SIMON FRASER UNIVERSITY
Financial Accounting: Assets (BUS320)
Lecture 5 – An additional problem for your personal study

QUESTION

There are three scenarios in this question involving the allocation of discounts in bundled sales arrangements. This question gives you the opportunity to study carefully the wording of an accounting standard. The relevant sections of the accounting standard are paragraphs 81 and 82 of IFRS 15 *Revenue from Contracts with Customer*:

> **81 A customer receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract. Except when an entity has observable evidence in accordance with paragraph 82 that the entire discount relates to only one or more, but not all, performance obligations in a contract, the entity shall allocate a discount proportionately to all performance obligations in the contract. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the underlying distinct goods or services.**

> **82 An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the contract if all of the following criteria are met:**
> **(a) the entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a stand-alone basis;**
> **(b) the entity also regularly sells on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and**
> **(c) the discount attributable to each bundle of goods or services described in paragraph 82(b) is substantially the same as the discount in the contract and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs.**

Scenario I

Sapphire Industrial Limited (SIL) regularly sells three products individually at the stand-alone prices of $900, $600 and $300 for products A, B, and C respectively.

SIL enters into a contract with a customer to sell products A, B, and C at a bundle price of $1,500. The performance obligations for each of the products will be satisfied by SIL at different points in time. SIL regularly also sells products A and C together to other customers at a bundle price of $900.

SIL has a December 31 year end and is required to follow the requirements of IFRS 15: *Revenue from Contracts with Customer*.

Required:

(i) Determine the transaction price that SIL should use to recognize revenue for each of the products A, B, and C in the $1,500 bundle sales to the customer. Round all dollar amounts to the nearest dollar. Show supporting calculations.

Scenario II

Ruby Industrial Limited (RIL) regularly sells three products individually at the stand-alone prices of $900, $600 and $300 for products X, Y, and Z respectively.

RIL enters into a contract with a customer to sell products X, Y, and Z at a bundle price of $1,500. The performance obligations for each of the products will be satisfied by RIL at different points in time. RIL regularly also sells products X and Z together to other customers at a bundle price of $1,100.

RIL has a December 31 year end and is required to follow the requirements of IFRS 15: *Revenue from Contracts with Customer*.

Required:

(ii) Determine the transaction price that RIL should use to recognize revenue for each of the products X, Y, and Z in the $1,500 bundle sales to the customer. Round all dollar amounts to the nearest dollar. Show supporting calculations.

(iii) Is your answer for Sapphire Industrial Limited (SIL) in Scenario I different from your answer for Ruby Industrial Limited (RIL) in Scenario II? What is the major difference between the approaches you take in deriving the two answers? Explain the conceptual reasoning you can use to justify the two different approaches.

Scenario III

Diamond Industrial Limited (DIL) regularly sells three products individually at the stand-alone prices of $900, $600 and $300 for products K1, K2, and K3 respectively.

DIL enters into a contract with a customer to sell products K1, K2, and K3 at a bundle price of $1,500. The performance obligations for each of the products will be satisfied by DIL at different points in time. DIL regularly also sells products K2 and K3 together to other customers at a bundle price of $700, and products K1 and K2 together to other customers at a bundle price of $1,200.

DIL has a December 31 year end and is required to follow the requirements of IFRS 15: *Revenue from Contracts with Customer*.

Required:

(iv) Determine the transaction price that DIL should use to recognize revenue for each of the products K1, K2, and K3 in the $1,500 bundle sales to the customer. Round all dollar amounts to the nearest dollar. Show supporting calculations.