

Applying Ind AS

Guide to the new
revenue recognition
standard



Building a better
working world

Preface

Dear reader,

We are pleased to share with you our new publication ***Applying Ind AS - Guide to the new revenue recognition standard***.

On 28 March 2018, the Ministry of Corporate Affairs (MCA) notified the new revenue recognition standard, viz., Ind AS 115 *Revenue from Contracts with Customers*. Ind AS 115 is applicable for the financial years beginning on or after 1 April 2018 for all Ind AS companies. It replaces virtually all the existing revenue recognition requirements under Ind AS, including Ind AS 11 *Construction Contracts*, Ind AS 18 *Revenue* and the *Guidance Note on Accounting for Real Estate Transactions*.

Ind AS 115 contains fundamental changes to the revenue recognition approach vis-a-vis the current Ind AS. It focuses on revenue recognition from the customer's point of view, i.e., whether the customer has received a stand-alone benefit from the goods or services transferred. It prescribes a five-step model to help entities decide the timing and amount of revenue recognition from contracts with customers. Ind AS 115 prescribes the 'control approach' for revenue recognition as against the 'risk and reward' model under Ind AS 18. The standard also contains extensive disclosure requirements.

Changes brought by Ind AS 115 are likely to have a significant effect on many entities' revenue, which is typically an entity's most important financial performance indicator. It is the indicator most closely scrutinised by investors and analysts. No generic statement can be made as to whether this impact will be positive or negative or regarding the magnitude of such impact. Rather, the impact will vary depending on the business model, revenue transactions of the entity, practices followed under the current Ind AS and the applicable Ind AS 115 guidance.

Efforts required in Ind AS 115 implementation should not be underestimated. Entities should have started Ind AS 115 implementation much earlier. Entities, which have not already started preparing for Ind AS 115, should do so immediately so that they can report their June 2018 quarter numbers as per Ind AS 115 on a timely basis.

We have prepared this publication to help you evaluate and implement the new revenue recognition standard. This publication summarises the five-step model and other practical aspects of Ind AS 115 in an easy-to-understand manner. This publication also contains key industry impacts for 10 major industries.

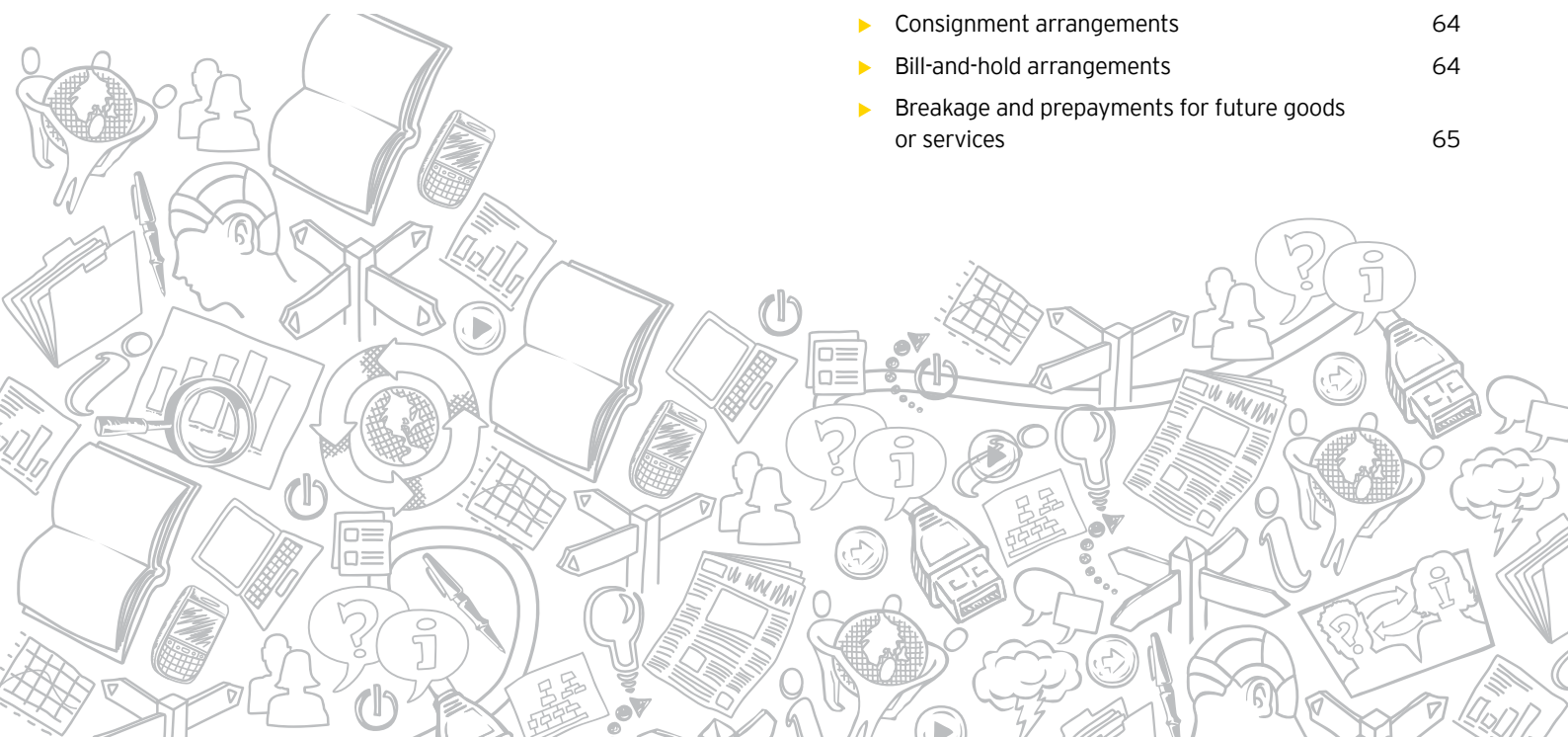
We hope you find this publication useful. We look forward to your feedback.

Happy reading,

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Executive summary

Revenue is one of the most important financial statement measures for both preparers and users of financial statements. It is used to measure and assess aspects of an entity's past financial performance, future prospects and financial health. Revenue recognition is therefore one of the accounting topics most scrutinised by investors and regulators.

IFRS 15 *Revenue from Contracts with Customers* provides a new comprehensive framework for recognising revenue. It is applicable for annual periods beginning 1 January 2018. The Ministry of Corporate Affairs (MCA) notified Ind AS 115 for application by Ind AS companies from financial years beginning on or after 1 April 2018. Ind AS 115 is largely aligned with the latest version of IFRS 15. There are a few differences between the two, which are given in Appendix 2 to this publication. Appendix 3 to this publication contains key differences between Ind AS 115 and the current Ind AS 18/Ind AS 11 and related Guidance Notes.

Key requirements of Ind AS 115

Ind AS 115 requires an entity to focus on the customer's point of view to decide revenue recognition. It prescribes a five-step model for revenue recognition.

Step 1: Identify the contract(s) with a customer - Contracts may be written, oral or implied by customary business practices, but revenue can be recognized only on those contracts that are enforceable and have commercial substance.

Step 2: Identify the separate performance obligations in the contract - Performance obligations are explicitly or implicitly promised goods or services in a contract as well those arising from customary business practices. An entity needs to identify performance obligations which are distinct.

Step 3: Determine the transaction price - The transaction price is the amount of consideration to which an entity expects

to be entitled. It includes variable consideration, impact of significant financing components, fair value of non-cash consideration and impact of consideration payable to the customer.

Step 4: Allocate the transaction price to the separate performance obligations - The standard requires allocation of the total contract price to the various performance obligations based on their relative stand-alone selling prices, with limited exceptions.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation - Revenue recognition can occur either over time or at a point in time. Revenue recognition for a performance obligation occurs over time only if it meets one of the three prescribed criteria. Ind AS 115 focuses on the 'control approach' to determine revenue recognition as against the 'risk and rewards' model under Ind AS 18.

Ind AS 115 prescribes extensive qualitative and quantitative disclosures. Two of these disclosures, viz., disclosures for remaining performance obligations and disaggregation of revenue, may be particularly challenging. These disclosures will also bring additional transparency in the financial statements.

Ind AS 115 requires retrospective application. It permits either 'full retrospective' adoption in which the standard is applied to all of the periods presented or a 'modified retrospective' adoption. Entities that elect the 'modified retrospective' method will not restate financial information for the comparative period. However, this does not imply that entities can ignore past revenue contracts. Rather, they will be required to calculate cumulative catch-up impact on all open contracts and make adjustment to the retained earnings as at 1 April 2018. In addition, they must disclose the amount by which each financial statement line is impacted due to Ind AS 115 application in the current period. This will require entities to maintain two accounting records in the year of adoption - one as per Ind AS 115 and other as per Ind AS 11/ 18 to comply with the disclosure requirement.



Key impact

Ind AS 115 impact is likely to be all pervasive and encompass most entities. The impact is not only about the timing and amount of revenue recognition, but also the significant and expanded presentation and disclosure requirements. Ind AS 115 establishes new requirements and rules in many aspects of revenue recognition, and in other cases provides more explicit guidance that was not absolutely clear under earlier standards. These areas relate to the following:

1. Change of model from risk and rewards to control
2. Multiple element contracts
3. New concept of performance obligations including whether customer receives a stand-alone benefit
4. Revenue recognition at a point in time v overtime
5. Principal v agent
6. Licences
7. Warranties
8. Sales return
9. Variable consideration in the contract
10. Consideration paid to customer
11. Non-cash consideration
12. Separation of financing component
13. Contracts that are not enforceable, including where customer is unable to pay
14. Volume discounts and other material rights provided to customers
15. Bill and hold arrangements
16. Sale and Repurchase agreements
17. Contract costs; and
18. Contract modification

Industry impact snapshot

A separate section in this publication describes key impacts that Ind AS 115 is likely to have on 10 major industry sectors. Given below is a brief snapshot of material impact.

Retail and consumer products (RCP)

1. Customer options for additional goods or services at discount are likely to be treated as a separate performance obligation and will require revenue deferral.





- ## Engineering and constructions (E&C)

- ## Mining and metal (M&M)

- ## Life Sciences/ Pharmaceuticals

1. Thorough analysis of collaboration agreements to develop a drug is necessary to conclude whether the whole agreement or certain elements of it are within the scope of Ind AS 115.
2. A life sciences entity will have to evaluate whether license of IP is a right to access (revenue over time) or right to use (revenue at a time) the IP and related implications will follow accordingly. The unit of account and timing of revenue recognition may also change.

Real estate developers

1. A thorough analysis of joint development agreements with land owners is required to conclude whether the whole agreement or certain elements of it are within the scope of Ind AS 115.
2. In Ind AS 115 scenario, there will be no separate guidance note for real estate companies. Rather, companies will evaluate their revenue recognition using Ind AS 115. To qualify for POCM recognition under Ind AS 115, real estate companies should ensure that they have a contractual right to collect payment from the customer for work completed to date and that the contractual right is not in contradiction with any law of the land. Given that real estate laws in India is a state subject, such evaluation will be done state by state, and can get extremely complicated.

Software and cloud entities

1. A software entity will have to evaluate whether software license is a distinct performance obligation. A software entity will also have to evaluate whether the license is a right to access (revenue over time) or right to use (revenue at a time) and related implications will follow accordingly. The unit of account and timing of revenue recognition may also change.
2. For arrangements involving upfront fee, entities will evaluate whether it relates to any separate performance obligation. In many cases, this may not be the case requiring entities to recognise revenue over the customer contract/ relationship period (after considering contract renewal).

Telecommunication

1. Application of Ind AS 115 to individual contract is likely to be cumbersome for telecom entities. This may require them to the use portfolio approach either for specific elements or more broadly.
2. Free/ discounted goods and services, e.g., free handset, will be treated as a separate performance obligation having consequential revenue recognition impact.

Automotive

1. Arrangements involving the repurchase option and residual value guarantee will have to be analysed carefully to determine whether they are financial instruments, leases or within the scope of Ind AS 115.
2. Arrangements involving nomination/upfront fee payment should be analysed carefully to determine whether they are recognised upfront as a reduction of revenue or reduction of revenue over time.
3. Tooling arrangements between the original equipment manufacturers and the automotive part suppliers will have to be carefully analysed to identify distinct performance obligations and determine the revenue recognition over time or at a point in time.

Power and utility (P&U)

1. P&U entities may need to combine a series of goods and services, e.g., units of energy, which are substantially the same and have the same pattern of transfer, into a single performance obligation.
2. Significant judgment will be required in allocating transaction price to performance obligation in contracts with fixed and stepped-price features.

Entertainment and media

1. Detailed analysis of licensing agreements will be necessary to conclude whether one or multiple performance obligations exist and whether revenue should be recognised at a point in time or over time.
2. Terms of the non-monetary exchange contracts with other entities in the same line of business will have to be evaluated to determine whether they are in the scope of Ind AS 115 and resultant revenue recognition implications.

Key business impact

With the new standard being applicable to virtually all Ind AS entities, it is not surprising that changes to the accounting for revenue could affect multiple business functions, as illustrated below.



For example, consumer product companies may consider Ind AS 115 requirements while negotiating their sales arrangement with distributors, to provide them control at the point of shipment, if revenue is to be recognised on shipment. Consider a real estate company has to change its accounting from POCM to completed contract. This may create significant challenges in performance reporting and taxes payable for real estate companies. A real estate company may wish to consider new requirements while negotiating its contract with customers so that it meets the criteria for revenue recognition over time.

It is important that entities apply a comprehensive methodology for implementing Ind AS 115. Doing so will help entities adopt the standard in an organised and efficient manner that reduces risk and the possibility of costly errors and delays.

Entities that do not expect significant changes in the measurement and timing of revenue recognition will, at the very least, need to validate their assumption. Entities will need to identify necessary changes to policies, procedures, internal controls and systems to ensure that revenue transactions are appropriately evaluated through the lens of the new model. In addition, entities will need to plan for the significantly expanded disclosure requirements. Given the limited time to implement Ind AS 115, this is a herculean task and entities should start implementing the standard immediately. The implementation efforts should also include pre-adoption disclosure required under Ind AS 8 and discussed later in the publication.



1.

Scope

Ind AS 115 is applicable to all entities and all contracts with customers to provide goods or services in the ordinary course of business. However, the following contracts are specifically excluded from its scope:

- ▶ Lease contracts within the scope of Ind AS 17 *Leases*
- ▶ Insurance contracts within the scope of Ind AS 104 *Insurance Contracts*
- ▶ Financial instruments and other contractual rights or obligations within the scope of Ind AS 109 *Financial Instruments*, Ind AS 110 *Consolidated Financial Statements*, Ind AS 111 *Joint Arrangements*, Ind AS 27 *Separate Financial Statements* and Ind AS 28 *Investments in Associates and Joint Ventures*
- ▶ Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers, e.g., two oil refining companies have oil refineries in different parts of the country and they supply oil products to each other to meet the customer requirements in the region and save transportation cost.

