Part (a) – Accounting Treatment of entrance and membership fees:

<table>
<thead>
<tr>
<th>Scope</th>
<th>In accordance with paragraph 13 of IAS 18, the actual <strong>substance rather than the legal form</strong> should be considered to identify the separable components contained within one transaction.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In accordance with this, there are 2/3 <strong>separable components</strong>:</td>
</tr>
<tr>
<td></td>
<td>- Membership fees</td>
</tr>
<tr>
<td></td>
<td>- Entrance fees / Access to driving range</td>
</tr>
<tr>
<td></td>
<td>- Discount on facilities</td>
</tr>
<tr>
<td>OR</td>
<td>- Access to the driving range (service)</td>
</tr>
<tr>
<td></td>
<td>- Discount purchases at the restaurant (service)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recognition</th>
<th>IAS 18.20 provides that revenue from rendering services should be recognized in accordance with the <strong>stage of completion</strong> when the outcome of the transaction can be determined reliably.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>With regards to the revenue recognition criteria specified in IAS18, the <strong>outcome of the transaction can be measured reliably</strong> as:</td>
</tr>
<tr>
<td></td>
<td>- <strong>Amount of revenue can be measured reliably</strong>: Amount has been stipulated in the question and payment has already been received.</td>
</tr>
<tr>
<td></td>
<td>- It is <strong>probable that future benefits</strong> will flow to the entity: Amount has already been received.</td>
</tr>
<tr>
<td></td>
<td>- The <strong>stage of completion</strong> of the transaction can be measured reliably as the services are provided consistently over a twelve months period.</td>
</tr>
<tr>
<td></td>
<td>- The <strong>cost incurred</strong> for the transaction can be measured reliably as it assumed that the golf club would maintain detailed records of the costs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Therefore, as the outcome of the transaction can be measured reliably:</th>
<th>The revenue relating to the <strong>entrance fee should be recognized upon receipt as revenue</strong>.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candidates may argue that the following</td>
<td></td>
</tr>
<tr>
<td>- The entrance fee is <strong>non refundable</strong>, hence revenue should be recognized on receipt</td>
<td></td>
</tr>
<tr>
<td>- There are <strong>no additional benefits realizable</strong> over time; hence revenue should be recognized on receipt.</td>
<td></td>
</tr>
<tr>
<td>- That it <strong>relates to the administration requirements required to load a new member onto the system</strong>, for example – providing him with an access disk, loading him onto the computer of the restaurant to qualify for the discount and allocating the deposit made to his account</td>
<td></td>
</tr>
</tbody>
</table>

**OR**

The revenue relating to **entrance fees should be deferred**. |

- This membership **benefit of discount** on food & beverage purchases and access to the driving range will be **incurred over the period of membership** and the entrance fees should therefore be deferred over the expected total membership period.
The revenue related to the **discount purchases should be recognized as the sales** are made because this revenue is for goods sold.  
Para 17 of the Appendix to IAS18 specifically refers to entrance and membership fees and states that where members are entitled to purchase goods at prices lower than those charged to non-members then revenue should be recognized on a basis that reflects the timing, nature and value of benefits provided.

