QUESTION 4 – IFRS 15 (CAF5 S15)

(a) HCL had agreed to provide services to NPL. The total contract price was Rs. 800,000 and HCL had initially expected to earn 25% profit on the contract. 50% of the work had been completed at year end at the cost of Rs. 320,000. Soon thereafter, a dispute arose on the quality of work and further work has been stopped pending settlement of the dispute. HCL is however very confident of recovering the cost incurred on the contract plus a margin of 10% above cost.

Required:
Discuss how much revenue should be recognised at the year end? **(02)**

(b) Saleem owns 10,000 shares in a listed company on 3 December 2014. On the same date, the company declared a dividend of Rs. 2 per share on the basis of shares held on 31 December 2014.

The dividend was paid by the company on 15 January 2015.

Required:
Prepare necessary journal entries relating to the dividend in the books of Saleem. **(02)**

(c) A company sold equipment to a customer on 1 September 2014 for Rs. 15 million. As per market norms the company has agreed to provide free support services for the next two years. The cost of providing the support services is estimated at Rs. 250,000 per annum. On such services, the company usually earns a profit of 20% of cost.

Required:
Prepare journal entries relating to this transaction for the year ended31 December 2014. **(04)**

(d) In the sale of goods at which point of time the revenue should be recognised when goods are shipped subject to installation and inspection? **(04)**

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ANSWER 4 – IFRS 15 (CAF5 S15)

Part (a)

If the outcome of a services transaction cannot be estimated reliably, revenue should only be recognized to the extent that expenses incurred are recoverable from the customer.

Therefore, HCL may recognize revenue to the extent of Rs. 320,000 only.

Part (b)

Date	Description	Debit	Credit
		----------Rupees--------	
31-Dec-14	Dividend receivable	20,000	
	Dividend income		20,000
15-Jan-15	Bank	20,000	
	Dividend receivable		20,000

Part (c)

Date	Description	Debit	Credit
		----------Rupees--------	
01-Sep-14	Bank / Receivable	15,000,000	
	Sales		14,400,000
	Deferred support / Contract Liablity (250,000 x 120% x 2 years)		600,000
31-Dec-14	Deferred support service revenue	100,000	
	Sales support services – (600,000 / 2 years ×4/12)		100,000
	Cost of support services	83,333	
	Bank/ payables		83,333
	Revenue and cost of services for 4 months		

Part (d)

Revenue is normally recognised when the buyer accepts delivery, and installation and inspection are complete. However, revenue is recognised immediately upon the buyer's acceptance of delivery when:

(i) the installation process is simple in nature, for example the installation of a factory tested television receiver which only requires unpacking and connection of power and antennae; or

(ii) the inspection is performed only for purposes of final determination of contract prices, for example, shipments of iron ore, sugar or soya beans.

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