

Part (a) Discuss the appropriateness of the accounting treatment followed by MasterBus to account for its percentage of the transit fares for the financial year ended 30 September 2019.		Marks
1	MasterBus is accounting for its percentage of the transit fares as a principal . This is indicated by the separate accounting for the full transit fare as revenue and the balance paid over to the transport provider as cost of sales .	1
2	An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer (IFRS 15.B35). The following indicators provide evidence that the company controls the rendering of the transfer service (i.e. the service performed):	1
3	Primary responsibility (IFRS15.B37(a)) MasterBus does not have the primary responsibility for fulfilling the promise to provide the transport service as MasterBus does not provide the transport itself but relies on the transport providers to do so.	1
4	Inventory risk (IFRS15.B37(b)) MasterBus does not obtain or commit itself to obtain the transport service before contracting with a commuter as no reservation is made until the user selects the trip option .	1
5	Pricing risk (IFRS15.B37(c)) MasterBus does not have discretion in establishing the price for the transport service as these fares are determined by the transport providers .	1
6	Since the transport services are not controlled by MasterBus, MasterBus can't be classified as a principal. (C)	1
7	An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified goods or services by another party (IFRS15.B36). An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer (IFRS 15.B36).	1
8	MasterBus facilitates the provision of transport services by the transport providers and the analysis of the control indicators above shows that MasterBus does not control the transport services before they are transferred to the customers.	1
9	MasterBus is acting as an agent rather than a principal.	1
10	MasterBus should measure its revenue at the amount of consideration which the entity to be entitled to, being their share of the transit fares/ net amount (commission). OR It is inappropriate to reflect revenue and cost of sales separately and as an agent, the net amount (being the fee or commission) should be recognised and presented as revenue.	1
11	The amounts payable to the transport providers can be seen as amounts collected on behalf of third parties that should be excluded from the amount recognised by MasterBus as revenue.	1
11	The amounts received in advance by customers when they prepay funds into the App before they make use of the services, should be recognised as a liability in MasterBus's financial statements.	1
12	Regarding the timing of the recognition of MasterBus's revenue, this appears to be appropriate as this is the point at which MasterBus satisfies its performance obligation to the commuter.	1
Available		13
Maximum		10
<i>Communication skills – logical argument</i>		<i>1</i>
Total for part (a)		11

Part (b) Calculate the amounts that should be recognised as revenue for November and December 2019 in the accounting records of MasterBus. • Show revenue for each month separately. • Round all amounts to the nearest rand.			Marks
	Nov. 2019	Dec. 2019	
Calc 1: Determination of points earned			
Total value of trips booked	R1 200 000	R1 309 750	
Less: Loyalty points utilised	–	(R5 750)	1
Value of trips used to determine points earned	R1 200 000	R1 304 000	
Loyalty points earnings ratio	1:8	1:8	
Loyalty points earned	150 000 points (1)	163 000 points (1C)	2
Loyalty points value	R15 000 (1)	R16 300 (1C)	2
Calc 2: Calculation of amount payable to transport providers and the commission			
Total value of trips booked	R1 200 000	R1 309 750	
Percentage payable to transport providers	92,5%	92,5%	
Amounts payable to transport providers	R1 110 000	R1 211 519	
MasterBus's commission (7,5%)	R90 000 (1)	R98 231 (1)	2
Less: Loyalty points utilised	–	(R 5 750) (1)	1
Transaction price	R90 000	R92 481	
Calc 3: Allocation of transaction price – Nov. 2019	Stand-alone selling price	Transaction price allocated	
Performance obligations	R	R	
Commission ((90 000 / 102 750) x 90 000) (C) <i>Allocation of transaction price: (90 000 x (7.5 / 8.5625)) = 78 832 (C)</i>	7.5 90 000 (1)	78 832 (C)	1 1
Customer options (15 000 C x 85% (1)) ((12 750 / 102 750) x 90 000) <i>OR Ratio is 1.25 x 85%(1) = 1.0625</i> <i>OR (90 000 x (1.0625 / 8.5625(1))) = 11 168</i>	1.0625 12 750	11 168 (C)	1 1
	8.5625 102 750	90 000	
Revenue recognised for November 2019		78 832 (P)	½

Calc 4: Allocation of transaction price – Dec. 2019			
Performance obligations			
Commission ((92 481 / 106 336) x 92 481) (C) OR (92 481 x (7.5 / 8.5625)) = 81 005	7.5 92 481 (C)	80 431 / 81 005 (C)	1 1
Customer options (16 300 x 85%) ((12 750 / 102 750) x 90 000) ((13 855 / 106 336) x 92 481) (C) OR (92 481 x (1.0625 / 8.5625)) = 11 476	1.0625 13 855 (1)	12 050 / 11 476 (C)	1 1
	<u>8.5625 106 336</u>	<u>92 481</u>	
Calc 5: Calculation of revenue on loyalty points utilised in December 2019			
Recognised as revenue in Dec 2019 ((5 750 / 12 750) x 11 168) (C) OR ((5 750 / 10 511 equivalent points) x 11 168) (C)		5 037 / 6 109	1
Revenue recognised for December 2019			
Commission Customer options (customer loyalty)		80 431 / 81 005 5 037 / 6 109 <u>85 468 (P)</u>	½
		Available	18
		Maximum	18
		<i>Communication skills – presentation</i>	<i>1</i>
		Total for part (b)	19