Definition of a customer

In simple terms, a customer is the party that purchases an entity's goods or services. In many transactions, a customer is easily identifiable. However, in transactions involving multiple parties, it may be less clear which counterparties are customers of the entity. For some arrangements, multiple parties could all be considered customers of the entity. However, for other arrangements, only some of the parties involved are considered as customers. The identification of the performance obligations in a contract (refer Chapter 3) can also have a significant effect on the determination of which party is the entity's customer. The example below shows how the party considered to be the customer may differ, depending on the specific facts and circumstances.

Example 1 – Identification of a customer

An entity provides internet-based advertising services to companies. As part of those services, the entity purchases banner-space on various websites from a selection of publishers. For certain contracts, the entity provides a sophisticated service of matching the ad placement with the pre-identified criteria of the advertising party (i.e., the customer). In addition, the entity pre-purchases the banner-space from the publishers before it finds advertisers for that space. Assume that the entity appropriately concludes it is acting as the principal in these contracts. Accordingly, the entity identifies that its customer is the advertiser to whom it is providing services.

In other contracts, the entity simply matches advertisers with the publishers in its portfolio, but the entity does not provide any sophisticated ad-targeting services or purchase the advertising space. Assume that the entity appropriately concludes it is acting as the agent in these contracts. Accordingly, the entity identifies that its customer is the publisher to whom it is providing services.

Collaborative arrangements

In certain transactions, a counterparty may not always be a 'customer' of the entity. Instead, the counterparty may be a collaborator or partner that shares in the risks and benefits of developing a product to be marketed. An example of a collaborative agreement is an arrangement wherein one party is responsible to perform research and development, while another party is responsible for marketing/commercialisation activities. Such agreements are common in the pharmaceutical, bio-technology, oil and gas, real estate and health care industries.

However, depending on the facts and circumstances, these arrangements may also contain a vendor-customer relationship component. Such contracts can still be within the scope of Ind AS 115, at least partially, if the collaborator or partner meets the definition of a customer for some, or all, aspects of the arrangement.

Ind AS 115 does not provide additional application guidance for determining whether certain revenue-generating collaborative arrangements are within the scope of Ind AS 115. Therefore, the parties to such arrangements need to consider all of the facts and circumstances to determine whether a vendor-customer relationship exists that is subject to the standard.

Sale or transfer of non-financial assets

The recognition and measurement requirements in Ind AS 115 apply when recognising and measuring any gains or losses on disposal of non-financial assets (e.g., assets within the scope of Ind AS 16 *Property, Plant and Equipment* or Ind AS 38 *Intangible Assets*), even when that disposal is not in the ordinary course of business. Thus, an entity is required to look to the control model in Ind AS 115 to determine when to derecognise the non-financial assets (i.e., when control is transferred). The entity will estimate consideration to measure the gain or loss following the requirements in Ind AS 115 for determining the transaction price.

Interaction with other standards

Revenue from transactions or events that do not arise from a contract with a customer is not in the scope of Ind AS 115 and should continue to be recognised in accordance with the other standards. Such transactions or events include but are not limited to dividends, non-exchange transactions such as donations or contributions and change in the fair value of biological assets and the inventory of broker-traders.

Entities may also enter into transactions that are partially within the scope of Ind AS 115 and partially within the scope of other standards, say, revenue transactions with an embedded lease or an embedded derivative. If the other Ind AS specifies how to separate and/or initially measure one or more parts of the contract, then an entity will first apply the separation and/or measurement requirements in those Ind AS. If the other Ind AS does not specify how to separate and/or initially measure one or more parts of the contract, then the entity will apply Ind AS 115 to separate and/or initially measure the part (or parts) of the contract.







2.

Identify the contract with the customer

To apply the revenue recognition model, an entity must first identify the contract, or contracts, to provide goods and services to customers. Ind AS 115 defines 'contract' as an agreement between two or more parties that creates enforceable rights and obligations¹. Such contracts may be written, oral or implied by an entity's customary business practices. For example, if an entity has an established practice of starting performance based on oral agreements with its customers, it may determine that such oral agreements meet the definition of a contract. To illustrate, booking a hotel room by calling the hotel reception and making the payment over the phone is as an oral contract which may be legally enforceable as per the legal framework in many jurisdictions.

To determine whether the contract creates an enforceable right or not, entities will need to look at the relevant legal framework to determine whether the contract is enforceable because factors that determine enforceability may differ among jurisdictions. This evaluation may be particularly challenging when contracts are entered into across multiple jurisdictions where the rights of the parties are not enforced across those jurisdictions in a similar way.

Enforceability of contracts may differ among jurisdictions. To determine whether a contract creates an enforceable right or not, entities will need to look at the relevant legal framework.

Attributes of a contract

To be within the scope of Ind AS 115, a contract with a customer should satisfy all of the following criteria:

- ▶ The parties have approved the contract and are committed to perform their respective obligations.
- ▶ Each party's rights regarding the goods or services to be transferred can be identified.
- ▶ Payment terms can be identified.
- ▶ The contract has commercial substance.
- ▶ It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

These criteria are assessed at the inception of the arrangement. If the criteria are met at that time, an entity does not reassess these criteria unless there is an indication of a significant change in facts and circumstances. For example, if the customer's ability to pay significantly deteriorates, an entity would have to reassess whether it is probable that the entity will collect the consideration to which it is entitled in exchange for transferring the remaining goods and services under the contract. The updated assessment is prospective in nature and would not change the conclusions associated with the goods and services already transferred. That is, an entity would not reverse any receivables, revenue or contract assets already recognised under the contract. Rather, receivables/contract assets will be subject to impairment requirements of Ind AS 109.

1. Please refer Appendix 4 to this publication for definition of various terms given in Ind AS 115

Example 1: Identifying a contract – free trial period

Company A is engaged in the business of providing online movie streaming services. To encourage all potential customers to sign up for the paid subscription, it offers two months of free subscription. At the time of subscribing to the free service, the customer approves the online terms and conditions for free services. At the end of the free subscription period, a customer can either sign up for the paid services of 12 months or the free subscription will stop.

Evaluation

Revenue cannot be recognised during the trial period. A contract does not exist until the customer commits to purchase the service. The rights and obligations of the contract only include the future 12 months of paid subscription services, not the free trial period. Thus, Company A should not record revenue related to the two-month free trial period. The transaction price should be recognised as revenue on a prospective basis as the 12 months of services are transferred.

Commercial substance

Apparently, this criterion is included to prevent entities from artificially inflating revenue through transactions such as 'round tripping'. Ind AS 115 does not apply if an arrangement does not have a commercial substance and therefore revenue cannot be recognised. Determining whether a contract has commercial substance may require significant judgement. In all situations, the entity must be able to demonstrate that a substantive business purpose exists, considering the nature and structure of its transactions.

Collectability

Under Ind AS 115, collectability refers to the customer's ability and intent to pay the amount of consideration to which the entity will be entitled in exchange for the goods and services that will be transferred to the customer. An entity should assess a customer's ability to pay based on the customer's financial capacity and its intention to pay considering all relevant facts and circumstances, including past experiences with that customer or customer class. The amount of consideration that is assessed for collectability is the transaction price for goods or services determined under Ind AS 115 rather than the stated contract price for those items. For example, the transaction price for the items expected to be transferred may be less than the stated contract price for those items if an entity concludes that it has offered, or is willing to accept, a price concession on products sold to a customer. Similarly, if a customer were to fail to perform as promised and the entity would stop transferring

additional goods or services to the customer in response, the entity will not consider the likelihood of payment for those goods or services that will not be transferred in its collectability assessment.

Consider a scenario where an entity has determined it is probable that a customer will pay amounts owed under a contract. However, it has a historical experience that it will not collect consideration from some of the customers within a portfolio of contracts – say, 3% of the customers may default. In this case, it would be appropriate for the entity to record revenue for the contract in full. It will separately evaluate the corresponding contract asset or receivable for impairment. That is, the entity would not conclude that the arrangement contains an implicit price concession and would not reduce revenue for the uncollectable amounts.

Distinguishing between a price concession and customer credit risk may require judgment. Factors to consider include an entity's customary business practices, published policies and specific statements regarding the amount of consideration the entity will accept.

Example 2 – Collectability of the consideration

An entity licences a patent to a customer in exchange for a usage-based royalty. At contract inception, the entity evaluates and concludes that the arrangement meets all criteria, including the collectability criterion, for identification of contract. In the first year of the contract, the customer provides quarterly reports of usage and pays within the agreed-upon period.

During the second year of the contract, the customer continues to use the patent; however, its financial condition and credit worthiness deteriorates. The customer's current access to credit and available cash on hand are limited. The customer pays the first quarter's royalties but makes only nominal payments for the usage of the patent in quarters 2-4.

During the third year, the customer continues to use the entity's patent. However, the customer has lost access to credit and its major customers. This results in significant deterioration of the customer's ability to pay. The entity therefore concludes that it is unlikely that the customer will be able to make any further royalty payments for ongoing usage of the patent.

Evaluation

Year 1 - The entity accounts for the contract with the customer in accordance with the principles of Ind AS 115 applicable to usage-based royalty, i.e., recognise revenue when the customer's subsequent usage occurs.

Year 2 - Considering decline in the customer's credit worthiness, the entity reassess the arrangement and concludes that collection of the consideration is still probable. Hence, the contract continues to exist. Accordingly, the entity continues to recognise revenue when the customer usage occurs. However, it will recognise impairment of the receivables in accordance with guidance given for expected credit loss in Ind AS 109 *Financial Instruments*.

Year 3 - Due to significant change in facts and circumstances, the entity reassesses the contract criteria and determines that they are not met because it is no longer probable that the entity will collect the consideration. Accordingly, the entity does not recognise any further revenue. The entity also recognises any impairment of the existing receivable in accordance with Ind AS 109.



Contract enforceability and termination clauses

An entity needs to determine the term of the contract to apply various aspects of the revenue model (e.g., identifying performance obligations and determining the transaction price). The contract term is the period in which parties to the contract have present enforceable rights and obligations.

The period in which enforceable rights and obligations exist may be affected by termination provisions in the contract. For example, an entity may apply the standard to only a portion of a contract with a stated term, when the contract allows either party to terminate it at any time without penalty. Significant judgement will be required to determine the effect of termination provisions on the contract term.

Scenario	Contract evaluation
Parties have entered into a three-year contract. However, each party can terminate the contract at the end of any month for any reason without compensating the other party.	The contract should be treated as a month-to-month contract despite the three-year stated term.
Only the customer can terminate the contract early (i.e., at the month end) and is not required to compensate the service provider for early termination.	A month-to-month contract with a customer option to renew each month. Whether the renewal option is a material right needs to be assessed.
The customer must pay a termination penalty if the customer terminates the contract during the first 12 months.	The contract term would be one year if the termination penalty is substantive. Determination of whether a termination penalty is substantive and requires judgement and consideration of the facts and circumstances.

If each party has the unilateral right to terminate a 'wholly unperformed' contract without compensating the counterparty, a contract does not exist and Ind AS 115 would not apply.

There is no bright line for making this assessment. Rather, entities will need to apply judgement to determine whether contracts are entered into at or near the same time and while applying this criterion.

Portfolio approach practical expedient

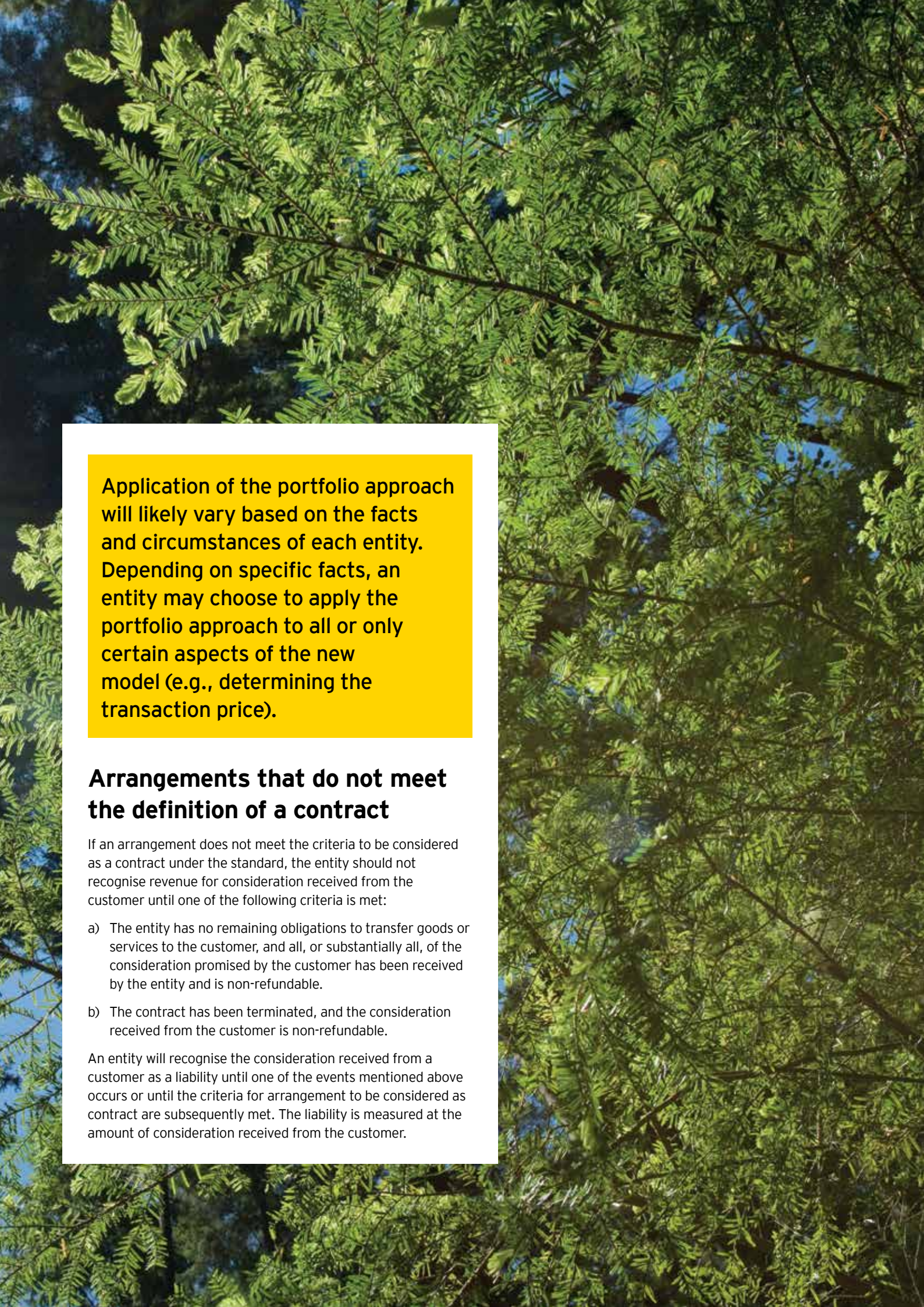
The five-step model is generally applied to individual contracts with customers. However, the standard also recognises that there may be situations in which it may be more practical for an entity to combine contracts for revenue recognition purposes rather than attempt to account for each contract separately – e.g., a telecom company having millions of contracts may need to combine contracts.

