AI Risk	Procedures
Support Services Revenue (AC 5010-46) Risk of overstatement of revenue and understatement of deferred revenue because: - revenue is *15%* higher than PY. - customers invoiced in advance of the services being provided and some pay when invoiced. - there is no deferred revenue on SFP (AC 2600-40) - transaction 3626 is £148k invoice for ‘8 training sessions - Dec 2022 to Nov 2023’ so this revenue should be deferred until the services are provided (this entry was posted outside of working hours which indicates risk). - the [redacted] - transactions [redacted]	**Go to AC 2600-40 to identify what deferred revenue balance is at year end**. Challenge Jay as to why there is no deferred revenue when some services relate to 2023 e.g. trans 3626. Obtain list of contracts for support services and inspect customer correspondence/completion statements to ensure work for recognised revenue is complete. [redacted]

IFRS 15 Revenue

<table>
<tr><th colspan="3">5 Step Model</th></tr>
<tr><td>Identify customer contract</td><td colspan="2">Terms approved by customer and Weston</td></tr>
<tr><td>Identify the distinct Performance Obligations (PO)</td><td colspan="2">Services to be provided (and goods to be delivered)
Distinct PO: [redacted]</td></tr>
<tr><td>Determine Price</td><td colspan="2">Future payments: discounted to PV
Non-cash consideration: FV
Variable consideration (e.g. refunds): most likely outcome/expected value
[redacted]</td></tr>
<tr><td>Allocate Price to PO</td><td colspan="2">Services (and goods) provided together:
Allocate based on standalone prices
Overall discount applied evenly to each PO</td></tr>
<tr><td>Recognise revenue when PO satisfied/control transferred</td><td>PO satisfied over time:
[redacted]
- [redacted]</td><td>PO satisfied at a point in time:
[redacted]
- [redacted]</td></tr>
</table>

[redacted]

[redacted]

[redacted]

[redacted]

Appropriateness of accounting policies

SAAS Revenue: Cloud customers

Revenue is recognised evenly over the 12-month period of the contract i.e. revenue is recognised over time.

Step 1: The terms of the contract are for Weston (W) to provide access to the platform and software for 12 months.

Step 2: W has one distinct PO: to provide access for 12 months.

Step 3: The transaction price is the full 12-month fee because no refund is given in the event of cancellation.

Step 5: The PO is satisfied over time because the customer simultaneously receives and consumes the benefit (access to the software). Therefore, it is correct for W to recognise revenue evenly over the 12-month contract period.

The customer pays before the PO is satisfied (service provided), so it is correct to initially record payment as a contract liability (deferred revenue) until the service is provided (and PO satisfied).

Recognising termination revenue upon cancellation is correct if the customer cannot reactive their access during the remaining contract period because W will have no further PO under the contract. However, if the customer can reactivate their access during the remaining 12-month period they have paid for, W would have a PO to continue providing the service and revenue should be recognised over the remaining period.

SAAS Revenue: On-premises customers

Revenue is recognised when the customer is provided with the licence key i.e. revenue is recognised at a point in time. For 24m contracts, revenue for the second 12-month period is recognised on the first day of the second 12-month period.

Step 1: The terms of the contract are for W to grant a licence for customers to download, install and use W's software on their own computer network. Customers also receive updates from W during the contract period.

[redacted]

[redacted]

[redacted]

Example of potential FR treatment scenario

<u>Customer purchases a 12m license and support services (set-up and training) in a single transaction</u>

Under IFRS15, revenue should be recognised when each distinct PO is satisfied.

The contract includes three distinct POs: the license, setting up the software and training customer staff. These are distinct because they will be separately identified in the contract, can be purchased separately and have a distinct function.

It could be argued that the [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Journals if required.

Under IAS21, [redacted]

[redacted]

Weaknesses in the handover notes prepared by the audit assistant (Elliot Evans)

Risk identification

<u>Cash received in advance</u>

Elliot's conclusion that the payments in advance are not an audit risk because he only found two is incorrect because:

- there could be other transactions where cash has been received in advance of invoicing, causing an understatement in receivables and deferred revenue (contract liabilities).

[redacted]

<u>Deferred revenue</u>

[redacted]

Procedures

<u>Cash received in advance</u>

[redacted]

<u>Deferred revenue</u>

[redacted]