Part (a)	Discuss whether it would be correct for RP to capitalise the cost incurred on the acquisition of Cristiano`s commercial rights as an intangible asset in terms of IAS 38 *Intangible Assets* on 1 May 2019.	Marks
1	For RP to capitalise the cost incurred on the acquisition of Cristiano`s commercial rights as an intangible asset, the commercial rights should be a **resource** under the entity's **control**, as a result of a **past event** and from which **future economic benefits** are expected to flow to the entity. The asset should be **identifiable**, **non-monetary** and without **physical substance**.	1
1.1	**Resource:** The commercial rights are a recourse because RP will consume the benefits of **utilising the commercial right contract** in its business (e.g. on marketing material, player playing for the club etc.)	1
1.2	**Control:** It is under the control of RP because: • RP has the **power** to **obtain future economic benefits** from the commercial rights due to RP being able to use it to generate future economic benefits like **using the name of the players on marketing material / increase in ticket sales** that will generate income; and • RP has **power** to **restrict access** other to those economic benefits due to the **exclusive** image **rights because of the contract**.	1 1
1.3	**Past event:** Cristiano was **acquired** from Chiefs United on 1 May 2019 and the agreement transferred his commercial rights on the same date. A payment was made for such rights.	1
1.4	**Future economic benefits:** The use of Cristiano's name and face on merchandise is **expected to increase merchandise sales by 33%**, while Cristiano's participation in games is expected to **attract more spectators which will result in increased revenue from ticket and merchandise sales.**	1
1.5	**Identifiable:** The commercial rights are identifiable because: • It is **separable** because it could be **sold individually** which is evidenced by Chiefs United, who originally purchased it from Chappies Mamelodi. • It arose from a **contractual / legal right** based on the four-year **contract signed** with Cristiano.	1 1
1.6	**Non-monetary:** Cristiano`s image rights are non-monetary **since they are a right to use his name and face** (not an asset to be received in a fixed or determinable amount of money).	1
1.7	**Without physical substance:** Rights to Cristiano's image are **not tangible**.	1
2	In the case of an intangible asset that was acquired separately through a purchase, it is assumed that the recognition criteria are met. These include that the **cost can be reliably measured** and that **future economic benefits are probable**.	1
2.1	**Reliably measured:** The amount is **specified in the contract** and can therefore be reliably measured at R2 million.	1
2.2	**Probable future economic benefits:** Since Cristiano is one of the league's top players, it is probable that revenue from **merchandise** and **ticket sales** will increase and therefore future economic benefits are probable.	1
3	**Conclusion:** The cost incurred on acquisition of Cristiano's commercial rights meet the definition and recognition criteria of an intangible asset and therefore it would be correct to **recognise** these **costs as an intangible asset** on 1 May 2019.	1C
	Available	**14**
	Maximum	**10**
	Communication skills – appropriate style	*1*
	Total for part (a)	**11**

Part (b)	**Discuss the performance obligations that will result from the sale of a season ticket in terms of IFRS 15 *Revenue from Contracts with Customers.*** • **Assume that the sale of a season ticket meets the requirements of a contract in terms of IFRS 15.9.**	**Marks**
1	The various promises within the contract when a customer buys a season ticket are distinct and will be separate performance obligations 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 (i.e. the good or service is **capable of being distinct**); and • 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 promise to transfer the good or service is distinct within the context of the contract).	1
2	The various **match day services** (i.e. a game being played, a pre-selected seat and the use of stadium facilities) are not distinct since – • The matchday services are capable of being distinct as the customer can benefit from the matchday services on its own by **attending the games or together with other promises in the contract** (15 home game tickets, discount on the merchandise); and • Matchday services are separately identifiable from other promises in the contract as they are **highly interdependent / interrelated** because RP **cannot fulfil its promise** to **provide a pre-selected seat** and the **use of stadium facilities without a game being played**. • The match day services will therefore be considered as a bundle of services (i.e. access to a home game).	1 1 1
3	Each of the **15 home game tickets** is distinct since – • the 15 home game tickets are capable of being distinct as the customer can benefit from each ticket on its own by **attending the relevant game / RP regularly sells individual tickets for each home game separately at the gate or together with other promises in the contract** (match day services, discount on the merchandise); and • RP's promise to transfer access to each game (i.e. each home game ticket) is separately identifiable from other promises in the contract as **RP can transfer each home game ticket independently from other tickets and/or the discount on merchandise**. There is therefore no integration of goods or services (i.e. not an input for a combined output), it does not significant modify or customises each other and it is not highly interdependent / interrelated with the other promises on the contract.	1 1
4	However, the 15 home game tickets will be a **series of distinct services** that are **substantially the same** and that have the **same pattern of transfer** to the customer since – • each individual ticket in the series would meet the criteria to be a performance obligation satisfied over time, as the **customer simultaneously receives and consumes the benefits provided by each ticket**; and • the **same method would be used to measure RP's progress** towards complete satisfaction of the performance obligation to transfer each distinct ticket to the customer.	1 1
5	The right to purchase merchandise at a **discount** is distinct since – • the discount on the merchandise is capable of being distinct as the **customer can benefit from the discount on its own by paying a**	

