

Part (a) Discuss whether it would be correct for RP to capitalise the cost incurred on the acquisition of Cristiano`s commercial rights as an intangible asset in terms of IAS 38 <i>Intangible Assets</i> on 1 May 2019.	Marks
1 For RP to capitalise the cost incurred on the acquisition of Cristiano`s commercial rights as an intangible asset, the commercial rights should be a <b>resource</b> under the entity`s <b>control</b> , as a result of a <b>past event</b> and from which <b>future economic benefits</b> are expected to flow to the entity. The asset should be <b>identifiable</b> , <b>non-monetary</b> and without <b>physical substance</b> .	1
1.1 <b>Resource:</b> The commercial rights are a recourse because RP will consume the benefits of <b>utilising the commercial right contract</b> in its business (e.g. on marketing material, player playing for the club etc.)	1
1.2 <b>Control:</b> It is under the control of RP because: <ul style="list-style-type: none"> <li>• RP has the <b>power to obtain future economic benefits</b> from the commercial rights due to RP being able to use it to generate future economic benefits like <b>using the name of the players on marketing material / increase in ticket sales</b> that will generate income; and</li> <li>• RP has <b>power to restrict access</b> other to those economic benefits due to the <b>exclusive image rights because of the contract</b>.</li> </ul>	1  1
1.3 <b>Past event:</b> Cristiano was <b>acquired</b> from Chiefs United on 1 May 2019 and the agreement transferred his commercial rights on the same date. A payment was made for such rights.	1
1.4 <b>Future economic benefits:</b> The use of Cristiano`s name and face on merchandise is <b>expected to increase merchandise sales by 33%</b> , while Cristiano`s participation in games is expected to <b>attract more spectators which will result in increased revenue from ticket and merchandise sales</b> .	1
1.5 <b>Identifiable:</b> The commercial rights are identifiable because: <ul style="list-style-type: none"> <li>• It is <b>separable</b> because it could be <b>sold individually</b> which is evidenced by Chiefs United, who originally purchased it from Chappies Mamelodi.</li> <li>• It arose from a <b>contractual / legal right</b> based on the four-year <b>contract signed</b> with Cristiano.</li> </ul>	1  1
1.6 <b>Non-monetary:</b> Cristiano`s image rights are non-monetary <b>since they are a right to use his name and face</b> (not an asset to be received in a fixed or determinable amount of money).	1
1.7 <b>Without physical substance:</b> Rights to Cristiano`s image are <b>not tangible</b> .	1
2 In the case of an intangible asset that was acquired separately through a purchase, it is assumed that the recognition criteria are met. These include that the <b>cost can be reliably measured</b> and that <b>future economic benefits are probable</b> .	1
2.1 <b>Reliably measured:</b> The amount is <b>specified in the contract</b> and can therefore be reliably measured at ZWL2 million.	1
2.2 <b>Probable future economic benefits:</b> Since Cristiano is one of the league`s top players, it is probable that revenue from <b>merchandise</b> and <b>ticket sales</b> will increase and therefore future economic benefits are probable.	1
3 <b>Conclusion:</b> The cost incurred on acquisition of Cristiano`s commercial rights meet the definition and recognition criteria of an intangible asset and therefore it would be correct to <b>recognise these costs as an intangible asset</b> on 1 May 2019.	1C
<b>Available</b>	<b>14</b>
<b>Maximum</b>	<b>10</b>
<i>Communication skills – appropriate style</i>	1
<b>Total for part (a)</b>	<b>11</b>

