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.