Revenue, provisions & contingencies

MODULE 3 / STUDY & PRINTABLE INDEX / 1 OF 2

Six connected topics take you from an enforceable customer contract to revenue, and from an uncertain obligation to recognition, measurement and disclosure. The accounting context is October 2022, supported by the historical standards linked on the relevant sheets. The explanations, cases, figures and workings here are original.

Study topic	Keep beside you
1. Contracts, promises and modifications	Five-step revenue map; two-page modification guide.
2. Transaction price and allocation	Three-page methods, returns and allocation guide; financing journal timelines.
3. Timing, balances and contract costs	Contract-cost decision tree and journals; timing/balance guide; applications; Aurora practice case.
4. Provisions and present obligations	Recognition map. Onerous/restructuring sheets cover further 2022-standard applications.
5. Measuring provisions and journals	Three-page measurement and journal sheets.
6. Contingencies and reporting decisions	Contingencies decision card; final disclosure checklist.

How to use the pack

Read the relevant topic first. Use a flowchart to decide the accounting route; then use a calculation or journal sheet to check the numbers. Attempt the original Aurora case before reading its answer pages.

PDFs contain searchable text and vector diagrams. Print at actual size or fit to A4. Pale shading separates decisions; wording and labels also distinguish each branch, so meaning does not rely on colour alone.

Find individual PDFs and downloadable images at:
Accounting Ahead / Financial Reporting / Resources / Module 3

Resource scope: teaching aids, not a full statutory disclosure checklist. Consult the relevant standard for the complete requirements.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. Primary sources: AASB 15 (May 2022), incorporating IFRS 15; AASB 137 (December 2021), incorporating IAS 37.

Final reporting and disclosure checks

MODULE 3 / FINISH THE ANALYSIS / 2 OF 2

Area	Check before completing an answer
Revenue	Explain disaggregation, contract balances, performance obligations, remaining obligations and significant judgements as required. Apply available exemptions only when their conditions are met.
Contract costs	Disclose relevant judgements, closing balances by category, amortisation, impairment and use of practical expedients.
Provisions	Reconcile opening to closing by class: additions, used amounts, reversals, discount effects. Explain nature, timing, uncertainties, major assumptions and expected reimbursement.
Contingent liabilities	Unless remote, describe the nature and, when practicable, financial effect, uncertainties and reimbursement possibility. Explain impracticability when relevant.
Contingent assets	When inflow is probable, describe the nature and a practicable financial-effect estimate. Avoid implying greater certainty than the evidence supports.
Exceptional prejudice	The extremely rare seriously prejudicial dispute exception is narrow. State the general nature, and the fact and reason for omitted information.

Final consistency test

Does the journal match the decision? Do debits equal credits? Does allocated revenue equal the total price? Does the liability roll forward? Have an asset and liability been improperly offset? Are all estimates dated and supported?

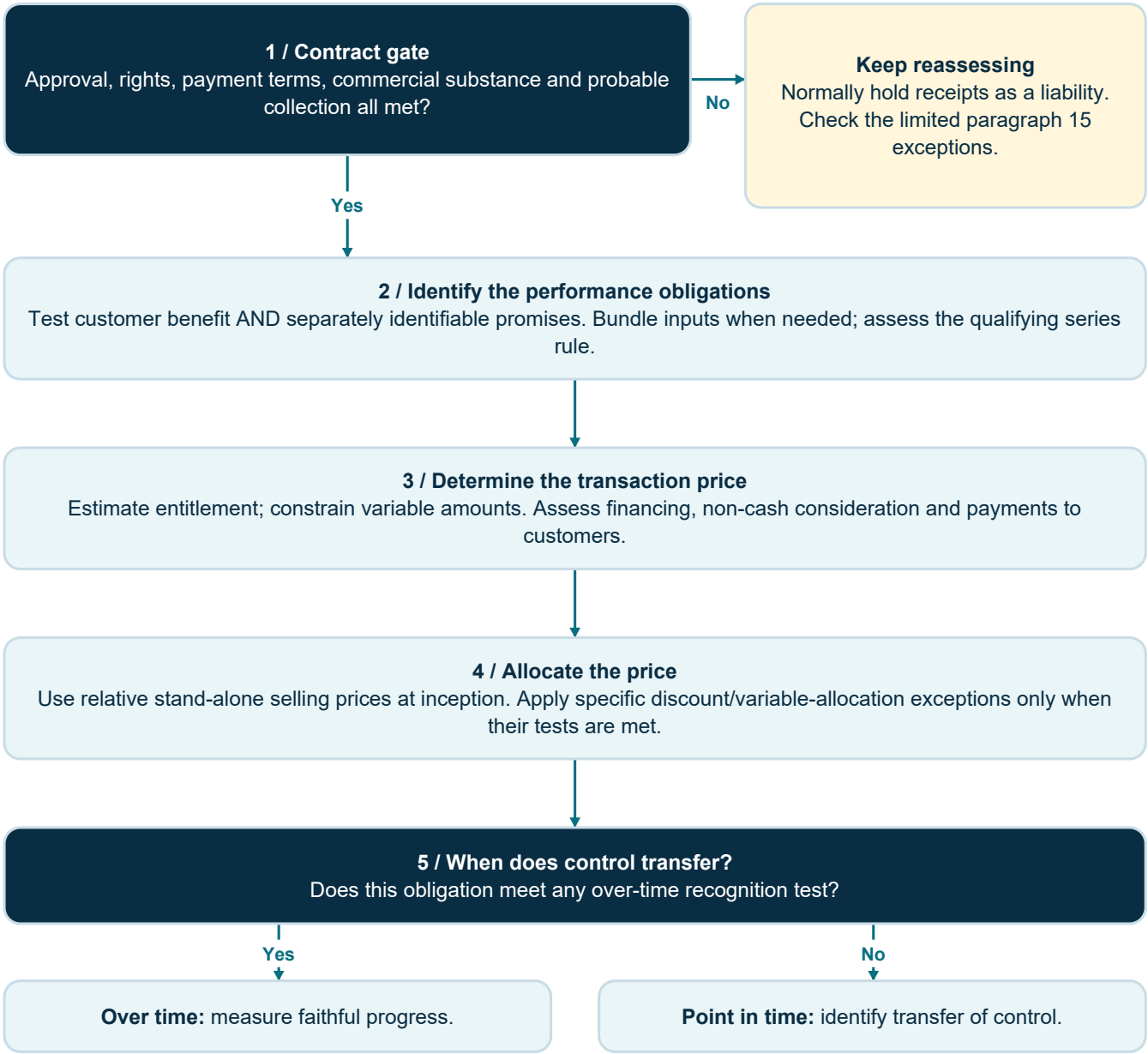
For new questions, create a fresh fact pattern and dataset. Use the standards to check the accounting principles, rather than copying a source question or answer.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, 110-129; AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, 84-92. Use these historical compilations for the October 2022 accounting context.

Revenue: follow the five decisions

MODULE 3 / CONTRACTS WITH CUSTOMERS

First check that the arrangement is in scope. Use the relevant other standard for items it covers. Cash collection and invoicing are not, by themselves, revenue triggers.



