1.1 – Suggested solution

(a) Revenue recognition

Measurement of progress
2 200 000/5 500 000 x 100 = 40% (1)

Revenue amount to be recognised for 20.21
8 000 000 x 40% = 3 200 000 (1)
(2)

(b) Journal entries

		Dr R	Cr R	
	1 June 20.21			
J1	Bank (SFP) (given)	1 000 000		(1)
	Contract liability (SFP)		1 000 000	(1)
	Account for advance payment received on refurbishing project			
J2	**31 December 20.21**			
	Interest expense (P/L)	35 000		(1)
	Contract liability (SFP) (1 000 000 x 6% x 7/12)		35 000	(1)
	Adjust the contract liability with the financing Component			
J3	Bank (SFP) [(8 000 000 – 1 000 000)/2]	3 500 000		(1)
	Contract liability (SFP)		3 500 000	(1)
	Account for the first progress payment			
J4	Contract liability (SFP)	3 200 000		(1)
	Revenue (P/L) (from (a) above)		3 200 000	(1)
	Recognise revenue from the refurbishing project for 20.21			
				(8)

QUESTION 1.2 (25 marks – 38 minutes)

Coolworth Ltd (Coolworth) is a respected retail chain company that supplies clothing, food and homeware. Coolworth launched a new customer loyalty programme on 1 January 20.20 that rewards a customer with one customer loyalty point for every R150 of purchases. Each point is redeemable for a R1,35 discount on future purchases of Coolworth products. The estimated stand-alone selling price of one point is R0,90.

Sales to Coolworth customers amounted to R2 700 000 (the stand-alone selling prices of the products) during the financial year ended 31 December 20.20. Coolworth expects that 12 000 points will be redeemed during the financial year ended 31 December 20.20. At the end of the 20.20 financial year 10 000 points have been redeemed by customers. On 31 December 20.21, 11 800 points have been redeemed cumulatively in respect of the 20.20 sales. Coolworth continues to expect that 12 000 points will be redeemed in respect of the 20.20 sales.

Sales to Coolworth customers amounted to R3 300 000 (the stand-alone selling prices of the products) during the financial year ended 31 December 20.21. At the end of the 20.21 financial year, 12 500 points on the 20.21 sales have been redeemed by customers and Coolworth expects that 15 000 points will be redeemed in total in respect of the 20.21 sales.

All sales made in 20.20 and 20.21 were cash sales.

REQUIRED

		Marks
(a)	Discuss the accounting treatment of the customer loyalty program of Coolworth Ltd in terms of IFRS 15 *Revenue from Contracts with Customers*.	10
	Communication skills: logical flow and conclusion	1
(b)	Provide the journal entries to account for the customer loyalty program in the financial statements of Coolworth Ltd for the year ended 31 December 20.20 and 31 December 20.21.	14
Please note:		
•	Journal narrations are not required.	
•	Round off all amounts to the nearest rand.	
•	Ignore any normal income tax implications.	
•	Ignore any value-added taxation (VAT) implications.	
•	Your answer must comply with the International Financial Reporting Standards (IFRS).	

QUESTION 1.2 – Suggested solution

(a) Accounting treatment of customer loyalty program

Recognition of revenue

The customer loyalty program is a contract with a customer since the customer loyalty program provides customers with a material right to points that will grant them a discount when purchasing from Coolworth Ltd in the future (IFRS 15.10). (1)

Coolworth's promise to provide points to a customer is a performance obligation for the following reasons: (1)

- the customer can benefit from the points on its own (i.e., the customer can redeem the points for a discount on future purchases); and it is (1)
- separately identifiable from other goods offered in terms of the sales contract. (1)

Coolworth may only recognise revenue from the customer loyalty program once it has satisfied its performance obligation in terms of the contract (IFRS 15.31). (1)

Coolworth should recognise revenue from the customer loyalty program once the customers **redeem** their points that they have earned. (1)

Revenue is not recognised for unredeemed points since the performance obligation has not been satisfied. (1) A contract liability is recognised for the unredeemed points at the end of the financial year. (1)

Measurement

Revenue from the customer loyalty program is measured based on the transaction price allocated to that performance obligation (IFRS 15.46).

The sales contract comprises more than one performance obligation, revenue from product and revenue from loyalty points. Coolworth has to allocate the transaction price to the goods sold to customers and the points awarded to customers based on their relative stand-alone selling prices. (1)

The stand-alone selling price of the goods sold in 20.21 is R3 300 000 (20.20: 2 700 000). (1) The stand-alone selling price of the points in 20.21 is R19 800 [C4] (20.20: R16 200 [C1]). Based on these stand-alone selling prices the transaction price is allocated to the goods and points respectively. (1)

Total	(11)
Maximum	(10)
Communication skills: logical flow and conclusion	(1)

EXAMINATION TECHNIQUE

Please note that **NO** marks will be awarded for theory in a discussion question. The suggested solutions for discussion questions will however include the theory for completeness purposes, and to assist students with the application of the theory.

Students should not waste time by stating the theory in the tests or the examination as no marks are awarded for theory.

(b) Journal entries

		Dr R	Cr R	
	31 December 20.20			
J1	Bank (given)	2 700 000		(1)
	Revenue: products (P/L) [C2]		2 683 897	(3)
	Revenue: loyalty points (P/L) (10 000/12 000 x R16 103 [C2])		13 419	(2)
	Contract liability (SFP) [C3]		2 684	(1)
	Recognition of revenue from products and loyalty points			
	31 December 20.21			
J2	Contract liability (SFP)	2 415		(1)
	Revenue: loyalty points (P/L) ((11 800 – 10 000)/12 000 x R16 103 [C2])		2 415	(1)
	Recognise revenue from 20.13 loyalty points redeemed in 20.21			
J3	Bank (given)	3 300 000		(1)
	Revenue: products (P/L) [C5]		3 280 318	(3)
	Revenue: loyalty points (P/L) (12 500/15 000 x R19 682 [C5])		16 402	(2)
	Contract liability (SFP) [C6]		3 280	(1)
	Recognition of revenue from products and loyalty points			
			Total	(16)
			Maximum	(14)

COMMENT

In this case, the contract with a customer includes two performance obligations, that is, the promise to provide goods and the promise to provide loyalty points to the customer. Since these two performance obligations are **distinct** in terms of IFRS 15.27, the entity has to allocate the transaction price to these two performance obligations.

CALCULATIONS

C1.	Loyalty points incurred during 20.20 (R2 700 000/R150)	18 000	[1]
	Stand-alone selling price of loyalty points (18 000 x R0,90)	R16 200	[1]
C2.	Allocation of transaction price in 20.20		
	Revenue allocated to products [2 700 000 x (2 700 000/(2 700 000 + 16 200 [C1]))]	2 683 897	[1]
	Revenue allocated to points [2 700 000 x (16 200 [C1]/(2 700 000 + 16 200[C1]))]	16 103	[1]
C3.	Contract liability for 20.20 16 103 x 2 000 unredeemed points / 12 000 expected points	2 684	[1]

C4.	Loyalty points earned during 20.21 (R3 300 000/R150)	22 000	[1]
	Stand-alone selling price of loyalty points (22 000 x R0,90)	R19 800	[1]
C5.	Allocation of transaction price in 20.21		
	Revenue allocated to products		
	[3 300 000 x (3 300 000/(3 300 000 + 19 800 [C4]))]	3 280 318	[1]
	Revenue allocated to points		
	[3 300 000 x (19 800 [C4]/(3 300 000 + 19 800[C4]))]	19 682	[1]
C6.	Contract liability for 20.21		
	19 682 x 2 500 unredeemed points/15 000 expected points	3 280	[1]

COMMENT

In this question, you were given both the estimated future price and the stand-alone selling price/value for the points. Where the stand-alone selling price is given, it is used in calculating the allocation of the transaction price.

Note: Where the stand-alone selling price is not given, an estimation of the selling price/value should be used. Also, refer to IFRS 15.78 and IFRS 15.B42.

COMMENT

Did you know? During the implementation phase of IFRS 15, the IASB and the FASB formed the joint Revenue Transition Resource Group. There were five topics identified requiring further consideration. Those five topics were identifying performance obligations, principal versus agent considerations, licensing, collectability, and measuring non-cash consideration. This led to the issuing of the document Clarifications to IFRS 15 *Revenue from Contracts with Customers* to assist with the implementation of the standard as well as provide practical expedients.

LEARNING UNIT 2 – JOINT ARRANGEMENTS

INTRODUCTION

The International Financial Reporting Standards (IFRS) 11 establishes the principles for financial reporting by parties to a joint arrangement and the criteria for determining the type of arrangement. A joint arrangement is classified as either a joint operation or a joint venture.

The UNGC principle 10 is applicable here, stating that businesses should work against corruption in all its forms, including extortion and bribery.

OBJECTIVES/OUTCOMES

At the end of this learning unit, you should be able to

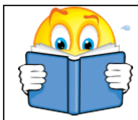
1. define a joint arrangement in terms of IFRS 11

2. define and distinguish between the types of joint arrangements as follows:

   - joint operations; and
   - joint ventures

3. account for the interest in a joint venture in the separate financial statements of the investor in accordance with IAS 27

4. disclose the required information, in accordance with IFRS 12, in the financial statements of the investor, relating to significant judgements and assumptions used in determining the type of joint arrangement



PRESCRIBED STUDY MATERIAL

The following **must** be studied before you attempt the questions in this learning unit:

1. Group Statements, 18th edition, volume 2

2. IFRS 11 *Joint Arrangements*

3. IFRS 12 *Disclosure of Interests in Other Entities* (par 1 to 9 and 20 to 22)

THE REST OF LEARNING UNIT 2 IS BASED ON THE ASSUMPTION THAT YOU HAVE ALREADY STUDIED THE RELEVANT PRESCRIBED STUDY MATERIAL.

SECTION A – SAICA'S PRINCIPLES OF EXAMINATION LEVELS

The SAICA **principles of examination levels** provide guidance on how the standards (or topics within a standard) will be examined.

The principles of examination levels for **IFRS 11** are as follows:

Description	**Paragraph**	**Level**	**Notes**
Objective	1 – 2	Core	
Scope	3	Awareness	
Joint arrangements	4 – 6 B2 – B4	Core Core	
Joint control	7 – 13 B5 – B11	Core Core	
Types of joint arrangements	14 – 19 B12 – B33	Core Core	
Joint operation accounting	20 – 23 B33A – B37	**Excluded** **Excluded**	
Joint venture accounting	24 – 25	Core	Refer to learning unit 5
Separate financial statements	26 – 27	Core	Excluding fair value option
Effective date and transition	Appendix C	**Excluded**	

COMMENT

As part of its quality processes, the International Accounting Standards Board (IASB) conducts a Post-implementation Review (PIR) of each new IFRS Standard or major amendment. The IASB completed its PIR of IFRS 11 during June 2022 and determined that the standard is meeting its objectives and functioning as intended.

However, the PIR identified collaborative arrangements outside the scope of IFRS 11 as a low priority, which might be explored further at its next agenda meeting.

SECTION B – QUESTION ON JOINT ARRANGEMENTS

QUESTION 2.1 (12 marks – 18 minutes)

The South African Railroad Authority has recently embarked on a project to modernise their entire fleet of locomotives. This will be a phased process with five locomotives procured in the first phase by means of a tender process.

Your employer, Tons-o-Torque Ltd (TOT), has identified this as the ideal opportunity to gain a foothold in the South African railroad industry. The management of TOT has therefore approached a rail and freight company, Railroads United Ltd (RU), to form a consortium to submit a tender for the joint manufacture of the five locomotives, which was successful.

A separate entity, TOTRU Ltd (TOTRU), has been formed in order to comply with the tender requirements. TOT and RU each have a 50% shareholding in TOTRU.

The companies have signed a consortium agreement that outlines the activities of the arrangement and establishes a joint operating committee. A representative from each company sits on the joint operating committee and all decisions require unanimous consent. TOT is responsible for the manufacture of the engines while RU is responsible for the manufacture and assembly of the locomotives.

The companies carry out different parts of the manufacturing process, each using its own resources and expertise in order to manufacture and distribute the locomotives jointly. The two companies share the revenues from the sale of locomotives and jointly incur expenses. The revenues and common costs are shared as contractually agreed in the consortium agreement.

A separate bank account is established through which revenue is received and shared costs are paid. The bank account is in the name of TOTRU trading as the consortium. Each company incurs their own separate costs such as labour costs, manufacturing costs, supplies, inventory of unused parts and work in progress and recognises their separately incurred costs in full. TOT and RU share equally in the rights to the assets used in the arrangement and are both liable for the obligations incurred.

REQUIRED

	Marks
Write a memorandum to the management of Tons-o-Torque Ltd (TOT), addressing the following aspects: (a) Is the agreement with Railroads United Ltd (RU) considered a joint arrangement; and (b) If yes, what is the correct classification of the joint arrangement?	11
Communication skills: logical flow, conclusion and format	1
Please note: • Your answer must comply with the International Financial Reporting Standards (IFRS).	

QUESTION 2.1 – Suggested solution

MEMORANDUM

To: Management of Tons-o-Torque Ltd
From: Accountant
Date: 17 March 20.22
Subject: Consortium agreement with Railroads United Ltd (RU)

(a) IFRS 11 *Joint Arrangements* is applicable to all entities that are a party to a joint arrangement. A joint arrangement is an arrangement of which two or more parties have joint control (IFRS 11.4). Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control (IFRS 11.7).

The consortium agreement between TOT and RU sets out the terms upon which the two parties participate in the manufacture of the locomotives. The following matters are dealt with in the contract:

- Each company appoints a representative to the joint operating committee; (1)
- The decisions made by the joint operating committee require unanimous consent; (1)
- The responsibilities of TOT and RU are defined; and (1)
- The sharing of the assets, liabilities, revenue and expenses is stipulated. (1)

Max (2)

TOT and RU have rights to the variable returns of the arrangement and are able to direct the manufacturing and assembly activities that affect the returns of the arrangement through their consortium arrangement. (1)

Unanimous consent is required to direct these relevant activities. (1)

Conclusion
The consortium arrangement is therefore a joint arrangement as both TOT and RU are bound by the contractual arrangement that gives both parties joint control. (1)

(b) The rights and obligations of both parties to the joint arrangement must be assessed to determine the classification of the arrangement as either a joint operation or joint venture (IFRS 11.14).

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement (IFRS 11.15).

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement (IFRS 11.16).

The joint arrangement is structured through a separate entity, TOTRU, which has its own separate financial accounting records in respect of shared revenues and costs and a separate bank account. (1)

The arrangement can therefore still be classified as either a joint operation or joint venture (IFRS 11.B19). (1)

When an arrangement is structured through a separate entity, the following must also be considered:

- The legal form of the separate entity (IFRS 11.B22-B24):

  TOTRU is a private company registered in terms of the Companies Act, 2008, of South Africa. The legal form confers separation between TOT and RU and TOTRU. (1)

  The assets and liabilities held by TOTRU are TOTRU'S assets and liabilities and the shareholders are entitled to the net assets. (1)

- Features of the contractual arrangement between TOT and RU (IFRS 11.B25-B28):

  The consortium agreement outlines that the parties have rights to the assets and liabilities of the arrangement. (1)

  TOT and RU share the common costs of TOTRU in proportion to their 50% shareholding interests. (1)

  They are also individually liable for the claims on TOTRU.
  Furthermore, the allocation of revenue from the tender for the locomotives is attributable in proportion to their interests. (1)

- Other facts and circumstances (IFRS 11.B29-B33):

  The contractual arrangement specifies the rights and obligations of TOT and RU in relation to TOTRU. (1)

The terms of the consortium arrangement override the legal form of TOTRU. (1)

Therefore, TOTRU would be classified as a joint operation as each company has direct rights to the assets and obligations for the liabilities of the arrangement. (1)

Total (15)
Maximum (11)

Communication skills: logical flow, conclusion and format (1)

EXAMINATION TECHNIQUE

Please note that **NO** marks will be awarded for theory in a discussion question. The suggested solutions for discussion questions will however include the theory for completeness, and to assist students with the application of the theory.

Students should not waste time by stating the theory in the tests or the examination as no marks are awarded for theory. Marks are awarded for the application of the theory.

COMMENT

If the consortium arrangement had not been structured through a separate entity, then the arrangement can only be a joint operation (IFRS 11.B16). Refer to the helpful flow chart included under IFRS 11.B21.