<p><b>Part (b) Discuss the performance obligations that will result from the sale of a season ticket in terms of IFRS 15 <i>Revenue from Contracts with Customers</i>.</b></p> <ul style="list-style-type: none"> <li><b>Assume that the sale of a season ticket meets the requirements of a contract in terms of IFRS 15.9.</b></li> </ul>	<p><b>Marks</b></p>
<p>1 The various promises within the contract when a customer buys a season ticket are distinct and will be separate performance obligations if both of the following criteria are met:</p> <ul style="list-style-type: none"> <li>The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is <b>capable of being distinct</b>); and</li> <li>The entity's promise to transfer the good or service to the customer is <b>separately identifiable</b> from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).</li> </ul>	<p>1</p>
<p>2 The various <b>match day services</b> (i.e. a game being played, a pre-selected seat and the use of stadium facilities) are not distinct since –</p> <ul style="list-style-type: none"> <li>The matchday services are <u>capable of being distinct</u> as the customer can benefit from the matchday services on its own by <b>attending the games or together with other promises in the contract</b> (15 home game tickets, discount on the merchandise); and</li> <li>Matchday services are <u>separately identifiable</u> from other promises in the contract as they are <b>highly interdependent / interrelated</b> because <b>RP cannot fulfil its promise to provide a pre-selected seat and the use of stadium facilities without a game being played</b>.</li> <li>The match day services will therefore be considered as a bundle of services (i.e. access to a home game).</li> </ul>	<p>1</p> <p>1</p> <p>1</p>
<p>3 Each of the <b>15 home game tickets</b> is distinct since –</p> <ul style="list-style-type: none"> <li>the 15 home game tickets are <u>capable of being distinct</u> as the customer can benefit from each ticket on its own by <b>attending the relevant game / RP regularly sells individual tickets for each home game separately at the gate or together with other promises in the contract</b> (match day services, discount on the merchandise); and</li> <li>RP's promise to transfer access to each game (i.e. each home game ticket) is <u>separately identifiable</u> from other promises in the contract as <b>RP can transfer each home game ticket independently from other tickets and/or the discount on merchandise</b>. There is therefore no integration of goods or services (i.e. not an input for a combined output), it does not significantly modify or customises each other and it is not highly interdependent / interrelated with the other promises on the contract.</li> </ul>	<p>1</p> <p>1</p>
<p>4 However, the 15 home game tickets will be a <b>series of distinct services</b> that are <b>substantially the same</b> and that have the <b>same pattern of transfer</b> to the customer since –</p> <ul style="list-style-type: none"> <li>each individual ticket in the series would meet the criteria to be a performance obligation satisfied over time, as the <b>customer simultaneously receives and consumes the benefits provided by each ticket</b>; and</li> <li>the <b>same method would be used to measure RP's progress</b> towards complete satisfaction of the performance obligation to transfer each distinct ticket to the customer.</li> </ul>	<p>1</p> <p>1</p>
<p>5 The right to purchase merchandise at a <b>discount</b> is distinct since –</p>	

	<ul style="list-style-type: none"> <li>the discount on the merchandise is <u>capable of being distinct</u> as the <b>customer can benefit from the discount on its own by paying a reduced price for the merchandise or together with other promises in the contract</b> (match day services, 15 home game tickets);</li> <li>RP's promise to transfer the discount is <u>separately identifiable</u> from other promises in the contract because <b>RP can use the discount independently from the game tickets</b>. There is therefore no integration of goods or services (i.e. not an input for a combined output), it does not significantly modify or customise each other and it is not highly interdependent / interrelated with the other promises on the contract.</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>The discount on the merchandise is a <b>material right</b> in accordance with IFRS 15 which will result in the discount being a separate performance obligation.</li> <li>The latter is due to the fact that the customer <b>only receives</b> the discount if they <b>purchase a season ticket</b> (i.e. customers that does not purchase a season ticket is not entitled to the discount).</li> </ul>	1
		1
		1
		1
6	<b>Conclusion:</b> The sale of a season ticket therefore results in two performance obligations which is the access to the game (various match day services and the 15 home game tickets) and the discount on the sale of the merchandise.	1C
	<b>Available</b>	<b>13</b>
	<b>Maximum</b>	<b>10</b>
	<b>Total for part (b)</b>	<b>10</b>

Part (c) Prepare the journal entries to record the ticket sales (section 3), sponsorship deal (section 4) and other amounts received (section 5) in the accounting records of RP for FY2020.			Marks
<ul style="list-style-type: none"> <li>• No journal narrations are required.</li> <li>• Ignore all tax consequences.</li> </ul>			
Journal entries	Dr ZWL	Cr ZWL	
<b>Ticket sales (W1)</b>			
Bank (SFP)	68 625 000		
Income received in advance / Contract liability (SFP)		68 625 000	1
<i>Recognition of payment received</i>			
Income received in advance / Contract liability (SFP)	68 625 000		1P
Revenue: Ticket sales (P/L)		68 625 000	
<i>Recognition of revenue on ticket sales</i>			
<b>W1 Ticket sales</b>			
Season tickets		9 000 000	½
Gate tickets		31 500 000	½
Cup games		28 125 000	½
		<b>68 625 000</b>	
<b>Sponsorship deal</b>			
Income received in advance / Contract liability (SFP) (ZWL3 000 000 / 5)	600 000		½
Revenue: Sponsorships / Other income (P/L)		600 000	1
<i>Recognition of revenue on sponsorship</i>			
Bank (SFP)	10 000 000		
Receivables / Debtors (SFP)		10 000 000	1
<i>Recognition of payment received</i>			

<b>Donation received</b>			
Bank (SFP)	20 000 000		
Shareholders' equity (SCE)		20 000 000	1
<i>Recognition of payment received</i>			
<b>Sale of merchandise (W1)</b>			
Bank (SFP)	17 551 460		
Revenue: Merchandise (P/L)		17 551 460	½
<i>Recognition of revenue on sale of merchandise</i>			
<b>W2 Merchandise</b>			
Cristiano merchandise		3 306 000	½
Other merchandise			
- No discount (ZWL14 870 000 x 88%)		13 085 600	1
- Season ticket holders (ZWL14 870 000 x 7% x 90%)		936 810	1
- Annual sale (ZWL14 870 000 x 5% x 30%)		223 050	1
		<b>17 551 460</b>	
		<b>Available</b>	<b>11</b>
		<b>Maximum</b>	<b>8</b>
		<b>Total for part (c)</b>	<b>8</b>

