ACCA Think Ahead

Two example questions from the Certificate in International Financial Reporting (CertIFR) assessment

1 Joey Co manufactures vehicles.

Maggie Co has placed an order for 50 delivery vehicles on 12 September 20X6 and paid a deposit of $1 million at that time. The parties have agreed a contract price of $5 million, which includes a free service at the end of the first year of ownership (which normally has a selling price of $2,000 per vehicle). Control of the vehicles passes to Maggie Co when the vehicles are loaded onto the ship at the post on 31 March 20X7.

How much revenue should Joey Co recognise in the year ended 31 December 20X7?

A $4 million

B $3.9 million

C $4.9 million

D $5 million

The correct answer is C.

IFRST 15 states that an entity recognises revenue when a performance obligation is satisfied, by transferring control of an item to a customer.
This contract includes two performance obligations: delivery of vehicles and provision of first year service.

The $5 million transaction price is allocated between the two performance obligations:

Vehicles: 5m/5.1m x $5m = $4.9m
Service: 0.1m/5.1m x $5m = $0.1m

In the year ended 31 December 20X7 the vehicles are delivered and therefore $4.9m is recognised as revenue by Joey Co. The remaining $0.1m transaction price is recognised in 20X8 when the first year services is delivered to Maggie Co.

2 Which of the following cannot be a reportable operating segment under IFRS 8?

A Segment A is a division of a listed company that sells goods to other segments of the organisation. It does not sell any services to third parties

B Segment B is a division of a listed company that sells components to internal and external customers. Its total revenue is 14% of the total of segment revenues; its internal revenue is 12% of the total of segment internal revenue and its external revenue is 6% of the total of segment external revenue 9

C Segment C is a division of an unlisted company that operates a chain of bars and provides financial information to be reviewed by the company's Board of Directors

D Segment D is head office of a listed company. It operates as a cost centre and provides management services to other divisions of the company.

The correct answer is D.

An operating segment must have activities from which it may earn revenues, and those revenues may be derived from internal customers therefore Segment A can be a reportable operating segment if all other conditions are met.

Segment revenue (internal and external) must be 10% of more of the total of segment revenues (internal and external) therefore Segment B can be a reportable operating segment if all other conditions are met.

Segment D does not engage in business activities from which is may earn revenues. It is therefore not an operating segment.