The terms and conditions of the contractual arrangement will always be inspected as these can override the legal form of the separate entity in determining who has the right to the underlying assets and obligations for the liabilities. Refer to the helpful table included under IFRS 11.B27.

The standard further includes six examples in the Illustrative Examples IFRS 11 part B which is important to work through. These examples illustrate the judgement and reasoning applied when classifying a joint arrangement as a joint operation or joint venture. The flow chart included under IFRS 11.B33 also assists in the classification of a joint arrangement structured through a separate vehicle.

For further guidance on joint arrangements, refer to the joint arrangement chapter in Group Statements.

SELF-ASSESSMENT QUESTIONS AND SUGGESTED SOLUTIONS

QUESTION 1 **40 marks**

YOU HAVE 15 MINUTES TO READ THIS QUESTION.

This question consists of three independent parts.

PART I **18 marks**

Jaru Ltd (Jaru), a company in the coffee industry, is listed on the JSE Limited and has a 31 December financial year end.

You are the financial accountant of Jaru and the financial manager requires your assistance with the following to finalise the financial statements for the year ended 31 December 20.15:

Coffee Beans: Loyalty points

On 1 January 20.14, Jaru introduced a customer loyalty programme that rewards customers with one loyalty point for every R100 of beans purchased. Jaru entered the loyalty programme expecting that only 5% of all loyalty points will not be redeemed after two years, which is when the points will expire. Each loyalty point is redeemable for a R5 discount on any future bean purchases.

During the current financial year, customers purchased beans to the value of R500 000 (20.14: R450 500). A contract liability for loyalty points amounting to R5 107, which represented 25% of the 20.14 loyalty points earned, was correctly recognised in the financial statements for the year ended 31 December 20.14.

At the end of the financial year ended 31 December 20.15, 93% of the total 20.14 loyalty points and 80% of the total 20.15 loyalty points earned were redeemed. Jaru still expects that only 5% of the 20.15 loyalty points will not be redeemed.

Jaru correctly concluded that the loyalty points should be accounted for as a separate performance obligation but has not accounted for the loyalty points in the 20.15 financial year yet. The only entry regarding customer purchases for the year ended 31 December 20.15 was as follows:

	Dr R	Cr R
Bank (SFP)	500 000	
Revenue (P/L)		500 000
Revenue received for the year ended 31 December 20.15		

Barista Nook

On 1 May 20.15, Jaru launched their new venture called Barista Nook. This entailed the establishment of coffee nooks at large financial institutions. Jaru will be responsible for the set-up, maintenance and day-to-day running of the coffee nooks. The financial institution will pay a monthly fee for Jaru's services and Jaru will also obtain a percentage of all sales.

Jaru did extensive market research and visited the main game players in the market before they approached the potential customers. Their idea was embraced with great enthusiasm and Jaru obtained five large contracts to commence business on 1 May 20.15. Each contract expires after three years and is renewable for subsequent one-year periods. Jaru expects the average customer term to be five years.

The following costs (paid for in cash) were incurred for the year ended 31 December 20.15:

Details	**R**
Market research* Travelling costs*	75 000 50 000
Sales commission to sales employees	250 000
Appointing seven baristas at a monthly salary of R10 000 each*	560 000
Training of baristas (Jaru concluded that this cost will enhance Jaru's staff resources.)	175 000
Costs incurred to set up an in-time platform for all cash registers (the system was only ready for use after it was tested on 30 April 20.15): - hardware - software - design services (custom made for Barista Nook) - testing of system Jaru concluded that the above costs will enhance Jaru's resources.	 500 000 150 000 55 000 15 000
Furniture and fittings at the five venues	760 000
*Not chargeable to the customer. All of the above costs are expected to be recovered by the sales made at the Barista Nooks.	

PART II **13 marks**

Pincal Ltd (Pincal) is a South African company that distributes desktop computers and laptops to customers in the Gauteng area. Pincal is listed on the JSE Limited and has a 31 December financial year end.

Pincal introduced a contract during the 20.16 financial year which sells a laptop to customers at a price that is payable in arrears in instalments of R1 500 per month over a six-month period. The returns policy of the contract stipulates that the contract can be cancelled without penalty within 14 days of signing the contract. It is expected that, on average, 6% of laptops will be returned under the return policy. The cash selling price of one laptop amounts to R9 000, which reflects the price that a customer would have paid in a cash transaction.

Pincal sold and delivered 50 laptop computers on 15 December 20.16. Control of the laptop is transferred to the customer on the delivery date. Of the 50 laptops sold, two customers cancelled the contract in terms of the return policy. Pincal acquired these laptops during November 20.16 at an amount of R3 200 per computer.

PART III **9 marks**

On 1 March 20.17, ASB Distiller Ltd entered into negotiations with Gusthook Lager Ltd, one of the company's largest competitors, to establish a new company, Heinekenny Ltd, whose main business will be the transportation and distribution of the products of ASB Distiller Ltd and Gusthook Lager Ltd. The first draft of the memorandum of understanding applicable to this joint arrangement has been provided below:

MEMORANDUM OF UNDERSTANDING	
Parties:	ASB Distiller Ltd and Gusthook Lager Ltd, herein after collectively referred to as "the Parties".
Purpose:	To provide a framework for a future binding contract governing the establishment of a transport and logistics joint arrangement, as defined in IFRS 11 *Joint Arrangements*, to be registered as Heinekenny Ltd.

Terms, conditions and obligations:

1. The Parties agree to subscribe to the ordinary shares of Heinekenny Ltd in the following ratio:
   - ASB Distiller Ltd: 55%
   - Gusthook Lager Ltd: 45%

2. The Parties will share in the profit or loss of Heinekenny Ltd in a ratio equal to the Parties' shareholding ratio.

3. The Parties will each be entitled to equal representation on the board of directors.

4. Heinekenny Ltd will endeavour to render transport and logistical services to such an extent that each Party's demand needs are fulfilled; however, such services may also be rendered to external entities.

5. Decisions regarding operational strategies and the implementation thereof will require the majority approval of the board.

6. Decisions regarding the acquisition of significant assets and/or debt (i.e. in excess of 5% of the net asset value of Heinekenny Ltd), will require a 75% majority vote. Voting rights for such decisions will be exercised in accordance with the Parties' profit-sharing ratio whereby each one share held will be equal to one vote.

7. The Parties agree to provide the necessary funding to honour any commitments made by Heinekenny Ltd to financial institutions.

8. The Parties agree that any financed assets and their corresponding liabilities will be registered in Heinekenny Ltd's name.

REQUIRED

YOU NOW HAVE 60 MINUTES TO ANSWER THIS QUESTION.

	Marks
PART I	
Provide the journal entries in the financial records of Jaru Ltd for the year ended 31 December 20.15 to account for the following:	
(a) loyalty points on beans purchased; and	8
(b) contract cost assets relating to the contracts obtained for the Barista Nooks.	10
Please note:	
• Assume the above items meet the requirements to be accounted for as a contract within the scope of IFRS 15 *Revenue from Contracts with Customers*. • Assume that all amounts are material. • Your answer has to comply with IFRS 15 *Revenue from Contracts with Customers* only. • Journal narrations are not required. • Taxation journals are not required. • Round off all amounts to the nearest rand.	
PART II	
Prepare the journal entries for Pincal Ltd to account for all consequences arising from the sale of 50 laptop contracts for the month of December 20.16.	12
Communication skills: presentation and layout	1
Please note:	
• Ignore the impairment provision in terms of IFRS 9 *Financial Instruments.* • Pincal Ltd early adopted IFRS 15 *Revenue from Contracts with Customers* for all relevant financial reporting periods. • You may assume that the contract to sell laptops meets all the requirements to be recognised as a contract within the scope of IFRS 15 *Revenue from Contracts with Customers.* • Ignore any value added taxation (VAT) and normal income tax implications. • Journal narrations are required.	
PART III	
Discuss, with reasons, the appropriate classification and recognition of the proposed joint arrangement, Heinekenny Ltd, in accordance with IFRS 11 *Joint Arrangements* in the financial statements of the ASB Distiller Ltd Group, should a legal binding contract be signed based on the provided memorandum of understanding.	8
Communication skills: logical flow and conclusion	1
Please note:	
• Discussions regarding disclosure are not required. • Your answer must comply with the International Financial Reporting Standards (IFRS).	

QUESTION 1 – Suggested solution

PART I

Provide the journal entries in the financial records of Jaru Ltd for the year ended 31 December 20.15 to account for the following:

(a) Loyalty points on beans purchased

		Dr R	Cr R	
J1	Revenue (P/L) [C1]	22 673		(4)
	Contract liability		22 673	(1)
	Recognise loyalty points incurred in 20.15			
J2	Contract liability [C1]	18 138		(1)
	Revenue (P/L)		18 138	(1)
	Redemption of 20.15 loyalty points			
J3	Contract liability: Loyalty points (SFP)(given)	5 107		(1)
	Revenue: Loyalty points (P/L)		5 107	(1)
	Recognition of the 20.14 loyalty points redeemed in 20.15 and the de-recognition of the 20.14 loyalty points which has expired			
			Total	(9)
			Maximum	(8)

COMMENT

Coffee Beans: Loyalty points

Journal 1

In the information provided, the journal passed by the accountant is incorrect, as the accountant did not recognise the revenue from loyalty points.

It is important to note that there are two performance obligations. Therefore, the revenue should split between revenue from product and revenue from loyalty points.

Consequently, J1 is provided in the solution to correct the error made by the accountant. This journal is effectively removing the portion incorrectly taken to revenue and recognising it as contract liability as it represents the portion of revenue received in advance.

In calculation C1, 95% was used and **not** 93%. Do not confuse these. The stand-alone selling price is **not** given. Note that the information specifically stated, "only 5% of all loyalty points will not be redeemed after two years, which is when the points will expire".

If the accountant did **not** process any revenue journal for the year, and there was no error to correct in this regard, the journal entry for revenue for the year would be as follows:

	Dr R	Cr R
Bank (SFP)	500 000	
Revenue: Product (P/L)		477 327
Revenue: Loyalty points (P/L)		18 138
Contract liability		4 535

Note: Revenue from the loyalty points not redeemed recognised in contract liability.

COMMENT

However, in this part of the question only journals for revenue from loyalty points were required.

Journal 2

Only 80% of the loyalty points redeemed at the end of 20.15; therefore, the portion redeemed recognised in revenue.

Journal 3

Take note that in this journal the revenue from the loyalty points expired is recognised as revenue.

The reason for this is that when the points expired the performance obligation no longer exists. Therefore, remove the liability by debiting it and recognise corresponding revenue by crediting it.

The revenue from the unused points remains revenue for the retailer, whether the customer uses those points within the specified period or not.

Refer to **IFRS 15.106** and **IFRS 15.B44**.

Provide the journal entries in the financial records of Jaru Ltd for the year ended 31 December 20.15 to account for the following:

(b) Contract cost assets relating to the contracts obtained for the Barista Nooks

		Dr R	**Cr R**	
J1	Contract costs: Incremental costs (SFP) [C2]	250 000		(1)
	Bank (SFP)		250 000	(1)
	Recognition of the incremental costs of obtaining the contracts for the Barista Nooks			
J2	Contract costs: Costs to fulfil the contract (SFP) [C2]	245 000		(3)
	Bank (SFP)		245 000	(1)
	Recognition of costs to fulfil the contracts for the Barista Nooks			
J3	Amortisation (P/L) [C3]	66 000		(1)
	Contract costs: Incremental costs (SFP)		33 333	(2)
	Contract costs: Costs to fulfil the contract (SFP)		32 667	(2)
	Recognise amortisation on contract costs capitalised for the contracts of the Barista Nooks			
			Total	(10)
			Maximum	(11)

CALCULATIONS

C1. 20.15 Loyalty points

Loyalty points incurred in 20.15:
R500 000/R100 = 5 000 loyalty points x R5 = R25 000 [2]
Loyalty points expected to be redeemed:
25 000 x 95% = R23 750
Allocation of transaction price:
R500 000 x (R23 750/(R500 000 + R23 750)) = R22 673 [2]
Loyalty points redeemed:
R22 673 x 80% = R18 138 [1]

C2. Barista Nooks – contract costs:

Details		Expensed	Capitalised			
			IFRS 15.91 Contract[1]	**IFRS 15.95 Contract**[2]	**Other IAS/IFRS**	
Market research Travelling costs	These costs would have been incurred regardless of whether the contract was obtained.	75 000 50 000				
Sales commission	Incremental costs that would not have been incurred had the contract not been obtained.		250 000			[1]
Salary cost of seven baristas	These costs do not generate or enhance resources of the entity; it also does not reflect in the contract price (IFRS 15.98(b)).	560 000				
Training of baristas	These costs directly relate to the contract; enhance the resources of the entity; and are expected to be recovered through the contract.			175 000		[1]
Cash registers: • Hardware • Software	 Accounted for per IAS 16. Accounted for per IAS 38.				 500 000 150 000	
• Design services • Testing of system	These costs directly relate to the contract; enhance the resources; and are expected to be recovered through the contract. Accounted for according to IAS 16.			55 000 15 000	 760 000	[1] [1]
			250 000	245 000		[4]

[1] Contract costs – incremental costs
[2] Contract costs – costs to fulfil the contract

C3. Amortisation

Jaru will amortise the asset over five years which is the contract term of three years and the anticipated renewal of two subsequent one-year periods.

Amortisation will be accounted for on the straight-line method, which is consistent with the transfer to the customer of the services to which the asset relates (IFRS 15.99).

Contract costs – incremental costs:
(R250 000)/(5 x 12) x 8 months (from May 20.15) = R33 333 [2]
Contract costs – costs to fulfil the contract:
(R245 000)/(5 x 12) x 8 months (from May 20.15) = R32 667 [2]

PART II

Prepare the journal entries for Pincal Ltd to account for all consequences arising from the sale of 50 laptop contracts for the month of December 20.16.

		Dr R	Cr R	
	15 December 20.16			
J1	Contract debtor (SFP) [1 500 x 6 x 50]	450 000		(2)
	Revenue (P/L) [450 000 x 94%]		423 000	(1)
	Refund liability (SFP) [450 000 x 6%]		27 000	(1)
	Recognition of revenue			
J2	Cost of sales (P/L) [3 200 x 50 x 94%]	150 400		(1)
	Assets for right to recover product to be returned (SFP) [3 200 x 50 x 6%]	9 600		(1)
	Inventory (SFP) [3 200 x 50]		160 000	(1)
	Recognition of cost of sales and right to recover asset			
	29 December 20.16			
J3	Refund liability (SFP)	27 000		(1)
	Contract debtor (SFP) [9 000 x 2][1]		18 000	(2)
	Revenue (P/L) [9 000 x 1]		9 000	(1)
	Accounting for laptops not returned and returned			
J4	Inventory (SFP) [3 200 x 2]	6 400		(1)
	Cost of sales (P/L) [3 200 x 1]	3 200		(1)
	Assets for right to recover product to be returned (SFP)		9 600	(1)
	Accounting for two laptops returned and one not returned			
			Total	(14)
			Maximum	(12)
			Communication skills: presentation and layout	(1)

1 50 laptops x 6% = 3 laptops
2 laptops returned
27 000/3 = 9 000

EXAMINATION TECHNIQUE

As the customers are allowed to return the laptops, the consideration received from the customer is variable. Pincal will recognise a refund liability, which will realise once the laptops are returned or the period for return lapses. Also refer to IFRS 15 Example 22 for additional practice.

PART III

Discussion regarding the classification and recognition of the proposed joint arrangement, Heinekenny Ltd.

The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement (IFRS 11.14), which therefore has to be assessed.

Definition
A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement (IFRS 11.15).

Definition
A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement (IFRS 11.16).

Structure of the joint arrangement – legal form
The contractual agreement is carried out through a separate vehicle, Heinekenny Ltd. (1)

As a joint arrangement, Heinekenny Ltd can either be classified as a joint venture or a joint operation (IFRS 11.19B). (1)

Terms of the contractual arrangement
The commitment by the parties to provide funding if Heinekenny Ltd is not able to meet commitments made to financial institutions, is not by itself a determinant that the parties have an obligation for the liabilities of Heinekenny Ltd (IFRS 11.B27). (1)

Since all financed assets and their corresponding liabilities will be registered in Heinekenny Ltd's name, the parties to the arrangement will have no claim to these assets or an obligation towards such liabilities and will resultantly only be entitled to the arrangement's net assets. (1)

Other facts and circumstances
When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangement (IFRS 11.B31).