	reduced price for the merchandise or together with other promises in the contract (match day services, 15 home game tickets); • RP's promise to transfer the discount is <u>separately identifiable</u> from other promises in the contract because **RP can use the discount independently from the game tickets.** There is therefore no integration of goods or services (i.e. not an input for a combined output), it does not significant modify or customises each other and it is not highly interdependent / interrelated with the other promises on the contract. **OR** • The discount on the merchandise is a **material right** in accordance with IFRS 15 which will result in the discount being a separate performance obligation. • The latter is due to the fact that the customer **only receives** the discount if they **purchase a season ticket** (i.e. customers that does not purchase a season ticket is not entitled to the discount.	1 1 1 1
6	**Conclusion:** The sale of a season ticket therefore results in two performance obligations which is the access to the game (various match day services and the 15 home game tickets) and the discount on the sale of the merchandise.	1C
	Available	**13**
	Maximum	**10**
	Total for part (b)	**10**

Part (c) Prepare the journal entries to record the ticket sales (section 3), sponsorship deal (section 4) and other amounts received (section 5) in the accounting records of RP for FY2020. • No journal narrations are required. • Ignore all tax consequences.			Marks
Journal entries	**Dr**	**Cr**	
	R	**R**	
Ticket sales (W1)			
Bank (SFP)	68 625 000		
Income received in advance / Contract liability (SFP)		68 625 000	1
Recognition of payment received			
Income received in advance / Contract liability (SFP)	68 625 000		1P
Revenue: Ticket sales (P/L)		68 625 000	
Recognition of revenue on ticket sales			
W1 Ticket sales			
Season tickets		9 000 000	½
Gate tickets		31 500 000	½
Cup games		28 125 000	½
		68 625 000	
Sponsorship deal			
Income received in advance / Contract liability (SFP) (R3 000 000 / 5)	600 000		½
Revenue: Sponsorships / Other income (P/L)		600 000	1
Recognition of revenue on sponsorship			
Bank (SFP)	10 000 000		1
Receivables / Debtors (SFP)		10 000 000	
Recognition of payment received			

Donation received			
Bank (SFP)	20 000 000		1
Shareholders' equity (SCE)		20 000 000	
Recognition of payment received			
Sale of merchandise (W1)			
Bank (SFP)	17 551 460		½
Revenue: Merchandise (P/L)		17 551 460	
Recognition of revenue on sale of merchandise			
W2 Merchandise			
Cristiano merchandise		3 306 000	½
Other merchandise			
- No discount (R14 870 000 x 88%)		13 085 600	1
- Season ticket holders (R14 870 000 x 7% x 90%)		936 810	1
- Annual sale (R14 870 000 x 5% x 30%)		223 050	1
		17 551 460	
		Available	**11**
		Maximum	**8**
		Total for part (c)	**8**

Part (d)	**Critically discuss the income tax position taken by the accountant of Chiefs United in respect of the amount received by that club upon the sale of Cristiano.**	**Marks**
1	The issue is whether the amount of R3 million is on a **capital or revenue nature** for the purposes of the gross income definition.	1
2	The **onus of proof** that **there is an error** will be **on the taxpayer,** Chiefs.	1
	Intention	
3	Chiefs United, when paying the R1,2 million, incurred expenditure to acquire the contractual right to demand performance from a player (Cristiano). The purpose of Chiefs United, in incurring the expense, was to hold the right as **a capital asset** or the **income earning structure** (and not speculatively).	1
4	The expenditure incurred by Chiefs United was to acquire **an income-producing right to income** in possible **increased ticket sales** for the club and advertising income. **OR** One could also argue that the **contract is the tree and not the fruit**. The Fruit being the income from possible increased ticket sales for the club and advertising income that is earned using the Christiano's brand.	1
	Change of Intention	
5	The decision taken by Chiefs United to accept the **transfer** the capital asset **at a profit** of R1.8 million (R3 million less R1.2 million) **does not constitute a change in the intention nor** whether it can be said that the taxpayer had **crossed the Rubicon** from holding an asset on a capital account to embarking on a scheme of profit-making.	1
6	When the club disposes of this right, the club is **giving up an income-producing** rights and obligations flowing from it, **being the income from increased sales and advertising.** This variation is capital in nature **OR** Chiefs was approached by RP with an offer to acquire Cristiano. Chiefs accepted the offer as it **needed the money for its operations**. This does not constitute a change in the intention.	1
	Scheme of Profit-Making	
7	Although the **rights were held by Chiefs for only 10 months**, from 1 August 2018 to 1 May 2019, when the taxpayer decided to sell indicates towards revenue in nature.	1
8	Chiefs United **does not actively trade in player's contracts**. Its scheme of profit-making is to derive income from soccer games and the player rights.	1
	Transfer of Registration Fees	
9	There is a debate on whether the R1 million relating to the transfer of the registration of **Cristiano's membership to RP could be considered part of the income earning operations or floating capital**, as it is necessity for the player to be registered and could be payable on an annual basis.	1
	Conclusion	
10	Therefore, while the **amount received by Chiefs United is capital in nature** .	1C
11	The amount of **R1 million relating to the registration fees** could be considered to be **revenue in nature** and in that regard the tax position would be correct.	1
12	**Salary paid to Cristiano is not recouped** when the right to the player was disposed of.	1