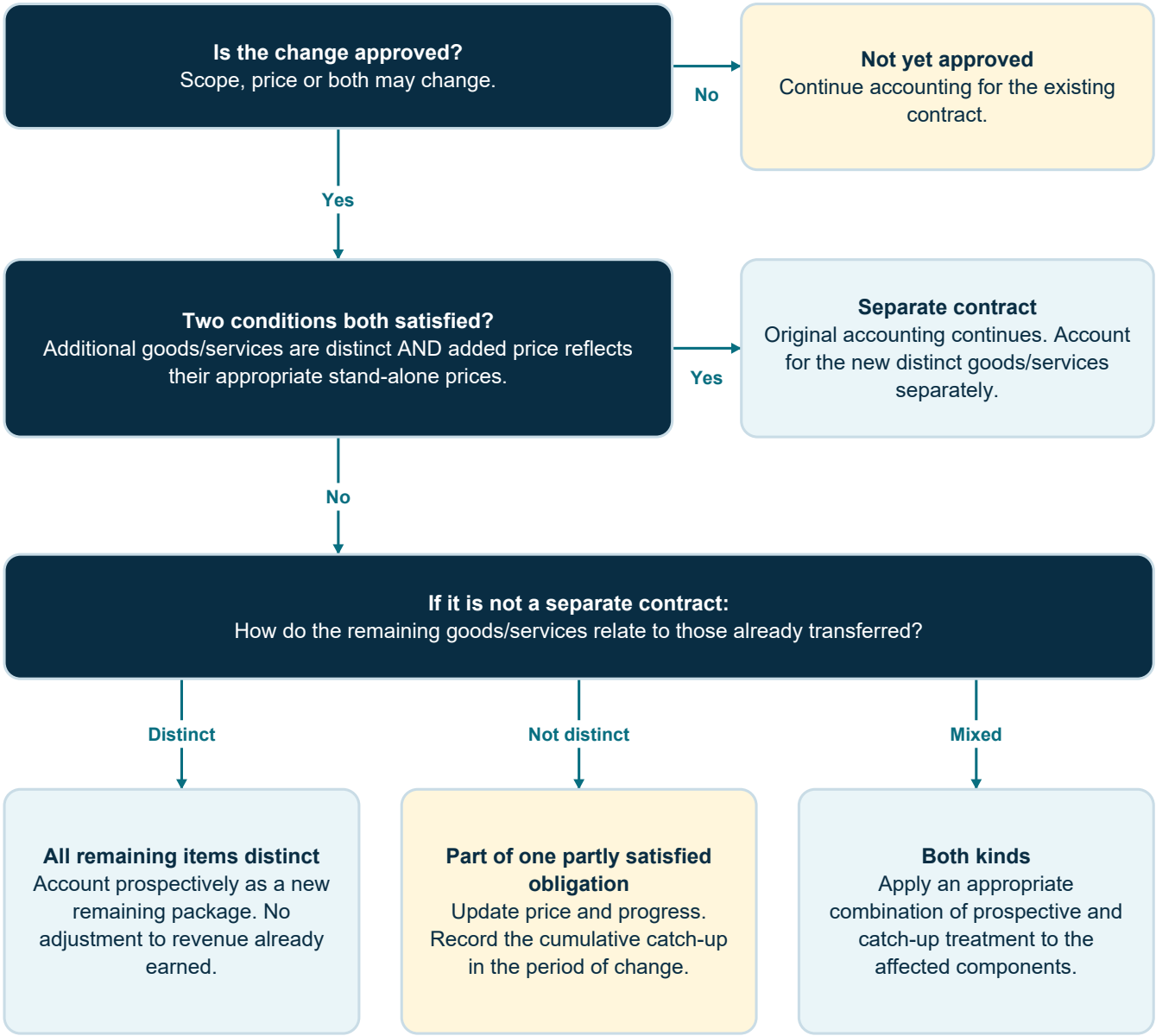
Over-time tests: benefits received as performance occurs; customer controls work in progress; or no alternative use **and** an enforceable right to payment for performance to date. Otherwise assess point-in-time control indicators.

Guide alignment: CPA Australia Financial Reporting, sixth edition (October 2022), Module 3. Independent Accounting Ahead design and examples. Printed pages 119-138. AASB 15, May 2022, paragraphs 4-90, especially 9, 15, 22-23, 27, 35-40 and 73-86.

A contract changes. Which route?

MODULE 3 / PAGE 1 OF 2

Assess enforceable rights and the goods or services still to be transferred. Do not choose a method merely because it gives the preferred margin.



Two details to retain: stand-alone pricing can include appropriate adjustments for the particular contract. If scope is approved but the price is uncertain, estimate the price change using the variable-consideration requirements.

Historical accounting context: October 2022. Independent Accounting Ahead design and examples. AASB 15, May 2022, paragraphs 18-21. A catch-up is not automatically a prior-period error or restatement.

Three routes, checked workings

Finch Training: remaining distinct workshops

Twelve distinct workshops originally cost **$28,800**. Four are delivered. Add four more for **$6,600**, which is not appropriate stand-alone pricing. Assume equal stand-alone values for the remaining workshops.

Prospective modification	Working
Already earned; unchanged	4 x ($28,800 / 12) = $9,600
Remaining consideration	$19,200 + $6,600 = $25,800
Each of the 12 remaining workshops	$25,800 / (8 + 4) = $2,150
Lifetime check	$9,600 + $25,800 = $35,400

Separate-contract alternative: instead add four distinct workshops for **$7,200**, assumed to reflect appropriate stand-alone pricing. Keep the original eight at **$19,200** in total ($2,400 each); recognise the new four under the separate $7,200 agreement ($1,800 each). Do not blend the two prices.

Mosaic Archive Services: cumulative catch-up

One integrated obligation qualifies for over-time recognition. Assume a suitable cost-based measure and unchanged qualifying incurred cost of **$60,000**. A non-distinct modification changes price and expected cost.

Measure	Before change	After change
Contract price	$280,000	$360,000
Total expected cost	$200,000	$240,000
Progress to date	$60,000 / $200,000 = 30%	$60,000 / $240,000 = 25%
Cumulative revenue	$280,000 x 30% = $84,000	$360,000 x 25% = $90,000
Current catch-up		$90,000 - $84,000 = $6,000

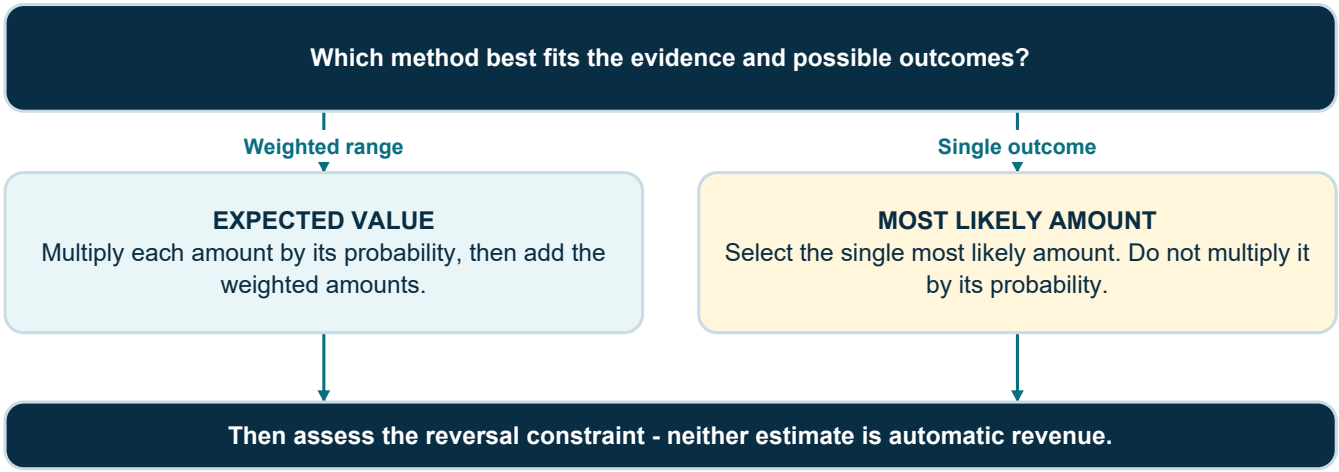
Reasonableness check: progress falls because expected total cost rises, but cumulative revenue rises because the revised price also increases. Review whether the input measure still depicts the transfer; invoicing or cash receipts do not establish progress.