When the parties are substantially the only source of the cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement (IFRS 11.B32).

Transport and logistical services will be rendered to both joint operators. However, such services may also be rendered to external entities. (1)

Settling of the liabilities incurred by the joint arrangement will therefore not be dependent only on the cash flows received from the parties to the arrangement. (1)

It therefore indicates that the parties do not have rights to substantially all the economic benefits of the assets and do not have an obligation for the liabilities relating to the joint arrangement. (1)

Conclusion

The parties to the joint arrangement do not have rights to the assets and obligations regarding the liabilities relating to the arrangement. (1)

The proposed joint arrangement will resultantly be classified as a joint venture in the financial statements of the ASB Distiller Ltd Group. (1)

ASB Distiller Ltd will recognise its rights to the net assets of Heinekenny Ltd as an investment in joint venture and account for the investment by applying the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures.* (1)

Total	(10)
Maximum	(8)

Communication skills: logical flow and conclusion (1)

COMMENT

Take note that the question already stated that the arrangement was a "joint arrangement, as defined in IFRS 11 Joint Arrangements", therefore the discussion would have had to be with regard to whether the joint arrangement was a joint venture or a joint operation.

A discussion on whether or not ASB Distiller Ltd had control of Heinekenny Ltd would not be relevant, since the question already stated that the arrangement was a joint arrangement, meaning that the parties has joint control.

Take care not to merely write information down that had been provided in the question, without applying the information to the IFRS theory. In such cases, no marks could unfortunately be awarded.

QUESTION 2 **40 marks**

YOU HAVE 15 MINUTES TO READ THIS QUESTION.

This question consists of two independent parts.

PART I **28 marks**

Comfy King Ltd is a Johannesburg Stock Exchange listed company that manufactures and distributes high quality outdoor furniture across South Africa. Comfy King Ltd has interests in various companies.

Patio Ltd

On 1 August 20.17, Comfy King Ltd obtained control over one of its subsidiaries, Patio Ltd. During the current year, Patio Ltd entered into a two-year contract to sell patio furniture to one of its customers, StyleDecor Ltd. The contract between StyleDecor Ltd and Patio Ltd stipulates the following:

- As Patio Ltd's furniture will be the first of its kind to be sold by StyleDecor Ltd, Patio Ltd has to make a non-refundable payment of R50 000 to StyleDecor Ltd at the inception of the contract to cover additional costs that StyleDecor Ltd has to incur to accommodate Patio Ltd's furniture on its showroom floor.
- StyleDecor Ltd commits to buy at least R625 000 of their products from Patio Ltd over the two years.

On 1 January 20.18, Patio Ltd made its first sale to StyleDecor Ltd when they sold furniture to the value of R150 000 to StyleDecor Ltd.

Garden Escape Ltd

The Comfy King Ltd Group operates a plant in Gauteng. Comfy King Ltd owns the plant and operations are housed in one of its subsidiaries, Garden Escape Ltd. Details of the plant are as follows:

Date of purchase:	1 March 20.15
Consideration paid by Comfy King Ltd:	R6 200 000
Fair value on 10 April 20.17:	R7 100 000 (market-based stand-alone price since an adjusted market-assessment approach was duly followed)

During the current financial year, Comfy King Ltd Group's business consultants proposed that the group restructure to be more cost effective. On 10 April 20.17, Comfy King Ltd entered into an agreement with Garden Escape Ltd for the sale of the plant on condition that Garden Escape Ltd obtains a loan of R6,5 million to be paid as cash consideration. The balance of the consideration will be settled by the issue of Garden Escape Ltd shares. All the necessary paperwork was compiled by the group's attorneys and the sales agreement was signed on 31 May 20.17 by Comfy King Ltd and Garden Escape Ltd.

Based on previous experience, it was considered highly probable that Garden Escape Ltd's loan application would be successful and that the funds would be paid over to Comfy King Ltd by 31 October 20.17. The application for the loan was formally started on 15 June 20.17, including the necessary guarantees and compliance with FICA requirements. The loan was duly approved and registered on 1 September 20.17.

On this date, the outstanding amount was paid over, and the shares issued in the name of Comfy King Ltd. Garden Escape Ltd obtained control over the plant on 1 September 20.17. The fair value of the shares issued amounted to R1 million on 1 September 20.17.

The sales agreement between Comfy King Ltd and Garden Escape Ltd included a maintenance contract whereby Comfy King Ltd will service the plant for the next five years. The maintenance service will be delivered as and when needed, at the discretion of Garden Escape Ltd. There is no stand-alone price for the maintenance contract, but Comfy King Ltd could determine the fair value of similar maintenance contracts for the same period and on plants of a similar size. The fair value of similar maintenance contracts on 10 April 20.17, considering the time value of money and current market conditions, amounted to R380 000. This amount is the market-based stand-alone price since an adjusted market-assessment approach was duly followed. The maintenance contract was identified as a major significant component.

Additional information

1. All the companies in the group have a 28 February year end.
2. Assume a normal income tax rate of 28% and a capital gains tax inclusion rate of 80%. Ignore value added tax (VAT) and dividend tax.
3. The Comfy King Ltd Group measures a plant in accordance with the cost model per IAS 16 and impairment testing is performed annually at year end.

PART II **12 marks**

Art of Class House Ltd (AOCH) is listed on the Johannesburg Stock Exchange and is an interior design company that provides interior design and decoration services for the residential, corporate and hospitality industry. AOCH entered into a strategic agreement with Design Architecture Pro Ltd (DAP) on 31 July 20.17 to expand their services to include architectural design services. DAP is a leading designer of space analysis and planning, material selection, ornamental detail design and related services. The financial manager of AOCH provided you with the following extract of the agreement between AOCH and DAP:

Contractual agreement (“Agreement”) entered into on 31 July 20.17 between Art of Class House Ltd (“AOCH”) and Design Architecture Pro Ltd (“DAP”), hereafter referred to as “the Parties” when referred to together.

The Parties wish to enter into an agreement and define the respective rights and obligations of the Parties with respect to the Agreement. The Parties agree as follows:

- To incorporate a company with the name House of Design Architecture Ltd (HODA) in terms of the Companies Act, 2008.
- HODA will provide interior architectural design services.
- AOCH and DAP will subscribe to 55% and 45% of the issued ordinary share capital of HODA respectively.
- The Parties are each entitled to equal representation on the board of directors.
- The Parties will share in the profit or loss of HODA in a ratio of 50:50.
- Decisions regarding the appointment of cleaning staff and general office management are decided by means of voting rights associated with ordinary shares. Each ordinary share entitles the holder to one vote.
- Decisions regarding construction management and material selection are decided by a 53% majority vote. Voting rights are exercised in accordance with the profit-sharing ratio. Each profit share percentage carries one vote.
- The Parties agree that assets which are financed will be registered in HODA's name.
- The Agreement will continue until such date that the Parties decide to amend or terminate the Agreement.

REQUIRED

YOU NOW HAVE 60 MINUTES TO ANSWER THIS QUESTION.

	Marks
PART I	
(a) With regard to the contract between Patio Ltd and StyleDecor Ltd:	
(i) Discuss the treatment of the non-refundable payment in the separate accounting records of Patio Ltd with reference to **step 3** of revenue recognition in accordance with IFRS 15 *Revenue from Contracts with Customers*.	3
(ii) Calculate the revenue that should be recognised in the separate accounting records of Patio Ltd for the year ended 28 February 20.18.	2
(b) Discuss how the proceeds from the contract to dispose of the plant should be recognised and measured in the **separate** accounting records of Comfy King Ltd for the year ended 28 February 20.18, with reference to **step 2** to **step 5** of revenue recognition in accordance with IFRS 15 *Revenue from Contracts with Customers*. Your discussion should include related amounts.	22
Communication skills: logical flow and conclusion	1
Please note:	
• Round off all amounts to the nearest rand. • Show all your calculations. • Your answer must comply with the International Financial Reporting Standards (IFRS).	
PART II	
Discuss the appropriate classification and recognition of the strategic agreement between Art of Class House Ltd and Design Architecture Pro Ltd in accordance with IFRS 11 *Joint Arrangements* in the financial statements of the Art of Class House Ltd Group for the year ended 28 February 20.18.	11
Communication skills: logical flow and conclusion	1
Please note:	
• Discussions regarding disclosure are not required. • Your answer must comply with the International Financial Reporting Standards (IFRS).	

QUESTION 2 – Suggested solution

PART I

(a) (i) Step 3: Determine the transaction price

The transaction price is the amount of consideration the entity expects to be entitled to in a contract (IFRS 15.47).

An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment is in exchange for a distinct good or service (IFRS 15.70).

Patio Ltd does not obtain control of any changes that StyleDecor Ltd made to its showroom floor to accommodate Patio Ltd's furniture. (1)

The non-refundable payment that Patio Ltd made to StyleDecor Ltd is thus not in exchange for a distinct good or service that transfers to the entity. (1)

The non-refundable payment of R50 000 will thus be treated as a reduction of the transaction price in accordance with IFRS 15.70. <u>(1)</u>

Total <u>(3)</u>

COMMENT

Step 3 of the revenue recognition deals with the determination of the transaction price. The theory knowledge required to answer this question can be found in IFRS 15.46 – .72 (step 3 paragraphs).

In terms of step 3, there are four effects or factors that should be considered in determining the transaction price. These are:

- variable consideration (IFRS 15.50 -.59)
- a significant financing component (IFRS 15.60 -.65)
- non-cash consideration (IFRS 15.66 -.69)
- consideration payable to a customer (IFRS 15.70 -.72)

Since this question counts three marks, only issues that respond to the question must be discussed. Your first task is to determine which of the above factors are applicable to the question. This requires an understanding of the scenario.

In summary, the scenario gives the information that StyleDecor Ltd is a customer of Patio Ltd and that Patio Ltd paid a non-refundable deposit to StyleDecor Ltd. This falls under "Consideration payable to a customer", thus in responding to the question we will consider IFRS 15.70 - .72.

The question uses the application of IFRS 15.70: Determine whether the consideration paid to a customer should be accounted for as a reduction of the transaction price.

(ii) Calculate the revenue that should be recognised in the separate accounting records of Patio Ltd for the year ended 28 February 2018.

	R	
Total sales for the year ended 28 February 20.18	150 000	(1)
Less: Consideration payable to customer (IFRS 15.70) [(50 000/625 000) x 150 000]	(12 000)	(1)
Revenue to be recognised for the year ended 28 February 2018	138 000	(2)

(b) Step 2: Identify the performance obligations in the contract

At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer if the good or service is distinct (IFRS 15.22).

For a good or service to be distinct, both criteria of paragraph 27 should be met: the customer must gain benefit from a good or service and the good or service should be separately identifiable (IFRS 15.27).

The plant and maintenance contract on its own will benefit Garden Escape Ltd since all benefits from the plant and maintenance contract will be transferred. (1)

For a good or a service to be separately identifiable, the product and services should not be integrated or significantly modified or inter-dependant (IFRS 15.29).

Both criteria of IFRS 15.27 are therefore met with regard to the plant. (1)

The sale of the plant is a separate performance obligation and could be separately identified and is distinct from the maintenance contract. (1)

The sale of the plant and the maintenance contract are two separate performance obligations. (1)

Step 3: Determine the transaction price

The transaction price is the amount of consideration the entity expects to be entitled to in a contract (IFRS 15.47).

If the transaction includes a non-cash consideration, the transaction price equals the fair value of such an asset (IFRS 15.66).

IFRS 15.87-.90 refers to changes in transaction price due to various reasons including the resolution of uncertain events. The entity shall allocate subsequent changes to the performance obligations on the same basis as at contract inception.

The contract is only exercisable on 1 September 20.17 when the plant is transferred to Garden Escape Ltd. (1)

The fair value of R1 000 000 for the shares is taken into consideration. (1)

As the transaction includes a non-cash consideration (i.e. the shares), the transaction price should be at the fair value of the shares to be issued. (1)

Therefore, the total consideration will be R7 500 000 (cash of R6 500 000 and the fair value of the shares of R1 000 000). (1)

IFRS 15.62(a) states the factors where a contract would not have a significant financing component, which includes a scenario when the timing of the goods and services is at the discretion of the customer.

Garden Escape Ltd will decide when the maintenance service will be delivered. Therefore, the timing of services is at the discretion of Garden Escape Ltd. (1)

Consequently, the maintenance contract does not have a significant financing component. (1)

Step 4: Allocating the transaction price to performance obligations

In accordance with IFRS 15.76, the transaction price shall be allocated to the performance obligation based on their stand-alone prices at contract inception.

As IAS 16 does not specify how to separate one or more parts of the contract, IFRS 15 will apply (IFRS 15.7(b)). If there are two or more performance obligations, the transaction price should be allocated to those performance obligations based on their stand-alone prices. (1)

According to step 2 above, there are two performance obligations, the plant and the service contract. Therefore, the transaction price should be allocated to each of these based on their respective stand-alone prices. (1)

The stand-alone prices can be based on the market assessment approach. (1)

On 10 April 20.17, the contract inception date, the fair value of the plant was R7 100 000 and the maintenance contract was R380 000 totalling R7 480 000. (1)

The contract price allocated to the plant will be R7 118 984 (7 100/7 480 x R7 500 000) and allocated to the maintenance contract R381 016 (380/7 480 x R7 500 000) IFRS 15.1E.268). (2)

Step 5: Recognise revenue as (when) the entity satisfies the performance obligation

An entity shall recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when the customer obtains control of that asset (IFRS 15.31).

At inception of the contract, an entity shall determine if the performance obligation is satisfied over a period of time or at a point in time (IFRS 15.32).

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time (IFRS 15.38).

It is satisfied over a period of time if any one of the three requirements of IFRS 15.35 apply.

The plant performance obligation is not satisfied over time. (1)

The plant performance obligation should therefore be recognised at a **point in time** on 1 September 20.17. (1)

Revenue from the service contract should be recognised over a period of time (IFRS 15.35(a)).

With respect to the maintenance contract performance obligation, Garden Escape Ltd consumes benefits as Comfy King Ltd performs the maintenance over the next five years. (1)

Appropriate methods of measuring progress include output methods and input methods (IFRS 15.41).

Comfy King Ltd will account for the progress on the maintenance contract using the input method with reference to time lapsed. (1)

For the financial year ended 28 February 20.18, Comfy King Ltd will recognise proceeds of R38 102 (R381 016 x 6/60) relating to the maintenance contact. (2)

For the sale of the plant, Comfy King Ltd will recognise proceeds of R7 118 984 on 1 September 20.17. (1)

Total	(23)
Maximum	(22)
Communication skills: logical flow and conclusion	(1)

COMMENT

It is important to note that in this question the stand-alone price for the maintenance contract is not given. However, the fair value of similar contracts is available and therefore the fair value of the transaction price for the maintenance contract must be estimated.

IFRS 15.78 states that if a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price at an amount that would result in the allocation of the transaction price meeting the allocation objective. IFRS 15.B42 may be referred to as well.

EXAMINATION TECHNIQUE

Refer to the overview of the five-step revenue model on page 12 for detailed guidance on the five steps and the relevant paragraphs in the standard that are applicable. In addition, you can refer to the illustrative examples to IFRS 15 for additional practical examples on the various steps in the revenue model.

PART II

Discuss the appropriate classification and recognition of the strategic agreement between Art of Class House Ltd and Design Architecture Pro Ltd in accordance with IFRS 11 *Joint Arrangements* in the financial statements of the Art of Class House Ltd Group for the year ended 28 February 20.18.

Definition
A joint arrangement is an arrangement of which two or more parties have joint control (IFRS 11.4).

Definition
Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control (IFRS 11.7).