| The balance of any **membership fees**, after deferring the amount related to discount purchases, provides access to the driving range.  
Since this is provided on a time basis, the **balance of any membership fees should be recognised on a time basis** from the date of the member joining until the end of the financial year. |
|---|
| If Excel **cannot reliably estimate the amount of discount purchases / membership lapse rate**, then the **entire membership fee should be deferred** and revenue should only be recognised to the extent of costs incurred.  
**Deferred membership fees should be recognised on expiry** of the membership period.  
**Measurement**  
Revenue should be measured at the **fair value of consideration received or receivable** (i.e. the cash value in this case, being R750 per member and R1 200 per member for entrance fees and membership fees respectively).  
**The entrance fees recognized on receipt** is measured at the **cash value of R750**.  
**OR**  
Where entrance fees are **deferred**, the **history of discount purchases may be used to estimate the amount of revenue related to such sales**.  
There is uncertainty regarding:  
- The extent to which members will avail themselves of this benefit beyond 2009;  
- The membership lapse rate as Excel has only been trading for a year  
- The discount benefit associated with the entrance fee  
Excel Leisure should be able to estimate what proportion of members will be renewing their memberships in early 2010 as membership fees will be due. For example, if 20% of members do not renew membership in 2010 then entrance fees from these members can be recognized in full in 2009 at the fair value if the consideration received.  
**OR**  
For example, in 2009, members’ discount on sales represented R480k. This represents 12.8% of entrance fees in 2009 and 4.9% of total membership and entrance fee revenue.  
**Mark to be awarded for valid comments on VAT implications.**  
In **conclusion**, the recognition and measurement of entrance fees and membership fees adopted by Excel is not appropriate.  

<table>
<thead>
<tr>
<th>Available</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>13</td>
</tr>
</tbody>
</table>
### Part (b) - Appropriateness of accounting recognition and measurement:

<table>
<thead>
<tr>
<th>The <strong>customer loyalty programme</strong> does not constitute a marketing expense. The cost of services redeemed under the customer loyalty programme <strong>should not be recorded at nil</strong> in the accounting records of the company. (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope</strong></td>
</tr>
<tr>
<td>The accounting for the customer loyalty programme should be done using the interpretation on <strong>revenue recognition in terms of IFRIC 13</strong> – Customer Loyalty Programme because the company has granted to its customers, <strong>customer loyalty award credits as part of a sales transaction</strong>. (1)</td>
</tr>
<tr>
<td><strong>Recognition</strong></td>
</tr>
<tr>
<td>The reduction in the cost of food and beverages or redemption for bucket of golf balls by non-members using their loyalty cards represents a <strong>multiple element arrangement</strong>, the components being the goods sold and a voucher for future goods or services. (1)</td>
</tr>
<tr>
<td>OR</td>
</tr>
<tr>
<td>The unit awarded to the customer must be accounted for as a <strong>separately identifiable component</strong> of the sales transaction in which the unit was originally granted.</td>
</tr>
<tr>
<td>This would entail the company having to <strong>allocate</strong> the consideration received between <strong>revenue</strong> (a profit or loss item) and <strong>deferred revenue</strong> (a statement of financial position item) <strong>upon the initial sale</strong>. (1)</td>
</tr>
<tr>
<td><strong>Deferred revenue</strong> would be <strong>released</strong> to the income statement when the <strong>unit lapses, is redeemed</strong> and the <strong>company has fulfilled its obligations</strong> to supply the goods or services under the customer loyalty programme. (1)</td>
</tr>
<tr>
<td><strong>Measurement</strong></td>
</tr>
<tr>
<td>The <strong>consideration allocated to the unit</strong> would need to be measured by reference to their <strong>fair value</strong>. (1)</td>
</tr>
<tr>
<td>Fair value is considered to be the amount at which the award credit could be <strong>sold for separately</strong>. (1) (mark for explanation)</td>
</tr>
<tr>
<td>If the <strong>fair value cannot be determined</strong>, then it must be <strong>estimated</strong>. (1) (mark for explanation)</td>
</tr>
<tr>
<td><strong>Fair value estimation:</strong></td>
</tr>
<tr>
<td>The estimation of <strong>fair value of a unit</strong> must include consideration of the <strong>proportion of units expected to be redeemed</strong>. (1)</td>
</tr>
<tr>
<td>The <strong>value released to revenue</strong> upon a unit’s redemption also needs to be <strong>based on the number of units expected to be redeemed</strong>. (1)</td>
</tr>
<tr>
<td><strong>Application</strong></td>
</tr>
<tr>
<td>Management will need to <strong>determine the fair value of the units granted</strong> by reference to the goods and services received in return for the units redeemed by the customers. (1)</td>
</tr>
<tr>
<td>Management would need to continually <strong>assess the number of units</strong> it expects to be</td>
</tr>
</tbody>
</table>

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The customer loyalty programme does not constitute a marketing expense. The cost of services redeemed under the customer loyalty programme should not be recorded at nil in the accounting records of the company.