Historical accounting context: October 2022. Independent Accounting Ahead design and examples. AASB 15, May 2022, paragraphs 20-21 and 39-45. All Finch and Mosaic facts and amounts are independently created.

Two methods. One best prediction.

MODULE 3 / PRICE, RETURNS & ALLOCATION / 1 OF 3

For bonuses, penalties, rebates and refunds, select the method that best predicts entitlement. Do not choose whichever gives the larger amount.



Compare one original bonus scenario. A quality-assurance service has these possible bonuses. Estimates in dollars; tax excluded.

Bonus outcome	Probability	Expected-value contribution
0	20%	0 x 20% = 0
6,000	50%	6,000 x 50% = 3,000
12,000	30%	12,000 x 30% = 3,600
Total	100%	6,600

Expected value	Most likely amount
6,600: weighted average of the range. It need not equal any single outcome.	6,000: the outcome with the highest probability (50%). It is not 3,000.

Which method? Expected value may suit many similar contracts; a most-likely amount may suit a bonus with two outcomes. The number of outcomes is a clue, not an automatic selection rule. Use one method consistently for a particular uncertainty.

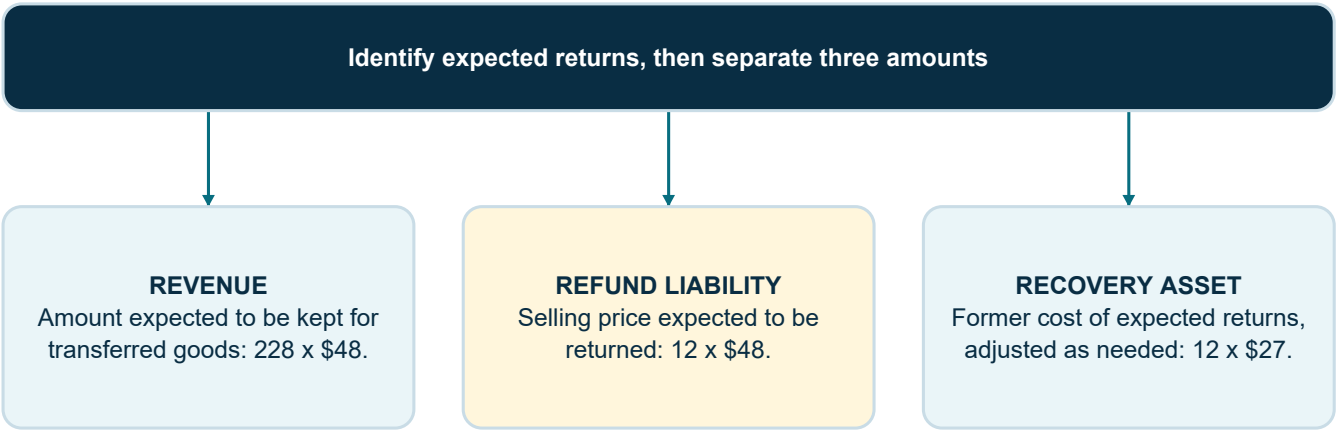
Before recognising revenue: include only the amount supported by the highly-probable no-significant-reversal test. Then allocate it and recognise it as the relevant performance obligation is satisfied. Update the estimate each reporting date.

Historical concept source: AASB 15, May 2022, paragraphs 50-59. Original Accounting Ahead case and design. This revenue assessment is distinct from measuring a provision under IAS 37.

Sales with a right of return

MODULE 3 / PRICE, RETURNS & ALLOCATION / 2 OF 3

Harbour Refill sells 240 containers at $48 each; cost is $27 each. Cash is collected and control transfers. Evidence supports 12 expected returns and the revenue constraint is satisfied. No recovery costs, value loss, GST or income tax in this original example.



Working	Amount
Cash: 240 x $48	11,520
Revenue: 228 x $48	10,944
Refund liability: 12 x $48	576
Recovery asset: 12 x $27	324
Cost of sales: 228 x $27	6,156

Record the sale and expected refunds

Dr Cash	**11,520**
Cr Revenue	**10,944**
Cr Refund liability	**576**

Record inventory and the separate recovery right

Dr Cost of sales	**6,156**
Dr Recovery asset	**324**
Cr Inventory	**6,480**

Check: revenue + refund liability = cash received; cost of sales + recovery asset = inventory derecognised. Reassess both estimates and keep the recovery asset separate from the refund liability.

Historical concept source: AASB 15, May 2022, B20-B27. Original case. Exchanges of defective goods for functioning goods require the warranty assessment.

Allocate the package, not the label

MODULE 3 / PRICE, RETURNS & ALLOCATION / 3 OF 3

Allocation = transaction price x individual stand-alone price / total stand-alone prices. Use inception values. Reconcile allocations to the total price.

Aurora bundle	Stand-alone	Allocation of 9,000
Field kit	6,000	5,400
Distinct setup/training	1,500	1,350
12-month monitoring	2,500	2,250
Total	10,000	9,000

Assume three distinct promises, no significant integration, no specific discount/variable-allocation exception and an immaterial financing effect. The $1,000 discount follows the relative prices. Monitoring earns $187.50 per month if provided evenly.

When a price is not observable

Method	Use with evidence
Market assessment	Estimate what similar customers would pay.
Expected cost plus margin	Add an appropriate margin; distinguish mark-up on cost from margin on sales.
Residual method	Restricted to the highly variable or uncertain pricing conditions; not a general balancing figure.

Other transaction-price adjustments

Non-cash consideration: fair value, or the specified stand-alone-price fallback when fair value cannot reasonably be estimated. Exclude third-party collections such as GST.

Delta pays its customer $6,000 for a distinct advertising service worth $4,200. Of $86,000 contract consideration, $1,800 reduces the price: **$84,200** remains. Account for $4,200 as a purchase. Without a distinct service, the price would be $80,000.

Specific discount and variable-consideration allocations require their own evidence and allocation-objective conditions. Later price changes normally retain the inception allocation basis.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, paragraphs 66-90. All facts and amounts are original.

Customer pays after delivery

MODULE 3 / DEFERRED PAYMENT / 1 OF 2

Birch delivers equipment now for a cash selling price of **$72,000**. The customer pays **$80,899.20** after two years. Assume significant financing, a suitable inception rate of 6%, no credit loss and no interim payment. Inventory/cost-of-sales entries are outside this financing-only example.

1. **Delivery: recognise the output**
   Revenue and receivable start at the cash selling price.
2. **Year 1: financing accrues**
   72,000 x 6% = 4,320 interest income.
3. **Year 2: financing accrues**
   76,320 x 6% = 4,579.20 interest income.
4. **Collect the debt**
   72,000 + 4,320 + 4,579.20 = 80,899.20 cash.

Delivery

Dr Receivable	**72,000**
Cr Revenue	**72,000**

Year 1 end

Dr Receivable	**4,320**
Cr Interest income	**4,320**

Year 2 end

Dr Receivable	**4,579.20**
Cr Interest income	**4,579.20**

Collection

Dr Cash	**80,899.20**
Cr Receivable	**80,899.20**

Check: 72,000 x 1.06 squared = 80,899.20. The $8,899.20 financing return is separate from revenue for the equipment. The customer receives financing; the supplier earns interest.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, paragraphs 60-65. All dataset and journal amounts are original.

Customer pays before delivery

MODULE 3 / ADVANCE PAYMENT / 2 OF 2

A different supplier receives **$32,000** two years before transferring a promised item. Assume the arrangement provides significant financing to the supplier, a suitable inception rate of 4%, and no paragraph 62 exclusion. The item transfers only at the end of year two; its cash selling price then is $34,611.20.