AOCH and DAP entered into a contractual agreement. (1)

The contractual terms of the agreement require a 53% majority decision to direct relevant activities (the process development, construction management and the material selection and finishes design architecture services). (1)

Both AOCH and DAP are entitled to a 50% voting right in making decisions with regard to relevant activities (based on the profit share ratio of 50:50). (1)

Thus, unanimous consent is implied as both AOCH and DAP have to be in agreement in order to finalise a decision. (1)

Conclusion
A joint arrangement thus exists as AOCH and DAP have joint control over HODA. (1)

The rights and obligations of AOCH and DAP in terms of this joint arrangement should be considered to determine classification as a joint operation or joint venture (IFRS 11.14). (1)

Legal form of the vehicle
The joint arrangement is carried out through a separate vehicle, HODA, whose legal form confers separation between the parties and the separate vehicle. (1)

The contractual agreement is carried out through a separate vehicle, HODA, and therefore it can either be classified as a joint venture or a joint arrangement (IFRS 11.B19). (1)

Definition
A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement (IFRS 11.15).

Definition
A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement (IFRS 11.16).

Other terms of the contractual agreement
The contractual agreement establishes that assets which are financed are registered in HODA's name which is the separate vehicle. (1)

This indicates that AOCH and DAP do not have rights to the assets and obligations for the liabilities directly. Therefore, AOCH and DAP only have rights to the net assets in the arrangement. (2)

Conclusion
The contractual agreement should therefore be classified as a joint venture in the financial statements of the Art of Class House Ltd Group for the year ended 31 July 20.17. (1)

AOCH will recognise their rights to the net assets of HODA as an investment and account for it using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures.* (1)

Total	(13)
Maximum	(11)
Communication skills: logical flow and conclusion	(1)

EXAMINATION TECHNIQUE

In the required, it was stated that classification and recognition of the agreement should be discussed. In this instance, it was not yet confirmed that it is a joint arrangement and the discussion will therefore 1st determine whether it is a joint arrangement (arrangement and joint control). Only if it is determined that it is a joint arrangement, will the discussion on IFRS 11 be continued.

QUESTION 3 **40 marks**

YOU HAVE 15 MINUTES TO READ THIS QUESTION.

This question consists of three independent parts.

PART I **8 marks**

GreatProps Ltd (GreatProps) and PropsPro Ltd (PropsPro) are real estate companies. During the year ended 31 December 20.18, the directors of GreatProps and PropsPro established and registered a new company called EldoCube Ltd (EldoCube). Both GreatProps and PropsPro have joint control over EldoCube.

The terms of the contractual joint arrangement are as follows:

- The main business of EldoCube is to acquire and manage various retail properties.
- GreatProps and PropsPro (the Parties) have equal rights to the rental income earned as well as the expenses incurred to maintain and secure the various retail properties.
- The Parties to the arrangement are liable to settle any debts incurred by EldoCube, should Eldocube be unable to service its debts.
- The relevant activities of EldoCube are: the allocation of shops, determination of rental per square meter, maintenance of the retail properties, area development activities, safety and security.

During the current year, a lawsuit was filed against EldoCube by one of its retail property tenants, due to losses suffered by the tenant through theft. The theft occurred due to inadequate security. The court ruled that EldoCube is liable to pay for the losses suffered by the tenant.

GreatProps and PropsPro paid the amount specified in the court ruling to the tenant.

PART II **22 marks**

Pools and Ecosystems Ltd (PE) is a pool manufacturing company based in Johannesburg. PE has a year end of 31 December 20.18.

The following products are offered by the company:

	R
Fibreglass swimming pool	21 000
Pool cover	1 700
2 200 L rainwater harvesting tank with installation#	2 400
Ecogator 300 L backwash recovery tank system	4 000

Product unusable if not installed by PE as the installation is complex.

The above items are on offer as a package deal. In order to purchase the items as a package, customers are required to enter into a purchase contract with PE.

The contract specifies a R1 500 discount on the package deal when compared to the stand-alone price of all four items included in the package deal.

The fibreglass swimming pool and backwash recovery tank system are quite popular among customers and are usually sold together at a discount of 6%. It is industry practice, as a quality control measure, to install the rainwater harvesting tank system only two months after the initial installation of the pool.

Huzur Spa Ltd (Huzur Spa) entered into 50 contracts for the package deals for their spa facilities all over South Africa. (You can assume that these 50 contracts are valid in terms of IFRS 15.9.)

The 50 contracts purchased were fulfilled by the end of December 20.18. The fibreglass pools were delivered and installed on 10 October 20.18 (installation is at a negligible cost). Due to a delay in the manufacture of the backwash recovery tanks, these were only delivered and installed a month after fitment of the pool. The pool covers were supplied upon final payment for all the facilities on 31 December 20.18.

Huzur Spa gained control over the items in the package deal on their relevant delivery dates.

PART III **10 marks**

Pool Maintenance Ltd (PM) is a leading provider of pool maintenance and cleaning services. PM entered into 50 separate contracts with Aaraam Ltd (AA) on 31 December 20.15 to provide pool maintenance and repair services for 12 months at a fee of R500 per contract. PM has a year end of 31 December 20.18.

An upfront fee of R500 is payable if the maintenance contract is purchased within the first year from the date of the pool installation and only for pools installed by PM. All 50 maintenance contracts were purchased during the first year after the pool installation. The relevant 50 pools were installed by PM.

If the maintenance contract is not purchased within the first year of installation, the cost of a maintenance contract during the second year of installation is 50% higher than if purchased within the first year. If the maintenance contract is purchased only during the third year after installation, the cost of the contract is 60% higher than the cost in the second year.

Each contract is identical and stipulates the following terms:

- At the end of each year, there is an option to renew the contract for another 12 months. The renewal fee is equal to the fee paid for the initial maintenance contract.
- If the contract has been renewed once, there is an option to renew the contract for another 12 months. The contract can only be renewed twice (maximum contract duration of three years). Should the client wish to procure repair and maintenance services from year four onward, then a new contract should be entered into for the fourth-year subject to the new terms and conditions as specified at that time.
- Upon renewal of the contract, the payment for renewal is non-refundable.

Based on past experience with large clients that require pool maintenance services at multiple premises, the management of PM estimates that 80% of those clients renew their maintenance contracts at the end of year one. Of the remaining clients at the end of year two, only 80% renew the contract for the third year due to the clients gradually phasing in their own maintenance teams.

The costs for PM reliably estimated, per three-year maintenance contract, initiated in the year of installation, are as follows:

Year 1: R300
Year 2: R325
Year 3: R500

The accountant of PM is of the view that the exercise of the option to renew, creates a material right to the client that it would not have otherwise received. Therefore, the amount paid for the first renewal is treated as a non-refundable payment.

The accountant therefore concluded that the promise to provide the option stipulated in the terms of the contracts is treated as a separate performance obligation in the accounting records of PM.

By the end of December 20.18, AA did not enter into any new maintenance contracts as the clients effectively incorporated their own maintenance teams.

It is the policy of PM to recognise revenue based on costs incurred relative to total expected costs.

REQUIRED

YOU NOW HAVE 60 MINUTES TO ANSWER THIS QUESTION.

	Marks
PART I	
Discuss, with reasons, the appropriate classification of the joint arrangement, EldoCube Ltd, in accordance with IFRS 11 *Joint Arrangements* in the financial statements of GreatProps Ltd for the year ended 31 December 20.18.	7
Communication skills: logical flow and conclusion	1
Please note: • Discussions regarding disclosure are not required. • Your answer must comply with the International Financial Reporting Standards (IFRS).	

	Marks
PART II	
(a) Identify and discuss the performance obligation(s) present in the contract entered into between Pools and Ecosystems Ltd and Huzur Spa Ltd for the year ended 31 December 20.18, in accordance with IFRS 15 *Revenue from Contracts with Customers.*	8
(b) For each of the performance obligation(s) identified in (a):	
(i) Provide the date at which the performance obligation(s) is satisfied.	3
(ii) Discuss, with reasons, the allocation of the transaction price for a single contract.	5
(iii) Provide, showing all calculations, the allocation of the transaction price. Your answer should include the requirements of IFRS15.82.	5
Communication skills: logical flow and conclusion	1
Please note:	
• Your answer must comply with the International Financial Reporting Standards (IFRS).	
PART III	
(a) Determine, at the inception of the maintenance contracts with Aaraam Ltd	6
(i) the expected consideration to be received by Pool Maintenance Ltd in exchange for the total expected maintenance and repair services.	
(ii) the allocation of the transaction price for a single maintenance contract in terms of IFRS 15.B43.	
(b) Provide the journal entry to account for the sale of the maintenance contracts and related contract renewal options to Aaraam Ltd in the financial statements of Pool Maintenance Ltd for the year ended 31 December 20.18. Assume that Pool Maintenance Ltd's expected and actual contract renewals were the same.	4
Please note:	
• Ignore any normal income tax (current and deferred) implications. • Round off all amounts to the nearest rand. • Journal narrations are not required. • Your answer must comply with the International Financial Reporting Standards (IFRS).	

QUESTION 3 – Suggested solution

PART I

Discuss, with reasons, the appropriate classification of the joint arrangement, EldoCube Ltd, in accordance with IFRS 11 *Joint Arrangements* in the financial statements of GreatProps Ltd for the year ended 31 December 20.18.

The given information specifically states that the arrangement is a joint arrangement and GreatProps and Props Pro have joint control over EldoCube. (1)

The joint arrangement is carried out through a separate vehicle, EldoCube. (1)

The legal form of EldoCube, a company, causes the separate vehicle to be considered in its own right (i.e. the assets and liabilities of EldoCube are its assets and liabilities and not that of the Parties). (1)

The terms agreed by the Parties must be considered and EldoCube may still either be classified as a joint operation or a joint venture (IFRS 11. B19). (1)

The contractual agreement indicates that GreatProps and PropsPro have equal rights to the income earned and costs incurred by EldoCube. (1)

This does not prevent the arrangement from being a joint venture as GreatProps and PropsPro have rights to the ownership of the retail properties (IFRS 11.B27, IFRS 11.15). (1)

In terms of the contract, the parties also are responsible for payment of liabilities if defaulted by EldoCube. Therefore, GreatProps and PropsPro were required to settle the claims raised by the tenant (IFRS 11.15, .20). (1)

Based on the discussion above, GreatProps and PropsPro have rights to the assets, and an obligation for the liabilities, relating to the arrangement. (1)

The contractual agreement should therefore be classified as a joint operation in the financial statements of GreatProps Ltd for the year ended 31 December 20.18. (1)

Total	(9)
Maximum	(7)
Communication skills: logical flow and conclusion	(1)

EXAMINATION TECHNIQUE

Did you notice the difference in the required compared to the previous question? Here it was stated that the agreement is a joint arrangement. No discussion on whether it is a joint arrangement of joint control were therefore required.

The distinction between a joint operation and a joint venture is that the investor has the rights to the assets and obligations for the liabilities of the joint arrangement when it is classified as a joint operation. For a joint venture, the investor only has rights to the net assets.

Remember to use your standard as basis for your answer. IFRS 11 contains helpful flowcharts to assist with the structuring of your answer.

PART II

(a) Identify and discuss the performance obligation(s) present in the contract entered into between Pools and Ecosystems Ltd and Huzur Spa Ltd for the year ended 31 December 20.18, in accordance with IFRS 15 *Revenue from Contracts with Customers.*

At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer if the goods or service is distinct (IFRS 15.22).

For a good or service to be distinct, both criteria of paragraph 27 should be met: the customer must gain benefit from a good or service and the good or service should be separately identifiable (IFRS 15.27).

Question	Question name	Source	Marks	Topics covered

For a good or a service to be separately identifiable, the product and services should not be integrated or significantly modified or inter-dependent (IFRS 15.29).

Fibreglass swimming pool, pool cover and ecogator 300 L system

These items included in the package are distinct from each other as:
- None of these items are highly interrelated or interdependent. (1)
  No additional items, except the items listed, are supplied to Huzur Spa Ltd and thus there is no indication of any significant modification to any other goods and services offered to Huzur Spa Ltd. (1)
- Pools and Ecosystems Ltd may sell each of these items separately and Huzur Spa Ltd can benefit from each item on its own, or with other readily available resources. (1)

2 200 L Rainwater harvesting tank with installation

Both the tank and the installation are considered one performance obligation because
- the customer cannot benefit from this tank on its own or together with other resources (excluding the installation); (1)
- the tank is only usable if it is installed by Pools and Ecosystems Ltd; and (1)
- Huzur Spa Ltd can only benefit from the rainwater harvesting tank with the installation services that are complex and exclusively provided by Pools and Ecosystems Ltd. (1)

Therefore, the sale of each of the four items included in the package is a separate performance obligation and could be separately identified and are distinct from each other. (1)

Consequently, there are four separate performance obligations in the contract, namely:
- fibreglass swimming pool; (1)
- pool cover; (1)
- 300 L Ecogator backwash recovery tank; and (1)
- 2 200 L rainwater harvesting tank system with installation. (1)

Maximum (2)
Total (9)
Maximum (8)

EXAMINATION TECHNIQUE

When determining a performance obligation, the requirements of IFRS 15.27 will be discussed. For a good or service to be distinct, the customer must gain benefit from a good or service and the good or service should be separately identifiable. The discussion of these requirements will be based on the specific information in the scenario i.e., are the items in the contract (fibreglass swimming pool, pool cover and ecogator 300 L system) distinct from each other and can the customer benefit from the goods or service on its own.

Also refer to the following examples in IFRS 15 for additional practical examples:

Example 10—Goods and services are not distinct
Example 11—Determining whether goods or services are distinct
Example 12—Explicit and implicit promises in a contract

(b)(i) Provide the date at which the performance obligations(s) is satisfied.

The performance obligations for each of the items in the contract have been satisfied at different points in time. Control of the respective items pass at their delivery dates, which are as follows: (1)
the fibreglass pool: 10 October 20.18 (1)
the backwash recovery tank: 10 November 20.18 (1)
the rainwater harvesting tank: 10 December 20.18 (1)
the pool covers and completion of package: 31 December 20.18 (1)

Total (5)
Maximum (3)

(b)(ii) Discuss, with reasons, the allocation of the transaction price for a single contract.

The discount included on the total purchase should be allocated proportionately to all four performance obligations when allocating the transaction price. (1)

This allocation should be done using the stand-alone selling price method (IFRS 15.81). (1)

Pools and Ecosystems Ltd usually sells the swimming pool and the backwash recovery tank together at a 6% discount. The discounted amount is as follows: (1)

fibreglass swimming pool	R21 000	
backwash recovery tank	R 4 000	
	R25 000	x 6% discount (R1 500) = R23 500 (1)

The pool cover and rainwater harvesting tank are sold at their respective stand-alone prices. (1)

Control over these two products is transferred at different dates, therefore at different points in time (IFRS 15.1E172). (1)

Consequently, in terms of IFRS 15.82 the entire discount of R1 500 should be proportionately distributed between the swimming pool and backwash recovery tank. (1)

The pool cover and the rainwater harvesting tank should remain at their stand-alone prices within the package. (1)

Total (8)
Maximum (5)
Communication skills: logical flow and conclusion (1)

(b)(iii) Provide, showing all calculations, the allocation of the transaction price. Your answer should include the requirements of IFRS15.82.

Price per package after total discount:
(21 000 + 4 000 + 1 700 + 2 400) - 1 500 = R27 600 (1)

Allocation of transaction price:

	R	
fibreglass swimming pool ((21 000/25 000) x 23 500)	19 740	(2)
backwash recovery tank ((4 000/25 000) x 23 500)	3 760	(1)
pool cover	1 700	(1)
2 200 L rainwater harvesting tank including installation	2 400	(1)
	27 600	
Total		(6)
Maximum		(5)

PART III

(a) Determine, at the inception of the maintenance contracts with Aaraam Ltd

(i) the expected consideration to be received by Pool Maintenance Ltd in exchange for the total expected maintenance and repair services.
(ii) the allocation of the transaction price for a single maintenance contract in terms of IFRS 15.B43.

	Expected consideration for each contract R	Expected renewals	Total (alternative) R		
20.16	500		25 000	(500 x 50 contracts)	
20.17	400	500 x 80%	20 000	(500 x (50 x 80%))	
20.18	320	500 x 80% x 80%	16 000	(500 x (50 x 80% x 80%))	
	1 220		61 000		
			1 220	(61 000/50 contracts)	(3)

Expected cost per contract (given) R	Adjusted for expected contract renewals	Allocation of consideration expected (IFRS 15.B43) R		
300	300	415,91	(300/880) x 1 220	
325	260	360,45	(260/880) x 1 220	
500	320	443,64	(320/880) x 1 220	
	880			(3)
				(6)

* 300 + (325 x 80%) + (500 x 80% x 80%)

(b) Provide the journal entry to account for the sale of the maintenance contracts and related contract renewal options to Aaraam Ltd in the financial statements of Pool Maintenance Ltd for the year ended 31 December 20.18. Assume that Pool Maintenance Ltd's expected and actual contract renewals were the same.