**Scope**

The accounting for the customer loyalty programme should be done using the interpretation on **revenue recognition in terms of IFRIC 13** – Customer Loyalty Programme because the company has granted to its customers, **customer loyalty award credits as part of a sales transaction**.

**Recognition**

The reduction in the cost of food and beverages or redemption for bucket of golf balls by non-members using their loyalty cards represents a **multiple element arrangement**, the components being the goods sold and a voucher for future goods or services.

**OR**

The unit awarded to the customer must be accounted for as a **separately identifiable component** of the sales transaction in which the unit was originally granted.

This would entail the company having to **allocate** the consideration received between **revenue** (a profit or loss item) and **deferred revenue** (a statement of financial position item) **upon the initial sale**.

**Deferred revenue** would be **released** to the income statement when the **unit lapses, is redeemed** and the **company has fulfilled its obligations** to supply the goods or services under the customer loyalty programme.

**Measurement**

The **consideration allocated to the unit** would need to be measured by reference to their **fair value**.

Fair value is considered to be the amount at which the award credit could be **sold for separately**.

If the **fair value cannot be determined**, then it must be **estimated**.

**Fair value estimation:**

The estimation of **fair value of a unit** must include consideration of the **proportion of units expected to be redeemed**.

The **value released to revenue** upon a unit’s redemption also needs to be **based on the number of units expected to be redeemed**.

**Application**

Management will need to **determine the fair value of the units granted** by reference to the goods and services received in return for the units redeemed by the customers.

Management would need to continually **assess the number of units** it expects to be
**deemed** and make corrections to the cumulative number of points expected to be redeemed which will then directly impact on the value of the deferred revenue to be released to the profit or loss statement (income statement)

Management will need to estimate how many customers are willing to redeem their units for the respective goods and services offered under the customer loyalty programme, so as to appropriate weight the fair value of one unit across the two redemption alternatives.

Management will need to collect data relating to the customer behaviour on the timing and nature of the redemption of units under the customer loyalty programme, so as to develop a more meaningful estimation of the fair value of the unit to be calculated as well as the fair value of the consideration allocated to deferred revenue.

<table>
<thead>
<tr>
<th>Available</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>10</td>
</tr>
</tbody>
</table>

Presentation:
- Arrangement and layout 1
- Clarity of expression and language usage 1

Maximum 2
Part (c) – 1 mark for identifying & further 1 mark for adequately describing issue

Advantages
- Membership fees received upfront therefore Excel able to earn interest income on cash received 2
- Minimum annual revenue known upfront providing more certainty for Excel for budgeting purposes etc 2
- Members pay directly into Excel’s bank account enabling Excel to avoid paying cash deposit fees 2
- Entrance fees represent a new income stream for Excel 2
- Excel may earn more revenue from membership fees than they would by selling usage per bucket of balls (similar to gym memberships) 2
- Annuity revenue stream may be well received by investing public upon AltX listing 2
- Excel able to build a membership data base creating opportunities to communicate & sell additional services 2
- It may encourage increased loyalty from members for example using restaurant facilities more often due to discounts 2
- It could reduce seasonality of revenue associated with differing weather conditions 2
- Less risk of theft/fraud as lower amounts of cash handled at driving range 2

Disadvantages
- Excel may under-estimate driving range usage by members and under-charge through membership fees 2
- Risk of non-members claiming discounts at restaurant and gaining access to the driving range for no charge 2
- Increased administration of membership database, following up on payments, recording discounts at restaurant etc 2
- Discounts offered to members using restaurant may result in a decline in revenue unless members use facilities more often 2
- Driving range maintenance costs may increase due to “over-use” of facilities 2
- Over-crowding of range may damage reputation & ruin experience for customers 2
- Members may over time perceive membership fees to be too expensive, and not renew membership or use competitors facilities 2
- Receiving cash upfront may lead to poor cash management and lead to failure to adequately budget and cover expenses for the full year 2
- New members will not join half way through the year as fees fixed irrespective of when members join – these patrons may join another driving range or use other facilities 2
- In following year, members may use range for free in January & then not renew membership 2