Point	Calculation	Contract liability
Cash received	Deposit	32,000.00
Year 1	32,000 x 4% = 1,280	33,280.00
Year 2	33,280 x 4% = 1,331.20	34,611.20
Delivery	Release entire liability	0.00

Receipt

Dr Cash	**32,000**
Cr Contract liability	**32,000**

Year 1

Dr Interest expense	**1,280**
Cr Contract liability	**1,280**

Year 2

Dr Interest expense	**1,331.20**
Cr Contract liability	**1,331.20**

Delivery

Dr Contract liability	**34,611.20**
Cr Revenue	**34,611.20**

Do not apply mechanically

Timing longer than a year does not alone prove significant financing. Assess the purpose, cash selling price, period and rates. Some payment terms protect performance or allow customers to choose when to use a prepaid service.

The optional one-year-or-less expedient removes the need for a financing adjustment when its conditions are met. For a recognised significant component, use the appropriate inception financing rate; do not simply reset it to each later market rate.

No cost-of-sales or income-tax entries are shown. They remain separate requirements, not zero-cost assumptions.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, paragraphs 60-65. Early- and late-payment examples are separate contracts.

What transfers, and when?

MODULE 3 / CONTROL & PROGRESS / 1 OF 2

Identify each distinct promise first: customer benefit AND separately identifiable promise. Consider integration, customisation and interdependence. A qualifying series has substantially the same items, each meeting the over-time test and using the same progress method.

Does ONE over-time route apply?	Evidence
Benefit received and consumed as performed	Customer receives the service benefit as work happens.
Customer controls the asset being created	Customer controls relevant work in progress.
No alternative use AND right to payment	Both are required; payment compensates performance to date.

Yes: select a faithful progress measure. **No:** identify the point when control transfers. Payment, title, possession, risks/rewards and acceptance are indicators; none is a universal standalone rule.

Orion: updated cost-based estimate

Single customer-controlled installation; price $210,000. Assume cost inputs faithfully depict transfer, no waste or uninstalled-material adjustment, and no other movement.

Measure	First date	Second date
Cumulative cost	45,000	90,000
Estimated total cost	150,000	180,000
Progress	30%	50%
Cumulative revenue	63,000	105,000
Revenue this period	63,000	42,000
Cost this period	45,000	45,000
Margin this period	18,000	(3,000)

Current revenue = revised cumulative revenue - revenue previously recognised. Reassess estimates; exclude inputs that distort performance. If progress cannot be measured reliably but costs are recoverable, apply the limited cost-recovery rule.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. Guide pp.125-127, 135-137. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, paragraphs 22-45, B14-B19.

Performance, billing and cash

MODULE 3 / BALANCES & JOURNALS / 2 OF 2

Balance	What it represents
Receivable	Unconditional right: only time remains before payment is due.
Contract asset	Earned consideration still conditional on something other than time.
Contract liability	Customer paid, or payment due, before promised transfer.
Contract-cost asset	Qualifying costs: not a right to customer consideration.

Separate original journal examples

Event	Debit	Credit
Advance receipt	Cash 18,000	Contract liability 18,000
One-third earned	Contract liability 6,000	Revenue 6,000
Different contract: conditional earned right	Contract asset 14,000	Revenue 14,000
Condition removed	Receivable 14,000	Contract asset 14,000
Collect receivable	Cash 14,000	Receivable 14,000

Present the relevant contract position; do not net unrelated contracts. Separate unconditional receivables and assess credit loss. Billing is not a second revenue event.

Aurora: advance-to-revenue reconciliation

Receive $9,000 upfront. Assume any financing effect is immaterial. Release $5,400 on kit delivery, $1,350 on distinct training, then $187.50 for each evenly provided monitoring month. After three monitoring months: revenue $7,312.50; contract liability $1,687.50.

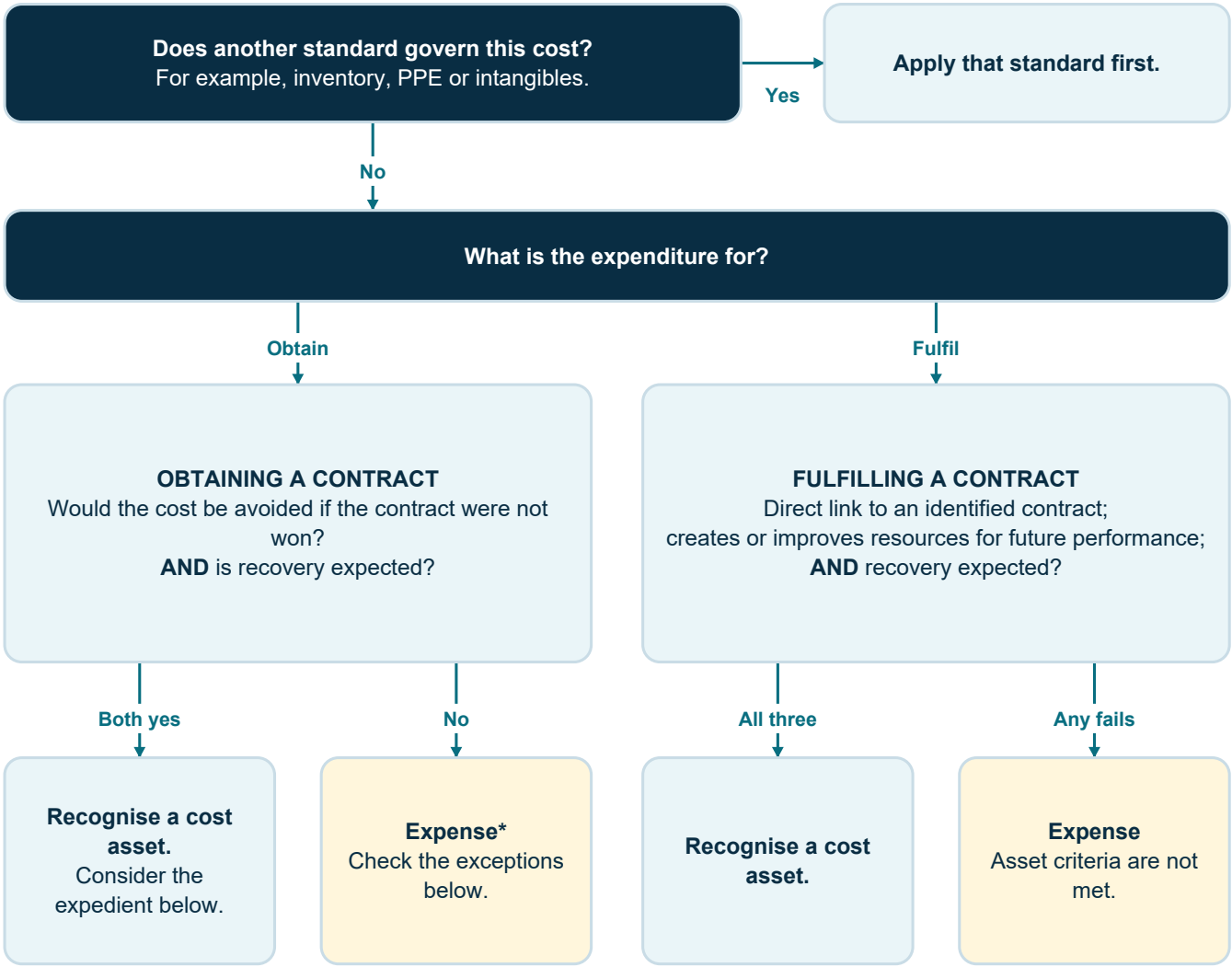
9,000 = 7,312.50 earned + 1,687.50 still owed as service. No refunds are expected. A contract liability is not automatically a refund liability.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. Guide pp.139-141. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, paragraphs 105-118. Amounts in dollars, tax excluded; examples are separate where indicated.

