Part (a)	**With reference to the Tell10/10 contract and to IFRS 15 –** ○ **critically evaluate and discuss the journal entries in the scenario processed by the Naught accounting software; and** ○ **provide the journal entries, together with dates and supporting calculations, that should have been processed by the Naught accounting software to ensure that IFRS compliant financial information has been provided by TellMeMore for FY2018*.*** **Assume that the Tell 10/10 contract was signed on 1 May 2018, that the customer pays via an electronic funds transfer, and that the customer paid the May invoice on time but had not paid the June invoice by the financial year end.** • **Correcting journal entries are not required.** • **Journals for any direct expenses are also required as far as the available information permits.** • **Ignore any transactions relating to the import and export of routers.** • **Round amounts to the nearest rand.** • **Ignore current and deferred tax.** • **Do not discuss presentation.**	**Marks**
1	Revenue is **recognised** by the Naught system on a **cash basis** as **opposed** to recognition of the revenue on the basis of the **contract to depict the transfer of distinct goods and services in the contract** and at an appropriate amount. Therefore, revenue **was being recognised too late** and adjustments were required to reflect the revenue in terms of IFRS 15.	1 1
2	**Identify existence of a contract**	
2.1	For revenue to be recognised, a **contract between TellMeMore and the customer needs to exist** which appears to be the case because TellMeMore and its customers entered into a written contract that: • TellMeMore and the customers have **approved the contract** by **signing it electronically** on the sales representative's tablet; and • **Identifies** each parties' **rights** i.e. TellMeMore has a **right to collect a service charge** on a monthly basis over 12 months and the customer has the **right to receive an internet service** (with an associated router); and • **Identifies** the **payment terms** i.e. the customer must **pay** TellMeMore **12 monthly payments of R649** in arrears; and • Has **commercial substance** because it will **lead to a change in cash inflows** in the next 12 months as TellMeMore **receives the payments**; and • It is **probable** that TellMeMore **will collect the consideration** because **background credit checks** are performed on the customers to make sure they are able to honour the terms and conditions of the contract.	1 1 1 1 1 1
3	**Performance obligations**	
3.1	It appears that the Naught system has assumed that there is **one** performance obligation. However, there are two distinct performance obligations arising from which revenue is to be recognised by TellMeMore at different times. These two performance obligations are – • **sale of the router** recognised at the date of sale to the customer; and • **provision of the internet service** over the 12 months.	1 1 1

3.2	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 (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
3.3	The **router** is **capable of being distinct** as the customers are able to **benefit from using the router on its own** because the customers are **able to purchase the routers from other online merchants** and/or **are able to use the router with any other service provider**.	1
3.4	The **internet service** is **capable of being distinct** as the customers are **able to benefit from using the internet service together** with **other readily available resources** because the customer can **benefit from use of the internet service together with any router** that belongs to the customer.	1
3.5	The **router** and the **internet services** are **separately identifiable** because, there is **no integration of goods or services** (i.e. not an input for a combined output), or **does not significant modify or customises each other**, **nor is the router highly interrelated** with the internet package.	1
4	**Determine transaction price**	
4.1	The Naught system **incorrectly recognises** the **cash received** of **R649 including VAT** as the value of revenue to be recognised because: • The transaction price should be the amount of **consideration to which TellMeMore expects to be entitled to** in transferring the goods and services **excluding VAT** and not the cash amount received.	1 1
4.2	TellMeMore will need to estimate the transaction price at inception which is the **12-monthly payments of R649 = R7 788 excluding VAT = R7 788 x 100/115 = R6 772**.	1 1
4.3	TellMeMore **correctly** did **not recognise a significant financing component** because they correctly **concluded that no significant benefit of financing exists** in its contract with customers (given).	1
5	**Allocation of transaction price**	
5.1	Because **there are two separate performance obligations**, TellMeMore **incorrectly did not allocate the transaction price to the router and the internet services** to reflect the amount of consideration to which TellMeMore expects to be entitled in exchange for transferring promised router and internet services.	1
5.2	TellMeMore **should have allocated** the **transaction price** to **each of the two performance obligations** identified in the contract on a **relative stand-alone selling price basis**. Therefore, different amounts of revenue should be recognised for each performance obligation.	1
	Alternative 1: Residual approach	
5.3	Because the **relative stand-alone selling prices** of the router and the internet services **are not directly observable**, TellMeMore shall **estimate the stand-alone selling price** of the router and the internet service.	1