<b>Part (d) Critically discuss the income tax position taken by the accountant of Chiefs United in respect of the amount received by that club upon the sale of Cristiano.</b>		<b>Marks</b>
1	The sale is included in gross income if it is revenue in nature and not capital in nature. Capital nature is not defined in the Income Tax Act and common law principles are applies.	1
2	To determine whether an amount is capital or not, one has to consider the following: <ul style="list-style-type: none"> <li>• The original intention of the use of the asset at the time it was acquired.</li> <li>• Determine whether this original intention means the asset is a tree or fruit or if the asset is an income producing one vs it being the asset itself.</li> <li>• Any possible change in intention</li> <li>• The trading activities of the taxpayer.</li> </ul>	1
3	<b>Original Intention</b> Chiefs United, when paying the ZWL1,2 million, incurred expenditure to acquire the contractual right to demand performance from a player (Cristiano). The purpose of Chiefs United, in incurring the expense, was to hold the right as a capital asset (and not speculatively).	1
4	The expenditure incurred by Chiefs United was to acquire an income-producing concern (in respect of which the outlay is usually non-recurrent) and is not money spent '... in working the concern for the present production of profit'.	1
5	Case law for original intention	1
6	The expenditure incurred in acquiring the right was therefore of a capital nature.	1
7	The salary paid to Cristiano is not expenditure incurred related to (or for the purpose of) the acquisition of the right, but is an amount due to the player (Cristiano) in terms of the employment contract.	1
8	<b>Change in Intention</b> The decision taken by Chiefs United to accept the offer to transfer the contract, on its own, doesn't constitute a change in the intention from holding an asset on capital account to embarking on a scheme of profit-making.	1
9	There is no evidence that Chiefs United actively traded in player's contracts. Its scheme of profit-making is to derive income from soccer games and the player rights.	1
10	Case law for change in intention	1
11	<b>Income Producing asset or Tree</b> When the club disposes of this right, the club gives up an income-producing asset, as the right produced income in possible increased ticket sales for the club and advertising income.	1
12	The gain was therefore not made by Chiefs United by the operation of a business in carrying out a scheme of profit-making.	1
13	<b>Conclusions</b> Therefore, the amount received by Chiefs United is capital in nature and should not be included in the gross income of Chiefs United.	1

14	The tax position taken by the accountant is therefore not based on reasonable grounds.	1
		<b>Available</b>
		<b>14</b>
		<b>Maximum</b>
		<b>8</b>
		<i>Communication skills – logical argument</i>
		<i>1</i>
		<b>Total for part (d)</b>
		<b>9</b>

Part (e) Calculate the tax implications for RP if the club decides to sell the stadium to Group Q in terms of the sale and leaseback agreement.			Marks
<ul style="list-style-type: none"> <li>Assume that RP will not have any other capital gains or losses for that year of assessment</li> <li>Assume that the tax legislation will remain unchanged</li> </ul>			
The <b>recoupment</b> upon disposal will be included in terms of par (j) of the definition of gross income (s8 (1) in RP's <b>gross income</b> .			-
		<b>ZWL'000</b>	
<b>INCOME TAX IMPLICATIONS OF SALE IN SALE AND LEASEBACK</b>			
Proceeds on disposal (Capital in nature)		-	1
Recoupment -			
- Disposal proceeds	102,000		1
- ITV (86,000 – 25,800)	60,200		1
- Potential Recoupment	41,800		
- Limited to capital allowances previously granted	<b>25,800</b>	25,800	1
Lease costs (7.2 million/annum x 10 years)		(72,000)	1
Reacquisition cost (capital in nature)		-	1
Events company rentals		-	1
Taxable Income over ten years		<b>46,200</b>	
However given that the rental is payable annually in advance, certain of the expenditure in the respective tax and financial year will be considered a prepayment. Any amounts relating to subsequent tax period will be allowed proportionately over the years of assessment in which the goods, services or benefits are used up (s15 (2) (a) (iii). $3/12 \times 7200 = 1800$ (note this only impacts the first and last years of the lease period as the rentals remain static)		1 800	1
<b>CGT IMPLICATIONS OF SALE IN SALE AND LEASEBACK</b>			
Proceeds on disposal of stadium (Gross capital amount) – specified asset.		102,000	1
CGT (102,000 x 5%) (Asset acquired before February 2019)		<b>5,100</b>	1
<b>VAT IMPLICATIONS OF SALE IN SALE AND LEASEBACK</b>			
Output Tax:			
Proceeds on disposal of stadium (Taxable supply at standard rate)	102,000 x 14.5%	14,790	1
Input Tax:			
Lease payments (72,000 x 14.5%)		(10,440)	1
Re-acquisition (Market value x 14.5%)		?	1
<b>Available</b>			<b>15</b>
<b>Maximum</b>			<b>6</b>
<b>Total for part (e)</b>			<b>6</b>