	Dr R	Cr R	
Bank (SFP) (50 x 64% x R500) OR [C1]	16 000		(2)
Revenue (P/L) (50 x R443,64) OR [C1]		22 182	(1)
Contract liability (SFP) (balancing) OR [C1]	6 182		(1)
Allocation of cash collected, revenue and contract liability for year three of the maintenance contract			
			(4)

CALCULATION

C1. Allocation of cash collected, revenue and contract liability

	20.16	20.17	20.18	
Payments received from Aaraan Ltd	25 000 (500 x 50 contracts)	20 000 (500 x 40 contracts)	16 000 (500 x 32 contracts)	[2]
Portion allocated to revenue	(20 795) (50 x 415,91)	(18 023) (50 x 360,45)	(22 182) (50 x 443,64)	[1]
Allocation to contract liability	4 205 (25 000 – 20 795)	1 977 (20 000 – 18 023)	(6 182) (16 000 – 22 182)	[1]

COMMENT

Not required (included for completeness)

	Dr R	Cr R
31 December 20.16		
Bank (SFP)	25 000	
Revenue (P/L)		20 795
Contract liability (SFP)		4 205
Allocation of cash collected, revenue and contract liability for the duration of the maintenance contracts		
31 December 20.17		
Bank (SFP)	20 000	
Revenue (P/L)		18 023
Contract liability (SFP)		1 977
Allocation of cash collected, revenue and contract liability for the duration of the maintenance contracts		

QUESTION 4 **40 marks**

YOU HAVE 15 MINUTES TO READ THIS QUESTION.

The question consists of three independent parts.

PART I **10 marks**

FlowerPower Ltd (FlowerP), a company in the flower industry, is listed on the Johannesburg Stock Exchange and has a February financial year end.

You are the financial accountant of FlowerP and the financial manager requires your assistance with the following to finalise the financial statements for the year ended 29 February 20.20:

On 31 July 20.19, FlowerP launched a new project called Lasting Impressions. This entailed the establishment of small flower outlets in all the SPARO retail outlets in Gauteng. FlowerP will be responsible for the set-up, maintenance and day-to-day running of the flower outlets. Each SPARO will pay a monthly fee for FlowerP's services and FlowerP will also obtain a percentage of all sales.

The project will initially only be rolled out in the Pretoria area for the 20.20 financial year end. FlowerP obtained eight contracts to commence business on 1 August 20.19. These contracts will expire after two years, renewable annually thereafter. FlowerP expects that the average contract term will be four years.

The following cash costs were incurred for the Lasting Impressions project for the year ended 29 February 20.20:

	R
Sales commission	300 000
Staff salaries	700 000
Training of staff (FlowerP's competitive edge is their knowledgeable staff)	120 000
Costs incurred to set up the retail outlets:	
- computer system	200 000
- software	50 000
- specific FlowerP exterior design of the outlets	150 000
- testing of systems	25 000
Fittings at the different outlets	500 000

All of the above costs are expected to be recovered by the sales made at the outlets.

PART II **15 marks**

Bricks for U Ltd (Bricks), a manufacturing company, entered into a contract with Mr Cordez to sell a new brick-moulding machine which is used to make cement paving bricks. The contract also provides Mr Cordez with a warranty included in the purchase price of the machine. The warranty assures Mr Cordez that the machine complies with agreed-upon specifications and will operate as specified for 12 months from the date of purchase. Mr Cordez does not have the option to purchase the warranty separately. Bricks is required by law to provide a warranty on all brick-moulding machines.

The contract with Mr Cordez also provides him with the right to receive training services regarding the use of this machine at no additional cost. Bricks regularly sells machines without the training services to customers who have the necessary skills to operate these machines. However, customers have the option to purchase these training services separately.

Bricks requires your assistance to identify whether the training service and warranty in the contract with Mr Cordez are separate performance obligations in accordance with IFRS 15 *Revenue from Contracts with Customers.*

PART III **15 marks**

Thebike Ltd Group (Thebike) is an e-commerce retailer providing online shopping to customers in South Africa. Thebike launched their online shopping website, Thebike.com, in August 20.19. The Thebike.com website supplies customers with an online shopping experience across various retail departments.

The bike tyres department is one of various retail departments on the Thebike.com website. The most popular bike tyres item currently selling on the Thebike.com website is the Mighty Arden Tyre.

On 2 December 20.19, Thebike decided to allow customers to return their tyres within 15 days from purchasing the tyres on the Thebike.com website. Customers returning their unused tyres in its original packaging within 15 days from the date of purchase will receive a full refund. This refund does not relate to the return of defective tyres, but rather to instances where a customer changed his/her mind about the tyres and chose to return the tyres for a full refund.

During the period 1 January 20.20 to 31 January 20.20, 150 units of the Mighty Arden Tyres were sold on the Thebike.com website. The sales and costs of sales relating to the Mighty Arden Tyres sold by Thebike were accounted for in the financial records for the year ended 31 January 20.20. The financial manager was however unsure of the accounting treatment of the customer's right to return the tyres and did not account for the impact thereof. None of the 150 tyres were returned for a full refund during the January 20.20 period. However, Thebike estimates, using the expected value method, that sixty of the tyres sold during January 20.20 will be returned for a full refund in February 20.20. The returned tyres can be resold to another customer at a profit.

The selling price of the Mighty Arden Tyres is R1 000 each. The cost price of the Mighty Arden Tyres is R500 each. The cost of collecting the returned tyres from the customer is deemed immaterial.

Control of the tyres transfers from Thebike to the customer on delivery of the tyres to the customer. All 150 units of Mighty Arden Tyres sold by Thebike during January 20.20 were delivered to customers by 31 January 20.20.

REQUIRED

YOU NOW HAVE 60 MINUTES TO ANSWER THIS QUESTION.

	Marks
PART I	
Provide the journal entries in the financial records of FlowerPower Ltd for the year ended 29 February 20.20 to account for the contract cost assets relating to the contracts obtained for the new project, Lasting Impressions, in terms of IFRS 15 **only**.	10
Please note: • Assume the above items meet the requirements to be accounted for as a contract within the scope of IFRS 15 *Revenue from Contracts with Customers*. • Assume that all amounts are material. • Journal narrations are not required. • Taxation journals are not required. • Round off all amounts to the nearest rand.	
PART II	
Prepare a memorandum to the senior manager wherein you identify and discuss whether the training service and warranty promised in the contract between Bricks for U Ltd and Mr Cordez give rise to separate performance obligations in terms of IFRS 15.	14
Communication skills: logical flow and format	1
PART III	
Discuss, with reference to amounts, the appropriate accounting treatment of the right of return of the Mighty Arden Tyre in accordance with IFRS 15 for the year ended 31 January 20.20.	14
Please note: • You may assume that the sale of the Mighty Arden Tyres by the Thebike Ltd Group to a customer meets all the requirements to be recognised as a contract within the scope of IFRS 15 *Revenue from Contracts with Customers.* • Thebike Ltd Group's promise to provide the tyres to a customer is regarded as a single performance obligation when purchased by the customer. • You are not required to discuss presentation and disclosure. • You are required to include calculations in your discussion.	
Communication skills: logical flow and conclusion	1
Please note: • Round off all amounts to the nearest rand. • Show all your calculations. • Your answer must comply with the International Financial Reporting Standards (IFRS).	

QUESTION 4 – Suggested solution

PART I

Provide the journal entries in the financial records of FlowerPower Ltd for the year ended 29 February 20.20 to account for the contract cost assets relating to the contracts obtained for the new project, Lasting Impressions, in terms of IFRS 15 only.

		Dr R	Cr R	
J1	Contract costs: Incremental costs (SFP)	300 000		(1)
	Bank (SFP)		300 000	(1)
	Recognition of the incremental costs of obtaining the contracts			
J2	Contract costs: Costs to fulfil the contract (SFP) [C1]	295 000		(2)
	Bank (SFP)		295 000	(1)
	Recognition of costs to fulfil the contracts			
J3	Amortisation (P/L) [C2]	86 770		(1)
	Contract costs: Incremental costs (SFP)		43 750	(2)
	Contract costs: Costs to fulfil the contract (SFP)		43 020	(2)
	Recognise amortisation on contract costs capitalised for the contracts			
				(10)

CALCULATIONS

C1. Costs to fulfil the contract

Training of staff	120 000	
Exterior design	150 000	
Testing of all systems	25 000	
	295 000	[1]

C2. Amortisation

Amortisation will be accounted for on the straight-line method which is consistent with the transfer to the customer of the services to which the asset relates (IFRS 15.99).

Contract costs – incremental costs:
(R300 000)/(4 x 12) x 7 months = R43 750 [2]

Contract costs – costs to fulfil the contract:
(R295 000)/(4 x 12) x 7 months = R43 021 [2]

EXAMINATION TECHNIQUE

FlowerPower recognises an asset for the incremental costs of obtaining the contract arising from the commissions to sales employees because the entity expects to recover those costs (IFRS 15.91). FlowerPower observes that the staff salaries would have been incurred regardless of whether the contract was obtained. Therefore, those costs are recognised as expenses when incurred (IFRS 15.93).

EXAMINATION TECHNIQUE

The initial setup costs relate primarily to activities to fulfil the contract but do not transfer goods or services to the customer. The entity accounts for the initial setup costs as follows:

- computer system and fittings - accounted for in accordance with IAS 16
- software - accounted for in accordance with IAS 38
- training of staff, design of the outlets and testing – assessed to determine whether an asset can be recognised for the costs to fulfil the contract (IFRS 15.95). Any resulting asset would be amortised on a systematic basis over the seven-month period that FlowerPower expects to provide services.

PART II

Identify and discuss whether the training service and warranty promised in the contract between Bricks for U Ltd and Mr Cordez give rise to separate performance obligations in terms of IFRS 15.

MEMORANDUM

To: Senior manager
From: IFRS specialist
Date: 1 March 20.20
Subject: Identification of performance obligations in a contract

This memorandum responds to the matters, as requested. These explanations are based on my understanding of the facts provided to me:

Training services

In order for goods and services in a contract to each be accounted for as **separate performance obligations**, Bricks has to assess at contract inception the goods and services promised in the contract and identify as a performance obligation each promise to transfer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or (1)
(b) a series of distinct goods and services that are substantially the same and that have the OR
same pattern of transfer to the customer (IFRS 15.22). (1)

A good or service that is promised to Mr Cordez (a customer) is **distinct** if both of the following criteria are met (IFRS 15.27):

(a) Mr Cordez can benefit from the good or service either on its own or together with other resources that are readily available to him; and (1)
(b) Bricks' promise to transfer the good or service to Mr Cordez is separately identifiable from other promises in the contract. (1)

The **first criterion** of the definition of being distinct is met because Mr Cordez can benefit from the training services on its own as customers have the option to purchase the training service separately. (1)

The **second criterion** of the definition of being distinct is met because Bricks' promise to transfer the training services is separately identifiable from other promises in the contract. (1)

Factors which indicate that a promised good or service is **separately identifiable** (IFRS 15.29):

(a) Bricks does not provide a significant service of integrating the good or service with other goods or services promised in the contract into a bundle of goods or services that represents the combined output for which the customer has contracted. (1)

The machine can be operated without providing training services (IFRS 15.29(a)). (1)

(b) The good or service does not significantly modify or customise another good or service promised in the contract.

The training services do not significantly modify or customise the machine (IFRS 15.29(b)). (1)

(c) The good or service is not highly dependent on, or highly interrelated with, other goods or services promised in the contract.
Mr Cordez can purchase the machine without the training services (IFRS 15.29)(c)). (1)

Conclusion

The training services are distinct because they meet both the criteria of the definition of being distinct. The training services are therefore a separate performance obligation in the contract with Mr Cordez. (1)

Warranty

Bricks does not sell the warranty separately. Mr Cordez does not have an option to purchase the warranty separately and therefore provides no evidence that the warranty provides a service to Mr Cordez in addition to the assurance-type warranty (IFRS 15.B30). (2)

The warranty is consequently not a distinct service. (1)

The 12-month warranty period is not a long cover period and therefore it is less likely that the warranty is a separate performance obligations because it is less likely to provide a service in addition to the assurance. (1)

The warranty is required by law, which also indicate that the promised warranty is not a performance obligation. (1)

Conclusion

The warranty does not provide Mr Cordez with a good or service in addition to that of assurance and, therefore, Bricks does not account for it as a separate performance obligation. (1)

The warranty shall be accounted for as a provision in accordance with IAS 37 *Provisions Contingent Liabilities and Contingent Assets*. (1)

Total	(17)
Maximum	(14)
Communication skills: logical flow and conclusion	(1)

PART III

Discuss the appropriate accounting treatment of the right of return of the Mighty Arden Tyre in accordance with IFRS 15 for the year ended 31 January 20.20.

To account for the transfer of the Mighty Arden Tyres with a right of return, Thebike should in accordance with IFRS 15.B21 recognise all the following:

- Revenue for the transferred tyres it expects to be entitled to (therefore revenue is not recognised for products expected to be returned);
- A refund liability in respect of the tyres expected to be returned; and
- An asset for its right to recover the tyres from customers on settling the refund liability (IFRS 15.B21). (1)

REVENUE

Recognition

- Revenue is recognised when Thebike satisfies a performance obligation by **transferring the Mighty Arden Tyres** to a customer. The tyre is transferred when (or as) the **customer obtains control** of the tyre (IFRS 15.31). (1)

- The performance obligation to transfer the tyres to a customer is **not** satisfied over time but **at a point in time** because **control** of the tyres transfers to the customer on the **delivery date** of the tyres to the customer. (1)

- Hence, revenue from the sales of the tyres is **recognised** when the tyres are **delivered** to customers. (1)

- Revenue from the 150 units of the Mighty Arden Tyres sold to customers should be recognised by Thebike on **31 January 20.20** since all the tyres were delivered on this date. (1)

Measurement

- The transaction price is the **amount of consideration** Thebike expects to be entitled to **in exchange for transferring** the promised tyres to a customer (IFRS 15.47). (1)

- When determining the transaction price, Thebike should consider the **effects** of **variable consideration** (IFRS 15.48). (1)

- The consideration received from the sale of the tyres to customers is **variable** because the contract allows customers to return the tyres (IFRS 15.51). (1)

- Because the consideration received from the customers includes a variable amount, Thebike should **estimate** the amount of **consideration** it will be entitled to in exchange for transferring the tyres to the customers (IFRS 15.50). (1)

- The estimated variable consideration for the 90 tyres that are not expected to be returned is **R90 000** (R1 000 x (150-60)). This amount should be recognised as **revenue/sales** in the financial statement of Thebike for the year ended 31 January 20.20. (2)

REFUND LIABILITY

- A **refund liability** should be recognised by Thebike because it receives consideration from customers and **expects to refund** some or all of that consideration to the customers (IFRS 15.55). (1)

- The refund liability should be **measured** at the amount of **consideration** received for which Thebike **does not expect** to be entitled (IFRS 15.55). (1)

- Hence, a refund liability amounting to **R60 000** (60 x R1 000) should be recognised by Thebike in the financial statements for the year ended 31 January 20.20. (1)

ASSET

- IFRS 15.B25 notes that Thebike's **right to recover** an asset is initially measured by reference to the former carrying amount of the product less the expected costs to recover those products. (1)
- Thebike will therefore recognise an **asset** of **R30 000** (60 x R500) for the expected returns of the tyres on 31 January 20.20. (1)

- The **cost of sales** recognised for the sales of tyres, taking into account Thebike's right to recover the tyres on meeting the refund obligation, amounts to **R45 000** ((150 – 60) x R500) for the year ended 31 January 20.20. (1)

- The expected **costs** to **recover** the products will be **zero** since those costs are immaterial. (1)

Total	(18)
Maximum	(14)
Communication skills: presentation and layout	(1)

QUESTION 5 **40 marks**

YOU HAVE 15 MINUTES TO READ THIS QUESTION.

This question consists of two independent parts.

