√0.5 In this case the terms of the sale leave Kappa occupying the property, with responsibility for its maintenance. Also, it is highly likely that the option to repurchase will be exercised either on 31 March 2011 or 2012 as the option exercise price is less than fair value. √0.5 Therefore no revenue should be recognised and the 'sales proceeds' would be treated as a borrowing.

√0.5 This means that the asset would remain an asset of Kappa and be subject to depreciation of \$40,000 (\$1,200,000 × 1/30). The closing carrying value of the asset would be \$1,960,000 √0.5 (\$2,000,000 – \$40,000).

The longer Kappa takes to repurchase the property the higher the repurchase price. It can be seen that this repurchase is increasing at 10% per annum compound – e.g. √0.5 \$3,300,000/\$3,000,000 = 1.10. Therefore the borrowing is treated as a financial liability measured at amortised cost with an effective annual interest rate of 10%.

The finance cost reported in the income statement for the year ended 31 March 2010 √0.5 would be \$300,000 (\$3,000,000 × 10%) and the closing borrowings of \$3,300,000 (\$3,000,000 + \$300,000) would be shown as a liability.

(c) The relevant financial reporting standard dealing with this issue is IAS 18 Revenue. The √0.5 contract will be started, performed and completed in 2011 and as such all of the revenue will be earned in 2011 and should be recognised in the financial statements for the year ending 31 December 2011.

√0.5 The receipt of what may be regarded as a deposit or down-payment amounting to \$50,000 in November 2010 cannot be regarded as revenue during 2010 as there has been no performance under the contract during 2010, nor has anything been done to recognise that this could be regarded as earned revenue during 2010. Consequently, this receipt creates a √0.5 liability amounting to \$50,000 as at 31 December 2010. Whilst these monies are not refundable as such, they represent part of the payment in exchange for meeting the obligation to perform the contract and as such this deferred income should be shown as a √0.5 current liability in the statement of financial position at the year ended 31 December 2010. In effect, Weller has not done anything to merit recognition of this sum as revenue during 2010. √0.5

There is an argument in favour of full recognition of both the asset and liability at √0.5 31 December 2010. This would comprise a contract asset for \$150,000 plus cash of \$50,000, amounting to \$200,000, and matched by a liability for \$200,000 for the obligation to perform the agreed work during 2011.

(d) If we now consider the Framework definition of assets and liabilities an alternative answer is possible.

√0.5 An asset is a resource controlled by an entity as a result of past events. It could therefore be argued that the signing of the contract in November is a relevant past event that creates access to future economic benefits and, as such, at the reporting date of 31 December 2010 √1 an asset should be recognised of \$200,000 less the \$50,000 that has already been received. √0.5

A liability is a present obligation to transfer economics benefits arising from past events. As √0.5 such again it can be argued that the signing of the contract itself creates a liability, as there √0.5 will be an obligation to fulfil the terms of the contract.

It should be noted that under this alternative approach no revenue is recognised in the √1 2010 period as, after all, no performance has been achieved.