13	The **tax position** taken by the accountant is therefore **not** based on **reasonable** grounds and the receipt **should not be included in the gross income** of Chiefs United.	1C
	Taxable Capital Gain	
14	Chiefs United disposed of an asset at a **capital gain** of R1,8 million, being the difference between the amount received (proceeds of R3 million) by Chiefs and the cost of acquiring the right (base cost of R1,2 million). Capital Gain of R1.8 million will be included into taxable income of Chiefs United 2020 year of assessment at the inclusion rate of 80%.	1
	Available	**14**
	Maximum	**8**
	Communication skills – logical argument	*1*
	Total for part (d)	**9**

Part (e) **Calculate the normal tax implications for RP if the club decides to sell the stadium to Group Q in terms of the sale and leaseback agreement.** • **Assume that RP will not have any other capital gains or losses for that year of assessment** • **Assume that the tax legislation will remain unchanged.**			**Marks**
	R'000	**R'000**	
S13quin allowances in 2022			
R86 000 000 x 5%		**(4 300)**	1
All new and unused commercial buildings qualify for the allowance in s13*quin* if the building is used in the trade of the taxpayer. The stadium is used in the trade of RP and is a commercial building, therefore the building will qualify for capital allowances in terms of s13quin. *(The scenario states that the stadium qualified as a building.)*			
Recoupment			
The **recoupment** upon disposal will be included in terms of para. (n) of the definition of gross income in RP's **gross income**.			
Amount that will accrue on the disposal of the stadium	102 000		
Limited to the amount of the allowances deducted	86 000		
Less: Tax Value R86 000 000 – (12 years x 4 300 000)	(34 400)		
Recoupment included in gross income		**51 600**	1
Taxable Capital Gain			
The disposal of the stadium will lead to a taxable capital gain, included in RP's taxable income.			
Proceeds	**50 400**		1P
Amount that will accrue on the disposal of the stadium	102 000		
Recoupment	(51 600)		
Base Cost	**(34 400)**		1P
Constructed cost	86 000		
Capital Allowances claimed to date of sale (12 years x 4 300 000)	(51 600)		
Capital gain	**16 000**		
Capital gain: x inclusion rate of 80%	**80%**	**12 800**	1
Lease and rental Payments			
S11(a): rental expenditure actually incurred The monthly rental payment is **deductible** in terms of section 11(a) as the rental is in the **production of income**.		(7 200)	1
Lease payments made annually on 1 August. Section 23H will not limit the expenditure in terms of s11(a), as the services will be rendered within 3 months (May, June and July) after the end of the year of assessment.			
		Available	**6**
		Maximum	**6**
		Total for part (e)	**6**

Part (f) Discuss the normal tax consequences of only the royalty income accrued before and after Cristiano's death, for Cristiano, his estate and his parents.	**Marks**
The royalty income accrued **up to the date of death** on 31 July 2019 will be included in **Cristiano's gross income** in terms of the general gross income definition in section 1(1) of the	1
Up until 31 July 2019: 800 000 x 15% = **120 000**	1
The royalty income received from 1 August 2019 to 31 October 2019, from the **date of Cristiano's death until it was acquired by Cristiano's parents**, will be treated as **income in the deceased estate** in terms of s25(1)(b) of the Income Tax Act.	1
1 August 2019 – 31 October 2019: 1 150 000 x 15% = **172 500**	1
After the right of use of Cristiano's name and face was registered in the name of his parents, the **royalty income will accrue to both parents equally** as they are **married in community of property** in terms of s7(2A) of the Income Tax Act.	1
(1 356 000 x 15%)/2 = **R101 700 per parent**	1
Available	**6**
Maximum	**6**
Communication skills – logical argument	*1*
Total for part (f)	**7**