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SLFRS 15
Past Papers Answers
Part 2

Chartered Accountancy
Strategic Level
Advanced Business Reporting (ABR)

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SLFRS 15 – Past papers

December 2019 Q 1 (a)

Identifying each promise in the contract as a separate performance obligation affects both when and how much revenue should be recognized.

A performance obligation is a promise to transfer to the customer either;

- A good or service (or bundle of goods or services) that is distinct or

- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer, to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met.

- 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; and

- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. Accordingly the following can be identified as separate performance obligations.

- Wifi router (the company sells the routers separately, the customer can use it with other resources)

- Voice and data – a bundle of services and the bundle can be considered as one PO. (This is because the service is not distinct within the context of the contract, (para 27) their objective per the nature of the promise, being to transfer the service, as a combination (bundle of services).

The option to acquire extra data and voice at a price that reflect standalone selling price does not provide the customer a material right and therefore is not a separate PO (para B 41)

Connection fee is not a separate PO, it is an advance payment for future telecommunication services. (B48-B51)

In deciding the amount to be recognized as revenue, transaction price should be allocated to each PO in an amount that depicts the amount of consideration to which the entity expects to be entitled to in exchange for transferring the promised goods or services to the customer. (Para 73)

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To meet the allocation objective, transaction price should be allocated to each PO on a relative standalone selling price basis. Accordingly,

Standalone selling price of WiFi router	Rs. 3,000
Standalone selling price of services (5,000*24)	Rs. 120,000
Total	Rs. 123,000
Transaction price of the contract	Rs. 120,000
Allocation;	
For wifi router (3000/123000*120,000)	Rs. 2,927
For telecom services (120000/123000*120,000)	Rs. 117,07
	Rs. 4,878 per month

Revenue to be recognized for 2018/2019;

Revenue for the router should be immediately recognized as it is delivered to the customer.

Revenue from providing data and voice services should be recognized monthly (Rs. 4,878 per month). For the year Rs. 58,536/-

Extra usage does not amount to a separate PO and therefore, revenue to be recognized as and when services are used by the customer.

Revenue for the year from extra data (5GB*.20*1000) = Rs. 1,000 Revenue from extra voice minutes (400*2) Rs. 8,00

Connection fee should be deferred and amortised over the contract period as it is relevant for future services

For 2018/2019 – (1000/2) = Rs. 500

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June 2019 Q2 (B)

As per the agreement, control over the completed machine will transfer/pass to the customer in two years' time, which indicates NM's performance obligation will be satisfied at a point in time

Further, the contract includes a significant financing component. This is evident from the difference between the amount of the promised consideration in two years' time of Rs. 450 million and the amount of consideration at the inception of the contract of Rs. 350 million and the significant time between the proposed settlement days.

The implied interest rate included in the contact is 13.39% (the interest rate that discounts Rs.450 million to Rs.350 million over two years)

Year	Opening balance	Interest	Closing Balance
1	350	46.9	396.9
2	396.9	53.1	450

On inception - 1 April 2019

Cash	Dr.	350 million
Contract liability	Cr.	350 million

(Recognition of contract liability for the payment received in advance)

During the 1st year ended 31 March 2020

Contract asset Dr. 180 million

Cash Cr. 180 million

(Recognising the cost incurred on production)

Interest expense Dr. 46.9 million

Contract liability Cr. 46.9 million

(Recognising implied interest cost on the contact)

During the 2nd year ended 31 March 2021

Contract asset Dr. 120 million

Cash Cr. 120 million

(Recognizing the cost incurred on production)

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Interest expense Dr. 53.1 million

Contract liability Cr. 53.1 million

(Recognising implied interest cost on the contact)

On the settlement - 31 March 2021

Contract liability Dr. 450 million

Revenue Cr. 450 million

(Recognising the revenue on the contract)

Cost of sales Dr 300 million
Contract asset Cr 300 million
(Recognising the cost of the contract)

June 2019 Q2 (C)

According to the conditions given in the scenario, the contractor transfers control over time, therefore, recognition of revenue over time based on the performance completed is in accordance with SLFRS 15.

- B makes progress payments during the construction and installation period, to compensate GSK for performance completed, and payments made are non- refundable.
- B does not have the right to terminate the contract, unless GSK fails to perform as promised.
- GSK has an enforceable right, to all of the consideration promised under the contract, if it continued to perform as promised.
- GSK had a right to terminate the contract, due to any significant liquidity issue of B.
- The agreement prevents GSK from being able to direct the plant to another customer.

In addition to assess the probability of collecting the consideration which an entity will be entitled, at the inception of the contract, it is necessary to reassess the collectability when there is an indication of a significant change in facts and circumstances.

Therefore, even though this contract met the collectability criteria at the inception, subsequent significant deterioration of the customer's ability to pay the consideration, resulted in the collectability criteria not being met. Hence there might no longer be a valid contract for accounting purposes.

Although it is concluded that the contract is no longer valid, since GSK has the right to terminate the contract due to any significant liquidity issue of the customer and the payments received are non-refundable (due to over the time PO satisfying criteria of the contract), it is not required to reverse the revenue recognised to date.

Accordingly, the first statement made by the Accounts Executive is incorrect.

Until the GSK could once again establish that the probability of receipt criteria is met, no further revenue shall be recognised. Accordingly, the second statement made by the Accounts Executive is correct.

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June 2018 Q2 (C)

As per SLFRS 15, Revenue from contracts with customers (para 22) an entity should identify goods or services promised in a contract with a customer and should identify each promise as a performance obligation. In doing this, it is required to assess whether each good and service is distinct.

As per para 27, a good or service that is promised to a customer is distinct if both of

the following criteria are met:

1. (i) 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 (i.e. the good or service is capable of being distinct); and
2. (ii) The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract).

   In this case the first criteria is met as BEL and its competitors regularly sell many of these services separately to other customers.

   However, the second criteria is not met as promise to transfer the good or service to the customer is not separately identifiable from other promises in the contract (i.e. the promise in the contract is to build an apartment complex, not to sell each of the goods and services mentioned).

   Therefore, BELL should account for all the goods and services in the contract as a single performance obligation.

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December 2016 Q 1 a

Contract with DreamCars (Pvt) Ltd

As per LKAS 18, an entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or rendering of services.

Following factors provide evidence that the significant risks and rewards are retained by DreamCar. Therefore, Luxury Motors acts as an agent.

- DreamCars will decide the price of the car to be sold to the customer.

- DreamCars will have the responsibility of providing the car to the customer.

- Luxury Motors does not have to worry about bad debts.

- The amount earned by Luxury Motors is pre-determined as a % of the amount billed to the customer.

The revenue already recognised represents the amount collected on behalf of the principal. Therefore the revenue and the cost of sales recognized by luxury motors are incorrect. Revenue of Luxury Motors is therefore the commission of 10% (i.e.Rs.4 million).

Based on the information given there is no directly associated costs to be recognised as cost of sales. The vehicle costs recognised as cost of sales has to be removed