To use the portfolio approach, an entity must reasonably expect that the accounting result will not be materially different from the result of applying the standard to the individual contracts. However, the standard does not require an entity to quantitatively evaluate every possible outcome when concluding that the portfolio approach is not materially different. Instead, an entity should be able to take a reasonable approach to determine the portfolios that would be representative of its types of customers and that an entity should use judgement in selecting the size and composition of those portfolios.

Combining contracts

In most cases, entities will apply the model to individual contracts with a customer. However, entities need to combine contracts entered into at, or near, the same time with the same customer (or related parties of the customer) if they meet one or more of the criteria below:

- ▶ The contracts are negotiated together with a single commercial objective
- ▶ The consideration to be paid for one contract is dependent on the price or performance of another contract
- ▶ The goods or services promised in the contracts are a single performance obligation



Application of the portfolio approach will likely vary based on the facts and circumstances of each entity. Depending on specific facts, an entity may choose to apply the portfolio approach to all or only certain aspects of the new model (e.g., determining the transaction price).

Arrangements that do not meet the definition of a contract

If an arrangement does not meet the criteria to be considered as a contract under the standard, the entity should not recognise revenue for consideration received from the customer until one of the following criteria is met:

- a) The entity has no remaining obligations to transfer goods or services to the customer, and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable.
- b) The contract has been terminated, and the consideration received from the customer is non-refundable.

An entity will recognise the consideration received from a customer as a liability until one of the events mentioned above occurs or until the criteria for arrangement to be considered as contract are subsequently met. The liability is measured at the amount of consideration received from the customer.



3.

Identify the performance obligations

Revenue recognition under the standard does not happen at the contract level but at the individual performance obligation level. Performance obligation is the unit of account for recognising revenue. The standard provides elaborate guidance on identifying performance obligations. A performance obligation can be a (i) good or service, (ii) a bundle of goods or services or (iii) a series of distinct goods or services if specified criteria are met.

Identifying the promised goods and services in the contract

As a first step to identify performance obligation(s) in a contract, an entity should identify, at contract inception, the promised goods and services. The promised goods or services may include, but are not limited to, the following:

- a) Sale of goods produced by an entity, e.g., finished goods
- b) Resale of goods purchased by an entity, e.g., traded goods
- c) Resale of rights to goods or services purchased by an entity, e.g., a ticket resale
- d) Performing a contractually agreed-upon task (or tasks) for a customer
- e) Providing a service of standing ready to provide goods or services (e.g., unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides
- f) Providing a service of arranging for another party to transfer goods or services to a customer, e.g., acting as an agent of another party
- g) Constructing, manufacturing or developing an asset on behalf of a customer
- h) Granting licences
- i) Granting options to purchase additional goods or services (if option is a material right)

Under Ind AS 115, performance obligations may not be restricted to the goods or services that are explicitly stated in that contract. Rather, performance obligations may also arise from promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation to the customer that the entity will transfer a good or service to the customer.

In addition, some items commonly considered to be marketing incentives will need evaluation to determine whether they represent promised goods and services. Such items may include 'free' handsets provided by telecom entities, 'free' maintenance provided by automotive manufacturers and customer loyalty points awarded by supermarkets, airlines and hotels. Although an entity may not consider those goods or services to be the 'main' items that a customer contracts to receive, they are goods or services for which the customer pays. However, certain activities, such as internal administrative activities, are not promised goods or services.

Example 1: Explicit and implicit promises in a contract

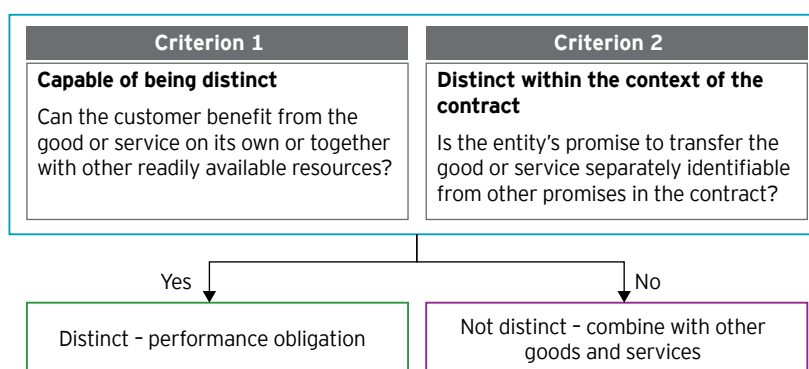
Given below are examples of explicit/implicit promises for an entity engaged in the business of manufacturing and selling vehicles to a distributor who will then resell it to an end customer.

Explicit promise of service	In contract with the distributor, the entity promises to provide free maintenance services to the end customer purchasing a vehicle.
Implicit promise of service	The entity does not explicitly promise maintenance services in the contract. However, it has historically provided free maintenance services to end customers.
Not a promised service	The entity does not explicitly promise maintenance services in the contract. Nor has it historically provided free maintenance services. However, before sale to the end customer, it makes an offer to provide free maintenance services to the end consumer. This obligation is accounted for in accordance with Ind AS 37. In addition, for future contracts with customers, the entity should assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

Some 'free' goods or services that would have been treated as marketing incentives historically will have to be evaluated under Ind AS 115 to determine whether they represent promised goods and services.

Determining when promises are performance obligations

After identifying the promised goods and services within a contract, an entity determines which of those goods and services should be treated as separate performance obligations. That is, the entity identifies the individual units of account. Ind AS 115 outlines the following two-step process for determining whether a promised good or service (or a bundle of goods and services) is distinct. Both of these criteria must be met to conclude that the good or service is distinct.



If a promised good or service is not distinct, an entity is required to combine that good or service with other promised goods or services until it identifies a bundle of goods or services that, together, is distinct. An entity account for all the goods or services promised in a contract as a single performance obligation if the entire bundle of promised goods and services is the only performance obligation identified.

Capable of being distinct

A promised good or service must be capable of being distinct by providing a benefit to the customer. A customer can benefit from a good or service if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits.

A customer may be able to benefit from a good or service on

its own or in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events.

Determining whether a good or service is capable of being distinct will be straightforward in many situations. For example, if an entity regularly sells a good or service separately, this fact would demonstrate that the good or service provides benefit to a customer on its own or with other readily available resources. However, the evaluation may require more judgement in other situations, particularly when the good or service can only provide benefit to the customer with readily available resources provided by other entities

Example 2: Distinct goods or services – customer benefits from the good or service

A manufacturer enters into a contract with a customer to sell a custom tool and replacement parts manufactured for the custom tool. The manufacturer only sells custom tools and replacement parts together, and no other entity sells either product. The customer can use the tool without the replacement parts, but the replacement parts have no use without the custom tool.

Evaluation

There are two performance obligations if the manufacturer transfers the custom tool first because the customer can benefit from the custom tool on its own and the customer can benefit from the replacement parts using the custom tool previously transferred to it. However, there is only one performance obligation if the manufacturer transfers the replacement parts first, because the customer cannot benefit from those parts without the custom tool.

Distinct within the context of the contract

Once an entity has determined that a promised good or service is capable of being distinct, then the next step for the entity is to consider the second criterion, viz., whether the good or service is separately identifiable from other promises in the contract. The evaluation requires an understanding of what a customer expects to receive as a final product in the contract. For example, some contracts contain a promise to deliver multiple goods or services, but the customer is not purchasing

the individual items. Rather, the customer is purchasing the final good or service (the combined item or items) that those individual items (the inputs) create post combination. Judgment is needed to determine whether there is a single performance obligation or multiple performance obligations. The management needs to consider the terms of each contract and all other relevant facts, including the economic substance of the transaction, to make this assessment.

Ind AS 115 includes three factors (discussed below) that are intended to help entities identify when the promises in a bundle of promised goods or services are not separately identifiable and, therefore, should be combined into a single performance obligation. It should be noted that these factors are not an exhaustive list and that not all of the factors need to exist in order to conclude that the entity's promises to transfer goods or services are not separately identifiable. Rather, this evaluation will require entities to apply significant judgement.

Significant integration service

When an entity provides a significant service of integrating a good or service with other goods or services in a contract, the bundle of integrated goods or services represents a combined output. In other words, when an entity provides a significant integration service, the risk of transferring individual goods or services is inseparable from the bundle of integrated goods or services because a substantial part of an entity's promise to the customer is to make sure the individual goods or services are incorporated into the combined output.

To illustrate, consider that a contractor enters into a contract to build a commercial building for a customer. The entity is responsible for the overall management of the project and identifies various promised goods and services such as engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing. While the contractor determines that the promised goods and services are capable of being distinct, it also determines that the contractor is also providing a significant service of integrating the goods and services (inputs) into the commercial building (the combined output) for which the customer has contracted. Hence, the promises to transfer the goods and services are not distinct in the context of the contract.

Significant modification or customisation

If a good or service significantly modifies or customises another good or service in a contract, each good or service is being assembled together (as an input) to produce a combined output. In other words, they are not separate performance obligations.



Example 3: Evaluating significant customisation or modification

Scenario 1 – Distinct goods or services

A software developer enters into a contract with a customer to transfer a software licence, perform an installation service and provide technical support (online and telephone) for a two-year period. The entity sells the licence, installation service and technical support separately. The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the technical support.

The entity observes that the software is delivered before the other goods and services and remains functional without the technical support. The customer can benefit from the software licence transferred at the start of the contract. Thus, the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available. Thus, the promised goods and services are capable of being distinct.

The entity also observes that although it integrates the software into the customer's system, it is not providing a significant service of integrating the software and the services into a combined output. These services do not significantly affect the customer's ability to use and benefit from the software. The installation services are routine and can be obtained from alternative providers. Hence, the promise to transfer each good and service to the customer is separately identifiable from each of the other promises.

On the basis of this assessment, the entity identifies three performance obligations in the contract:

- a) Software licence
- b) An installation service
- c) Technical support

Scenario 2: Significant customisation

The promised goods and services are the same as scenario 1, except that as part of the installation service, the software is to be substantially customised to add significant new functionality to enable the software to interface with other customised software applications used by the customer. The customised installation service can be provided by other entities.

In this scenario, the entity observes that whilst the promised goods and services are capable of being distinct, the terms of the contract result in a promise to provide a significant service of integrating the licenced software into the existing software system by performing a customised installation service. Thus, the entity is using the licence and the customised installation service as inputs to produce the combined output (i.e., functional and integrated software system). Consequently, the promise to transfer software is not separately identifiable from the customised installation service. The contract contains two performance obligations:

- a) Customised software (which comprises the licence for the software and the customised installation service)
- b) Technical support

Highly interdependent or highly interrelated

Promised goods or services are highly interdependent or highly interrelated if each of the promised goods or services is significantly affected by one or more of the other goods or services in the contract. An entity would evaluate whether there is a two-way dependency or transformative relationship between the promised goods or services to determine whether the promises are highly interdependent or highly interrelated. If this is the case, they are not separate performance obligations.

Many entities have previously applied the first step of evaluation, viz., whether good or service is capable of being distinct. However, the second step of considering the goods or services within the context of the contract is a new requirement. Therefore, entities will need to carefully evaluate this second step to determine whether their historical units of account for revenue recognition may need to change. This evaluation may require an entity to use significant judgement.

It is important to note that the assessment of whether a good or service is distinct must consider the specific contract with a customer. That is, an entity cannot assume that a particular good or service is distinct (or not distinct) in all instances. The manner in which promised goods and services are bundled within a contract can affect the conclusion of whether a good or service is distinct. We anticipate that entities may treat the same goods and services differently, depending on how those goods and services are bundled within a contract.

Series of distinct goods and services that are substantially the same and have the same pattern of transfer

An entity may provide a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Examples could include services provided on an hourly or daily basis, such as cleaning services or hotel management services. If the following criteria are met, such a series is a single performance obligation.

- ▶ Each distinct good or service in the series that the entity promises to transfer represents a performance obligation that would be satisfied over time, if it were accounted for separately.
- ▶ The entity would measure its progress toward satisfaction of the performance obligation using the same measure of progress for each distinct good or service in the series

This requirement was incorporated in the standard to simplify the model and promote consistent identification of performance obligations in cases when an entity provides the same good or service over a period of time. Without the series requirement, applying the revenue model would have presented operational challenges because an entity would have to identify multiple distinct goods or services, allocate the transaction price to each distinct good or service on a stand-alone selling price basis and then recognise revenue when those performance obligations are satisfied.

The series requirement is a new concept. Entities should consider whether they need to add or make changes to their business processes or internal controls as a result of this new requirement.

Customer options for additional goods or services

Many sales contracts give customers the option to acquire additional goods or services. These additional goods and services may be priced at a discount or may even be free of charge. Options to acquire additional goods or services at a discount can come in many forms, including sales incentives, volume-tiered pricing structures, customer award credits or contract renewal option at lower or without fees.

When an entity grants a customer the option to acquire additional goods or services, that option is a separate performance obligation if it provides a material right to the customer. Material right is right which the customer would not have received without entering into the contract (e.g., a discount that exceeds the range of discounts typically given for those goods or services to that class of customer in that geographical area or market). If the option provides a material right to the customer, the customer has, in effect, paid in advance for future goods or services. Thus, the entity recognises revenue when those future goods or services are transferred or when the option expires.

The standard does not provide any bright lines as to what constitutes a 'material' right. However, the standard requires that if the discounted price the customer would receive by exercising the option reflects the stand-alone selling price that a customer without an existing relationship with the entity would pay, the option does not provide a material right. The entity is deemed to have made a marketing offer. This is the case even if the option can only be exercised because the customer entered into the earlier transaction. An entity that has made a marketing offer accounts for it in accordance with Ind AS 115 only when the customer exercises the option to purchase the additional goods or services.

Significant judgement may be required to determine whether a customer option represents a material right. This determination will have significant accounting and disclosures implications.

