

ADM3340A Fall 2012

Student Name: **SUGGESTED SOLUTION**

Quiz #1 (marked out of 25)

Student ID: _____

Question 1 (13 marks)

During 2012 Canadiens Corp. sold 200,000 tickets for hockey games for \$60 each under a new sales promotion program. Each ticket contains one coupon. Any person who presents 2 coupons can receive a ticket to a Montreal Allouettes football game for only \$2. Canadiens Corp. pays \$8.00 per football ticket and at the beginning of the year purchased 80,000 tickets (any tickets not used in 2012 can be used in 2013). The company estimates that 60% of the coupons will be redeemed even though only 50,000 coupons had been processed during 2012.

- (a) Prepare any necessary 2012 journal entries related to the promotion program, using the *expense approach*.
- (b) Briefly, but clearly, explain how the accounting treatment will change under the *revenue approach*.

Solution

(a) The number of coupons expected to be processed is $200,000 \times 60\% = 120,000$. In 2012, 50,000 coupons were processed, so 70,000 more are expected to be processed and accordingly 35,000 tickets to be purchased. The additional net cost per ticket is \$6 and therefore the liability for unredeemed coupons at December 31, 2012 should be $35,000 \times \$6 = \$210,000$.

Promotion expense = $\frac{120,000}{2} \times \$6 = \$360,000$

Promotion Expense	360,000	
Estimated Liability for Promotion.....		360,000
Cash	12,000,000	
Sales		12,000,000
Inventory of Tickets (80,000 x \$8)	640,000	
Cash		640,000
Estimated Liability for Promotion.....	150,000	
Cash (50,000/2 x \$2)	50,000	
Inventory of Tickets (50,000/2 x \$8).....		200,000

(b) Under the *revenue approach*, this promotion would be considered a multiple deliverables arrangement. Canadiens Corp. is selling two separate products (the hockey tickets and the football tickets), with the selling price of the hockey tickets inflated to encourage the ticket purchasers to also purchase football tickets. Therefore some of the revenue from the sale of each hockey ticket should be deferred and allocated to the delivery of the football tickets. An estimated amount should be deferred to 2012 when the remaining coupons will be redeemed.

		Limited-Life Intangible Assets.	Indefinite-Life Intangible Assets (excluding Goodwill).	Goodwill [the values below pertain to the Reporting Unit/Cash-Generating-Unit, including its Goodwill].
Has management observed events & circumstances indicating that there might be an impairment?		Yes	Yes	No
Carrying amount	A	\$5,000,000	\$5,000,000	\$16,000,000
Fair value	B(i)	\$5,100,000	\$4,700,000	\$18,000,000
Costs to sell	B(ii)	\$50,000	\$50,000	\$250,000
Undiscounted future cash flows from use and eventual sale	C	\$4,500,000	\$4,500,000	\$14,500,000
Present value of the future cash flows from use and eventual sale	D	\$3,500,000	\$3,500,000	\$12,800,000

Question 2 (12 marks): using the above data complete the following grid, applying ASPE:

	Under ASPE		
	Limited-Life Intangible Assets.	Indefinite-Life Intangible Assets (excluding Goodwill).	Goodwill
Should the asset be tested for impairment?	<p>Yes, because ASPE 3063.09 states 'A long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable' and management in this case has observed such events or circumstances.</p> <p>[Comment: ASPE Section 3063 Impairment of Long-Lived Assets deals with the impairment of various long-lived assets including (i) PP&E and (i) Limited-Life Intangible Assets. ASPE Section 3064 Goodwill and Intangible Assets deals with the impairment of (i) Goodwill and (i) Indefinite-Life Intangible Assets.]</p>	<p>Yes, because ASPE 3064.65 states 'An intangible asset that is not subject to amortization shall be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may exceed its fair value' and management in this case has observed such events or circumstances.</p> <p>[Comment: ASPE Section 3064 Goodwill and Intangible Assets deals with the impairment of (i) Goodwill and (i) Indefinite-Life Intangible Assets. ASPE Section 3063 Impairment of Long-Lived Assets deals with the impairment of various long-lived assets including (i) PP&E and (i) Limited-Life Intangible Assets.]</p>	<p>No: while ASPE Section 3064.72 states: 'Goodwill shall be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit.', in this case management has not observed any such events or circumstances and hence there is no requirement to test the asset for impairment.</p> <p>[Comment: ASPE Section 3064 Goodwill and Intangible Assets deals with the impairment of (i) Goodwill and (i) Indefinite-Life Intangible Assets. ASPE Section 3063 Impairment of Long-Lived Assets deals with the impairment of various long-lived assets including (i) PP&E and (i) Limited-Life Intangible Assets.]</p>
Is the asset impaired? Show supporting calculations.	<p>Yes: the impairment test indicates the asset is impaired. However, although the carrying amount of \$5,000,000 exceeds \$4,500,000 (the sum of the undiscounted cash flows expected to result from its use and eventual disposition) the carrying amount of \$5,000,000 does not exceed the asset's fair value of \$5,100,000 and no impairment loss is recognized.</p> <p>[Comment - see Note 11: Section 3063's approach to impairment testing and recognition is used for both PP&E and Limited-Life Intangible Assets but not for Indefinite-Life Intangibles or Goodwill.]</p>	<p>Yes: the impairment test indicates the asset is impaired because its carrying amount of \$5,000,000</p>	<p>No: since management has not observed events and circumstances indicating there</p>

		<p>carrying amount of \$5,000,000 exceeds \$4,700,000, its fair value (see note 13 below).</p> <p>[Comment: Section 3064's approach to impairment testing differs from Section 3063's. Section 3064's testing approach seeks only to determine if the indefinite-life intangible asset's carrying amount exceeds its fair value: the data provided for (i) the \$4,500,000 undiscounted future cash flows from use and eventual sale, (ii) the \$3,500,000 present value of the future cash flows from use and eventual sale, and (iii) the \$50,000 costs to sell are not used under this approach. Section 3063's approach is not used for Indefinite-Life Intangibles or Goodwill and is used only for PP&E and Limited-Life Intangible Assets. Both Sections 3063 & 3064 employ what is called the 'cost recovery method'.]</p>	<p>circumstances indicating there might be an impairment, no impairment testing is required and the asset is therefore regarded as not impaired.</p> <p>[Comment: Section 3064's approach to impairment testing differs from Section 3063's. Section 3064's testing approach seeks only to determine if the reporting unit's (including goodwill) carrying amount exceeds its fair value: the data provided for (i) the \$14,500,000 undiscounted future cash flows from use and eventual sale, (ii) the \$12,800,000 present value of the future cash flows from use and eventual sale, and (iii) the \$250,000 costs to sell are not used under this approach. Section 3063's approach is not used for Indefinite-Life Intangibles or Goodwill and is used only for PP&E and Limited-Life Intangible Assets.]</p>
<p>If the asset is deemed to be impaired, what is the amount of the impairment loss to be recognized in the income statement? Show supporting calculations.</p>	<p>Not applicable: no impairment identified (see above).</p>	<p>An impairment loss of \$300,000 is recognized: this is the amount by which the \$5,000,000 carrying amount exceeds the \$4,700,000 fair value.</p> <p>[Comment: under ASPE, for (i) PP&E, (ii) Limited-Life Intangible Assets, and (iii) Indefinited-Life Intangible Assets and Goodwill, an impairment loss is measured as the excess of the carrying amount over the fair value.]</p>	<p>Not applicable: no impairment identified (see above).</p> <p>[Comment: under ASPE, for (i) PP&E, (ii) Limited-Life Intangible Assets, and (iii) Indefinited-Life Intangible Assets and Goodwill, an impairment loss is measured as the excess of the carrying amount over the fair value.]</p>
<p>Can an impairment loss reversal be recognized in a subsequent period, and if so, explain fully if there a limit to the reversal?</p>	<p>No.</p> <p>ASPE Section 3063.06: An impairment loss shall not be reversed if the fair value subsequently increases.</p>	<p>No.</p> <p>ASPE Section 3063.06: An impairment loss shall not be reversed if the fair value subsequently increases.</p>	<p>No.</p> <p>ASPE Section 3063.06: An impairment loss shall not be reversed if the fair value subsequently increases.</p>