PART I **20 marks**

You are a senior trainee accountant for Khumalo and Tsholo Inc. and have been assigned to the audit of Ashante Investments Ltd. Ashante Investments Ltd is listed on the Johannesburg Stock Exchange and has a 31 March year end. The company manufactures a wide range of cleaning detergents and chemicals. These products are supplied to various mining companies in the Limpopo and North West provinces.

Your audit manager has asked you to respond to an email received from the finance manager of Ashante Investments Ltd as she is currently focusing on another audit report that is due in three days. The following is an extract of the email received from the finance manager.

From: MScott@Ashanteinvestments.com
Subject: Agreement between Ashante Investments Ltd and Pillow Chemicals Ltd
Date: 5 March 20.21

Dear Mrs Boitshoko,

I hope this email finds you well and in good health.

We have recently approached the management of Pillow Chemicals Ltd to propose a strategic agreement to manufacture hand sanitizers. Pillow Chemicals Ltd has the resources and expertise to manufacture the hand sanitizers but does not have sufficient capital or facilities to manufacture the product on a larger scale. This necessitates this agreement as Ashante Investments Ltd does not manufacture sanitizers. The agreement was finalised on 15 February 20.21.

A separate entity named Sanchem Ltd was formed on 15 February 20.21. Sanchem Ltd is a separate legal entity in terms of the South African Companies Act, 2008. Each entity will have a 50% shareholding in Sanchem Ltd. A strategic agreement which governs the operation of Sanchem Ltd was signed on the date of incorporation. The strategic agreement contained the following terms:

- A joint operating committee will be established and a representative from each company will sit on the joint operating committee.
- The decisions made by the joint operating committee require unanimous consent.
- The companies will share the revenue from the sale of the hand sanitizers and incur the direct manufacturing costs in a ratio of 50:50 and a separate bank account will be opened through which revenue will be received and shared costs will be paid.
- The bank account is in the name of Sanchem Ltd.
- The appointment of management and decisions regarding supplies to be utilised are to be approved by shareholders holding at least 51% of Sanchem Ltd voting rights.
- Ashante Investments Ltd and Pillow Chemicals Ltd will purchase the entire Sanchem Ltd's product line in a ratio of 50:50.
- Sanchem Ltd may not sell any of the hand sanitizers to any other party except to Ashante Investments Ltd and Pillow Chemicals Ltd.
- Any cash shortages that the partnership may incur, will be financed by both parties in a ratio of 50:50.

Apologies for this long email, but its content is very crucial in this regard. I am struggling with the classification and measurement of Sanchem Ltd in our financial statements. I therefore request your assistance.

Your prompt response will be appreciated.

Yours faithfully Mike Scott Finance Manager
Ashante Investments Ltd

PART II **20 marks**

PTelecomms Ltd is a company listed on the Johannesburg Stock Exchange. PTelecomms Ltd specialises in the installation of fibre infrastructure in various South African suburbs. PTelecomms Ltd is a registered Value Added Tax (VAT) vendor. The demand for faster internet connection has risen sharply in South Africa due to most people working from home as a result of the lockdown caused by COVID 19 pandemic. Another reason for the increase in demand is the rolling out of the 5G network by most of the telecommunication companies in South Africa. This has resulted in an increase in the demand for PTelecomms Ltd's services. The company has a 28 February year end.

On 1 June 2020, PTelecomms Ltd, entered into a contract with Vodatel Ltd to install fibre infrastructure in one of the upmarket suburbs in Polokwane. The duration of the contract was for 12 months with an estimated cost of R2 650 000.

The terms of the contract states that the contract will be divided into three milestones, namely: civil works (installation of the fibre cables and restoration of the ground), technical works (connection of the fibre cables to the main network line) and households' connection (connection from the main network to the list of households provided by Vodatel Ltd). PTelecomms Ltd will only invoice Vodatel Ltd after the successful completion of each milestone. Each milestone will be certified to be completed by issuing a certified completion certificate from an independent quality assurance specialist.

The completed civil and technical works can be sold together, as a package to another independent service providers at a selling price of R2 250 000 (including VAT). PTelecomms Ltd can also connect households if the household have purchased the completed civil and technical works from other telecommunications service providers. The civil and technical works do not significantly customise the household connections. PTelecomms Ltd does not necessarily provide these milestones as a bundle or integrated package.

Due to the impact of the national lockdown resulting from the COVID 19 pandemic, the project was delayed. The initial anticipated completion date for the civil works was 30 August 2020. A completion certificate for the civil works was only obtained on 2 November 2020 from an independent quality assurance specialist. On this date, a tax invoice amounting to R1 828 500 (including VAT) was issued to Vodatel Ltd. The remainder of the work will be completed in the next five to six months.

On 15 January 20.21, another completion certificate for the technical works was obtained from an independent quality assurance specialist and a tax invoice amounting to R609 500 (including VAT) was also issued to Vodatel Ltd. The anticipated completion date for technical works was 30 December 2020 but was also delayed.

On 25 February 20.21, PTelecomms experienced challenges in identifying the households on the list provided by Vodatel Ltd and as a result, could not connect the households to the main network. These invoices were still outstanding at year end.

REQUIRED

YOU NOW HAVE 60 MINUTES TO ANSWER THIS QUESTION.

	Marks
PART I	
Draft an email to the finance manager of Ashante Investments Ltd as requested by the audit manager, in which you discuss the following:	
(a) Whether the strategic agreement between Ashante Investments Ltd and Pillow Chemicals Ltd is a joint arrangement.	10
(b) Assuming that the agreement is a joint arrangement, how it should be classified and measured in the separate financial statements of Ashante Investments Ltd for the year ended 31 March 20.21.	9
Communication skills: conclusion and logical flow	1
PART II	
(a) Identify, with reasons, the separate performance obligation(s) contained in the contract between PTelecomms Ltd and Vodatel Ltd, in accordance with IFRS 15 *Revenue from contracts with customers* for the year ended 28 February 20.21.	9
(b) For each performance obligation identified above, prepare journal entries in the accounting records of PTelecomms Ltd to recognise the revenue from the contract with Vodatel Ltd, in accordance with IFRS 15 *Revenue from contracts with customers* for the year ended 28 February 20.21.	6
Communication skills: presentation and layout	1
(c) Discuss the substantive audit procedures to be performed to audit the amount of revenue recognised for the year ended 28 February 20.21.	4
Please note: • Ignore any income tax implications.	
Please note:	
• Round off all amounts to the nearest Rand. • Show all your calculations. • Your answer must comply with International Financial Reporting Standards (IFRS).	

QUESTION 5 – Suggested solution

PART I

Draft an email to the finance manager of Ashante Investments Ltd as requested by the audit manager, in which you discuss:

(a) Whether the strategic agreement between Ashante Investments Ltd and Pillow Chemicals Ltd is a joint arrangement.

Email
To: Finance Manager
From: CTA Level 1 student
Date: March 20.21
Subject: RE: Agreement between Ashante Investments Ltd and Pillow Chemicals Ltd

This email serves to provide you with the assistance to determine whether the agreement between Ashante Investments Ltd and Pillow Chemicals Ltd is a joint arrangement.

IFRS 11 *Joint Arrangements* is applicable to all entities that are a party to a joint arrangement. A joint arrangement is an arrangement where two or more parties have joint control.

A joint arrangement has the following characteristics:
- The parties are bound by a contractual agreement; and
- The contractual agreement gives two or more of those parties joint control of the arrangement.

Joint control is the contractual sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control (IFRS 11.4; IFRS 11.7).

A joint arrangement will be an arrangement in which Ashante Investments Ltd and Pillow Chemicals Ltd have joint control of Sanchem Ltd (IFRS 11.4). (1)

Ashante Investments Ltd and Pillow Chemicals Ltd entered into a strategic agreement at the incorporation of Sanchem Ltd to produce hand sanitizers.

The relevant activities are those related to the production of hand sanitisers as these determines the returns of Sanchem Ltd.

All the parties control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the relevant activities.

This agreement sets out the following terms upon which the two parties participate in the manufacture of hand sanitizers:

- Each company appoints a representative to the joint operating committee; (1)
- The decisions made by the joint operating committee require unanimous consent; (1)
- Both Ashante Investments Ltd and Pillow Chemicals Ltd holds 50% of the shareholding of Sanchem Ltd. (1)

- The appointment of management and decisions regarding supplies to be utilised in manufacturing of the hand sanitisers are to be approved by shareholders holding at least 51% of Sanchem Ltd's voting rights. Both parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing. (2)

- All parties must thus act together to direct the relevant activities, i.e., the manufacture of the hand sanitisers. (1)

- Therefore, Ashante Investments Ltd and Pillow Chemicals Ltd have joint control over Sanchem Ltd and the arrangement is a joint arrangement. (1)

(10)

EXAMINATION TECHNIQUE

Did you use your IFRS 11 standard to assist in answering this question? The standard contains flow charts to direct you on how to answer the required. In this case, even though it is not explicitly stated that joint control is present in the agreement, joint control is implied as neither party can direct the relevant activities without the consent of the other party.

(b) Assuming that the agreement is a joint arrangement, how should it be classified and measured in the separate financial statements of Ashante Investments Ltd for the year ended 31 March 20.21.

The rights and obligations of both Ashante Investments Ltd and Pillow Chemicals Ltd to the joint arrangement must be assessed to determine the classification of the arrangement as either a joint operation or a joint venture (IFRS 11.14). (1)

Sanchem Ltd is structured through a separate legal entity and may therefore represent either a joint operation or a joint venture (IFRS 11. B19). (1)

The legal form of the separate vehicle is relevant in assessing the type of joint arrangement. (1)

Whether Sanchem Ltd is a joint venture or a joint operation will depend on Ashante Investments Ltd and Pillow Chemicals Ltd's rights to the assets, and obligation for the liabilities, relating to the arrangement that are held in the separate vehicle. (1)

Sanchem Ltd is a separate legal entity formed in accordance with the South African Companies Act, 2008. (1)

The details as outlined in the strategic agreement will be considered in classifying the agreement between Ashante Investments Ltd and Pillow Chemicals Ltd.

Any cash shortages that the partnership may incur, will be financed by both parties in a ratio of 50:50. (1)

Sanchem Ltd may not sell any of the sanitizers to any other party except Ashante Investments Ltd or Pillow Chemicals Ltd meaning that the cashflows from Ashante Investments Ltd and Pillow Chemicals Ltd will be sufficient for the obligations of Sanchem Ltd. (1)

Ashante Investments Ltd and Pillow Chemicals Ltd will purchase the entire Sanchem Ltd's product line in a ratio of 50:50 each. (1)

The arrangement would therefore be classified as a joint operation, as each company has direct rights to the assets and obligations for the liabilities of the arrangement. (1)

Ashante Investments Ltd should recognise 50% of the assets, liabilities, revenue and expenses of Sanchem Ltd, in its separate financial statements for the year ended 31 March 20.21. (1)

Total	(10)
Maximum	(9)
Communication Skills: conclusion and logical flow	(1)

EXAMINATION TECHNIQUE

If the joint arrangement is housed in a separate entity, it does not preclude the arrangement from being a joint operation as the terms and conditions of the arrangement can override the legal from of the separate entity and still provide the joint operators with rights to the assets and obligations for the liabilities.

PART II

(a) Identify, with reasons, the separate performance obligation(s) contained in the contract between PTelecomms Ltd and Vodatel Ltd, in accordance with *IFRS 15 Revenue from contracts with customers* for the year ended 28 February 20.21.

PTelecomms Ltd should assess at the inception of the contract if the transfer of the promised goods or services in the contract is a performance obligation by determining if:

- A good or service (or bundle of goods or services) is distinct; or
- A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer (IFRS 15.22).

A good or service that is promised to Vodatel Ltd is distinct if both the following criteria are met:

(a) The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (capable of being distinct); and

(b) The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (distinct within the context of the contract). (IFRS 15.27).

PTelecomms Ltd should assess the three milestones set out in the contract to determine if they are separate performance obligations.

Civil works and technical works

The civil works and technical works milestones will be distinct if the following criteria are met:

(a) A customer (Vodatel Ltd) can benefit from the civil works and technical works as these services can be sold to an independent telecommunication service provider after receiving a certified completion certificate at the market value of R2 250 000. (2)

(b) The civil and technical works are separately identifiable from the household connections as:

i. Although the civil and technical works can be sold as a package to another telecommunication service provider. PTelecomms Ltd is not necessarily providing a significant service of integrating the civil and technical works and household connections into a single combined output. (1)

ii. The civil and technical works do not significantly modify or customise the household connections. (1)

iii. The civil and technical works, and household connections are not highly interdependent or highly interrelated because PTelecomms Ltd would be able to transfer the civil and technical works to Vodatel Ltd independently from the household connections. (2)

(c) Therefore, because both criteria are met, civil works and technical works, will be identified as a separate performance obligation. (1)

Households connections

(a) Vodatel Ltd can benefit from the completed households' connections together with other readily available services (civil and technical works from other telecommunication service providers) i.e. PTelecomms Ltd is able perform the household's connections using the technical works purchased from other telecommunication service providers. (2)

(b) Households connections are separately identifiable from the civil and technical works as: (1)

i. PTelecomms Ltd is not necessarily providing a significant service of integrating the civil and technical works and households' connections into a single combined output. (1)

ii. The civil and technical works do not significantly modify or customise the household's connections. (1)

iii. The civil and technical works, and household connections are not highly interdependent or highly interrelated because PTelecomms Ltd would be able to install households' connections to Vodatel Ltd independently from the civil and technical works. (2)

(c) Therefore, because both criteria are met households' connections will be identified as a separate performance obligation. (1)

(d) PTelecomms Ltd will therefore have two separate performance obligations i.e. civil and technical works and households' connections.

Total	(15)
Maximum	(9)

(b) For each performance obligation identified above, prepare journal entries in the accounting records of PTelecomms Ltd to recognise the revenue from the contract with Vodatel Ltd, in accordance with *IFRS 15 Revenue from contracts with customers* for the year ended 28 February 20.21.

		Dr R	Cr R	
	01/06/20.20			
	No entry			
J1	Trade receivables (SFP)	1 828 500		(1)
	VAT Output Account (SFP) (1 828 500 x 15/115)		238 500	(2)
	Contract (P/L) (1 828 500 x 100/115)		1 590 000	(1)
	Recognising revenue from customer contract			
	15/01/20.21			
J2	Trade receivables (SFP)	609 500		(1)
	VAT Output Account (SFP) (609 500 x15/115)		79 500	(2)
	Revenue from Customer Contract (P/L) (609 500 x 100/115)		530 000	(1)
	Recognising revenue from customer contract			
	28/02/20.21			
	No entry			
			Total	(8)
			Maximum	(6)

EXAMINATION TECHNIQUE

Did you notice that the question and required did not state to ignore VAT. This indicates the importance of understanding the scenario and required. Ensure that you understand the implications of each bit of information given (or the lack of information!).

(c) Discuss the substantive audit procedures to be performed to audit the amount of revenue recognised in the year ended 28 February 20.21

1. Select a sample of sales transactions in the general ledger and agree the total amount recorded to the sales invoices and the related contracts. (1)

2. Select a sample of sales invoices and agree the total amount per invoice to the total amount recognised in the general ledger. (1)

3. From the sample of sales transactions selected, confirm that the total amount recorded in the general ledger is exclusive of Vat. (1)

4. For the sample of sales transactions selected, inspect the related contracts and ensure that all performance obligations in the contracts were satisfied before recognising the revenue as required by IFRS 15. (1)

5. For the sample of sales transactions selected, inspect the related contracts and ensure that all performance obligations in the contracts were satisfied before recognising the revenue as required by IFRS 15. (1)

6. Agree the total amount of revenue recognised in the general ledger to the trial balance. (1)

7. Perform analytical review procedures on the revenue amount in the trial balance. (1)

8. Inspect the financial statements of PTelecomms Ltd for the year ended 28 February 20.21 to confirm that the revenue amount is correctly disclosed as required by IFRS 15. (1)

Total (8)
Maximum (4)

QUESTION 6 **40 marks**

YOU HAVE 15 MINUTES TO READ THIS QUESTION.

This question consists of two independent parts.

Mahlatse Energy Solutions Ltd ('Mahlatse') operates in the renewable energy industry and specialises in the provision of renewable energy. The primary business of the company is the supply of solar panels, batteries and installation of solar power as an alternative source of energy. The company is listed on the Johannesburg Stock Exchange and has a 31 August year end.