Example 4: Option that provides the customer with a material right (discount voucher)

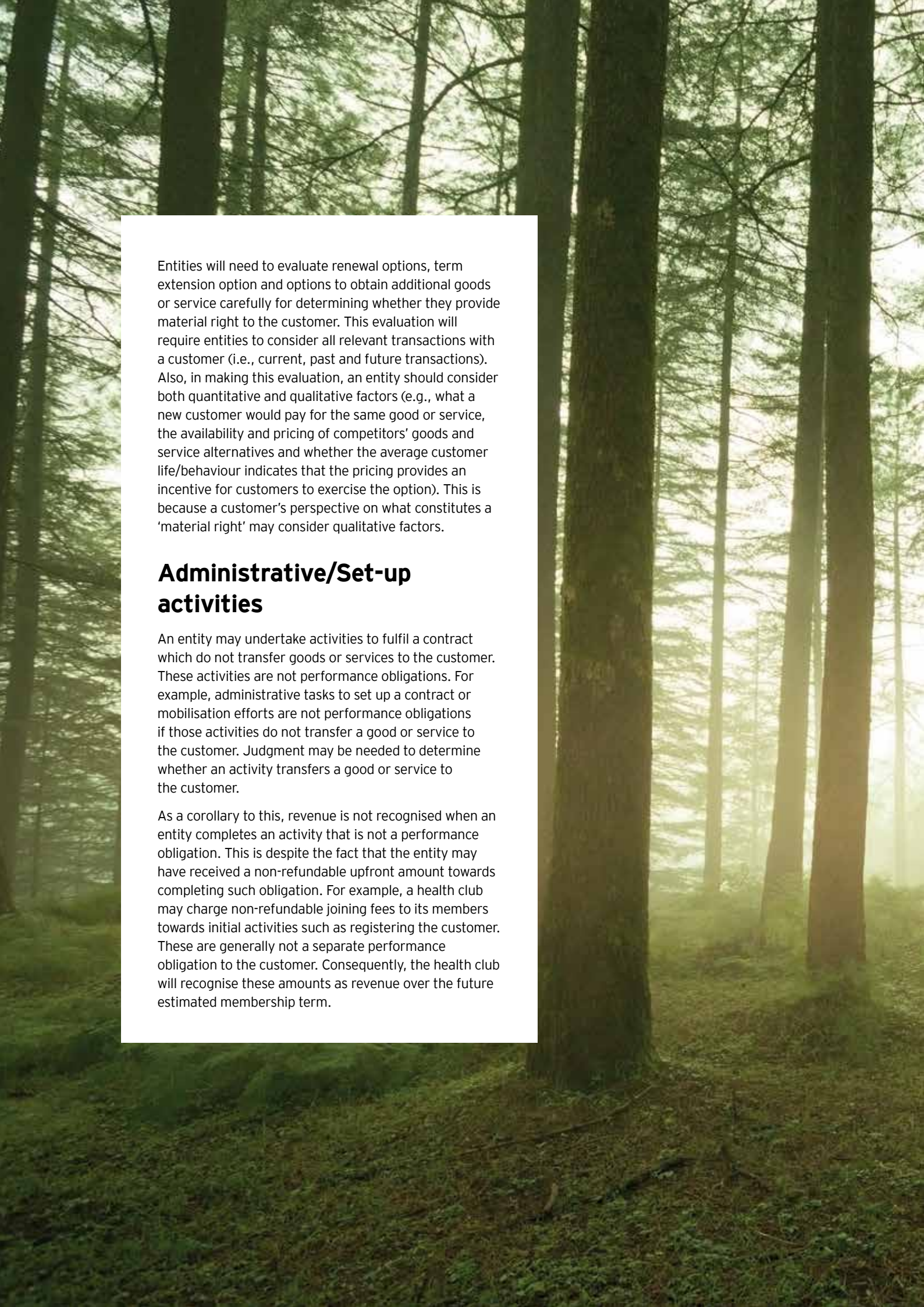
An entity enters into a contract for the sale of washing machine for INR40,000. As part of the contract, the entity gives the customer a 40% discount voucher for any future purchases up to INR40,000 in the next 60 days. The entity is planning to introduce an offer for 10% discount on all sales during the next 60 days as part of Diwali, Christmas and New Year promotion. The 10% discount cannot be used in addition to the 40% discount voucher.

Since all customers will receive a 10% discount on purchases during the next 60 days, the customer has a material right only for the incremental 30% discount. The entity accounts for the promise to provide the incremental discount as a performance obligation in the contract for the sale of washing machine.

The entity estimates an 80% likelihood that a customer will redeem the voucher and that a customer will, on average, purchase INR20,000 of additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is INR4,800 (INR20,000 average purchase price of additional products × 30% incremental discount × 80% likelihood of exercising the option). The resulting allocation of the INR40,000 transaction price are as follows:

Performance obligations	Stand-alone selling price	Allocated transaction price
	INR	INR
Washing machine	40,000	35,714
Discount voucher	4,800	4,286
Total	44,800	40,000

The entity allocates INR35,714 to washing machine and recognises revenue when the control of washing machine transfers. The entity allocates INR4,286 to the discount voucher and recognises revenue for the voucher when the customer redeems it for goods or services or when it expires.



Entities will need to evaluate renewal options, term extension option and options to obtain additional goods or service carefully for determining whether they provide material right to the customer. This evaluation will require entities to consider all relevant transactions with a customer (i.e., current, past and future transactions). Also, in making this evaluation, an entity should consider both quantitative and qualitative factors (e.g., what a new customer would pay for the same good or service, the availability and pricing of competitors' goods and service alternatives and whether the average customer life/behaviour indicates that the pricing provides an incentive for customers to exercise the option). This is because a customer's perspective on what constitutes a 'material right' may consider qualitative factors.

Administrative/Set-up activities

An entity may undertake activities to fulfil a contract which do not transfer goods or services to the customer. These activities are not performance obligations. For example, administrative tasks to set up a contract or mobilisation efforts are not performance obligations if those activities do not transfer a good or service to the customer. Judgment may be needed to determine whether an activity transfers a good or service to the customer.

As a corollary to this, revenue is not recognised when an entity completes an activity that is not a performance obligation. This is despite the fact that the entity may have received a non-refundable upfront amount towards completing such obligation. For example, a health club may charge non-refundable joining fees to its members towards initial activities such as registering the customer. These are generally not a separate performance obligation to the customer. Consequently, the health club will recognise these amounts as revenue over the future estimated membership term.

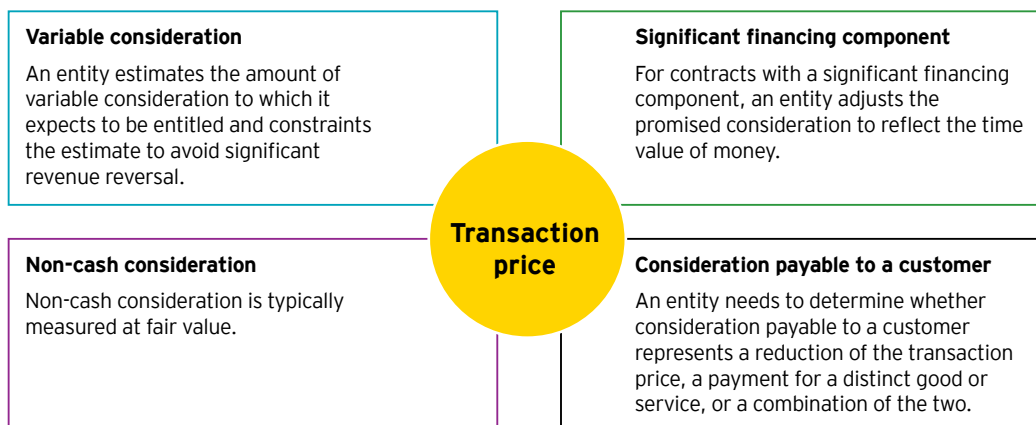




4.

Determine the transaction price

‘Transaction price’ is the amount of consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties – e.g., Goods and Services Tax (GST). An entity estimates the transaction price at contract inception. In determining transaction price, an entity considers multiple factors as depicted below.



When determining the transaction price, an entity assumes that the goods or services will be transferred to the customer based on the terms of the existing contract. It does not consider the possibility of a contract being cancelled, renewed or modified. However, in certain cases, contractually stated prices for goods or services may not represent the amount of consideration that an entity expects to be entitled to as a result of its customary business practices with customers. For example, the management should consider whether the entity has a past practice of providing price concessions to customers.

Presentation of the GST and amounts collected on behalf of third parties

Ind AS 115 includes a general principle that an entity will determine the transaction price exclusive of amounts collected on behalf of third parties. In India, an entity collects GST on behalf of the Government and not on its own account.

Hence, GST is excluded from the transaction price. However, similar clarity may not exist for excise duty and production taxes collected in various jurisdictions. In addition, there could be multiple views regarding whether certain items billed to customers need to be presented as revenue or as reduction of costs. Examples include shipping and handling fees and reimbursements of out-of-pocket expenses. This will require entities to evaluate whether they are billing/collecting these amounts from the customer on their own account or on behalf of a third party. In making this evaluation, an entity will apply

the principal versus agent application guidance is covered in chapter 9 of this publication.

Variable consideration

If consideration promised in a contract includes a variable amount, an entity should estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

Common types and events that cause consideration to be variable		
Performance bonuses	Incentive payments	Penalties (if inherent in the determination of transaction price)
Refunds	Market-based fees	Discounts
Returns	Money-back guarantees	Price concessions
Volume rebates	Service level agreements	Liquidating damages
Change orders	Claims	Success fees

Forms of variable consideration

Variable consideration can result from explicit terms in a contract or implied by an entity's past business practices or intentions under the contract. Consideration can be variable even when the stated price in a contract is fixed, e.g., where consideration depends on occurrence or non-occurrence of a future uncertain event. Given below are some typical examples of variable consideration:

- ▶ **Right to return:** Variable consideration includes variability resulting from refunds or returns. A contract to provide a customer with 100 widgets at a fixed price per widget contains a variable component if the customer has a right to return the widgets.
- ▶ **Volume discount:** An entity sells Product A at INR100 per unit. If the customer purchases more than 1,000 units in a financial year, the price per unit is retrospectively reduced to INR90 per unit.
- ▶ **Implicit price concession:** An entity sells 1,00,000 units of a prescription drug to a customer for promised consideration of INR100 million. This is the entity's first sale to a customer in a new region, which is experiencing economic difficulties. The entity expects that the region's economy will recover and determines that a relationship with this customer can help it to forge relationships with other potential customers in the region. The entity expects that it may provide a

price concession. The contract contains an implied price concession and consideration is variable.

- ▶ **Penalty:** Where a penalty is inherent in determination of the transaction price, it forms part of variable consideration. An entity agrees to transfer control of a good or service in a contract with customer at the end of 30 days for INR100,000. However, if the period exceeds 30 days, the entity will be entitled to receive only INR95,000. In this case, the reduction of INR5,000 will be regarded as variable consideration. In other penalty cases, the transaction price may be considered as fixed

For some contracts, the stated price has easily identifiable variable components. However, for other contracts, entities may need to exercise judgment while identifying variable consideration, e.g., penalties or implicit price concession. It is important to identify variable consideration separately since Ind AS 115 requires a constraint to be applied to all instances of variable consideration. Also, if an entity determines at the contract inception that a contract includes a price concession, any change in the estimate of the amount the entity expects to collect, absent an identifiable credit event, will be accounted for as a change in the transaction price. This will result in a reduction in revenue and not a bad debt expense unless there is an event that affects a customer's ability to pay (e.g., a decline in a customer's operations or a bankruptcy filing).

An entity is required to estimate variable consideration using either the 'expected value' or the 'most likely amount' method. The method selected is not a 'free choice'. Rather, an entity selects the method that is best suited based on the specific facts and circumstances of the contract and which will help better predict the amount of consideration. An entity applies the selected method consistently to each type of variable consideration throughout the contract term and updates the estimated variable consideration at each reporting date. In certain cases, one contract may contain more than one type of variable consideration. In these cases, it may be appropriate for an entity to use different methods (i.e., expected value method or most likely amount) for estimating different types of variable consideration within a single contract.

The expected value method estimates variable consideration based on the range of possible outcomes and the probabilities of each outcome. Under this method, an entity determines the expected value of variable consideration using the sum of probability-weighted amounts in a range of possible amounts. To do this, an entity identifies the possible outcomes of a contract and the probabilities of those outcomes. The expected value method may better predict expected consideration when an entity has a large number of contracts with similar characteristics. This method may also better predict consideration when an entity has a single contract with a large number of possible outcomes.

An entity enters into a contract and will receive a performance bonus up to INR1,00,000 if it meets specified performance targets. It estimates the likelihood of achieving the targets as below:

Possible outcomes	Probability	Calculated amount
INR100,000	10%	INR10,000
INR80,000	30%	INR24,000
INR60,000	35%	INR21,000
INR40,000	10%	INR4,000
-	15%	-
		INR59,000

In this scenario, the 'expected value' approach is determined to be the best method to estimate variable consideration. The entity calculates INR59,000 using this method. However, it must consider whether any of the amount needs to be constrained (refer discussion below).



An entity preparing an expected value calculation is not required to consider all possible outcomes even if the entity has extensive data and can identify many possible outcomes. Instead, in many cases, a limited number of discrete outcomes and probabilities can provide a reasonable estimate of the expected value.

Most likely amount

Entities will determine the most likely amount of variable consideration using the single most likely amount in a range of possible consideration amounts. The most likely amount method may be the better predictor when the entity expects to be entitled to one of two possible amounts. For example, a contract in which an entity is entitled to receive all or none of a specified performance bonus, but not a portion of that bonus.

Example 2: Most likely amount

- ▶ An entity enters into a contract and will receive an amount of INR1,00,000 as performance bonus if the specified performance targets are met. There will be no bonus if the target is not met.
- ▶ The entity estimates an 80% likelihood it will receive the entire performance bonus and a 20% likelihood it will receive none of the bonus

Evaluation

- ▶ Due to the binary nature of the outcome, the entity determines that the best predictor of the ultimate consideration it will receive is the 'most likely amount' approach.
- ▶ Thus, INR100,000 is included in the transaction price.
- ▶ The constraint likely has no effect because it is probable that the bonus will be received.

When applying either of these methods, an entity considers all information (historical, current and forecast) that is reasonably available to the entity.

Constraining estimates of variable consideration

After estimating variable consideration, an entity may include some or all of the amounts of variable consideration in the transaction price. However, the amount included in the transaction price should be constrained to the extent that it is highly probable that a significant reversal of the cumulative revenue recognised will not occur in future periods when the uncertainty is resolved. To assess whether and to what extent it should apply this 'constraint', an entity considers both the following:

Constraint on variable consideration is created (i) to address concerns that an entity may recognise revenue without having sufficient certainty about realisation, and (ii) to make sure the estimates are robust and result in useful information. However, its intention is not to eliminate the use of estimates.

- ▶ **Likelihood** – Assessing the likelihood of a future reversal of revenue will require significant judgement. Entities will want to ensure that they adequately document the basis for their conclusions.
- ▶ **Magnitude** – An entity is also required to assess the magnitude of that reversal. The constraint is based on the probability of a reversal of an amount that is 'significant' relative to the cumulative revenue recognised for the contract. For this assessment, the cumulative revenue recognised includes both fixed and variable consideration recognised from the entire contract, not just the transaction price allocated to a single performance obligation.

The factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, actions of third parties and weather conditions.
- b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

- c) The entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.
- d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.
- e) The contract has a large number and broad range of possible consideration amounts.