Part (d)

Driving range
Revenue per TB 23 250.0

Variable costs
COS Beverages & snacks -4 200.0
Replacement of driving range balls -800.0 1
Bank deposit fees [(7,200+6,300) x 1.5%] -202.5 1

Contribution margin 18 047.5
Contribution margin % 77.6% 1

Fixed costs
Salaries & wages -3 240.0
Maintenance [Alternate argument – portion of cost could be variable] -2 160.0 1
Other expenses -480.0
Depreciation -440.0
Electricity [20% x 820] -164.0
Water [780 x 90%] -702.0
- 1 mark for correct calculations re water & electricity
- 1 mark for correct classification as fixed expenses

Net profit 10 861.5

Restaurant
Revenue per TB 43 200.0
Less “Marketing expenses” [Alternative: Include as a variable expense] -430.0 1
42 770.0

Variable costs
COS -19 640.0 1
Linen replacement & cleaning -1 080.0 1
Water -78.0
Electricity -656.0
- 1 mark for correct calculations re water & electricity
- 1 mark for correct classification as variable expenses
- 1 mark for debating whether some portion of these costs could be fixed

Bank deposit fees \[42,770 \times 60\% \times 1.5\% \] + \[42,770 \times 40\% \times 2\% \] -727.1 2
If candidates used 43,200 then answer would have been 734.4 = 1 mark

Contribution margin 20 588.90
Contribution margin % 48.1% 1

Fixed costs
Salaries & wages -5,950.0
Depreciation -1,480.0
Other expenses -720.0

Net profit 12,438.9

Principle marks for both divisions
- Correct classification of salaries, depreciation, other expenses as fixed costs 1
- Candidates calculated contribution margin per division with no obvious error 1
- Candidates calculated net profit per division with no obvious error 1

Maximum 16

Part (e)

<table>
<thead>
<tr>
<th></th>
<th>Driving range</th>
<th>Restaurant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings [Cost 2000/18000 also acceptable]</td>
<td>1,840</td>
<td>16,560</td>
</tr>
<tr>
<td>Equipment [Cost 4000/8960 also acceptable]</td>
<td>2,400</td>
<td>4,480</td>
</tr>
</tbody>
</table>

Ensure consistency re treatment – cost or NBV for both

Land \[Fair value of R50m also acceptable\] 30,000 0 1

Debate re allocation of some portion of cost/FV of land to restaurant 1

Inventories | 300 | 1 500 | 1 |

Total assets 34,540 22,540

Return on total assets \[7,111/34,540\]/[12,438.9/22,540] 20.6% 55.2% 1

Ensure that candidates used net profits calculated in (d)

Debate re allocation of cash & cash equivalents to divisions 1

Maximum 6

Part (f) – 1 mark for identifying issue & 1 mark for discussing/describing

Arguments for
- Divisions would incur these costs if they operated separately, therefore NB for benchmarking 2
- Head office costs need to be covered for company to be profitable 2
- Divisions will scrutinize HO costs carefully providing a NB check on these overheads 2

Maximum 4

Arguments against
- Allocation basis likely to be non-scientific & arbitrary 2
- HO overheads not controllable by divisions therefore allocation unfair with regards to performance evaluation 2
- HO costs after allocation of bank charges, water & electricity = mainly salaries. Limited value in allocating this cost between divisions 2
- Allocation is potentially time consuming & costly to perform properly 2

Maximum 4

Total marks for part (f) in total 6
<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Arrangement &amp; layout</td>
<td>1</td>
</tr>
<tr>
<td>Language usage &amp; clarity of expression</td>
<td>1</td>
</tr>
</tbody>
</table>