Mahlatse has been experiencing a significant growth due to a sharp increase in the demand for its products in South Africa. This is primarily due to the implementation of load-shedding by the Electricity Supply Commission (Eskom) in South Africa. Most businesses and individual residents are resorting to renewable energy alternatives to electricity.

Sol Plaatje Local municipality ('SP municipality')

Mahlatse has managed to secure a 2-year contract with SP municipality. In terms of the contract, Mahlatse is to install a solar system to power the city hall and building of SP municipality located near the municipal offices. The contract commenced on 01 February 20.21. The primary advantage of this contract is the favourable climate conditions that favours the use of solar energy as an alternative for the SP municipality. The solar energy will be generated through installation of the solar panels on the municipality's parking lots. The installation will host 40 gigawatts (GW) of solar capacity and produce 50,000 gigawatt hours (GWh) of electricity to the municipal buildings.

The following costs were incurred (paid in cash) in relation to this contract:

Costs	**Note**	**Amount**
Community engagements	1	95 650
Transport and accommodation cost	2	86 000
Salaries	3	175 000
Testing of the solar systems	4	105 700
Appreciation bonus	5	76 000

Note

1. These are costs incurred by Mahlatse to engage the communities around the SP municipality by educating the community members on the importance of solar energy as an alternative form of energy. This activity is one of the conditions of the contract. These costs would not be recoverable even if the contract was awarded to the company.

2. The transport and accommodation costs were incurred by the negotiating team during the negotiation phase of the contract.

3. The salaries were paid to a fulltime supervisor employed by the company and employees employed for the duration of the contract. 20 people were employed from the communities of the municipality as one of the conditions of the contract. R75 000 was paid to the fulltime employee and R100 000 was paid to the employees employed in the first year of the contract.

4. These costs were incurred to test the solar system after the completion of the installation process.

5. These costs were paid to the negotiating team for securing the contract with SP municipality.

Sale of Solar Batteries

During the year, Mahlatse sold 10 RS Pro 100 AH batteries to customers for R13 000 each. The batteries were sold with an extended warranty of 3 years. The market price of the batteries without the extended warranties is R11 600 each.

Botswana Energies Ltd ('Botswana Energies')

In 20.20, Mahlatse entered into an agreement with a company located in Botswana called Botswana Energies to distribute the solar invertors sold to the customers in South Africa on behalf of Botswana Energies. This was viewed as a significant move in in line with the company's growth strategy to grow outside the borders of South Africa and establish a footprint in Southern African countries.

The agreement contained the following specifications:

1. Mahlatse will market and sell the inverters in South Africa for Botswana Energies.
2. The selling price is determined by Botswana Energies. The selling price in South Africa will be the selling price of the products in Botswana converted at the spot rate on the date of sale.
3. Once customers fully pay for the batteries in South Africa, Mahlatse prepares a requisition to place orders from Botswana Energies to transport the ordered quantity on a weekly basis.
4. The orders are delivered directly to the costumers in South Africa by Botswana Energies.
5. Botswana Energies is responsible for the manufacturing and distribution of the invertors.
6. Botswana Energies will be held responsible for all the damaged and defected products.
7. Mahlatse will receive a commission of 5% on the total sales made in South Africa.

During the current year, total sales of R876 350 were made on the sale of the inverters in South Africa.

Khumalo Engineering Services Ltd ('Khumalo')

During the year ended 31 August 20.19, Mahlatse entered into an agreement with Khumalo. Khumalo specialises in civil construction and steel manufacturing services. The managing directors of Mahlatse and Khumalo established and registered a new company namely; MK Holdings Ltd ('MK').

The main objective of the MK is to manufacture and sell wind turbines as part of both parties' medium-term plan to venture into the wind energy industry. Both Mahlatse and Khumalo have joint control over MK.

The terms of the contractual joint arrangement are as follows:

- Mahlatse and Khumalo have equal rights to the revenue earned from the sale of the wind turbines and the expenses incurred to maintain the operations of MK.
- The parties to the arrangement are equally liable to settle any debts incurred by MK, in case MK is unable to service its debts.
- The relevant activities of MK are: manufacturing and selling of the wind turbines, setting the selling price and management of the operations and all the operating costs.

As a result of the difficult trading and economic conditions exacerbated by the COVID 19 pandemic, MK was experiencing an adverse cashflow position and was not able to settle the debt owed to the supplier of the steel used in the manufacturing process during the current year. Mahlatse and Khumalo settled the amount owed to the steel supplier and the manufacturing process continued.

REQUIRED

YOU NOW HAVE 60 MINUTES TO ANSWER THIS QUESTION.

		Marks
(a)	Prepare the journals entries in the financial records of Mahlatse Energy Solutions Ltd to account for the contract costs relating to the contract obtained for the Sol Plaatje Local municipality for the year ended 31 August 20.21.	13
	Communication skills: Presentation and layout	1
(b)	Prepare journal entries for Mahlatse Energy Solutions Ltd to account for the sale of the solar batteries for the year ended 31 August 20.21.	6
(c)	Discuss, with reference to principal versus agent consideration in terms of IFRS 15 *Revenue from Contracts with Customers*, whether Mahlatse Energy Solutions Ltd is deemed a principal or an agent with regards to the solar inverter products sold for Botswana Energies Ltd in South Africa. Your discussion should include calculations of the amount of revenue that should be recognised by Mahlatse Energy Solutions Ltd for the sale of the invertors for the year ended 31 August 20.21.	10
	Communication skills: Presentation and layout	1
(d)	Discuss, with reasons, the appropriate classification of the joint arrangement, MK Holdings Ltd, in accordance with IFRS 11 *Joint Arrangements* in the financial statements of Mahlatse Energy Solutions Ltd for the year ended 31 August 20.21.	9

Please note:

- Show all your calculations.
- Round off all amounts to the nearest rand.
- Journal narrations are required.
- Your answer must comply with International Financial Reporting Standards (IFRS).

QUESTION 6 – Suggested solution

(a) Prepare the journals entries in the financial records of Mahlatse Energy Solutions Ltd to account for the contract costs relating to the contract obtained for the Sol Plaatje Local municipality for the year ended 31 December 20.21.

		Dr R	Cr R	
J1	Contract costs: expenses (P/L) [C1]	256 650		(3)
	Bank (SFP)		256 650	(1)
	Recognition of the expenses incurred in obtaining the contracts from the Sol Plaatje Local municipality.			
J2	Contract costs: Incremental costs (SFP) [C2]	76 000		(1)
	Contract costs: Costs to fulfil the contract (SFP) [C2]	205 700		(2)
	Bank (SFP)		281 700	(1)
	Recognition of costs to fulfil the contracts for the Sol Plaatje Local municipality.			
J3	Amortisation (P/L) [C3]	82 163		(1)
	Contract costs: Incremental costs (SFP)		22 167	(2)
	Contract costs: Costs to fulfil the contract (SFP)		59 996	(2)
	Recognise amortisation on contract costs capitalised for the contracts with the Sol Plaatje Local municipality.			
			Total	(13)
			Communication skills: presentation and layout	(1)

EXAMINATION TECHNIQUE

It is always good exam technique to provide journal narrations and dates, even if the required states that it is not required. This will assist you, and the marker, to know what information is being journalised.

CALCULATIONS

C1 Expensed contract costs

Community engagements	95 650	[1]
Transport and Accommodation cost	86 000	[1]
Salaries – full-time employees	75 000	[1]
	256 650	
		[3]

C2 Incremental costs

Appreciation bonus	76 000	[1]
Costs to fulfil the contract		
Salaries (contract employees)	100 000	[1]
Testing of the solar systems	105 700	[1]
	205 700	
		[3]

COMMENT

Incremental costs [IFRS 15.91]:
An entity shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission).

In this question, the bonusses paid are a direct consequence of obtaining the contract and is therefore an incremental cost as it is expected to recover the cost.

Costs to fulfil a contract [IFRS 15.95]:
If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2, IAS 16 or IAS 38), an entity shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:
(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);
(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
(c) the costs are expected to be recovered.

In this question, the salaries (contract employees) and testing of the solar systems meet the criteria and are therefore recognised as costs to fulfil a contract.

C3. Amortisation

Contract costs – incremental costs:
((R76 000/2) x 7/12) = R22 167 [2]

Contract costs – costs to fulfil the contract:
((R205 700/2) x 7/12) = R59 996 [2]

(b) Prepare journal entries for Mahlatse Energy Solutions Ltd to account for the sale of the solar batteries for the year ended 31 December 20.21.

		Dr R	Cr R	
	Sale of Solar batteries			
J1	Bank (SFP) (13 000 x 100)	130 000		(1)
	Revenue from the sale of Batteries (P/L) (11 600 x 10)		116 000	(1)
	Contract liability: Extended warranty (SFP) (balancing)		14 000	(1)
	Recognition of revenue and contract liability from the sale of batteries			
J2	Contract liability (SFP) (14 000/3)	4 667		(2)
	Revenue from the sale of extended warranty		4 667	(1)
	Recognition of revenue from the sale of extended Warranties			
			Total	(6)

COMMENT

The warranty is priced separately, therefore, the warranty is a distinct service because the entity promises to provide the service to the customer in addition to the product that has the functionality described in the contract [IFRS 15.B29].

The warranty is therefore recognised as a separate performance obligation and amortised over the warranty term.

If the warranty does not provide a separate good or service (in addition to the service or good received), it is not accounted for as a separate performance obligation. The warranty shall then be accounted for as a provision in accordance with IAS 37 *Provisions Contingent Liabilities and Contingent Assets*.

(c) Discuss, with reference to the sale of the solar inverter products, how Mahlatse Energy Solutions Ltd should recognise and measure the revenue in its accounting records for the year ended 31 December 20.21. You may assume there were no returns nor any issues with the products during the financial year ended 31 December 20.21.

An entity is an agent if the entity's performance obligation is to arrange for the provision of goods or services by another party (IFRS 15.B34).

Mahlatse's **performance obligation** in terms of the solar inverter product of Botswana Energies is **to arrange with Botswana Energies** to supply these products in South Africa (IFRS 5.119 (c)). (1)

Mahlatse does not obtain **control** of the solar inverters before it is transferred to the customer and is, therefore, not the principal (IFRS 15.B35). (1)

To determine whether Mahlatse is an agent for Botswana Energies, the following indicators from IFRS 15.B37 should be considered:

1. Another party is primarily responsible for the fulfilling of the contract.
   Botswana Energies is responsible for the manufacture and distribution, as well as for the damaged and defective solar inverters. (1)

Therefore, Mahlatse is not primarily responsible for fulfilling the contract. (1)

2. The entity does not have inventory risk before or after the goods have been ordered by a customer, during shipping, or on return.
   The orders are delivered directly to the customers in South Africa by Botswana Energies. Botswana Energies will also deal with any returns of the (1)
   products. Therefore, Mahlatse does not have an inventory risk. (1)

3. The entity does not have discretion in establishing prices for the other party's goods or services.
   The selling price is determined by Botswana Energies. The selling price in South Africa will be the selling price of the products in Botswana converted at the spot rate on the date of invoice. Mahlatse does not have discretion in establishing (1)
   prices for Botswana Energies products. (1)

4. The entity's consideration is in the form of commission.
   Mahlatse will receive a commission of 5% on the total sales made in South Africa. (1)

5. The entity is not exposed to credit risk for the amount receivable.
   The products are fully paid when the orders are placed by Mahlatse and therefore Mahlatse has no credit risk. (1)

Conclusion
Based on the above evidence, Mahlatse is acting as an agent for Botswana Energies. (1)

The amount of revenue to be recognised by Mahlatse is only the commission from the sale of the products, which amounts to R43 818 (R876 350 x 5%). (1)

Total	(12)
Maximum	(10)
Communication skills: Presentation and layout	(1)

(d) Discuss, with reasons, the appropriate classification of the joint arrangement, MK Holdings Ltd, in accordance with IFRS 11 *Joint Arrangements* in the financial statements of Mahlatse Energy Solutions Ltd for the year ended 31 December 20.21.

The joint arrangement is carried out through a separate vehicle, MK. (1)

MK is a private company registered in terms of the Companies Act, 2008, of South Africa. The legal form confers separation between Mahlatse and Khumalo and MK. (1)

The assets and liabilities held by MK are MK's assets and liabilities and the shareholders are entitled to the net assets. (IFRS 11.B23) (1)

The terms agreed by the parties must be considered and MK may still either be classified

as a joint operation or a joint venture (IFRS 11. B19). (1)

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement (IFRS 11.15).

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement (IFRS 11.16).

The contractual agreement indicates that Mahlatse and Khumalo have equal rights to the revenue earned and operating costs incurred by MK. (1)

According to the terms of the contractual arrangement, the parties also are responsible for the payment of liabilities in case MK is unable to pay the liabilities. (1)

Therefore, Mahlatse and Khumalo were required to pay the amount owed to the steel supplier. (IFRS 11.15, IFRS 11.20). (1)

Based on the discussion above, Mahlatse and Khumalo have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. (1)

The contractual agreement should therefore be classified as a joint operation in the financial statements of Mahlatse Energy Solutions Ltd for the year ended 31 December 20.21. (1)

Total (9)

EXAMINATION TECHNIQUE

The given information specifically states that the arrangement is a joint arrangement and Mahlatse and Khumalo have joint control over MK. Therefore, do not waste unnecessary time discussing the requirements if it is not required.

EXAMINATION TECHNIQUE

The following general mistakes were made in answering this question:

Journal Questions:
- Not clearly indicating the debit/credit of the journal
- Not showing journal classifications, i.e. P/L, OCI, SFP, SCE
- Not clearly showing the dates
- Not providing journal narrations

Remember to always show short calculations on the face of the journal – it is easier to mark!

Discussion Questions:
- Wasting precious time by providing theory dump without applying it to the question
- Not identifying the issues relevant to the question
- Not providing a conclusion (always marks for this)

QUESTION 7 **40 marks**

YOU HAVE 15 MINUTES TO READ THIS QUESTION.

PART I **35 marks**

TBSA Incorporated is an accounting and tax advisory firm. You are the head technical advisor at the firm. One of the junior advisory staff has approached you for assistance with a few client matters.

A client of TBSA Incorporated, Cylinder King Ltd ('CKing') manufactures and sells gas cylinders of various sizes and other gas related equipment. CKing also makes available the option for credit worthy customers to pay the cylinders off over 12 months or 24 months.

Client Matter 1

CKing sold 1 112 units of 7 kg cylinders on 31 January 20.23 for R500 304 to Roshel & Bobs Ltd ('R&B'), one of the leading retailers in fitted gas stoves and braai stands. The control over the cylinders was transferred to the customer on that date.

CKing allowed the customer to pay the amount over a period of 12 months at a specialised discount rate of 6% (compounded monthly) as the customer was verified as credit worthy. Contractually the customer must make monthly payments of R40 000 in arears. On 31 January 20.23 CKing paid R&B R9 000 to add CKing's logo and contact number onto their pamphlets and product manuals as a marketing initiative for CKing.

CKing's management had passed the following journals with regards to this matter, prior to consulting TBSA Inc.

		Dr R	Cr R
31-01-20.23	Contract Debtors (SFP) (500 304 - 9 000)	491 304	
	Revenue (P/L)		491 304
	Revenue recognised on date control is transferred		
31-01-20.23	Bank	40 000	
	Finance income (P/L) (491 304 x 6% x 1/12)		2 457
	Contract Debtors (SFP)		37 543
	Recognition of monthly payment received and interest portion		

Client Matter 2

CKing entered into a contract during the current year with Garies Foods (Pty) Ltd ('Garies Foods') at a discounted package deal to supply 90 kg Gas cylinders as a replacement for 45 kg gas cylinders. The 90 kg cylinder is the same height as the 45 kg cylinder, only a bit wider. On 31 January 20.23, the fair value of the 45 kg cylinders was R8 400 each. This fair value did not vary throughout the year.

Included in the package deal is a 'smart device' that comes with each 90 kg cylinder. The smart device monitors gas levels within that cylinder, which is programmed to alert CKing when the customer has used 60% of refilled and available capacity. The smart devices are a new product and may be purchased separately for R700 per device (stand-alone selling price) linked to CKing gas monitoring facility.