In majority cases, an entity's analysis to determine whether its estimate of variable consideration should be constrained will largely be qualitative. In certain cases, highly complex judgments supported by large historical data and future expectations will be required.

If an entity determines that it does not meet the highly probable threshold to include all or part of the variable consideration in the transaction price, then the transaction price will not include variable consideration to the extent of uncertainty. The entity will assess the uncertainty at each reporting date and include variable consideration as part of the transaction price when the highly probable threshold is met.

Example 3: Application of constraint

Refer example 1 related to the expected value method. In this cases, the entity has estimated INR59,000 as potential adjustment to transaction price. After estimation, the entity needs to apply constraint. In this case, based on probabilities given, a 75% cumulative possibility exists that the entity will receive performance bonus which is equal to or greater than INR59,000. Consequently, the constraint has no effect and the entity includes INR59,000 in the transaction price.



Example 4: Application of constraint

Continuing example 1 and 3, the entity has now estimated the likelihood of achieving targets as below:

Possible outcomes	Probability	Calculated amount
INR100,000	15%	INR15,000
INR80,000	30%	INR24,000
INR60,000	30%	INR18,000
INR40,000	10%	INR4,000
-	15%	-
		INR61,000

Evaluation

- ▶ Using the 'expected value' approach, the entity calculates INR61,000 as potential adjustment to the transaction.
- ▶ There is only a 45% cumulative probability of variable consideration being more than INR60,000. The entity needs to apply the constraint.
- ▶ The constraint limits the bonus to INR60,000. It is 75% probable that this bonus level will be achieved.

Accounting for specific types of variable consideration

Rights of return

In some contracts, an entity may transfer control of a product to a customer but grant the customer the right to return. A right of return does not represent a separate performance obligation. Instead, a right of return affects the transaction price and the amount of revenue an entity can recognise for satisfied performance obligations. In other words, the right of return creates variability in the transaction price.

When an entity makes a sale with a right of return, it initially recognises the following

- Revenue:** Measured at the gross transaction price, less the expected level of returns calculated using the guidance on estimating variable consideration and the constraint
- Refund liability:** Measured at the expected level of returns – i.e., the difference between the cash or receivable amount and the revenue as measured above
- Asset:** Measured by reference to the carrying amount of the products expected to be returned, less the expected recovery costs and any potential decreases in the value of the returned goods.

The carrying value of the return asset should be presented separately from inventory. It should also be tested for impairment on its own, separately from the other inventory on hand. Also, the refund liability should be presented separately from the corresponding asset (on a gross basis).

Rights of return do not include exchanges by customers of one product for another of the same type, quality, condition and price (e.g., one colour or size for another). Nor do rights of return include situations where a customer may return a defective product in exchange for a functioning product; these are, instead, evaluated in accordance with the application guidance on warranties.

Prompt payment/Cash discounts

Customer purchase arrangements often include a discount for early payment. For example, an entity may offer a 2% discount if an invoice is paid within 10 days of the transfer of goods or service. In this case, a portion of the consideration is variable since there is uncertainty as to whether a customer will pay the invoice within the discount period. This requires the management to make an estimate of the consideration it expects to be entitled to as a result of offering this incentive. The entity should consider experience with similar customers and similar transactions in determining the number of customers that are expected to receive the discount.

Volume discounts

Volume discounts often require a customer to purchase a specified quantity of goods or services for becoming entitled to the discount. In such cases, the price may be reduced either prospectively for additional goods or services purchased in the future or retroactively for all purchases. Prospective volume discounts are assessed to determine if they provide the customer with a material right. In contrast,

arrangements with retroactive volume discounts include variable consideration because the transaction price for current purchases is not known until the uncertainty of whether the customer's purchases will exceed the amount required to obtain the discount is resolved. Generally, both prospective and retrospective volume discounts will result in a deferral of revenue if the customer is expected to obtain the discount.

Example 5: Volume discount

- ▶ Company A supplies components to industrial customers.
- ▶ The contract stipulates that price per component will decrease retrospectively if sales volume increases within the stipulated period of time.
- ▶ Company A estimates probability-weighted variable consideration based on the range of possible outcomes and probabilities of each outcome.

Probability	Sales volume (units)	Price/ unit (INR)	Probability-weighted sales value (INR)	Probability-weighted sales volume (units)
10%	800,000 units	100	8,000,000	80,000
70%	2,500,000 units	90	157,500,000	1,750,000
20%	3,500,000 units	85	59,500,000	700,000
			A= 225,000,000	B= 2,530,000

- ▶ Average unit price = INR88.93 (A/B).
- ▶ Revenue is recognised at INR88.93 for each unit sold.
- ▶ For the first 10,00,000 units sold, liability is accrued at INR11.07 (100-88.93) per unit. This liability will be reversed upon subsequent sales.

Sales-based and usage-based royalties on licences of intellectual property

The standard provides explicit application guidance for recognising consideration from sales and usage-based royalties provided in exchange for licences of intellectual property (IP). It states that an entity recognises sales and usage-based royalties as revenue only at the later of when:

- The subsequent sales or usage occurs, or
- The performance obligation, to which some or all of the sales-based or usage-based royalty has been allocated, has been satisfied (or partially satisfied).

These aspects are discussed in the chapter related to licences of IP.

Significant financing component/ time value of money

For some transactions, the receipt of the consideration does not match with the timing of the transfer of goods or services to the customer (e.g., the consideration is prepaid or is paid after the goods/services are provided). When the customer pays in arrears, the entity is effectively providing finance to the customer. Conversely, when the customer pays in advance, the entity has effectively received finance.

Ind AS 115 requires that in determining the transaction price, an entity should adjust the promised consideration for the effects of the time value of money if the contract contains a

significant financing component, either explicitly or implicitly. If the contract contains a significant financing component, the amount of revenue recognised is likely to differ from the amount of cash received from the customer. Revenue recognised will be lower than the cash received if the contract contains a deferred payment providing finance to the customer. In such a case, a portion of the consideration received is recognised as interest income. However, revenue recognised will exceed the cash received if the contract contains advance payment providing effective finance to the supplier. In such a case, interest expense on the advance will be recorded and increase the amount of revenue recognised.

An entity should consider all relevant facts and circumstances in assessing whether a contract contains a significant financing component, including both of the following factors:

- a) The difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services, and
- b) The combined effect of both of the following:
 - (i) The expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services, and
 - (ii) The prevailing interest rates in the relevant market

Notwithstanding the above, a contract with a customer does not contain a significant financing component if any of the following factors exist:

- a) The customer paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the customer (e.g., A prepaid phone card or customer loyalty points).
- b) A substantial amount of the consideration promised by the customer is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the entity (e.g., if the consideration is a sales-based royalty).
- c) The difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example,

the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract. Consider a contract for construction of commercial building. The contract terms entitle the customer to withhold 5% of milestone payments (referred to as retention money) through the construction period. The amount will be released on completion of building. Such a clause has been inserted to protect the customer from the contractor failing to adequately complete its obligation under the contract. Thus, the contract does not include a significant financing component.

In order to conclude that an advance payment does not represent a significant financing component, an entity will need to support why the advance payment does not provide a significant financing benefit and describe its substantive business purpose. As a result, it is important that entities analyse all of the relevant facts and circumstances.

In addition, Ind AS 115 contains a practical expedient whereby an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. For this purpose, the length between the transfer of goods or service and the time of customer payment is relevant, and not the length of the contract. It may be noted that an entity cannot disregard a financing component for the first 12 months of a longer-term gap that includes a significant financing component.

If the contract contains a significant financing component, the entity needs to adjust the transaction price for time value of money. To determine the impact of time value of money, the entity uses the same interest rate that it would use if it were to enter into a separate financing transaction with the customer at contract inception. The interest rate should reflect the credit characteristics of the borrower in the contract, which could be the entity or the customer depending on who receives the financing. It is not acceptable to use either the risk-free rate or a rate explicitly stated in the contract that does not correspond with a separate financing rate.

Often, products are sold on credit and are advertised as sold on zero interest. From Ind AS 115 perspective, there is a significant financing element which needs to be separately recognised from the revenue.

Example 6: Advance payment and assessment of discount rate

An entity enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer after two years. The contract includes two payment options: payment of INR10,000 after two years when the customer obtains control of the asset or payment of INR8,000 when the contract is signed. The customer elects the second option to pay INR8,000 upfront.

The entity concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

The interest rate implicit in the transaction is 11.8% (based on two payment options). However, the entity's incremental borrowing rate is 6%, and this rate (not 11.8%) should be used in adjusting the promised consideration.

The following journal entries illustrate how the entity accounts for the significant financing component

1. Recognise a contract liability for the INR8,000 payment received at contract inception:

Cash	INR8,000	
Contract liability		INR8,000

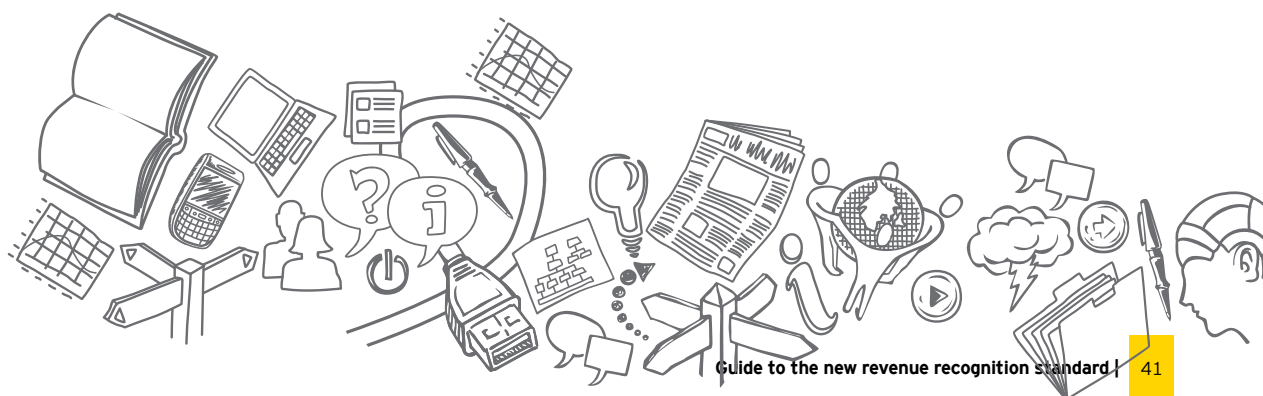
2. During the two years, the entity adjusts the promised consideration and accretes interest using the incremental borrowing rate:

Interest expense	INR988	
Contract liability		INR988

(INR988 = [INR8,000 × (1+6%) ^2 - INR8,000])

3. Recognise revenue for the transfer of the asset:

Contract liability	INR8,988	
Revenue		INR8,988



If a significant financing component exists in a contract, interest income or expense is recognised over the financing period using the effective interest method described in Ind AS 109 *Financial Instruments*. An entity may present interest income as revenue only when interest income represents income from an entity's ordinary activities. In all other cases, it should not be included as part of revenue.

Non-cash consideration

Customer consideration may be in the form of goods, services or other non-cash consideration (e.g., property, plant and equipment or a financial instrument). When an entity (i.e., the seller or vendor) receives, or expects to receive, non-cash consideration, the fair value of the non-cash consideration is included in the transaction price.

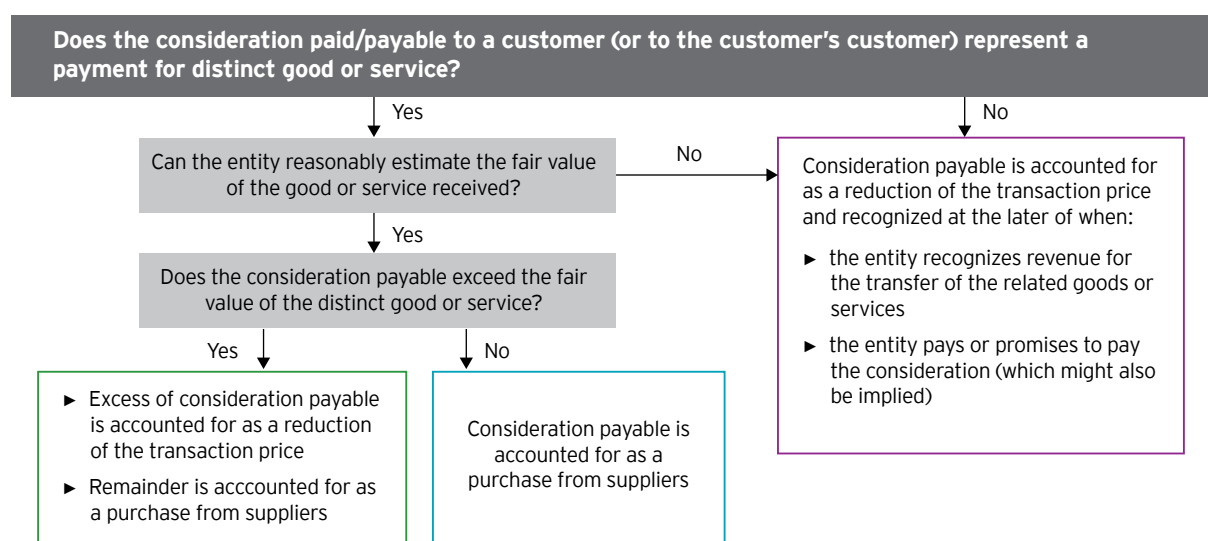
An entity will likely apply the requirements of Ind AS 113 *Fair Value Measurement* or Ind AS 102 *Share-based Payment* when measuring the fair value of any non-cash consideration. If an entity cannot reasonably estimate the fair value of non-cash consideration, it measures the non-cash consideration indirectly by reference to the stand-alone selling price of the promised goods or services. For contracts with both non-cash consideration and cash consideration, an entity will need to measure the fair value of the non-cash consideration and it will look to other requirements within Ind AS 115 to account for the cash consideration.

The fair value of non-cash consideration may change both because of the form of consideration (e.g., a change in the price of a share an entity is entitled to receive from a customer) and for reasons other than the form of consideration (e.g., a change in the exercise price or number of share options based on the entity's performance). If an entity's entitlement to non-cash consideration promised by a customer is variable for reasons other than the form of consideration, the entity considers the guidance on variable consideration. For example, a company enters into a contract to build a machine and will be entitled to a bonus of 15,000 equity shares of the customer, if the company delivers machine within 24 months. The contract contains non-cash consideration which is variable for reasons other than the form of consideration. In this case, the entity should apply the guidance given for variable consideration to determine whether it is appropriate to recognise revenue for bonus shares.

Consideration paid or payable to a customer

Many entities make payments to their customers. The consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer. Consideration payable to a customer also includes credit or other items (e.g., a coupon or voucher) that can be applied against amounts owed to the entity. In some cases, the consideration paid or payable represents purchases by the

The following flowchart summarises accounting for consideration paid or payable to customer



entity of goods or services offered by the customer that satisfy a business need of the entity. In other cases, the consideration paid or payable represents incentives given by the entity to entice the customer to purchase, or continue purchasing, its goods or services.