<table>
<tr><td>5.4</td><td>The **best estimate** of the **stand-alone selling price** of the **router** is the **adjusted market assessment approach** because similar routers are sold by online merchants at **R521 (excluding VAT)(R599 x 100/115)**.</td><td>1
1P</td></tr>
<tr><td>5.5</td><td>The **best estimate** of the **stand-alone selling price** of the **internet service** can be determined by using the **residual approach** (i.e. total transaction price less the sum of the stand-alone selling price of the router above) because the **individual selling price is uncertain**.</td><td>1</td></tr>
<tr><td>5.6</td><td>
<table>
<tr><td colspan="2">**Allocation of transaction price**</td></tr>
<tr><td></td><td>**Relative stand-alone selling price (Excl. VAT)**</td></tr>
<tr><td></td><td>**R**</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Router</td><td>521</td></tr>
<tr><td>Internet service *(R6 772 - R521)</td><td>*6 251</td></tr>
<tr><td></td><td>**6 772**</td></tr>
</table>
</td><td>1P</td></tr>
<tr><td></td><td>***Alternative 2: Stand-alone selling prices***</td><td></td></tr>
<tr><td>5.7</td><td>Because the **relative stand-alone selling prices** of the router and the internet services **are not directly observable**, TellMeMore shal**l estimate the stand-alone selling price** of the router and the internet service.</td><td>1</td></tr>
<tr><td>5.8</td><td>The **best estimate** of the **stand-alone selling price** of the **router** is the **adjusted market assessment approach** because similar routers are sold by online merchants at **R521 (excluding VAT)(R599 x 100/115)**.</td><td>1
1P</td></tr>
<tr><td>5.9</td><td>**Assuming** that TellMeMore **sells** the **internet services separately** in **similar circumstances** to **similar customers without** the **router at R649** (including VAT) per month, the **transaction price** of the **internet services** amounts to **R6 772 (R649 x 100/115 x 12)**.</td><td>1

1P</td></tr>
<tr><td>5.10</td><td>Because the sum of the stand-alone selling prices of the router and the internet services of R7 293 (R521 + R6772) is more than the transaction price of R6 772, a **discount is evident in the contract** which should be allocated to the router and the internet services in the same ratio as the allocation of the relative stand-alone prices as it is not clear that the discount only relates to one performance obligation.</td><td>1</td></tr>
<tr><td>5.11</td><td>
<table>
<tr><td colspan="3">**Allocation of transaction price**</td></tr>
<tr><td></td><td>**Relative stand-alone selling price (excl. VAT)**</td><td>**Allocation of transaction price**</td></tr>
<tr><td></td><td>**R**</td><td>**R**</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Router *(R521/R7 293 x R6 772)</td><td>521</td><td>*484</td></tr>
<tr><td>Internet service *(R6 772/R7 293 x R6 772)</td><td>6 772</td><td>*6 288</td></tr>
<tr><td></td><td>**7 293**</td><td>**6 772**</td></tr>
</table>
</td><td>1P
1P</td></tr>
</table>