Contract costs: asset or expense?

MODULE 3 / ASSET OR EXPENSE? / 1 OF 2

A contract-cost asset carries qualifying expenditure. A contract asset is a conditional right to consideration; they are different balances.



Optional expedient: qualifying obtaining costs may be expensed if their amortisation period is **one year or less**. Consider the benefit period, including relevant renewals; the expedient is not mandatory and does not apply generally to fulfilment costs.

***Obtaining-cost exception:** expenditure explicitly chargeable to the customer whether the contract is won or lost is assessed separately. General administration, waste, past-performance costs and inseparable past/future costs are not capitalised merely because a contract exists.

After recognition: amortise with the related transfer of goods/services, assess impairment and review permitted reversals.

Historical concept source: AASB 15, May 2022, paragraphs 91-104. Read the applicable paragraph 98 expense rules. Original Accounting Ahead decision design.

Original cost-asset workings

MODULE 3 / COSTS & IMPAIRMENT / 2 OF 2

A success-only $7,200 commission is recoverable over a 24-month service pattern. Qualifying mobilisation costs of $4,800 also support those 24 months; assume no other standard applies and all recognition conditions are met. Tender travel of $1,900 occurs regardless of success.

Item	Monthly amortisation	After six months
Commission	7,200 / 24 = 300	Amortisation 1,800; asset 5,400
Mobilisation	4,800 / 24 = 200	Amortisation 1,200; asset 3,600
Tender travel	Not an amortising asset	Expense 1,900 when incurred

Pay qualifying costs

Dr Cost assets	**12,000**
Cr Cash	**12,000**

Pay tender travel

Dr Tender expense	**1,900**
Cr Cash	**1,900**

Six-month amortisation

Dr Amortisation expense	**3,000**
Cr Cost assets	**3,000**

Separate impairment illustration

Consider an isolated $5,400 commission asset. Remaining expected consideration is $13,000; directly related remaining costs not yet expensed are $9,000. Assume no other asset impairment, no prior loss and these are the correct paragraph 102 measures.

Recovery benchmark = 13,000 - 9,000 = 4,000.
Impairment = 5,400 - 4,000 = **1,400**.

Impairment of the separate commission asset

Dr Impairment expense	**1,400**
Cr Cost asset	**1,400**

The remaining-consideration estimate uses transaction-price principles without the variable-consideration constraint and is adjusted for customer credit risk. Apply relevant other-asset impairment first. A later reversal is capped at the carrying amount that would exist, after amortisation, without the earlier impairment.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, paragraphs 91-104. Examples are original; the impairment illustration is separate from the combined 9,000 cost-asset balance above.

Read the substance of the promise

MODULE 3 / APPLICATIONS / 1 OF 2

Arrangement	Test and accounting direction
Right of return	Revenue excludes expected returns; recognise refund liability and a separate recovery asset. Update estimates.
Assurance warranty	Only assures compliance with agreed specifications: normally IAS 37. A separately purchasable service warranty is a distinct service.
Warranty with extra service	Separate service from assurance when reasonable; otherwise account for both together as one performance obligation. Consider law, term and nature of tasks.
Principal or agent	Does the entity control the specified good/service before transfer? Principal recognises gross revenue; agent its fee/commission. Responsibility, inventory risk and pricing discretion are indicators.
Customer purchase option	A material right is a separate performance obligation. Allocate using its estimated stand-alone price, considering discounts and exercise likelihood. Ordinary market-priced offers do not automatically create one.
Non-refundable upfront fee	Does the fee itself transfer a promised good/service? Administrative setup alone may not. Allocate to the goods/services actually promised, including renewal rights where relevant.

Two important distinctions

A warranty is not always a provision, and a non-refundable fee is not always immediate revenue. Identify what the customer receives before deciding the entry.

An entity can be principal for one specified output and agent for another. A contract label or the fact that cash passes through a bank account does not settle control.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. Guide Part A and IFRS 15 application guidance. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, B20-B43 and B48-B51. Original wording; no source case is reproduced.

Timing and special terms

MODULE 3 / APPLICATIONS / 2 OF 2

Arrangement	Decision prompt
Unused prepaid rights / breakage	Expected entitlement to breakage is recognised in proportion to exercise, subject to the reversal constraint. Otherwise wait until exercise is remote. Amounts remittable to others remain liabilities.
Licence of intellectual property	First assess distinctness. Right to access changing IP can be over time when all conditions apply; a right to use IP as it exists can be point in time. Do not use the label alone.
Sales/usage royalties for IP	Apply the special exception when the royalty relates solely or predominantly to an IP licence: recognise only when the later specified event occurs.
Consignment	Delivery to the dealer may not transfer control. Consider return rights, control until sale/other event and whether payment is unconditional.
Bill-and-hold	In addition to control, require a substantive customer reason, separate identification, readiness for physical transfer and inability of seller to use/direct it elsewhere.
Repurchase terms	Forward/call rights and customer put options differ. Consider repurchase price, expected market value, time value and economic incentive; outcome may be lease, financing or sale with return.
Customer acceptance	If objective specifications can be verified, formal acceptance may be administrative. Otherwise acceptance can affect when control passes. Trials may remain untransferred until acceptance/expiry.

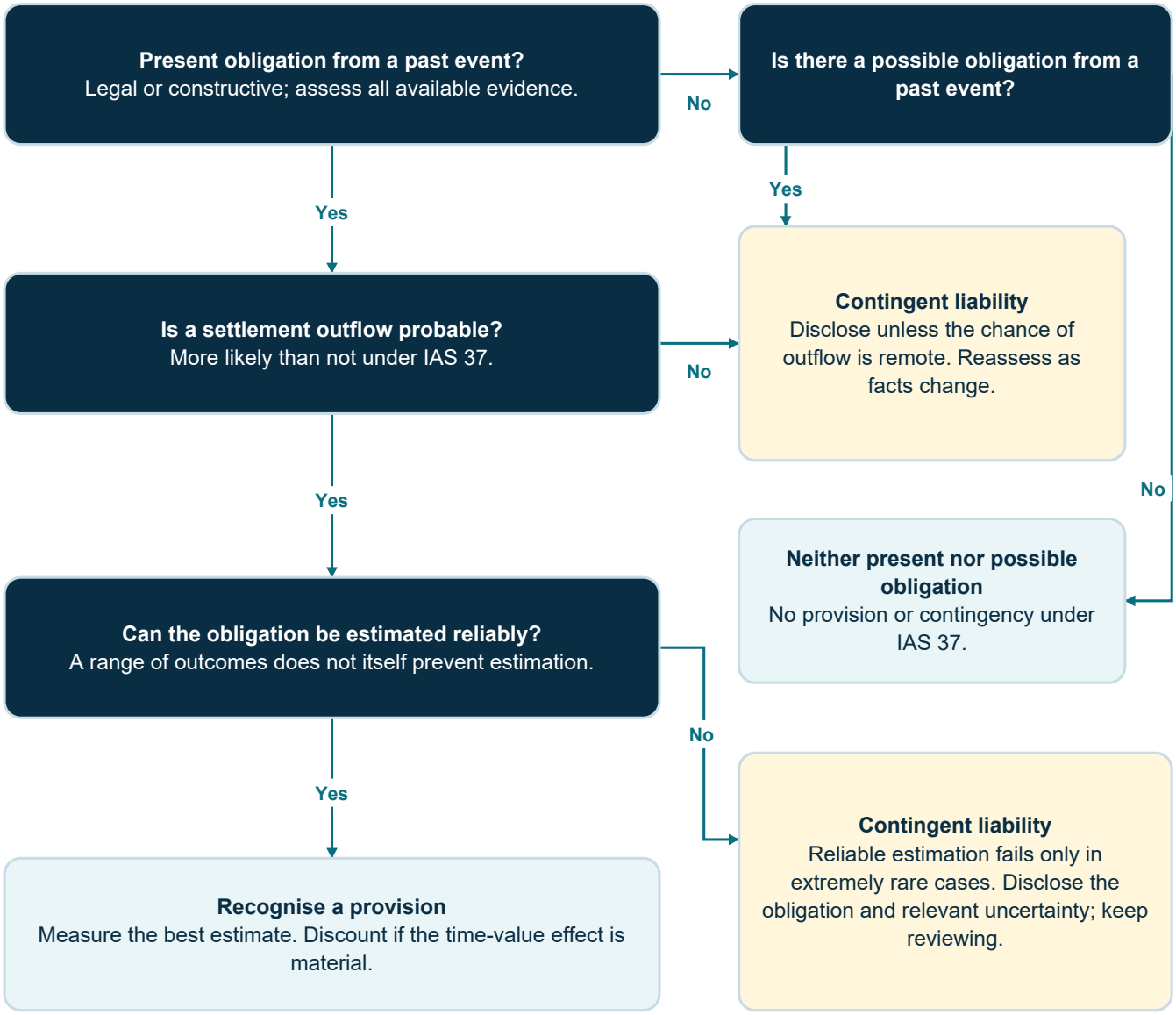
Each special arrangement supplements the five-step model. Use the actual contract terms and relevant appendix paragraphs; do not treat a short checklist as a substitute for the full requirements.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, B44-B47, B52-B86. Use the linked 2022 standard for the full conditions and scope.