To determine the appropriate accounting treatment, an entity must first determine whether the consideration paid or payable to a customer is a payment for a distinct good or service, a reduction of the transaction price or a combination of both. For a payment by the entity to a customer to be treated as something other than a reduction of the transaction price, the good or service provided by the customer must be distinct. However, if the payment to the customer is in excess of the fair value of the distinct good or service received, the entity must account for such excess as a reduction of the transaction price.

Forms of consideration paid or payable to a customer

Consideration paid or payable to a customer can take many different forms. They commonly take the form of discounts and coupons, among others. Furthermore, the promise to pay the consideration may be implied by the entity's customary business practice. Entities will have to carefully evaluate each transaction to determine the appropriate treatment of such amounts. Some common examples of consideration paid to a customer include:

- ▶ **Slotting fees** – Manufacturers of consumer products commonly pay retailers fees to have their goods displayed prominently on store shelves. Those shelves can be physical (i.e., in a building where the store is located) or virtual (i.e., they represent space in an internet reseller's online catalogue). Generally, such fees do not provide a distinct good or service to the manufacturer and are treated as a reduction of the transaction price.
- ▶ **Co-operative advertising arrangements** – In some arrangements, a vendor agrees to reimburse a reseller for a portion of costs incurred by the reseller to advertise the vendor's products. The determination of whether the payment from the vendor is in exchange for a distinct good or service at fair value will depend on a careful analysis of the facts and circumstances of the contract.
- ▶ **Price protection** – A vendor may agree to reimburse a retailer up to a specified amount for shortfalls in the sales price received by the retailer for the vendor's products over a specified period of time. Normally, such fees do not provide a distinct good or service to the manufacturer and are treated as a reduction of the transaction price.

- ▶ **Coupons and rebates** – An indirect customer of a vendor may receive a refund of a portion of the purchase price of the product or service acquired by returning a form to the retailer or the vendor. Generally, such fees do not provide a distinct good or service to the manufacturer and are treated as a reduction of the transaction price.
- ▶ **'Pay-to-play' arrangements** – In some arrangements, a vendor pays an upfront fee to the customer in order to obtain a new contract. In most cases, these payments are not associated with any distinct good or service to be received from the customer and are treated as a reduction of the transaction price.
- ▶ **Purchase of goods or services** – Entities often enter into supplier-vendor arrangements with their customers in which the customers provide them with a distinct good or service. For example, a software entity may buy its office supplies from one of its software customers. In such situations, the entity has to carefully determine whether the payment made to the customer is solely for the goods and services received or whether part of the payment is actually a reduction of the transaction price.

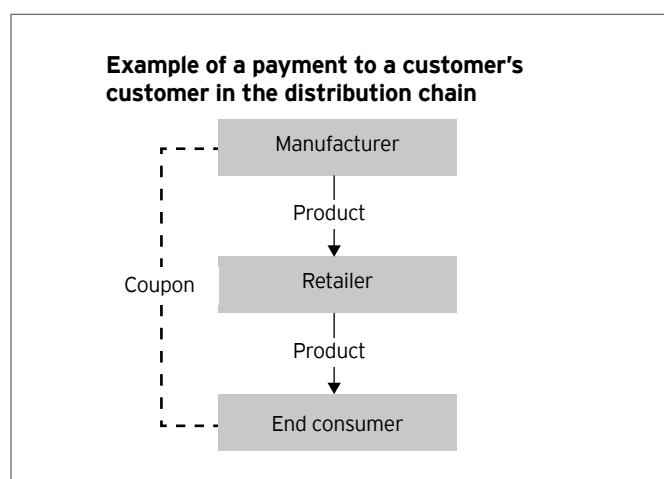
Timing of recognition of consideration paid or payable to a customer

If the consideration paid or payable to a customer is a discount or refund for goods or services provided to a customer, this reduction of the transaction price (and, ultimately, revenue) is recognised at the later of when the entity transfers the promised goods or services to the customer or the entity promises to pay the consideration. For example, if goods subject to a discount through a coupon are already delivered to the retailers, the discount would be recognised when the coupons are issued. However, if a coupon is issued that can be used on a new line of products that have not yet been sold to retailers, the discount would be recognised upon sale of the product to a retailer.

To determine the appropriate timing of recognition of consideration payable to a customer, entities will also need to consider the requirements for variable consideration. Thus, if an entity has a history of providing this type of consideration to its customers, the requirements on estimating variable consideration would require that such amounts be considered at contract inception, even if the entity has not yet provided or explicitly promised this consideration to the customer.

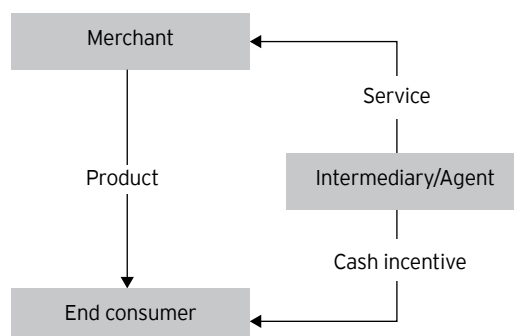
Identifying an entity's 'customer'

An entity may make payments directly to its customer, or make payments to another party that purchases the entity's goods or services from its customer (i.e., a 'customer's customer' within the distribution chain). Ind AS 115 is clear that payments made by an entity to its customer's customer are assessed and accounted for in the same manner as those paid directly to the entity's customer if those parties receiving the payments are purchasing the entity's goods and services. Hence, in the example below, coupons issued by the manufacturer to the end consumer will also be treated in the same manner as benefit given to a direct customer.



In some cases, entities provide cash or other incentives to end consumers that are neither their direct customers nor purchase the entities' goods or services within the distribution chain. One such example is depicted below. In such cases, the entity will need to identify whether the end consumer is the entity's customer under Ind AS 115. This assessment could require significant judgment. The management should also consider whether a payment to an end consumer is contractually required pursuant to the arrangement between the entity and its customer (e.g., the merchant in the example below) in the transaction. If this is the case, the payment to the end consumer is treated as consideration payable to a customer as it is being made on the customer's behalf.

Example of a payment to an end consumer that does not purchase the entity's goods or services



Non-refundable upfront fees

In certain circumstances, entities may receive payments from customers before they provide the contracted service or deliver a good. Upfront fees generally relate to the initiation, activation or set-up of a good to be used or a service to be provided in the future. Upfront fees may also be paid to grant access or to provide a right to use a facility, product or service. In many cases, the upfront amounts paid by the customer are non-refundable. Examples include fees paid for membership to a health club or activation fees for phone, cable or internet services.

Entities must evaluate whether a non-refundable upfront fee relates to the transfer of a good or service. If it does, the entity is required to determine whether to account for the promised good or service as a separate performance obligation.

The standard notes that, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception in order to fulfil the contract, in many cases, that activity will not result in the transfer of a promised good or service to the customer. Instead, in many situations, an upfront fee represents an advance payment for future goods or services. In addition, the existence of a non-refundable upfront fee may indicate that the contract includes a renewal option for future goods and services at a reduced price (if the customer renews the agreement without the payment of an additional upfront fee). In such circumstances,



an entity would need to assess the facts and circumstances of each case to determine whether the option is a material right (i.e., another performance obligation in the contract). If the entity concludes that the non-refundable upfront fee does not provide a material right, the fee would be part of the consideration allocable to the goods or services in the contract and would be recognised when (or as) the good or service to which the consideration was allocated is transferred to the customer. If an entity concludes that the non-refundable upfront fee provides a material right, the amount of the fee allocated to the material right would be recognised over the period of benefit of the fee, which may be the estimated customer life.

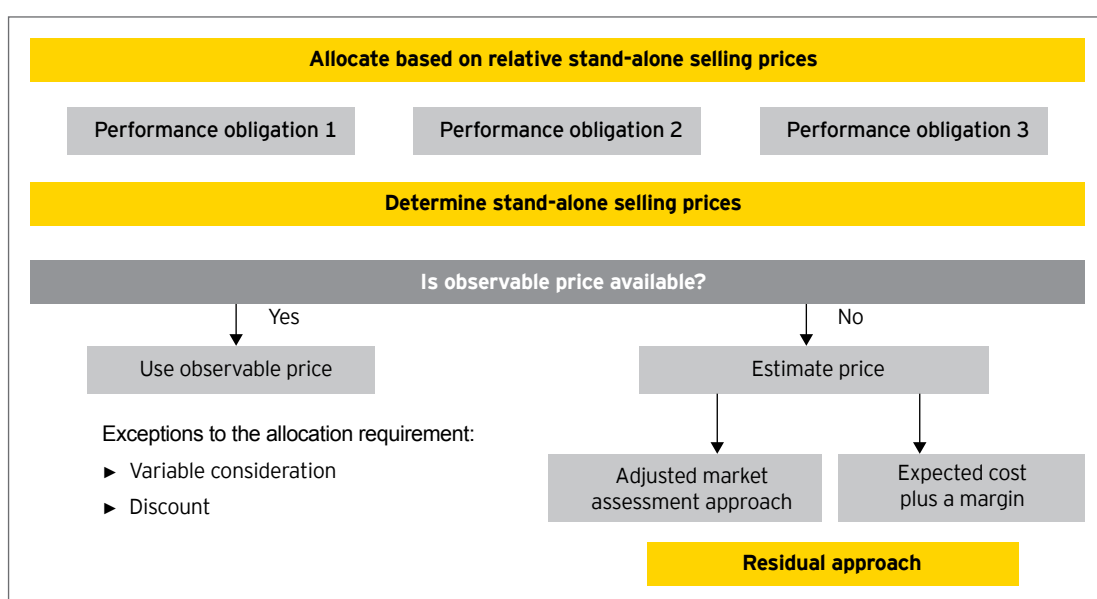
For example, a health club requires a new customer to pay a non-refundable initiation fee and an annual membership fee. The customer is not required to pay the upfront membership fee again upon renewal. This implies that the club is effectively providing a discounted renewal rate to the customer which is likely to be a material right from the customer's perspective. Therefore, it is a separate performance obligation to which a part of the consideration received from the customer should be allocated based on the standalone selling price of the annual membership fees and the renewal right. The amount allocated to the renewal right is recognised over the expected renewal periods. As a practical alternative to this, the total consideration expected to be received from the member (which includes initiation fees and the sum of the annual membership fees expected to be received) is recognised as revenue on a straight-line basis over the period during which the customer is expected to be a member of the club.



5.

Allocate the transaction price

Ind AS 115 prescribes revenue recognition at each performance obligation level, as against at the contract level. Hence, it is imperative to allocate the transaction price in an arrangement to each separate performance obligation so that revenue is recorded at the right time and in the right amounts. The standard generally requires an entity to allocate the transaction price to the performance obligations in proportion to their stand-alone selling prices (i.e., on a relative stand-alone selling price basis). However, there are two exceptions discussed later in this chapter.



Determining stand-alone selling prices

To allocate the transaction price on a relative stand-alone selling price basis, an entity must first determine the stand-alone selling price of the distinct good or service underlying

each performance obligation. This is the price at which an entity would sell a good or service on a stand-alone (or separate) basis at contract inception. In many situations, stand-alone selling prices will not be readily observable. In those cases, the entity must estimate the stand-alone selling price.

Suitable methods for estimating the stand-alone selling price of a good or service include, but are not limited to, the following:

Adjusted market assessment approach	An entity may evaluate the market in which it sells goods or services and estimate the price that a customer would be willing to pay. For example, an entity may refer to competitors' prices for similar goods and services and adjust those prices, as necessary, to reflect the entity's costs and margins. Application of this approach will be simpler when an entity has sold the good or service for a period of time (such that it has data about customer demand) or a competitor offers similar goods or services which the entity can use as a basis for its analysis. Applying this approach may be difficult when an entity is selling a relatively new good or service because it may be difficult to anticipate market demand. In these situations, entities may want to use the market assessment approach, with adjustments, as necessary, to reflect the entity's costs and margins.
Expected cost plus a margin approach	This approach focuses more on internal factors (e.g., the entity's cost basis), but has an external component as well. That is, the margin included in this approach must reflect the margin a market participant would be willing to pay, not just the entity's desired margin. The margin may have to be adjusted for differences in products, geographies, customers and other factors. The expected cost plus margin approach may be useful in many situations, especially when the performance obligation has a determinable direct fulfilment cost (e.g., a tangible product or an hourly service).
Residual approach (limited circumstances)	In limited circumstances, an entity may estimate the stand-alone selling price by referring to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract. However, an entity may use a residual approach if one of the following criteria is met: a) The entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts (i.e., the selling price is highly variable because a representative stand-alone selling price is not discernible from past transactions or other observable evidence), b) The entity has not yet established a price for that good or service and the good or service has not previously been sold on a stand-alone basis (i.e., the selling price is uncertain). When an entity uses residual approach, it must ensure that discounts clearly related to a specific product or bundle of products are not allocated by default to the product with residual value approach.

Ind AS 115 does not prescribe or prohibit any particular method for estimating the standalone selling price, as long as the method results in an estimate that faithfully represents the price an entity would charge for the goods or services if they were sold separately. There is also no hierarchy for how to estimate or otherwise determine the standalone selling price for goods or services that are not sold separately. However, it should maximise the use of observable inputs. For example, if an entity does not sell a particular good on a standalone basis, but its competitors do, that might provide data useful in estimating the standalone selling price. Management should consider all information (including market conditions, entity-specific factors and information about the customer or class of customer) that is reasonably available.

We anticipate that in many cases, a single good or service could have more than one stand-alone selling price. That is, the entity may be willing to sell goods or services at different prices to different customers. Furthermore, an entity may use different prices in different geographies or in markets where it uses different methods to distribute its products (e.g., it may use a distributor or reseller, rather than selling directly to the end-customer) or for other reasons (e.g., different cost structures or strategies in different markets). Accordingly, an entity may need to stratify its analysis to determine its stand-alone selling price for each class of customer, geography and/or market, as applicable.

Personnel responsible for an entity's revenue recognition policies may need to consult with personnel beyond those in the accounting or finance departments. Specifically, they may need to consult with personnel involved in the entity's pricing decisions to determine estimated stand-alone selling prices.

Allocating the transaction price

Once the separate performance obligations are identified and the transaction price has been determined, the standard generally requires an entity to allocate the transaction price to the performance obligations in proportion to their stand-alone selling prices.

In most cases, an allocation based on stand-alone selling prices will faithfully depict the different margins that may apply to promised goods or services. However in few cases, it may so happen that allocation based on the standalone selling prices does not result in a fair allocation of transaction price. For example, in rare cases, the use of the residual approach may imply the allocation of little or no consideration to a performance obligation. This suggests the method used might not be appropriate, because a good or service that is distinct is expected to be valuable to the purchaser. This will require the entity to revisit its estimation of standalone selling prices and allocation of discounts.