	<p>Part (c) Discuss the accounting recognition and measurement of the class action lawsuit in the financial statements of MasterBus for the financial year ended 30 September 2019.</p> <ul style="list-style-type: none"> • Do not discuss the conceptual framework. • Round all amounts to the nearest rand. • Ignore the statement of cash flows and the statement of changes in equity in your discussion. 	<p>Marks</p>
	<p>The issue is whether MasterBus should recognise a provision / (disclose a contingent liability) in respect of the class action lawsuit.</p>	
<p>1</p>	<p>A provision shall be recognised when an entity has a present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and only if a reliable estimate can be made. OR</p> <p>A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or it is a present obligation that arise from past events, but it is not recognised because it is not probable that there would be an outflow of economic benefits.</p>	<p>1</p>
<p>2</p>	<p>Past event / Future uncertain event:</p> <p>The past event arises as a result of the terms and conditions around the sale of the customers' data that were unclear and the sale of the personal information to the third party. / The future uncertain event is the filing of the class action papers with the South Gauteng High Court 'within the next few months' and the eventual court ruling.</p>	<p>1</p>
<p>3</p>	<p>Present obligation (legal / constructive) / Possible obligation:</p> <p>It is uncertain whether a present obligation exists because the legal team indicated that at this point in time it is difficult to determine if MasterBus did actually contravene the <i>Protection of Personal Information Act, 2013</i> (Act 4 of 2013) (POPI Act)./ Same for contingent liability.</p>	<p>1</p>
<p>4</p>	<p>MasterBus should consider whether it is more likely than not that a present obligation exists because although the legal team has advised that there is uncertainty as to whether MasterBus has contravened the Act, there is a 60% chance that MasterBus will be required to settle the claim due to the media attention and law suits in the past which creates a potential precedent./ Although the legal team has determined that there is a 60% chance that MasterBus will be required to settle due to media attention relating to the case; it is difficult to determine at this point if MasterBus did actually contravene the POPI Act and it appears MasterBus has the legal right to sell the customer's information.</p>	<p>1</p>

5	Therefore , taking into account all available information, including the legal team's opinion, it is more likely than not that a present obligation (possible obligation) exists at the end of the reporting period.	1
6	Probable outflow of economic benefits / Settlement remote: It is probable that there will be an outflow of economic benefits because in 2017, Solomon Dlamini had won a class action case to the value of €100 million, which indicates that he is a competent class action lawyer and this raises the probability that the current class action will be successful./ Based on the fact that Solomon Dlamini had won a previous class action case to the value of €100 million, indicating that he is a competent class action lawyer; the possibility for an outflow in settlement of the lawsuit is not remote .	1
7	Furthermore, the lawyers have indicated that there is a 60% chance that MasterBus will be required to settle the case thus indicating that it is probable that there will be a transfer of economic benefits. / Furthermore, the lawyers have indicated that there is a 60% chance that MasterBus will be required to settle the case thus indicating that the possibility of an outflow in settling the lawsuit is not remote .	1
8	Reliable estimate / Disclosure of contingent liability: A reliable estimate can be made because the number of claimants and the probable value per claimant are known or the legal team considers the value per claimant to be fair (i.e. reliable estimate)./ MasterBus should disclose an indication of the uncertainties relating to timing of the settlement of the lawsuit, as the plaintiffs' lawyer is still to file the lawsuit papers with the court.	1
9	Measurement / Estimation of financial impact: The best estimate of the expenditure required to settle the provision / (the estimation of the financial effect of the contingent liability) at the end of the reporting period would be calculated as follows: 150 x R10 000 x 25% = R375 000 (will not penalise for 150 x R10 000 x 60% x 25% = R225 000.) (Will accept incorporation of possibility of additional plaintiffs joining in the lawsuit)	1
9	The expected expenditures required to settle the obligation is material and should, therefore, be discounted (i.e. at present value / time-value of money should be considered) the time value of money is material.	1
10	FV = 375 000 OR 225 000 (1C) N = 3.0833 OR 3 I/Y = 15% (1) Comp PV = 243 715 OR 146 229 [246 569 OR 147 941]	2
11	Finance costs on the provision for one month should be recognised as follows: R243 715 OR R146 229 x 15% x 1/12 (C) = R3046 OR R1828	1
12	Conclusion: A provision to the value of R246 761 OR R148 057 [R246 569 OR R147 941] and interest to the value of R3 046 OR R1 828 should be recognised in the financial statements for the year ended 30 September 2019./ A contingent liability should be disclosed together with the estimated financial effect of the contingent liability.	1
Available		14
Maximum		10
Total for part (c)		10
TOTAL FOR PART I		40

