

For required (d) and (e), assume that Sun Food decides to go ahead with the dark kitchen and the accompanying software app and that all forecast amounts are actual amounts.		
Part (d) Discuss how the app created by CCC should initially be recognised and measured by Sun Food in terms of IFRS.		Marks
<ul style="list-style-type: none"> Round all amounts to the nearest ZAR'000. 		
1	Recognition	
1.1	IAS 38.18 allows the recognition of an item as an intangible asset if the entity can demonstrate that the item: a) meets the definition of an intangible asset, and b) the recognition criteria in terms IAS 38.21.	1T
1.2	IAS 38.8 defines an intangible asset as an identifiable, non-monetary asset without physical substance. The app is identifiable because: <ul style="list-style-type: none"> Sun Food purchased the app from CCC, and it is capable of being separated and sold by Sun Food. (IAS 38.12(a)) OR it arises from a contractual agreement between CCC and Sun Food. (IAS 38.12(b)). 	1 1
1.3	The app is non-monetary because it is not money held, nor an asset to be received in a fixed amount of money.	1
1.4	The app is without physical substance because it cannot be touched – it gives Sun Food the right to allow its customers to access the app and the ability to sell takeaway brands that are housed in the dark kitchen.	1
1.5	An asset is a resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity. The app is a resource which Sun Food will use in its business to make sales when customers buy takeaway food from the dark kitchen.	1
1.6	Sun Food controls the app because it will be developed specifically for them and Sun Food will obtain all rights to the app, for their use only.	1
1.7	The transfer of all the rights to the app gives Sun Food the ability to restrict access of any other party to the app. (IAS 38.13).	1
1.8	The past event is the signing of the contract between CCC and Sun Food to create the customized app for Sun Food which will allow customers access to all takeaway brands that will be housed in the dark kitchen.	1
1.9	Future economic benefits will flow to Sun Food from the use of the app in the form of revenue, when customers use the app to buy takeaway food from the dark kitchen or if Sun Food sells the app to a third party.	1
1.10	An intangible asset shall be recognised if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably. It is probable that the future expected economic benefits will flow to Sun Food because in accordance with IAS 38.25, the price that an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity i.e., the probability criterion is always considered to be satisfied for separately acquired intangible assets.	1

1.11	Alternatively, Sun Food can demonstrate the probability criterion because of the ability to create a single order through the dark Kitchen will save customers time and delivery costs and therefore will attract customers to make use of the App. (IAS 38.21(a))	1
1.12	The cost of the intangible asset can be measured reliably in terms of the price stipulated in the contract entered into with CCC. (IAS 38.21(b))	1
1.13	Conclusion: The app is an intangible asset because it meets the definition of an intangible asset, and its recognition criteria.	1C
1.14	However, the app is only expected to be completed on 31 December 2023, when the app and all rights attached to it will be transferred to Sun Food. Therefore, Sun Food will only recognise the app as an intangible asset on 31 December 2023.	1C
2	Initial measurement	
2.1	The intangible asset shall initially be measured at cost (IAS 38.24), translated at the spot exchange rate on the respective transaction dates (IAS 21.21).	1T
2.2	Therefore, USD750 due on 31 December 2023, which is also the transaction date, will be translated at the spot exchange rate on 31 December 2023.	1
2.3	31 December 2023: R12 938 (USD750 x 17.25) (R'000)	1
2.4	The deposit of USD750 000 made on 2 January 2023 is required to be translated at the spot rate on 2 January 2023.	1
2.5	2 January 2023: R12 600 (USD750 x 16.80) (R'000) Therefore, the total cost of app: R25 538 (R'000).	1
2.6	The cost of the market research conducted by Sun Food should not be capitalised as it is a research cost which IAS 38 requires to be expensed (IAS 38.54).	1
2.7	The app is not considered to be a qualifying asset in terms of IAS 23 <i>Borrowing Costs</i> and any finance cost incurred in FY2023 should not be capitalised to the cost of the app, but rather expensed.	1
	Available	22
	Maximum	10
	Communication skills – appropriate style	1
	Total for part (d)	11