<table>
<tr><th>6</th><th>Recognition of revenue</th><th></th></tr>
<tr><td>6.1</td><td>It appears as if Naught system **recognised the revenue** on the **router over time** and **not at a point in time**. However, the router should be recognised at point in time because:
• **Control** over the router **transfers to the customer** when the **contract is signed** because on this day the **router** becomes the **property of the customer** and can be **used with any internet service provider** (i.e. when the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits of the asset.
• Furthermore, the customer does **not simultaneously receive and consume the benefits** as TellMeMore performs them; **nor does TellMeMore's performance create or enhance an asset controlled by the TellMeMore dealers**; and the asset **does have an alternative use**.</td><td>1
1
1</td></tr>
<tr><td>6.2</td><td>The revenue on the **router** should therefore have been recognised as follows:
<table>
<tr><th></th><th></th><th></th><th>Dr.
R
(Alt 1 / 2)</th><th>Cr.
R
(Alt 1 / 2)</th></tr>
<tr><td>1/05/2018</td><td>Trade receivable / Contract asset</td><td>SFP</td><td>599 / 557</td><td></td></tr>
<tr><td></td><td>Revenue – sale of router</td><td>P/L</td><td></td><td>521 / 484</td></tr>
<tr><td></td><td>Vat suspense account (R484 x 15%) (R521 x 15%)</td><td>SFP</td><td></td><td>78 / 73</td></tr>
<tr><td></td><td>*Revenue recognised from the sale of the router*</td><td></td><td></td><td></td></tr>
<tr><td>1/05/2018</td><td>Cost of sales</td><td>P/L</td><td>375</td><td></td></tr>
<tr><td></td><td>Inventory</td><td>SFP</td><td></td><td>375</td></tr>
<tr><td></td><td>*Transfer of the router to the customer*</td><td></td><td></td><td></td></tr>
<tr><td>30/05/2018</td><td>Trade receivable
(R599 /12) (R557 / 12)</td><td>SFP</td><td>50 / 46</td><td></td></tr>
<tr><td></td><td>Contract asset</td><td>SFP</td><td></td><td>50 / 46</td></tr>
<tr><td></td><td>*Transfer from contract asset to trade receivables*</td><td></td><td></td><td></td></tr>
<tr><td>30/06/2018</td><td>Trade receivable
(R599 / 12) (R557 / 12)</td><td>SFP</td><td>50 / 46</td><td></td></tr>
<tr><td></td><td>Contract asset</td><td>SFP</td><td></td><td>50 / 46</td></tr>
<tr><td></td><td>*Transfer from contract asset to trade receivables*</td><td></td><td></td><td></td></tr>
</table>
</td><td>1P
1P
1P
1
1
1
1</td></tr>
<tr><td>6.3</td><td>The revenue from the provision of the **internet service** should be recognised **over time** as the customer **simultaneously receives and consumes the benefits over 12 months**. This should be during the month when the service is rendered to the customer.</td><td>1</td></tr>
</table>

The revenue on the **internet services** should therefore have been recognised as follows:

			Dr. R (Alt 1 / 2)	**Cr. R (Alt 1 / 2)**	
30/05/2018	Trade receivable (R521 x 1.15) (R524 x 1.15)	SFP	599 / 603		1P
	Vat suspense account (R78/12) (R73/12)	SFP	7 / 6		1P
	Revenue – services* (R6 251 / 12) (R6 288 / 12)	P/L		521 / 524	1P
	VAT output (R649 x 15/115)	SFP		85 / 85	1
	May Invoice date: recognition of revenue from the rendering of the internet services provided				
30/06/2018	Trade receivable (R521 x 1.15) (R524 x 1.15)	SFP	599 / 603		
	Vat suspense account (R78/12) (R73/12)	SFP	7 / 6		2P
	Revenue – services* (R6 251 / 12) (R6 288 / 12)	P/L		521 / 524	
	VAT output (R649 x 15/115)	SFP		85 / 85	
	June Invoice date: recognition of revenue from the rendering of the internet services provided				
30/06/2018	Bank	SFP	649		
	Trade receivable	SFP		649	1
	Receipt of payment for May invoice				

Available (Alt 1)	45
Available (Alt 2)	48
Maximum	32
Communication skills – presentation; clarity of expression	2
Total for part (a)	**34**