Provision, contingency or neither?

MODULE 3 / APPLY IAS 37 AFTER CHECKING SCOPE

A provision has uncertain timing or amount. A budget, intention or future operating loss is not enough. First apply another standard if it specifically covers the item.



Class-level probability: assess a population of similar obligations, such as assurance warranties, as a whole. A low claim probability for one item does not prevent a provision for the class.

Constructive obligation: conduct, policies or a sufficiently specific statement must create a valid expectation in others. A private management intention does not do that.

Historical accounting context: October 2022. Independent Accounting Ahead design and examples. AASB 137, December 2021, paragraphs 1-5, 10, 14-30, 36-47 and 86.

Onerous: the least unavoidable loss

MODULE 3 / CONTRACT EXIT DECISION / 1 OF 2

An onerous contract has unavoidable costs that exceed expected economic benefits. Assess impairment of assets used in fulfilling it first. Do not provide for future operating losses in general.

1. **Identify remaining benefits**
   Exclude sunk amounts and avoid double-counting earlier losses.
2. **Estimate directly related fulfilment costs**
   Include incremental costs and allocated other direct contract costs.
3. **Compare fulfilment loss with exit cost**
   Use the lower unavoidable net cost, given enforceable exit terms.
4. **Recognise and review the present obligation**
   Keep the provision distinct from a related asset impairment.

Larch can finish a service contract for $58,000 and receive $42,000, or cancel for an enforceable $11,000 penalty. Assume no related asset impairment and no other unavoidable amount.

Route	Original calculation
Fulfilment loss	58,000 - 42,000 = 16,000
Exit penalty	11,000
Least net cost	Lower of 16,000 and 11,000 = 11,000

Dr onerous-contract expense 11,000; Cr provision 11,000. Do not accrue the full $58,000 future cost or deduct the $42,000 benefit again from the exit amount.

The directly related cost definition in paragraph 68A applies to this 2022 study-guide basis. Check whether another standard deals with the contract before applying IAS 37.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. Supplementary application: AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, paragraphs 63-69, including 68A. Guide p.143 supplies the general scope context.

Restructuring: intention is insufficient

MODULE 3 / OBLIGATION & COST FILTER / 2 OF 2

For a constructive restructuring obligation, a sufficiently detailed formal plan must create a valid expectation in those affected through implementation or a sufficiently specific announcement. A private board decision alone does not do this.

Plan / cost check	Ask
Detailed formal plan	Does it identify the business, locations, affected employees, expenditure and implementation timing with sufficient specificity?
Expectation created	Has implementation begun or have the main features been announced to those affected? Is timing consistent with a real commitment?
Direct restructuring expenditure	Is it necessarily entailed by the restructuring and not associated with ongoing activities?
Other standards	Employee termination benefits and asset impairments need their own standards and tests.
Business disposal	A disposal obligation requires a binding sale agreement; an intention to sell is insufficient.

Nori: original cost sorting

Assume a valid restructuring obligation exists. Qualifying non-employee exit obligations of $18,000 meet IAS 37. Proposed retraining of continuing staff costs $7,000 and future marketing costs $9,000.

Recognise $18,000 for the qualifying exit obligation. Exclude $16,000 future training/marketing from this provision. Those expenditures support future operations. Employee benefits are not included in the $18,000.

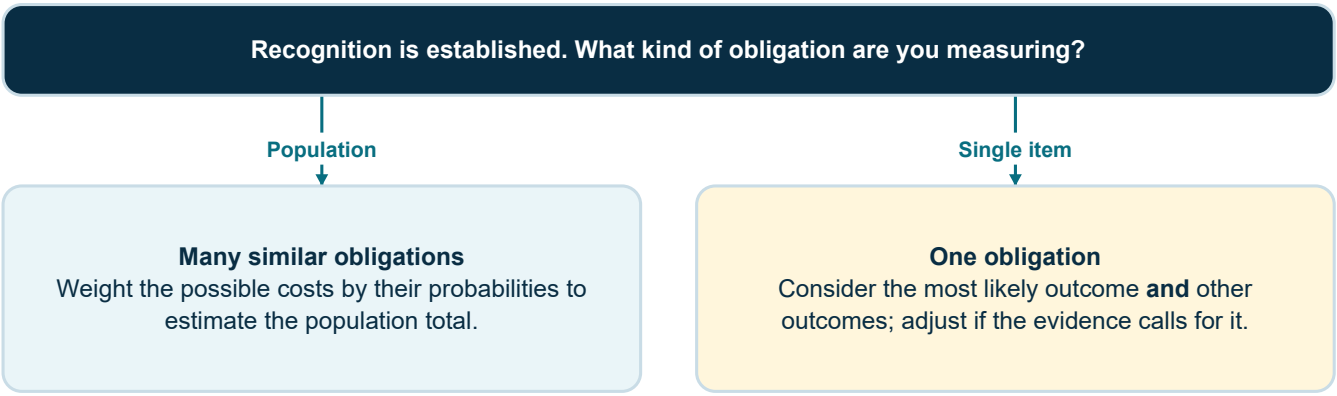
Do not add future operating losses unless they relate to an onerous contract assessed separately. Do not offset expected disposal gains against restructuring expenditure.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. Supplementary application: AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, paragraphs 70-83. Guide p.143 supplies the general scope context. All examples and design are original.

Choose the estimation method

MODULE 3 / MEASUREMENT / 1 OF 3

Measure the best estimate of the expenditure to settle or transfer the present obligation at the reporting date. Evidence, risk, uncertainty and the type of obligation matter. Recognition must already be justified.



Sable: an original warranty population

1,600 products carry assurance-only warranties. Estimate 76% no repair, 18% minor repairs at $35 each and 6% major repairs at $190 each. The probabilities are illustrative assumptions, not recognition thresholds. Discounting is immaterial.

Outcome	Probability	Cost per unit	Weighted cost
None	76%	0	0.00
Minor	18%	35	6.30
Major	6%	190	11.40
Total	100%		17.70

Expected cost = 1,600 x 17.70 = 28,320. No opening provision. Assess the population as a whole, not the likelihood of a claim for just one unit.