Part (e) Prepare the journal entries to record the contract entered into with CCC to develop the app, in the accounting records of Sun Food for FY2023 and FY2024.				Marks
<ul style="list-style-type: none"> • Round all amounts to the nearest ZAR'000 • All amounts are material. • Do not provide journal narrations. • Ignore closing entries. • Ignore all tax consequences. 				
Date	Details	Dr R'000	Cr R'000	
J1 02/01/23	Deposit (SFP)	12 600		
	Bank (SFP)		12 600	1
	<i>(From part d)</i>			
J2 31/12/23	Intangible asset (SFP)	12 600		1P
	Deposit (SFP)		12 600	
J3 31/12/23	Intangible asset (SFP)	12 938		
	Foreign payable (SFP)		12 938	1P
	<i>(From part d)</i>			
J4 31/12/24	Foreign payable (SFP)	12 938		0.5P
	Interest expense (P/L) (W1)	527		1P
	Foreign exchange loss (P/L) (W2) / balancing	458		1P
	Bank (SFP) (W2)		13 923	1
Alternative J4				
J4.1	<i>Interest expense (P/L) (W1)</i>	527		Or 1P
	<i> Foreign payable (SFP)</i>		527	
J4.2	<i>Foreign exchange loss (P/L) (W2)</i>	458		Or 1P
	<i> Foreign payable (SFP)</i>		458	
J4.3	<i>Foreign payable (SFP)</i>	13 923		Or 0.5
	<i> Bank (SFP) (W2)</i>		13 923	Or 1
	Amortisation (P/L) (W3)	12 769		0.5
	Accumulated amortisation (SFP)		12 769	0.5
	Workings		R'000	
	W1 Interest charge			
	USD750 x 4% = USD30 x 17.55		527	0.5 + 0.5
	W2 Foreign exchange loss			
	USD750 x 17.25 foreign payable	<i>(Part d)</i>	12 938	0.5C
	Interest payable	<i>(W1)</i>	+ 527	0.5P
	<i>(USD750 + USD30) x 17.85</i>		<i>(13 923)</i>	
	Exchange loss		458	
	W3 Amortisation			
	R25 538 (1/2C) <i>(From part d)</i> / 2 (1/2)		12 769	0.5 + 0.5
			Available	10.5
			Maximum	10
			Total for part (e)	10

For required (f), assume that Sun Food elects to invest in EatWell and that all forecast amounts are achieved.		
<p>Part (f) Prepare an extract of the following statements of the Sun Food group as at 31 December 2023, in so far as the information allows:</p> <ul style="list-style-type: none"> • Statement of profit or loss for the year; • Statement of financial position; and • Statement of cash flows, for the cash flows from investing activities only. <ul style="list-style-type: none"> • Round all amounts to the nearest ZAR'000. • All amounts are material. • Do not provide notes to the financial statements and accounting policies. • Do not provide comparative figures. 	Marks	
Option 2		
Sunnyside Food Group Ltd		
Extract statement of profit or loss statements for the year ended 31 December 2023		
	2023	
	R'000	
Revenue (<i>given</i>)	2 360 000	1
Other income (associate dividend income (W2.1))	(2 353)	0.5P
Finance cost (R8 000 – R7 143)	(857)	1P
Share of associate's profit or earnings from associate (W2)	5 716	0.5P
Profit before tax (W1)	297 746	0.5P
Taxation (<i>given</i>)	(103 754)	1
Profit for the period (R297 746 – R103 754)	193 992	0.5P
(W1) Profit before tax R'000		
Profit before tax (<i>given</i>)	294 380	0.5
Share of associate's profit or earnings from associate (W2)	5 716	
Associate dividend income (W2.1)	(2 353)	
	297 746	
Extract statement of financial position as at 31 December 2023		
	2023	
Assets	R'000	
Non-current assets		
Investment in associate (W2)	26 509	0.5P
Current assets		
Inventory (R86 750 – (R14 x 30%))	86 746	1P
Liabilities		
Non-current liabilities		
Deferred tax (R52 340 – (R4 x 30%))	52 339	1P
Current liabilities		
Deferred payment/Liability to sellers of shareholding in associate	8 000	1

Extract statement of cash flows for the year ended 31 December 2023				
			2023	
Cash flows from investing activities:			R'000	
Acquisition of associate			(16 000)	1
Dividends received			2 353	1P
Workings				
	Total	Share of profits (PL)	Investment (SFP)	
Investment in EatWell	R'000	30%	30%	
1. Acquisition 1 January 2023				
Net asset value	76 000			0.5
Building fair value increase (R17 200 – R16 000)	1 200			1
Deferred tax (R1 200 x 27%)	(324)			1P
	76 876	X 30%	23 063	0.5P
Consideration working:			23 143	0.5P
Cash payment 1 January 2023			16 000	0.5
Cash payment 1 January 2024				
FV = R8 000; n=1; i=12%			7 143	1
2. Current year 31 December 2023				
Profit after tax	19 150			0.5
less additional depreciation (R1 200 / 10)	(120)			1P
add deferred tax (R120 x 27%)	32			1P
	19 062	x 30%	5 719	
less unearned profit on closing inventory (R135 x 10%)	(14)			1
add deferred tax	4			1P
	19 052	x 30%	/ 5 716	0.5P
		5 716		
2.1 Dividends paid (R19 610 x 40%)	(7 844)		(2 353)	1
			26 509/ 26 506	
			Available	22
			Maximum	19
Communication skills – presentation				1
Total for part (f)				20
TOTAL FOR PART II				41
TOTAL FOR THE PAPER				100