Example 1: Allocate the transaction price to performance obligations

An entity enters into an agreement to sell hardware, professional services and maintenance services for INR200,000. Each of the promised goods or services represents a separate performance obligation. Basis standalone selling price, the entity allocates transaction price as below:

Performance obligation	Estimated stand-alone selling price	% of relative selling price	Allocated discount	Allocation of transaction price
Hardware	INR185,000	82.2	INR(20,600)	INR164,400
Professional services	INR25,000	11.1	INR(2,800)	INR22,200
Maintenance services	INR15,000	6.7	INR(1,600)	INR13,400
Total	INR225,000	100.0	INR(25,000)	INR200,000

Example 2: Allocate the transaction price to performance obligations using residual method

Assume the same facts as Example 2, except the arrangement also includes software for a total fee of INR250,000. Whilst the software is a separate performance obligation, its standalone selling price is not available. The entity never sells the software on a stand-alone basis and its price in bundle ranges from INR15,000 to INR125,000. Since the entity cannot estimate the standalone selling price of software, it uses residual approach:

Particulars	Amount
Total arrangement consideration	INR250,000
<i>Less estimated stand-alone selling prices:</i>	
Hardware	INR(185,000)
Professional services	INR(25,000)
Maintenance services	INR(15,000)
Stand-alone selling price of software	<u>INR25,000</u>

Exceptions to general allocation principles

Variable consideration is generally allocated to all performance obligations in a contract based on their relative standalone selling prices. However, this method may not always result in a faithful depiction of the amount of consideration to which an entity expects to be entitled from the customer. For example, an entity could have the right to additional consideration upon early delivery of a particular product in an arrangement that includes multiple products. To address these scenarios, Ind AS 115 provides two exceptions to the relative selling price method of allocating the transaction price.

Allocating variable consideration

The first exception relates to the allocation of variable consideration. This exception requires an entity to allocate a variable amount – and subsequent changes to that amount – entirely to a performance obligation, only if both of the following criteria are met:

- Payment terms relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome of satisfying the performance obligation or transferring the distinct good or service), and
- Allocating the variable amount of consideration entirely to the performance obligation or distinct good or service is consistent with the standard's overall allocation principle when considering all of the performance obligations and payment terms in the contract.

Example 3: Exception related to allocation of variable consideration

Assume the same facts as Example 2, except that the contract includes an INR10,000 premium if the professional services are provided within seven days of the delivery of the hardware and software. The customer's business is highly seasonal, and this arrangement coincides with its busiest period. The professional services are more valuable to the customer if they are rendered as soon as possible.

The entity allocates the variable consideration only to the professional services because:

- ▶ The variable consideration relates specifically to the entity's efforts to satisfy the professional services performance obligation.
- ▶ The amount of the premium allocated to professional services is consistent with the overall principle for allocating consideration.

Allocating discount

The second exception relates to allocation of discount to some specific products and not all performance obligations, if specified criteria are met. When an entity sells a bundle of goods and services, the selling price of the bundle is often less than the sum of the stand-alone selling prices of the individual elements. Under the relative stand-alone selling price allocation method, this discount will be allocated proportionately to all of the separate performance obligations. However, if an entity determines that a discount in a contract is not related to all of the promised goods or services in the contract, the entity allocates the contract's entire discount only to the goods or services to which it relates, if all of the following criteria are met:

- a) The entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a standalone basis.
- b) The entity also regularly sells on a standalone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the standalone selling prices of the goods or services in each bundle.
- c) The discount attributable to each bundle of goods or services described in (b) above is substantially the same as the discount in the contract, and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation(s) to which the entire discount in the contract belongs.

The above criteria indicate that a discount will typically be allocated only to bundles of two or more performance obligations in an arrangement. Allocation of an entire discount to a single item is therefore expected to be rare.

Changes in transaction price after contract inception

Transaction price can change as a result of contract modification. The accounting for contract modification has been dealt with elsewhere in this publication. Transaction price can also change, after contract inception, for various other reasons including the finalisation of variable consideration (as the uncertainty changes and is finally resolved).

An entity should allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Consequently, an entity should not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a satisfied performance obligation are recognised as revenue, or as a reduction of revenue, on a cumulative catch-up basis in the period in which the transaction price changes. The amount related to the unsatisfied part is recognised as that performance obligation is satisfied.

An entity's stand-alone selling prices may undergo change over time. Changes in stand-alone selling prices are different from changes in the transaction price. For accounting purposes, this difference is important. Entities should not reallocate the transaction price to various performance obligations for subsequent changes in the stand alone selling prices. However, when there is a change in transaction price due to contract modification or finalisation of variable consideration, there will be accounting impact as discussed above.

Example 4: Allocating transaction price - allocating a discount

Company A enters into an arrangement to sell a chair, a couch, and a table for INR125,000. The standalone selling prices of the chair, couch and table are INR30,000, INR65,000 and INR40,000 respectively. Thus, the customer gets a discount of INR10,000. The company regularly sells the chair and couch together as a bundle at INR10,000 discount. The table is not normally discounted.

Company A has observable evidence that the INR10,000 discount should be allocated only to the chair and couch. Company A therefore allocates the INR125,000 transaction price as follows:

Chair and couch	:	INR85,000
Table	:	INR40,000

If, however, the table and the chair in the above example were also regularly discounted when sold as a pair, it would not be appropriate to allocate the discount to any combination of two products.



6.

Satisfaction of performance obligation

Under Ind AS 115, an entity recognises revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control.

Recognising revenue upon a transfer of control is a different approach from the 'risks and rewards' model given in Ind AS 18 *Revenue*. Ind AS 115 states that "control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset". Control also means the ability to prevent others from directing the use of, and receiving the benefit from, a good or service. From Ind AS 115 perspective, both goods and services are assets that a customer acquires (even if many services are not recognised as an asset because those services are simultaneously received and consumed by the customer).

While assessing the control of customer over goods or services, an entity may consider the following:

- ▶ **Ability** - A customer must have the present right to direct the use of, and obtain substantially all of the remaining benefits from, an asset for an entity to recognise revenue. For example, in a contract that requires a manufacturer to produce an asset for a customer, it may be clear that the customer will ultimately have the right to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, the entity should not recognise revenue until the customer has actually obtained that right (which may occur during production or afterwards).
- ▶ **Direct the use of** - A customer's ability to direct the use of an asset refers to the customer's right to deploy or to allow another entity to deploy that asset in its activities or to restrict another entity from deploying that asset.
- ▶ **Obtain the benefits from** - The customer must have the ability to obtain substantially all of the remaining benefits from an asset for the customer to obtain its control. Conceptually, the benefits from a good or service are

potential cash flows (either an increase in cash inflows or a decrease in cash outflows). A customer can obtain the benefits directly or indirectly in many ways, such as: using the asset to produce goods or services (including public services), using the asset to enhance the value of other assets, using the asset to settle a liability or reduce an expense, selling or exchanging the asset, pledging the asset to secure a loan or holding the asset.

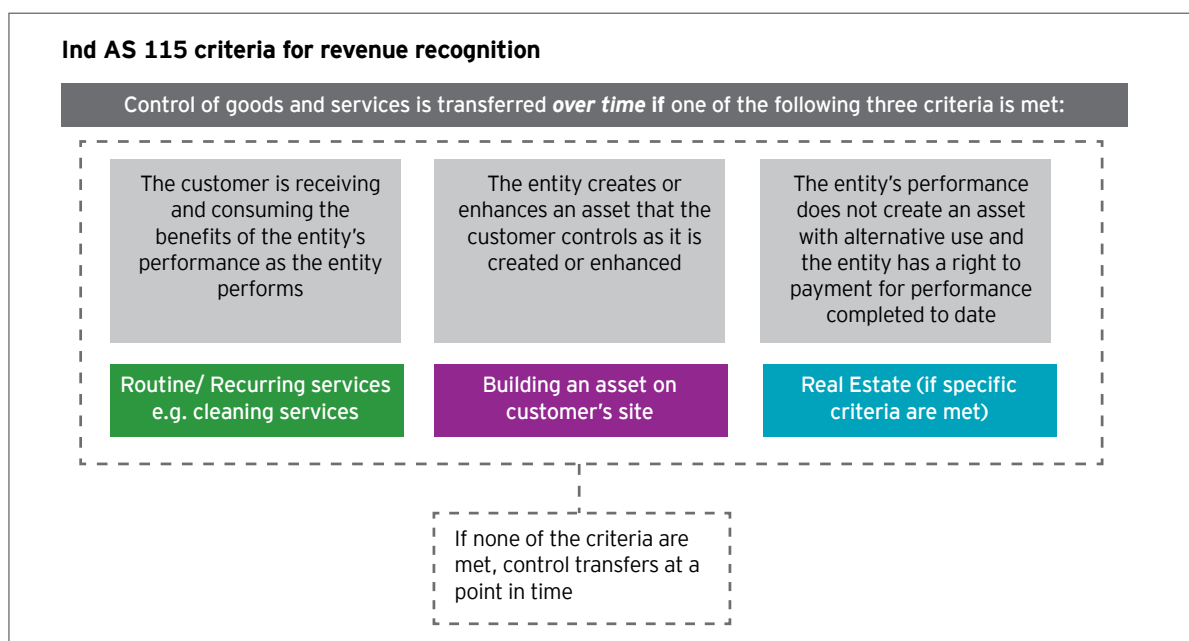
An entity should assess control primarily from the customer's perspective. While a seller often surrenders control at the same time the customer obtains control, it may not be so in all cases. The assessment of control is required from the customer's perspective to minimise the risk of an entity recognising revenue from activities that do not coincide with the transfer of goods or services to the customer.

To minimise the risk of an entity recognising revenue from activities that do not coincide with the transfer of goods or services to a customer, an entity assesses control primarily from the customer's perspective.

An entity should determine, at contract inception, whether it will transfer control of a promised good or service over time. If an entity does not satisfy a performance obligation over time, the obligation is satisfied at a point in time. Arrangements where the performance obligations are satisfied over time are not limited to services arrangements. Complex assets or certain customised goods constructed for a customer, such as a complex refinery or specialised machinery, can also transfer over time.

Performance obligations satisfied over time

While the determination of whether goods or services are transferred over time is straightforward in some contracts (e.g., many service contracts), it is more difficult in other contracts. Under Ind AS 115, an entity transfers control of a good or service over time if one of the following criteria are met:



Customer simultaneously receives and consumes benefits as the entity performs

This criterion primarily applies to contracts for the provision of services, such as transaction processing or security services. An entity transfers the benefit of the services to the customer as it performs and therefore satisfies its performance obligation over time. This criterion could also apply to arrangements that are not typically viewed as services, such as contracts to deliver electricity or other commodities.

In many cases, the assessment of whether a customer receives the benefits of an entity's performance as the entity performs and simultaneously consumes those benefits as they are received will be straightforward. However, there may be service contracts where it will be unclear whether the customer simultaneously receives and consumes the benefit of the entity's performance over time. In those situations, a performance obligation is satisfied over time, if an entity determines that another entity would not need to substantially

re-perform the work that the entity has completed to date, if that other entity were to fulfil the remaining performance obligation to the customer. In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity will make both of the following assumptions:

- Disregard potential contractual restrictions or practical limitations that otherwise would prevent the entity from transferring the remaining performance obligation to another entity,
- Presume that another entity fulfilling the remainder of the performance obligation would not have the benefit of any asset that is presently controlled by the entity and that would remain controlled by the entity if the performance obligation were to transfer to another entity.

To illustrate consider that Transporter A has agreed to transport goods from Punjab to Mumbai for INR50,000. The customer has an unconditional obligation to make the payment, when the goods are received in Mumbai. In this case the customer benefits from the service when the transporter performs the service. This is because if the goods were only delivered part

of the way (e.g., till Gujarat), another entity will not need to substantially re-perform Transporter A's performance to date.

For some service contracts, the entity's performance will not satisfy its obligation over time because the customer does not consume the benefit of the entity's performance until the performance is complete. For example, a consultant provides consulting services that will take the form of a professional opinion upon completion of the services. In this case, the consultant cannot conclude that the services are transferred over time based on this criterion. Instead, it must consider the remaining two criteria specified in the standard.

Customer controls asset as it is created or enhanced

The second criterion to determine whether control of a good or service is transferred over time requires entities to evaluate whether the customer controls the asset as it is being created or enhanced. This criterion applies in situations where the customer controls the work in process as the entity manufactures goods or provides services. The asset being created can be tangible or intangible. Such arrangements could include construction or manufacturing contracts where the customer controls the work in process, or research and development contracts where the customer owns the findings.

This criterion requires an entity to assess whether there is evidence that the customer controls the asset that is being created or enhanced (e.g., the work-in-process or the part-constructed real estate unit) as it is created or enhanced. It is not, for example, the right to obtain the final product in the future. Hence the right to sell or pledge this right is not evidence of control of the real estate unit itself.

To illustrate, an entity enters into a contract with a customer to build a highly customised plant on the customer's land. The customer provides specifications for the plant and these specifications can be changed by the customer at any time during the contract term. On cancellation, any work-in-progress is the customer's property. In this case, the customer controls assets as it is created or enhanced. However, consider one more scenario where the entity is building a standardised plant with minimum specifications from the customer. On cancellation, the work-in-progress is the entity's property and the entity can sell the work-in-progress to another customer without incurring significant cost. In this case, the customer does not control the asset as it is created or enhanced.

Asset with no alternative use and right to payment

This criterion requires the revenue to be recognised over time if both of the following two requirements are met:

- ▶ The entity's performance does not create an asset with alternative use to the entity.
- ▶ The entity has an enforceable right to payment for performance completed to date.

No alternative use

An asset has an alternative use if an entity can redirect that asset for another use or to another customer. An asset does not have an alternative use if the entity is unable, because of contractual restrictions or practical limitations, to redirect the asset for another use or to another customer. Contractual restrictions and practical limitations could exist in a broad range of contracts. Judgment is needed in many situations to determine whether an asset has an alternative use.

In making the assessment of whether a good or service has alternative use, an entity must consider any substantive contractual restrictions. A contractual restriction is substantive if a customer could enforce its rights to the promised asset if the entity sought to direct the asset for another use. A protective right is typically not considered substantive as it gives an entity the practical ability to physically substitute or redirect the asset without the customer's knowledge or objection to the change. For example, a contract may specify that an entity cannot transfer a good to another customer because the customer has legal title to the good. Such a contractual term would not be substantive, if the entity could physically substitute that good for another and could redirect the original good to another customer for little cost.

An entity will also need to consider any practical limitations on directing the asset for another use. For example in certain manufacturing contracts, the basic design of the asset is the same across all contracts, but substantial customisation is made to the asset. As a result, redirecting the finished asset would require significant rework and the asset would not have an alternative use because the entity would incur significant economic losses to direct the asset for another use. To illustrate, a contractor is building a highly customised mega power plant for a specific customer. Although the contract does not preclude the contractor from directing the completed

power plant to another customer, it is highly customised plant. The contractor will incur significant costs to rework the design and specification of the plant to direct it to another customer. Consequently, the plant has no alternative use to the contractor.

