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The CPA Ireland Skillnet provides excellent value CPE (continual Professional Education) in accountancy, law, tax and strategic personal development to accountants working both in practice and in industry. However our attendees are not limited to the accountancy field as we welcome all interested parties to our events.

The CPA Ireland Skillnet is funded by member companies and the Training Networks Programme, an initiative of Skillnets Ltd. funded from the Department of Education and Skills.

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Trainee Accountant Webinar Series

17 FEBRUARY 2018

F2 – Financial Accounting
Presented By: Sandra Gleeson

Syllabus Overview

- The aim of F2 Financial Accounting is to ensure that students understand the role, function and **basic principles of financial accounting** and master the rules of **double-entry bookkeeping**.
- Students will also develop the ability to **prepare, analyse and report on financial statements** for basic reporting entities in accordance with current Irish and generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs).

Exam Format

- Question 1 Compulsory question **40 Marks**
- Choice of 3 questions out of 4 (20 marks allocated to each question) **60 marks**

Education Focus 2017 - 2018

- The examiner **will attempt** to examine material from all five sections of the syllabus over the course of both examinations but is not bound by this i.e. 2 topics may be examined from 1 section of the syllabus.
- It is essential at this examination stage that candidates have a thorough understanding of double entry.
- Candidates should note that FRS 100 – 103 are no longer examinable for this subject.

Key Skills Required to Pass

- Proficiency in double entry book-keeping
- Ability to prepare, analyse and report on basic financial statements
- Study the entire syllabus – question spotting is dangerous
- Read examiner articles
- Be able to explain why….
- Answer all parts of each question
- Don't miss the easy marks
- Practice, practice, practice

Recent Examiner Article

- ***IFRS 15 – Revenue from Contracts with Customers***
- Focuses on assisting students in developing a comprehensive understanding of the application of IFRS 15 to basic financial statements
- Sets out a the five steps in applying the core principles of IFRS 15
- Ensures students are up to date with current developments in Financial Reporting

IFRS 15 – Core Principle

Recognise Revenue to depict transfer of promised goods or services to customers	in an amount that reflects consideration	to which entity expects to be entitled in exchange for those goods or services

IFRS 15 – 5 Steps

1. **Identify the contract(s) with a customer .**
2. **Identify the performance obligations in the contract.**
3. **Determine the transaction price .**
4. **Allocate the transaction price to the performance obligations in the contract.**
5. **Recognise revenue when (or as) the entity satisfies a performance obligation.**

IFRS 15 – Step 1

Contract

- commercial substance
- approved by the parties (Written, Oral or Implied)
- commitment to perform obligations
- each party's right regarding goods/services can be identified
- payment terms can be identified
- probable that consideration will be collected by vendor

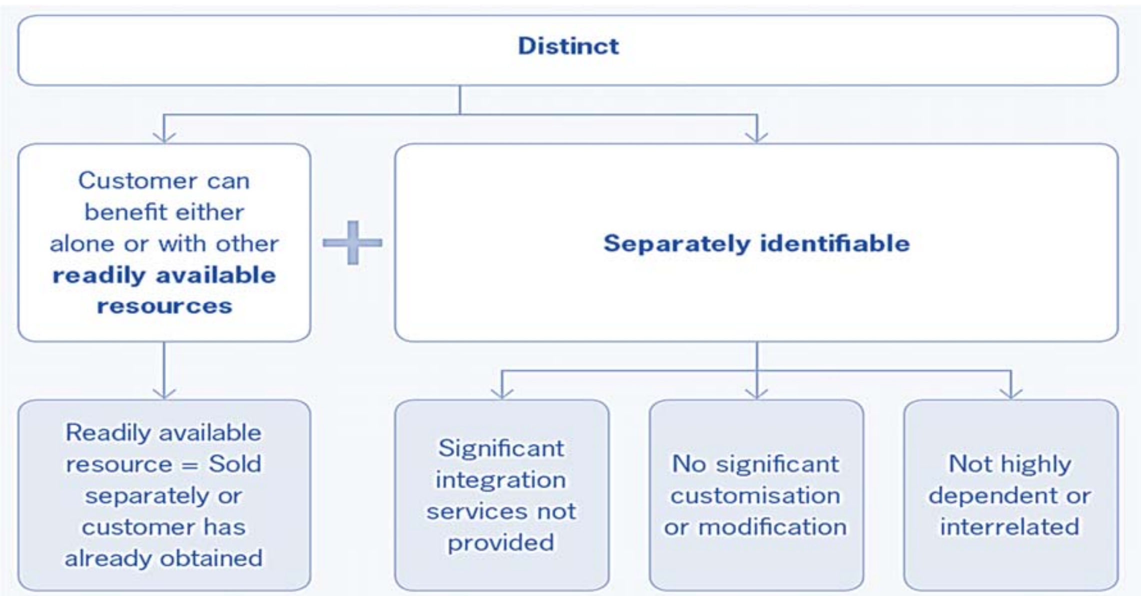
IFRS 15 – Step 2

Identify the performance obligations

- Analyse the contract to determine whether it includes one or more performance obligations
- What is a performance obligation?
  (1) a good or service, or a bundle of goods or services, that is **'distinct',** or
  (2) a series of distinct goods or services that are substantially the same and meet certain criteria.

IFRS 15 – Step 2

What does 'distinct' mean?



Step 2 – Example 1

R Limited enters a contract with a customer to supply a licence for a standard software product.

R Limited will also install the software, provide updates to the software and technical support for a number of years.