Once CKing receives the automatic notification from the smart device, CKing will then contact Garies Foods maintenance department to inform them that a gas refilling truck is in the process of being allocated for service delivery to the notified location. At this point Garies Foods has an option to decline the service before the truck is dispatched. Garies Foods prefer that Cking delivers the cylinders to Garies Foods to avoid damage to products. CKing usually charges a delivery fee of R150 per delivery regardless of quantity delivered.

After CKing receives the go-ahead from Garies Foods, CKing then sends out a truck to that particular store location to refill the cylinders with gas. After the refill is complete, an invoice is given to the customer of the quantity refilled only. Revenue is recognised at a point in time upon delivery of the cylinders.

CKing decided to introduce this new gas refilling service strategy as it allows CKing the ability to provide bulk discounts, while customers also save on the small amount of gas that is usually left at the bottom of 45 kg and 90 kg tanks when the tanks are exchanged for filled ones. This service is referred to as automatic refills and is provided as and when notified by the monitoring device on an ongoing basis.

Any refilling on site or in store is charged at R35 per kg regardless of the chosen tank purchased.

Since contract inception to year end, CKing had replaced 1 000 cylinders with Garies Foods in relation to the package deal, and 10 deliveries were made during the year in respect of these cylinders. Each of the cylinders were refilled twice during the year, based on the automatic notification from the smart device. The services were paid for in cash as rendered.

Additional information

- Any applicable interest is payable monthly in arears.
- Customers are only considered credit worthy once an adequate credit check has been performed to confirm creditworthiness of the customer.
- All companies have a 28 February year end.
- Incremental borrowing rate of CKing is 8% per annum.
- Rate that takes into account the customer credit risk is 9% per annum.
- CKing has elected **not to use** any practical expedients in terms of IFRS 15 *Revenue from Contracts with customer*

PART II **5 marks**

CKing struggled in previous years to efficiently dispose of damaged and redundant cylinders. CKing's management approached SmartDispose (Pty) Ltd (SmartDispose),a metal disposal company based in Gauteng,with a solution that could profit both companies.

Based on the signed agreement provided to you by CKing, and discussions held with CKing's management, you have confirmed the following information to be correct:

- The agreement is a joint arrangement and it does meet the joint control requirements in terms of IFRS 11 *Joint arrangements*.
- A separate entity, Melt&Mold (Pty) Ltd ('Melt&Mold') was formed wherein CKing and SmartDispose each have 50% shareholding and all decisions require unanimus consent.
- Using their own resources, CKing is responsible for the supplying of damaged cylinders, while SmartDispose is responsible for recycling the metal from these damaged cylinders and remolding them into smaller less pressurised cylinders and other gas equipment.
- The two companies share revenues from the recycled metal products and related expenses jointly. These expenses include metal melting costs, supplies, labour costs, delivery costs and inventory of unused cylinders.
- Melt&Mold has its own separate financial accounting records in respect of shared revenues and costs and a separate bank account.
- CKing and SmartDispose retain full ownership of the assets used in the arrangement and are separately liable for the obligations incurred.

CKing management does understand that due to the structure of Melt&Mold, it may still be classified as either a joint operation or joint venture. They are requesting advice on any additional considerations other than the structure of Melt&Mold, to ensure correct classification.

REQUIRED

YOU NOW HAVE 60 MINUTES TO ANSWER THIS QUESTION.

	Marks
PART I	
(a) Critically discuss the journals passed by management of Cylinder King (Pty) Ltd regarding the transaction with Roshel & Bobs Ltd and provide the correcting journals as well as any omitted journals to correctly account for the transaction in client matter 1, in term of IFRS 15 *Revenue from contracts with customers* in the records of Cylinder King (Pty) Ltd.	
Discussion	6
Correcting & omitted journal entries	8
Please note: • Round off all amounts to the nearest Rand. • **Use months** and not days in your calculations where relevant. • Journal entries relating to taxation are **not** required.	
(b) Prepare a memorandum to the management of Cylinder King (Pty) Ltd, with reference **only** to client matter 2, addressing the following aspects in term of IFRS 15 *Revenue from contracts with customers*:	
(i) Identify and discuss the performance obligation(s) present in the contract entered between Cylinder King (Pty) Ltd and Garies Foods (Pty) Ltd for the year ended 28 February 20.23.	8
(ii) Briefly discuss any considerations regarding the transaction price to be used and the transaction price allocation to the **products** in the package. Discussion of IFRS15.73 is **not** necessary.	4
(iii) Calculate the discounted transaction price for each of the products offered in the discounted package deal.	2
(iv) Provide a table splitting revenue earned from products supplied and revenue earned from services rendered to Garies Foods (Pty) Ltd during the year ended 28 February 20.23.	6
Communication skills: conclusion, logical flow	1
Please note: • All calculations must be shown clearly. • Round off all amounts to the nearest Rand.	
PART II	
Advise management on any additional considerations with regards to the classification of the joint arrangement in terms of IFRS 11 *Joint Arrangements* and conclude on the correct classification thereof.	5
Please note: • Ignore the effects of Valued Added Tax (VAT). • Your answer must comply with International Financial Reporting Standards (IFRS).	

QUESTION 7 – Suggested solution

PART I

(a) Critically discuss the journals passed by management of Cylinder King (Pty) Ltd regarding the transaction with Roshel & Bobs Ltd and provide the correcting journals as well as any omitted journals to correctly account for the transaction in client matter 1, in term of IFRS 15 *Revenue from contracts with customers* in the records of Cylinder King (Pty) Ltd.

Discussion:

1. Journal 1

The amount of revenue recorded on J1 is incorrect for the following reasons: (1)

The marketing costs should not be recognised against revenue as marketing expenses is running cost for CKing's business and has nothing to do with the sales transaction it has with R&B (IFRS 15.98a). (1)

These marketing costs is not costs incurred to fulfil the contract with R&B. (1)

The amount of revenue to be recognised should consider the time value of money and should be recognised at the discounted value to determine the correct transaction price at date control is transferred R 457 397 [C1] (IFRS 15.60; IE146-IE147). (1)

CKing shall present the effects of the financing separately from the revenue from the contract with R&B in the statement of profit or loss and other comprehensive income. (IFRS 15.65) (1)

2. Journal 2

The calculation is amortised at the incorrect rate of 6% as this rate does not consider credit risk. It is also based on the incorrect revenue in journal 1. The revenue amount should reflect the time value of money at date of delivery (IFRS15.60). (1)

{Note: IFRS15.63 does not apply as CKing chose not to apply any practical expedient}

The percentage of interest that should be used is 9% as this is the rate that takes into account customer credit risk (IFRS15.64). (1)

Total (7)
Maximum (6)

Journals to correct the recording of the transaction are as follows:

		R Dr	R Cr	
Correcting journal				
J1	Revenue (P/L) [C1]	33 907		(3)
	Contract Debtors (SFP)		33 907	(1)
	Correction of revenue recognised			
Additional journals				
J2	Marketing expenses (P/L)	9 000		(1)
	Bank (SFP)		9 000	
	Recognition of marketing costs as an expense			
J3	Contract Debtors (SFP)[C2]	973		(2)
	Finance Income (P/L)		973	(1)
	Additional finance portion not yet recognised			
			Total	(8)

MJM

Maximum (8)

Managements incorrect journal reversed			
J1	Revenue (P/L)	491 304	
	Contract Debtors (SFP)		491 304
	Reversal of revenue recognised by management		
J2	Finance income (P/L) (491 304 x 6% x 1/12)	2 457	
	Contract Debtors (SFP)	37 543	
	Bank (SFP)		40 000
	Reversal of finance income recognised by management		
The correct journal that management should have processed			
J3	Contract Debtors (SFP)	457 397	
	Revenue (P/L)		457 397
	Correct revenue recognised		
J4	Marketing costs (P/L)	9 000	
	Bank (SFP)		9 000
	Marketing costs correctly recognised as an expense		
J5	Bank (SFP)	40 000	
	Finance Income (P/L) (457 397 x 9% x 1/12)		3 430
	Contract Debtor (SFP)		36 570
	Recognition of monthly payment received and correct interest Portion		

COMMENTS
Some students only provided correct journals and some only provided reversal journals. The question required students to provide **correcting** journals. As a result, a lot of marks were lost in this section due to not reading the required properly. If students adopted the alternative above, *it is important that the reversal journals must first be shown.*

(b) Prepare a memorandum to the management of Cylinder King (Pty) Ltd, with reference only to client matter 2, addressing the following aspects in term of IFRS 15 *Revenue from contracts with customers*:

MEMORANDUM

To: **Management of Cylinder King (Pty) Ltd**
From: **CTA Level 1 Student**
Date: **14 March 20.23**
Subject: **Client matter 2**

As requested, please find, explanations and related calculations to accurately account for the transaction between Cylinder King (Pty) Ltd and Garies Foods (Pty) Ltd, in terms of IFRS 15 *Revenue from Contracts with Customers.*

(i) Performance obligations in the contract

Theory
At contract inception CKing shall assess the goods or services promised in the contract with Garies Foods and shall identify as a performance obligation each promise to transfer to the

Garies Foods a good or service (or a bundle of goods or services) that is distinct (IFRS 15.22).

For a good or service to be distinct, the customer must gain benefit from a good or service either on its own or together with other resources that are readily available and the good or service should be separately identifiable (IFRS 15.27).

For a good or a service to be separately identifiable, the product and services should not be integrated or significantly modified or highly interdependent / interrelated (IFRS 15.29).

Application

Products in the package

The 90 kg cylinders and smart device included in the contract are distinct from each other as: (1)

Garies Foods can still use and benefit from the 90 kg cylinders on its own regardless of whether the smart device is used. (1)

There is no indication of any significant modification to any other goods and services offered in the contract. (1)

None of these items are highly interrelated or interdependent. No additional product items are supplied to Garies Foods. (1)

The smart devices have a price at which it may be sold separately *(trigger in the question)*. (1)
Cking can sell the cylinders and the smart devices separately from each other and are therefore separately identifiable. (1)

Delivery service

The delivery included in the contract are distinct from the products supplied in the package, because the delivery of the cylinders is a preference of the Garies Foods *(trigger in the question)* and not necessary for them to obtain the cylinders. (1)

The delivery costs are usually charged separately and are therefore separately identifiable. (1)

Refilling service

Garies Foods is invoiced every time the refill service is performed based on per kg of gas refilled *(trigger in the question)*.
Therefore, the refilling service is supplied and charged separately. (1)
Garies Foods may decline the refill service before the refill truck is dispatched (Trigger in the question). (1)
This indicates that Garies Foods may decide to refill elsewhere and opt not to refill from Cking at any time.
The fact that the smart device is included in the package deal does not impact the refill service charge per kg. (1)
Conclusion

There are therefore four performance obligations in the contract: (2)

- the supply of the 90 kg cylinders
- the supply of the smart device
- delivery of the 90 kg cylinders
- gas refilling services

Sub-total (i) Maximum

(13)

(8)

MJM

(ii) Considerations regarding the transaction price and the transaction price allocation to the products in the package. Discussion of IFRS15.73 is not necessary.

Theory

CKing should consider the terms of the contract. The transaction price is the amount of consideration to which CKing expects to be entitled in exchange for transferring the products in the package (IFRS 15.47).

To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non - cash consideration) at fair value (IFRS 15.66).

Application

The discounted package deal is to supply 90 kg cylinders as a replacement for 45 kg cylinders.

(trigger in the question). (1)

Therefore, a 45kg cylinder is given by the customer as payment in exchange for a 90kg cylinder.

This indicates that the exchange of the 45 kg cylinder is the non-cash consideration of the discounted package deal. (1)

Per IFRS 15.66 a non-cash consideration should be measured at its fair value. The fair value of the 45kg cylinder is R8 400 each. (1)

Therefore, this is the discounted transaction price of the package deal. (1)

Theory

A customer receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract (IFRS 15.81).

Application

The information confirms that the package deal is offered at a discounted transaction price. In terms of IFRS 15.81 the allocation should be made using the stand-alone prices of the products in the package. (1)

The smart device inclusion into the package should be accounted for as part of the discount offered within the package but excludes delivery (as discussed in b(i)). (1)

Sub-total b(ii) (6)

Maximum (4)

(iii) The discounted transaction price is allocated to the two products based on the stand-alone selling prices as follows

Details	Stand-alone selling prices	Discounted transaction price	Calculation	
45 kg cylinder at fair value	R8 400	R7 754	(8400/9100) x 8400	1
Smart device	R700	R646	(700/9100) x 8400	1
	R9 100	R8 400	**Sub total**	(2)

(iv) Table showing revenue from products and services rendered to Garies Foods Pty) Ltd during the year ended 28 February 20.23.

Details	R	
Revenue: 90kg cylinder (7 754[b(iii)] x 1 000)	7 754 000	1
Revenue: Smart devices (646 [b(iii)] x 1 000)	646 000	1
Revenue from products	8 400 000	
Revenue: delivery service (150 x 10) Revenue: Gas refilling (W1)	1 500 3 780 000	1 3
Revenue from services	3 781 500	
Total revenue earned from Garies Foods (Pty) Ltd at year end	12 181 500	

W1 Calculation of cylinder gas refilled during the year for Garies Foods (Pty) Ltd

90 kg x 2 refills	180 kg	1
only 60% to refill (180 x 60%)		1
utilised in the tank -notification level	108kg's to refill	
Stand-alone price per kg refill	R35	(½)
Revenue from refill service per 90 kg cylinder for the year	R3 780	(½)
Nr. of cylinders refilled	1 000	
Total gas refill service revenue from Garies Foods (Pty) Ltd at year end	R3 780 000	

Sub-total b(iv) (6)

You are welcome to contact me should you require any further information.

Yours sincerely CTA student

Total - Part b (26)
Maximum (20)
Communication skills: conclusion, logical flow (1)

PART II

Advise management on any additional considerations with regards to the classification of the joint arrangement in terms of IFRS 11 *Joint Arrangements* and conclude on the correct classification thereof.

When an arrangement is structured through a separate entity, consider the following:

- The legal form of the separate entity: Melt&Mold (Pty) Ltd is a private company registered in terms of the Companies Act, 2008, of South Africa. The legal form confers separation between CKing, SmartDispose and Melt&Mold. (1)
- The assets and liabilities held by Melt&Mold are the company's assets and liabilities and the shareholders are entitled to the net assets. (1)

The terms of the contractual arrangement specify the following:

- CKing and SmartDispose have rights to the assets and liabilities of the arrangement. (1)
- CKing and SmartDispose share the common costs of Melt&Mold. (1)

- In terms of the contract the parties are also responsibile for payment of liabilities if defaulted by Melt&Mold, therefore Cking and SmartDispose are also individually liable for the claims of Meld&Mold (IFRS 11.15,.20). (1)

The specifications in the arrangement override the legal form of Melt&Mold and gives each party to the direct rights to assets and obligations to liabilities of the arrangement. (1)

Therefore, the joint arrangement would be classified as a joint operation. (1)

Total	(7)
Maximum	(5)

CALCULATIONS

C1. Revenue

Present value of revenue at inception of contract [C2]	457 397	[2]
Revenue already recorded for this transaction by management	(491 304)	[1]
Revenue debit adjustment to correct overstated revenue	33 907	

C2. Present value of revenue at inception of contract

HP 10b11		Sharp EL-733A		Sharp EL-738		
1. 2ndF	C (Clear all)	1. 2ndF	C.CE (Clear all)	1. 2ndF	MODE (Clear all)	
2. PMT	40 000	2. PMT	40 000	2. PMT	40 000	[1]
3. I/YR	0,75 (9%/12)	3. I	0,75 (9%/12)	3. I/Y	0,75 (9%/12)	[1]
4. N	12	4. N	12	4. N	12	[1]
5. PV	457 397	5. COMP PV	457 397	5. COMP PV	457 397	
						[3]
					Maximum	[2]

C3. Finance Income

Correct finance income to be accounted for at year end (457 397 x 9% x 1/12) OR 1 Amort	3 430	[1]
Finance income already recorded	(2 457)	[1]
Finance income adjustment	973	

EXAMINATION TECHNIQUE

General observations

- Most students did not finish the paper due to poor time management.
- Lack of preparedness for the test.
- Lack of understanding of the REQUIRED section especially part I.

Discussion Questions:

- Wasting precious time by providing theory dump without applying it to the question.
- Not identifying the issues relevant to the question
- Not providing a conclusion (always marks for this)