Part (b)	**Calculate, based on the information in the scenario and supported by reasons, the VAT payable/claimable by TellMeMore for the VAT period ended 30 June 2018.** **For the purpose of this calculation, assume that the invoiced amounts for internet package contracts (the consideration) amounted to R4 million for the VAT period ended 30 June 2018.** • **Provide a brief reason for the transactions where no tax implications arise.** • **Round amounts to the nearest rand.**		**Marks**
		R	
Output tax			
Internet packages invoices	R4 000 000 x 15/115 *Reason:* ***s7(1)(a)*** */* ***the supply of services by a vendor in the furtherance of an enterprise****.*	521 739	1 1
Importation of routers	*Reason:* ***VAT levied already paid at time of import of goods*** *(paid at the border post/customs)*	–	1
Routers sold to Namibia	*Reason:* ***s11(1)(a))*** */* ***Zero rated supply*** */* ***goods exported and delivered at an address in an export country*** *(Namibia)*	0	1
Fringe benefits: Lebo Lephoto	R375 x 15/115 *Reason:* ***s18(3)*** */* ***The supply of a fringe benefit is a deemed supply***	49	1 1
Fringe benefits:Sipha Mandela	R261 x 15/115 *Reason:* ***s18(3)*** */* ***The supply of a fringe benefit is a deemed supply*** *Value of the supply (s10(13)):* *Lower of the:* - *Cost (i.e. R375 excl. VAT); or* - *Market value (i.e. R261 (R300 x 100/115))*	34	1P 1 1
Input tax			
Importation of routers	R1 050 000 + **R105 000** [10% x R1 050 000] + **75 000** = R1 230 000 x **15%** = 184 500 OR **R1 155 000** [R1 050 000 x 1.1] + **R75 000** = R1 230 000 x **15%** = 184 500 *Reason:* ***s13(2)*** */* ***s17(1)*** */* ***Input tax allowed on importation of goods from non-BLNS countries used for the making of taxable supplies****.*	(184 500)	1 1 1 1
Rental of fibre line from M-Fibre	R500 000pm x 15/115 x 2 months *Reason:* ***s17(1)*** */* ***Input tax allowed on goods acquired for the making of taxable supplies*** *(commercial rent)*	(130 435)	1 1

Naught subscription	R5 000pm x 15/115 x 2 months *Reason:* ***s23(1A)*** */* ***Electronic service by non-resident, once the value of supplies >R50 000 is obliged to register as a VAT vendor in RSA (R5 000 per month since 2014)***	(1 304)	1 1
SignMe application subscription	R150 x 15/115 x 2 months Reason: ***s17(1)*** */* ***Input tax allowed on services acquired for the making of taxable supplies*** *(subscription)*	(39)	1
	VAT payable/(claimable)	205 544	1P
		Available	**19**
		Maximum	**13**
		Total for part (b)	**13**

Part (c)	**Discuss the accounting recognition and measurement of all aspects that relate to the development of the ContractAccount application in the IFRS compliant financial statements of TellMeMore for FY2019.** • **Do not discuss presentation and disclosure.** • **Ignore all taxation.**	**Marks**
Recognition/classification:		
1	The **ContractAccount application is in substance a website**, being a mobile version of a website. SIC 32 *Website Costs* in conjunction with IAS38 apply as the ContractAccount application is an internally generated intangible asset which may warrant the recognition of an intangible asset.	1
2	Costs incurred in developing an **internally generated** intangible asset such as a **website** shall be **recognised as an intangible asset** if, and only if, it meets the **definition of an intangible asset** as well as the **requirements for capitalising costs incurred** in developing an internally generated intangible asset in terms of the requirements in **IAS 38.57**.	1
3	As the **application will be generating revenue** by **charging users a monthly service fee**, the application is **not solely used to advertise products**. As such there may be costs that are expensed and those that are capitalised.	1
4	The ContractAccount application **is an intangible asset** because it is an **asset** that is **identifiable**, **non-monetary** and **without physical substance** as indicated below:	1
4.1	The ContractAccount application is as **asset** because: • It is a **resource** as TellMeMore will **consume the benefits of utilising the ContractAccount application in their business**; AND • It is under its **control** as a result of the fact that: - TellMeMore has the **power to obtain future economic benefits flowing from the ContractAccount application** as **TellMeMore expects to derive income** by charging its users a monthly usage fee; AND - TellMeMore has the **power to restrict access of others to the benefits of the ContractAccount application** as TellMeMore should have **legal rights** over the application **through either copy right/patent/brand protection**; AND • It will **result in future economic benefits** to flow to TellMeMore as **TellMeMore expects to derive income** by charging its users a monthly usage fee; AND • It is a result of a **past event** as **TellMeMore already developed the ContractAccount application**.	1 1 1 1 1
4.2	The ContractAccount application is **identifiable** because: • It is **separable** as **TellMeMore will be able to sell** the ContractAccount application **to a third party**; OR • TellMeMore should have **legal rights** over the ContractAccount application through either **right/patent/brand protection**.	1 1
4.3	The ContractAccount application is **non-monetary** because the ContractAccount application is **not an asset** to be **received** in a **fixed or determinable** amount of **money**.	1
4.4	The ContractAccount application is **without physical substance** because **it is an electronic application**.	1