Recognise the warranty obligation

Dr Warranty expense	**28,320**
Cr Warranty provision	**28,320**

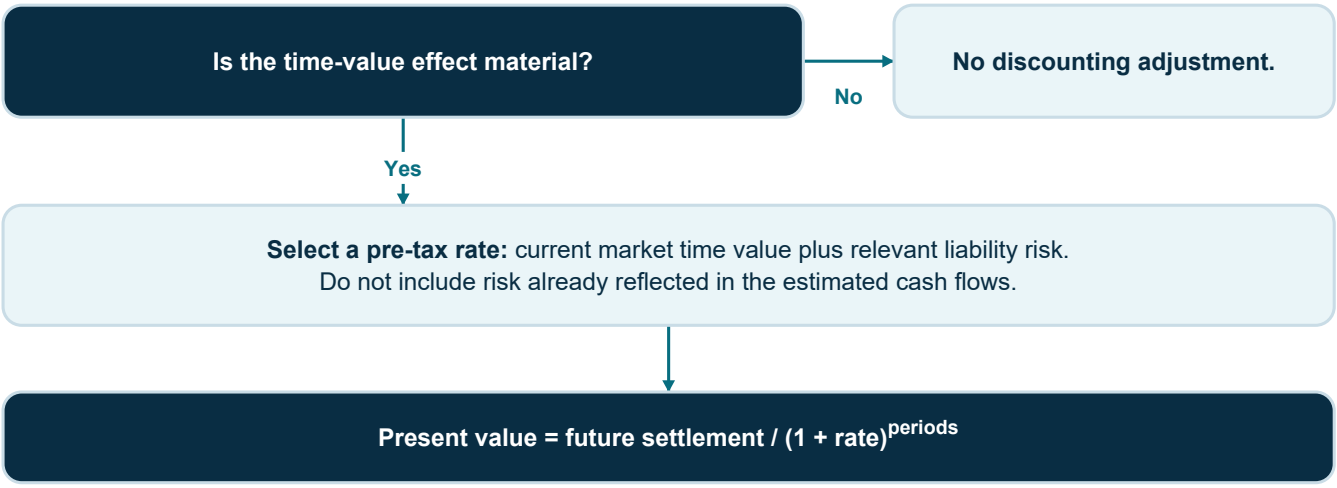
For a continuous range from $18,000 to $30,000 in which every point is equally likely, midpoint = (18,000 + 30,000) / 2 = **24,000**. Do not use the midpoint when the evidence is uneven.

Include risk without deliberate overprovision or double-counting in both cash flows and rate.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, paragraphs 36-44. Original dataset and workings.

Discount, then unwind

MODULE 3 / PRESENT VALUE / 2 OF 3



Rill has already caused damage that creates an obligation. Settlement is reliably estimated at $44,100 after two years. A suitable pre-tax rate is 5%; assume the time value is material and no asset qualifies for capitalisation. No new estimate or rate changes occur.

Present value = 44,100 / 1.05 squared = 40,000.

Point	Movement	Provision
Initial recognition	Present value	40,000
End of year 1	40,000 x 5% = 2,000	42,000
End of year 2	42,000 x 5% = 2,100	44,100
Settlement	Cash paid (44,100)	0

Initial recognition

Dr Restoration expense	40,000
Cr Provision	40,000

End of year 1

Dr Finance cost	2,000
Cr Provision	2,000

End of year 2

Dr Finance cost	2,100
Cr Provision	2,100

Settlement

Dr Provision	44,100
Cr Cash	44,100

A related asset is debited instead when another standard requires it. Reassess the best estimate each reporting date; do not offset expected asset-disposal gains. Estimate changes differ from the passage-of-time unwind.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, paragraphs 45-52 and 59-60. All amounts and assumptions are original.

Separate recoveries; reconcile movement

MODULE 3 / JOURNALS / 3 OF 3

An entity owes $26,000. An insurer will reimburse $19,000 and receipt is virtually certain if the entity settles. Recognise a **separate** reimbursement asset capped at the provision; do not reduce the liability to $7,000.

Recognise obligation

Dr Expense	26,000
Cr Provision	26,000

Recognise qualifying recovery

Dr Reimbursement asset	19,000
Cr Recovery of expense	19,000

Settle obligation

Dr Provision	26,000
Cr Cash	26,000

Collect reimbursement

Dr Cash	19,000
Cr Reimbursement asset	19,000

Net related expense may be shown as $7,000. Before settlement and collection, show the $26,000 provision and $19,000 reimbursement asset separately. If recovery is only probable, do not recognise that asset.

A separate provision movement check

Movement	Amount
Opening provision	21,000
New qualifying additions	13,500
Settlement expenditure used	(8,200)
Unused amounts reversed	(1,700)
Discount unwinding	900
Closing provision	25,500

Use a provision only for the expenditure for which it was recognised. Review and reverse when a probable outflow is no longer expected. Settlement and reversal are different movements: one pays an obligation, the other releases an estimate.

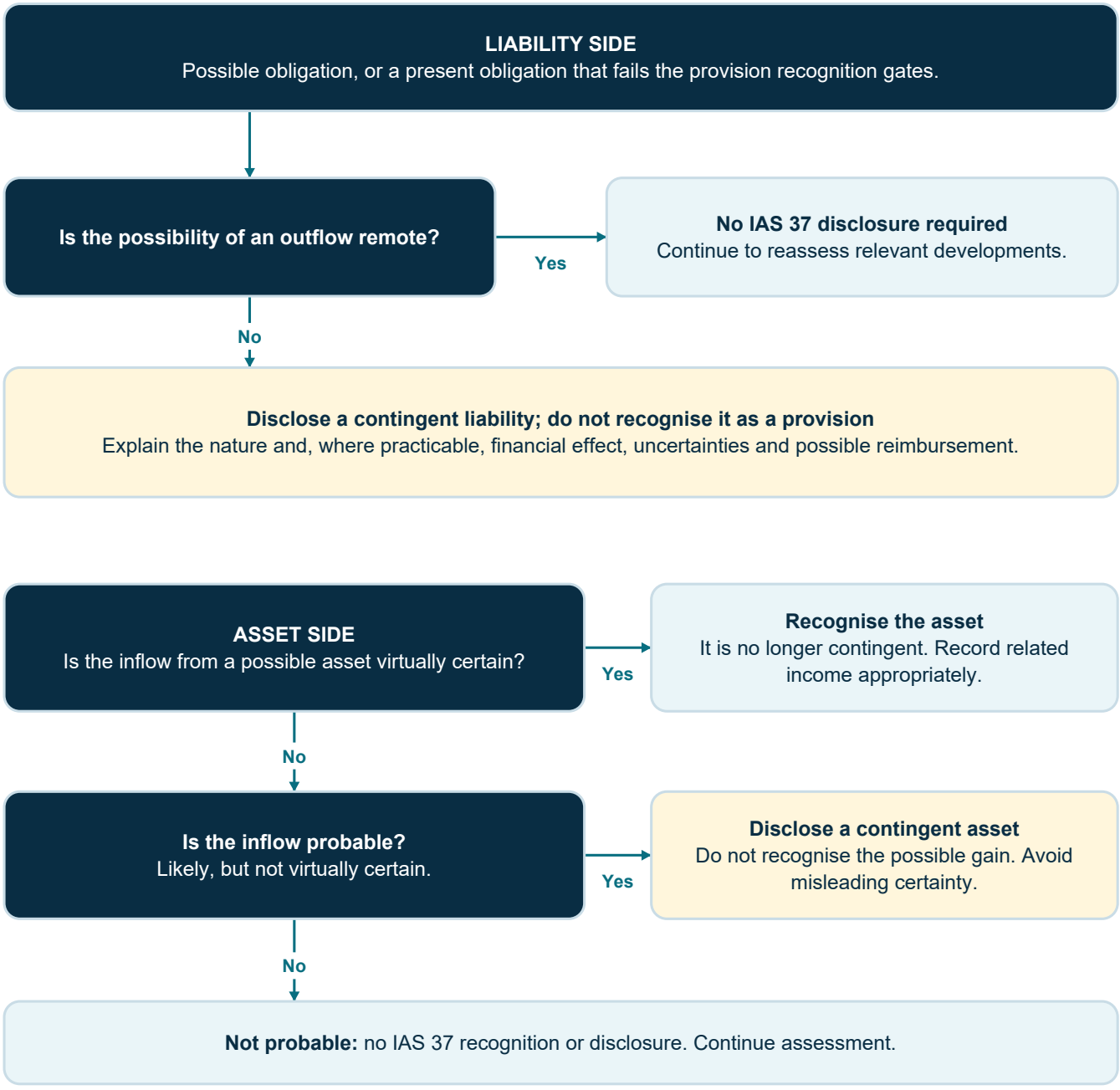
Disclose the required class-by-class reconciliation, nature, timing, uncertainty and expected reimbursement information. Comparative reconciliation figures are not required by IAS 37 paragraph 84.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. Supplementary reimbursement mechanics: AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, paragraphs 53-61 and 84-85. Reconciliation is independent of the reimbursement example.