R Limited sells the licence and technical support separately, the software will continue to operate without the software updates and R Limited subcontract the installation of the software to a number of approved installers throughout the country.

Step 2 – Example 1

Are there one or many performance obligations?

- The customer can benefit from each of the goods or services **either on their own or altogether**.
- The promises to transfer goods or services are separately identifiable.
- Consequently there are a number of distinct good or services identified i.e. software licence, installation service, software updates and technical support.

IFRS 15 – Step 3

Determine transaction price

- the amount of **consideration** a company **expects to be entitled** to in exchange for the goods or services promised under a contract, excluding any amounts collected on behalf of third parties (i.e. VAT).
- This consideration may include **fixed or variable** amounts or both.
- Does the amount or consideration need to be **constrained**. Where there is uncertainty include variable consideration in the transaction price only to the extent it is highly probable there will not be a significant reversal of revenue when the related uncertainty is resolved.

Step 3 – Example 1

T Limited sells 2,000 units of its new product to a customer at €100 per unit. The customer is in a country that is enduring significant economic difficulty and as a result of that T Limited expects to receive only 60% of the agreed price. T Limited expects to meet the other four criteria re revenue as per IFRS 15.

Step 3 – Example 1

1. Contract?
2. Performance obligations?
3. Transaction price?
4. Allocate the transaction price?
5. Recognise revenue when?

…and our own step – what are the Debits & Credits?

Step 3 – Example 1

1. Contract – **sales contract.**
2. Performance obligations – **deliver promised goods.**
3. Transaction price – **(2,000 x €100 x 60%) €120,000**
4. Allocate the transaction price – **1 delivery**
5. Recognise revenue when – **at time of delivery.**

	Debit	Credit
Dr Receivables	120,000	
Cr Revenue		120,000

Step 3 – Example 2

S Limited enters into a contract with a customer to sell its product for €200 per unit for the year 2017. If the customer purchases more than 1,200 units in the year, the price will decrease to €150 per unit. S Limited does not believe at the date of the contract that the customer will purchase more than 1,200 from it due to past trading patterns with this customer.

As at 30th June 2017 S Limited had sold €600 units to the customer.

Step 3 – Example 2

1. Contract – **sales contract**.
2. Performance obligations – **deliver promised goods.**
3. Transaction price – **(600 x €200) €120,000**
4. Allocate the transaction price – **delivery of 600 units**
5. Recognise revenue when – **at time of delivery.**

	Debit	Credit
Dr Receivables	120,000	
Cr Revenue		120,000

Step 3 – Example 2

On 1st October 17, the customer orders a further 500 units

On 1st December 2017, the customer orders a further 200 units.

If the consideration promised in a contract includes a variable amount, an entity shall **estimate the amount of consideration** to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

Step 3 – Example 2

At 1 October 2017 and *On the basis that S Limited believes that the customer will now reach its target – the price is €150. Therefore, revenue recognised is 500 x €150*

	Debit	Credit
Dr Receivables	75,000	
Cr Revenue		75,000

Step 3 – Example 2

At 1 December 2017 and *On the basis that the customer has now reach its target – the price is €150. Therefore, revenue recognised is 200 x €150*

	Debit	Credit
Dr Receivables	30,000	
Cr Revenue		30,000

Step 3 – Example 2

What about the revenue recognised in June? The transaction price was determined based on an assessment of the **'most likely amount'** at the time.

The revenue from the sale on 30th June 2017 must be recalculated and adjusted accordingly.

Adjustment 600 x (€200 - €150)

	Debit	Credit
Dr Revenue	12,000	
Cr Receivables		12,000

IFRS 15 – Step 4

Allocating the transaction price to the performance obligations

- When a company determines that a contract contains more than one performance obligation, it is required to **allocate the transaction price to each performance obligation** based on its relative **stand-alone selling price** at contract inception.
- Stand-alone selling price is **"the price at which a company would sell a promised good or service separately to a customer".**

Step 4 – Example 1

- *A retailer sells a customer a package consisting of a computer and a printer for €700. The retailer realises that there are two separate performance obligations involved. It regularly sells the computer for €500 and the printer for €300.*
- *Determine how the retailer will allocate the total transaction price across the computer and printer?*

Step 4 – Example 1

- *The transaction price of €700 will be allocated across the computer and printer as follows:*

  Computer: €700 x €500/€800 = €437.50

  Printer:€700 x €300/€800 = €262.50

- *In this transaction, there is an inherent discount of €100 which does not relate to a specific performance obligation and is therefore, allocated to all performance obligations on a stand-alone selling price basis.*

IFRS 15 – Step 5

Recognising revenue when or as performance obligations are satisfied

- Revenue for a performance obligation is recognised when control of the related good or service is transferred to the customer.
- Indicators that control transfers include:
  a) Present right to payment
  b) Legal title of goods and services
  c) Transferred physical possession
  d) Significant risks and rewards of ownership; and
  e) The customer has accepted the asset.

Guidance on preparation of financial statements

Preparation of Financial Statements

- Proficiency is essential to pass the exam
- Practice questions to develop proficiency
- Don’t miss the easy marks

Guidance on preparation of financial statements

Question 1 tutorial

Past Exam Paper April 2017

How to prepare and present your answer to ensure you gain maximum marks

Q&A

Over to you

Conclusion

Financial Accounting is a fundamental foundation for later subjects including:

- Corporate reporting
- Advanced corporate reporting
- Auditing
- Audit Practice and Assurance Services

Remember, the key to passing the exam is

Practice, practice, practice.

Best of luck!