5	TellMeMore should be able to recognise costs incurred in developing the ContractAccount application during the development phase because of the following:	
5.1	TellMeMore demonstrated that it is **technically feasible to complete the development** of the ContractAccount application so that it may be available for **use** or sell in future because an **independent application consultant determined** that the **application was technically up to standard**, **subject to minor changes**, on 15 November 2018.	1
5.2	TellMeMore demonstrated that it has the **intention to complete** the ContractAccount application and use it because TellMeMore **approved the application design** and **gave the go-ahead for the completion** of the development of the application on 31 October 2018. The fact that an application developer was hired on 5 August to conceptualise and develop a plan for the application does not indicate that there was an intention to complete the application. Rather, there was an intention to gain an understanding of the application development. At this point management could still decide not to develop the application.	1 1
5.3	TellMeMore demonstrated its ability to **use** or sell the ContractAccount application on 1 August 2018 when the **Naught expert estimated that 1% of its users would be interested in using this application** at a cost of R50 per month.	1
5.4	TellMeMore demonstrated that the ContractAccount application will **generate probable future economic benefits because** the Naught expert demonstrated on 1 August 2018 that if the application was marketed at a cost of R50 per month, **TellMeMore could generate an estimated R500 000 per month from it** (i.e. revenue will be earned from the application subscription feed).	1
5.5	TellMeMore demonstrated the **availability of adequate technical and financial resources** to **complete the development** and **use** the ContractAccount application because: • An **application developer** was **engaged** on 5 August 2018 and/or on 31 October 2018 the application developer was given the go-ahead to complete the development of the application; and • TellMeMore has seen a **substantial increase** in **revenue** and/or the **expectations of TellMeMore is that it would earn revenues of approximately R500 000 a month**, which would allow the cost to be recovered in a short period of time (i.e. less than a year).	1 1
5.6	TellMeMore demonstrated its ability to **measure the expenditure** attributable to the ContractAccount application **reliably** because the costs relating to the development of the application **can be reliably measured** in relation to the **amounts paid** to the application developer.	1
6	Based on the above, the **development phase** runs from 15 November 2018 to 15 December 2018, which is the date on which the application was completed.	1
7	TellMeMore can **capitalise the costs** incurred to **test** that the **application was functioning at the intended standard** as these are costs that are necessary to ensure that the application can be used in the market.	1

8	The expenses incurred **prior to the development phase** starting (i.e. 15 November 2018) **OR** costs **incurred during** the **planning phase** (period before 15 November 2018) will be expensed and **recognised in profit or loss** which include the following:		1
	Conceptualising and planning the application	R250 000	1
	Pro-rated cost of R400 000 (R800 000 x 15/30) to the application developer	R400 000	1
Initial measurement			
9	The ContractAccount application will **initially be measured** at **cost**.		1
10	Therefore, ContractAccount application will initially be measured as follows:		
	Application developer fee	R800 000	1
	Independent application consultant	R 35 000	1
	Development phase costs	**R835 000**	
Subsequent measurement			
11	The ContractAccount application will **subsequently either** be **measured** on the **cost model** or the **revaluation model**. (comment: revaluation model unlikely to apply, and excluded from syllabus)		1
12	The costs incurred to **clear the bug** should be **expensed** (unless the intangible asset had been previously impaired as a result of the issue relating to the bug) as it **does not enable the ContractAccount application to generate future economic benefits in excess of its originally assessed standard of performance** from using the ContractAccount application, but **rather to restore the ContractAccount application to its original intended operating capacity** OR because the expense is incurred within the operating phase as per SIC 32.		1
13	The ContractAccount application asset will **not be amortised** as the application is considered to have **an indefinite useful life**. This is an application of judgement and will **need to be reassessed** at the FY2019 reporting date, particularly in view of technological advances, etc.		1 1
14	As the application is considered to have **an indefinite useful life**, the application will be **tested for impairment annually** in terms of the requirements of IAS 36 *Impairment of Assets*. (Note: the issue relating to the bug could also have been a trigger for impairment in FY2019.) It is likely that the application will be a **separate cash-generating unit** as it is **able to generate independent cash flows** (judgement will need to be applied).		1 1
		Available	**35**
		Maximum	**25**
		Communication skills – clarity of expression; appropriate style	*2*
		Total for part (c)	**27**
TOTAL FOR PART I			**74**