Two different uncertainty decisions

MODULE 3 / CONTINGENCIES UNDER IAS 37

First establish the past event and whether an obligation or possible asset exists. A present obligation meeting all provision criteria goes to the provision-recognition map.



Keep the distinctions: possible is not the same as remote; virtually certain is not an invented fixed percentage. Assess changes each reporting date. The rare serious-prejudice disclosure exception still requires the general nature and reason for non-disclosure.

Historical accounting context: October 2022. Independent Accounting Ahead design and examples. AASB 137, December 2021, paragraphs 27-35 and 86-92. This card concerns IAS 37; other standards can require different recognition, including in business combinations.

Aurora Field Systems: try it first

MODULE 3 / ORIGINAL PRACTICE / 1 OF 4

All amounts are dollars. Exclude GST and income tax. These facts, amounts and questions are created for Accounting Ahead; they are not a study-guide question.

Contract fact	Amount / timing
Cash received before 1 July	9,000
Kit: distinct, transfers 1 July	Stand-alone selling price 6,000; cost 3,200
Training: distinct, performed 15 July	Stand-alone selling price 1,500; cash cost 600
Monitoring: distinct, evenly provided	12 months from 1 August; stand-alone price 2,500

Assume no significant integration, no special allocation exception, no refunds and an immaterial financing effect. The training does not alter the kit. Ignore monitoring costs for this limited exercise, without assuming those costs are zero in practice.

At 31 October, sold kits also carry assurance-only defect obligations: settlement outflow for the warranty population is probable and its reliable best estimate is $15,600. An unrelated possible litigation obligation has a non-remote outflow. Aurora has an unrelated claim with a probable, but not virtually certain, inflow. Proposed next-year branding costs of $24,000 create no present obligation.

Tasks

1. Allocate the $9,000 price to the three promises.
2. Calculate cumulative revenue and the contract liability at 31 October.
3. Prepare cash, revenue-release and stated kit/training cost entries.
4. Decide what is recognised or disclosed for each reporting-date item.

Your working	Amount / conclusion
Kit / training / monitoring allocation	_____
Revenue / closing contract liability	_____
Provision / contingent items / branding	_____

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. Relevant guidance: AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, 22-45, 73-86, 105-109; AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, 14, 27-35. Answers on following pages.

Allocation and revenue answer

MODULE 3 / ORIGINAL PRACTICE / 2 OF 4

Total stand-alone selling prices = 6,000 + 1,500 + 2,500 = 10,000. Allocate the $9,000 bundle in the same proportions.

Promise	Allocation calculation	Allocated amount
Kit	9,000 x 6,000 / 10,000	5,400
Training	9,000 x 1,500 / 10,000	1,350
Monitoring	9,000 x 2,500 / 10,000	2,250
Total		9,000

Monthly monitoring revenue = 2,250 / 12 = **187.50**. August, September and October are three months: 3 x 187.50 = **562.50**. No monitoring revenue is recognised before the service starts.

At 31 October	Amount
Kit revenue	5,400.00
Training revenue	1,350.00
Monitoring revenue to date	562.50
Total revenue to date	7,312.50
Unprovided monitoring: 9 x 187.50	1,687.50
Revenue + remaining liability	9,000.00

Reasoning check

Receiving cash starts a contract liability. Kit control transfer releases its allocation. Training revenue is recognised as the visit is provided, with its full allocation earned by completion on 15 July. Monitoring releases over the service period.

The remaining $1,687.50 represents a service still owed. It is not a refund estimate. The assurance warranty is a separate IAS 37 obligation; it does not change the stated allocation to distinct contractual services.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, 22-45, 73-86, 105-109 and B28-B33. All computations independently derived.

Journal answer and balance check

MODULE 3 / ORIGINAL PRACTICE / 3 OF 4

Event	Debit	Credit
Receive advance	Cash 9,000	Contract liability 9,000
Deliver kit	Contract liability 5,400	Revenue 5,400
Kit cost	Cost of sales 3,200	Inventory 3,200
Provide training	Contract liability 1,350	Revenue 1,350
Training cost paid	Training expense 600	Cash 600
Three monitoring months	Contract liability 562.50	Revenue 562.50
Assurance obligation	Warranty expense 15,600	Warranty provision 15,600

The monitoring entry aggregates three monthly entries of $187.50. In practice record the period actually earned. The warranty assumption is a portfolio estimate for sold kits and is not derived from only the single bundle.

Three separate liabilities to distinguish

Liability	Meaning in this case
Contract liability 1,687.50	Allocated consideration for monitoring still to be provided.
Warranty provision 15,600	Best estimate for an existing assurance obligation across sold kits.
Contingent liability	Possible litigation obligation: no recognised liability, but disclosure when the outflow is not remote.

Every entry has equal debits and credits. The displayed entries do not constitute a full financial statement. Other costs and transactions are deliberately outside this exercise.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design. AASB 15 (May 2022): standards.aasb.gov.au/aasb-15-may-2022, 105-109; AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, 14 and 36-60. Original journal exercise; no source-guide calculation used.

Recognition and disclosure answer

MODULE 3 / ORIGINAL PRACTICE / 4 OF 4

Item	Decision	Why
Sold-kit assurance obligation	Recognise provision 15,600	Existing obligation, probable settlement outflow and reliable estimate are assumed.
Possible litigation obligation	Disclose contingent liability	No recognised provision on these facts; outflow is not remote.
Aurora's probable claim inflow	Disclose contingent asset	Probable is insufficient for asset recognition; virtual certainty has not been reached.
Future branding 24,000	No provision	The entity can avoid the expenditure through future action; no present obligation is stated.

What a useful note would cover

For the provision: its nature, expected timing, key uncertainties, required movements and any reimbursement information. For a contingent liability: nature and, when practicable, financial effect, uncertainty and reimbursement possibility. For a contingent asset: nature and a practicable financial-effect estimate without implying certain income.

If facts change

A probable, reliably measurable outflow for a present litigation obligation can require a provision. A virtually certain inflow leaves contingent-asset treatment and is recognised under the applicable requirements. Reassess at each reporting date.

Extremely rare seriously prejudicial cases may limit certain disclosures, but the standard still requires the general nature of the dispute and the fact and reason for the omission. This is not a routine confidentiality exemption.

CPA Australia FR study guide, sixth edition (October 2022), Module 3. Original Accounting Ahead examples, calculations and design.
AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, 14-35 and 84-92. Original scenario and reasoning.