The assessment of whether an asset has an alternative use to the entity is made at the contract inception. Subsequently, an entity does not update this assessment unless parties to the contract approve a contract modification that substantively changes the performance obligation.

Enforceable right to payment for performance completed to date

To evaluate whether it has an enforceable right to payment for performance completed to date, the entity is required to consider the terms of the contract and any laws or regulations that relate to it. The standard states that the right to payment for performance completed to date need not be for a fixed amount. However, at any time during the contract term, an entity must be entitled to an amount that at least compensates the entity for performance completed to date, even if the contract is terminated by the customer (or another party) for reasons other than the entity's failure to perform as promised.

An amount that would compensate an entity for performance completed to date would be an amount that approximates the selling price of the goods or services transferred - e.g., a right to recover costs incurred plus a reasonable margin. The amount to which the entity is entitled does not need to equal the contract margin, but has to be based on either a reasonable proportion of the entity's expected profit margin or a reasonable return on the cost of capital. However, if an entity would only recover its costs, then it would not have the right to payment for performance completed to date.

An entity's right to payment does not have to be a present unconditional right. Many arrangements include terms where payments are only required at specified intervals, or on completion of the contract. Management needs to determine whether the entity will have an enforceable right to demand payment, if the customer cancelled the contract for a reason

other than a breach or non-performance. A right to payment will also exist if the customer does not have a stated right to cancel the contract, but the contract (or other laws) entitles the entity to continue fulfilling the contract and demand payment from the customer in the event the customer attempts to terminate the contract.

Management will need to assess the right to payment on a contract-by-contract basis. Any variances in contract terms may result in recognising revenue differently, even if goods or services are similar.

The assessment of whether a right to payment exists may not be straight forward in all cases and depends on the contract terms and relevant laws and regulations. Management may have to assess the right to payment on a contract-by-contract basis; therefore, variances in contract terms could result in recognising revenue at a point in time for some contracts and over time for others, even when the products promised in the contracts are similar. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity will consider any legislation or legal precedent that could supplement or override those contractual terms. This would include an assessment of whether:

- a) Legislation, administrative practice or legal precedent confers upon the entity a right to payment for performance to date even though that right is not specified in the contract with the customer
- b) Relevant legal precedent indicates that similar rights to payment for performance completed to date in similar contracts have no binding legal effect
- c) An entity's customary business practices of choosing not to enforce a right to payment has resulted in the right being rendered unenforceable in that legal environment

Example 1: Enforceable right to payment for performance completed to date is established

ABC (a ship builder) enters into a contract to manufacture large ship for a customer (shipping company). The ship is designed and being manufactured according to the customer's specifications. ABC has a legal right to redirect the ship to another customer. However, it will require ABC to incur significant cost to reconfigure the ship. The customer can cancel the contract. However, the customer will be obligated to pay ABC an amount equal to the costs incurred plus an agreed profit margin.

Evaluation

ABC should recognise revenue over time as it builds the ship. The ship is constructed to the customer's specifications and would require substantive rework to be useful to another customer. Thus, the ship does not have an alternative use to ABC. Also, ABC has a right to payment for performance completed to date.

However, if there is a change in terms such that the customer has paid an upfront deposit upon entering into the contract. The remainder of the contract price is payable only on completion of the contract. If the customer cancels the contract, ABC has only rights to retain the deposit. In this scenario, ABC will not have a right to payment for work completed to date. Consequently, revenue cannot be recognised over time.

Measuring progress

For each performance obligation satisfied over time, an entity should recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. An entity should apply a single method of measuring progress for each performance obligation satisfied over time. The method is applied consistently to similar performance obligations and in similar circumstances.

Appropriate methods of measuring progress include output methods and input methods. In determining the appropriate method for measuring progress, an entity should consider the nature of the good or service that the entity promised to transfer to the customer. In other words, an entity's selection of a method to measure its performance needs to be consistent with the nature of its promise to the customer and what the entity has agreed to transfer to the customer.

When applying a method for measuring progress, an entity should exclude from the measure of progress any goods or services for which the entity does not transfer control to a customer. Conversely, an entity should include in the

measure of progress any goods or services for which the entity does transfer control to a customer when satisfying that performance obligation.

As circumstances change over time, an entity will update its measure of progress to reflect any changes in the outcome of the performance obligation. Such changes to an entity's measure of progress should be accounted for as a change in accounting estimate in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The selection of a method to measure progress is not an accounting policy choice. The entity should select the method that best depicts the transfer of goods or services to the customer.

Output methods

Output methods measure progress toward satisfying a performance obligation based on the results achieved and value transferred. Examples of output measures include surveys of work performed, units produced, units delivered, and contract milestones. Since the output methods directly measure performance, they are generally considered as the most faithful depiction of an entity's performance and can be the most faithful representation of progress.

Consider a case where an entity enters into a contract with a government agency to build 100 kilometres of the road for a fixed sum of INR10,000,000. The effort required for construction is consistent across 100 kilometres of the road to be built. At the year-end, the entity has completed construction for 60 kilometres road. In this case, an output method using the kilometres of road built appears to be the most representative of services performed.

When an entity evaluates whether to apply an output method to measure its progress, the entity should consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation. An output method would not provide a faithful depiction of the entity's performance if the output selected would fail to measure some of the goods or services for which control has transferred to the customer. For example, output methods based on units produced or units delivered would not faithfully depict an entity's performance in satisfying a performance obligation if, at the end of the reporting period, the entity's performance has produced work in progress or finished goods controlled by the customer that are not included in the measurement of the output.

As a practical expedient, if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date e.g., a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognise revenue in the amount to which the entity has a right to invoice. To apply the practical expedient, an entity must be able to assert that right to consideration from a customer corresponds directly with the value to the customer of the entity's performance to date. To make such determination, the entity could evaluate the amount that has been invoiced in comparison to market prices, stand-alone selling prices or another reasonable measure of value to the customer.

The disadvantages of output methods are that the outputs used to measure progress may not be directly observable and the information required to apply them may not be available to an entity without undue cost. Therefore, an input method may be necessary.

Input methods

Input methods recognise revenue based on an entity's efforts or inputs towards satisfying a performance obligation relative to the total expected efforts or inputs to satisfy the performance obligation. Examples of input methods include costs incurred, time elapsed, resources consumed or labour hours expended. An entity is required to select a single measure of progress for each performance obligation that depicts the entity's performance in transferring control of the goods or services promised to a customer. If an entity's efforts or inputs are used evenly throughout the entity's performance period, a time-based measure that results in a straight line recognition of revenue may be appropriate.

Regardless of which method an entity selects, it excludes from its measure of progress any goods or services for which control has not transferred to the customer.

Input methods based on cost incurred

One common input method uses costs incurred relative to total estimated costs to determine the extent of progress toward completion. It is often referred to as the "cost-to-cost" method. Some items included in the "cost-to-cost" method, such as direct labour and materials costs, are easily identifiable. It can be more challenging to determine if other types of costs should be included, for example insurance, depreciation, and other overhead costs. Management needs to ensure that any cost allocations include only those costs that contribute to the transfer of control of the good or service to the customer.

Costs that are not related to the contract or that do not contribute toward satisfying a performance obligation are not included in measuring progress. For example, the following costs may not depict progress in satisfying a performance obligation:

- ▶ General and administrative costs that are not directly related to the contract (unless explicitly chargeable to the customer under the contract)
- ▶ Selling and marketing costs
- ▶ Research and development costs that are not specific to the contract
- ▶ Depreciation of idle plant and equipment
- ▶ Wasted materials
- ▶ Abnormal amounts of labour or other costs

In addition when using a cost-based input method, an adjustment to the measure of progress may be required in the following circumstances:

- a) When a cost incurred does not contribute to an entity's progress in satisfying the performance obligation. For example, the costs of unexpected wasted materials, labour or other resources should be excluded while measuring progress
- b) When a cost incurred is not proportionate to the entity's progress in satisfying the performance obligation. In those circumstances, a faithful depiction of an entity's performance may be to recognise revenue at an amount equal to the cost of a good used to satisfy a performance obligation if the entity expects at contract inception that all of the following conditions would be met:
 - (i) The good is not distinct
 - (ii) The customer is expected to obtain control of the good significantly before receiving services related to the good
 - (iii) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation
 - (iv) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal).

Example 2: Measuring progress– “cost-to-cost” method with uninstalled materials

Contractor A enters into a lump-sum contract with Customer B to construct a four-story office building and install new elevators for total consideration of INR60 million. The following facts are relevant.

- ▶ Construction service, including the installation of elevators, is a single performance obligation that is satisfied over time
- ▶ A is not involved in designing or manufacturing the elevators, but is acting as the principal
- ▶ A uses an input method based on costs incurred to measure its progress

The total cost for the contract is as follows:

Nature of cost	Amount
Elevators	INR20 million
Other costs	INR30 million

At year-end, other cost (excluding elevator) incurred amounted to INR12 million. The contractor has also procured the elevator and transferred to the site.

Evaluation

The contractor concludes that including the costs of procuring the elevators in the measure of progress would overstate the extent of its performance. Consequently, it adjusts its measure of progress to exclude these costs from the costs incurred and from the transaction price, and recognises revenue for the transfer of the elevators at a zero margin. Total revenue recognised during the year is calculated as follows

	Amount
Elevators- revenue recognised up to cost incurred	INR20 million
Other services	INR16 million
Percentage completion: 40% (INR12 million/ INR30 million)	
Revenue recognised: (INR40 million *40%)	
Total revenue recognised	INR36 million
Total cost incurred	INR32 million

Inputs method based on time

Time-based methods to measure progress might be appropriate in situations when a performance obligation is satisfied evenly over a period of time or the entity has a stand-ready obligation to perform over a period of time. For example, an entity provides technical support services to its customers. Technical support provides the customer an unlimited access to the entity's call centre for a one-year period. Customers typically utilise the call centre throughout the one-year term of the contract. In this case, it may be appropriate for the entity to recognise revenue for the support services on a straight-line basis over the one-year service period. In contrast, if the entity agrees to provide maximum 200 hours of call centre support during the one-year period and charges an additional fee for call centre usage beyond 200 hours. Customers frequently pay for using more than 200 hours of support. In this case, straight-line method will not be appropriate. Rather, an output method based on hours of service provided may be a more appropriate method to recognise revenue.

Learning curve

Learning curve is the effect of gaining efficiencies over time as an entity performs a task. When an entity becomes more efficient over time in an arrangement that contains a single performance obligation satisfied over time, an entity could select a method of measuring progress (such as cost-to-cost method) that results in recognising more revenue and expense in the earlier phases of the contract.

Progress cannot be measured

An entity should recognise revenue for a performance obligation satisfied over time only if it can reasonably measure its progress towards complete satisfaction of the performance

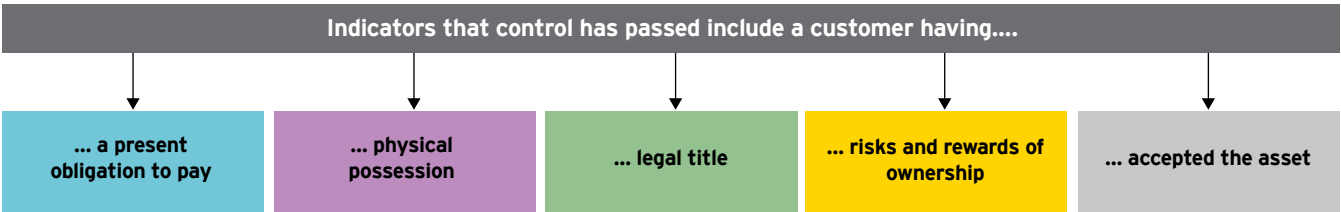
obligation. An entity can't reasonably measure its progress towards complete satisfaction of a performance obligation if it lacks reliable information required to apply an appropriate method of measuring progress.

In some circumstances (e.g., in the early stages of a contract), an entity may not be able to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred in satisfying the performance obligation. In those circumstances, the entity should recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation. This provision is similar to the requirement in Ind AS 11.

Control transferred at a point in time

For performance obligations in which control is not transferred over time, control is transferred as at a point in time. In many situations, the determination of when that point in time occurs is relatively straightforward. However, in other circumstances, this determination will be more complex. To help entities make such determination, Ind AS 115 provides five indicators that a customer has obtained control of an asset.

These are indicators of whether a customer has obtained control of an asset, not criteria. They are also not meant to be a checklist. None of the indicators are individually determinative and other factors could be relevant. Furthermore, not all of them must be present for an entity to determine that the customer has gained control. The management should use judgment to determine whether the factors collectively indicate that the customer has obtained control. This assessment should be focused primarily on the customer's perspective.



Customer has present obligation to pay

A customer's present obligation to pay could indicate that the entity has transferred the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset. However, it is not always the case. For example, in some contracts, a customer is required to make a non-refundable upfront payment, but receives no goods or services in return at that time.

Customer has physical possession

Physical possession of an asset typically gives the holder the ability to direct the use of and obtain benefits from that asset. However, physical possession does not, on its own, determine which party has control. All indicators of transfer of control should be considered in these situations.

Customer has legal title

A party that has legal title is typically the party that can direct the use of and receive the benefits from an asset. The benefits of holding legal title include the ability to sell an asset, exchange it for another good or service, or use it to secure or settle debt, which indicates that the holder has control. An entity that has not transferred legal title may not have transferred control of the asset. However, this is not true in all cases. It is possible that an entity has retained legal title as a protective right, such as to secure payment.

Customer has significant risks and rewards of ownership

The concept of the risks and rewards of ownership is based on how the seller and the customer share both the potential gain (the reward) and the potential loss (risk) associated with owning an asset. The transfer of significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, an entity should not consider risks that give rise to a separate performance obligation when evaluating whether the entity has the risks of ownership of an asset. For example, an entity does not consider warranty services that represent a separate performance obligation when evaluating whether it retains the risks of ownership of the asset sold to the customer.

Customer acceptance

When determining whether the customer has obtained control of the goods or services, an entity must consider any customer acceptance clauses that require the customer to approve the goods or services before it is obligated to pay for them. If a customer does not accept the goods or services, the entity may not be entitled to consideration, may be required to take remedial action or may be required to take back the delivered good.

Some acceptance provisions may be straightforward, giving a customer the ability to accept or reject the transferred products based on objective criteria specified in the contract (e.g., the goods function at a specified speed). Other acceptance clauses may be subjective or may appear in parts of the contract that do not typically address acceptance matters, such as warranty provisions or indemnification clauses. Professional judgement may be required to determine the effect on revenue recognition of the latter types of acceptance clauses.

Repurchase agreements

A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the customer, an asset that is substantially the same as the original asset, or another asset of which the asset originally sold is a component. Repurchase agreements generally come in three forms:

- a) An entity's obligation to repurchase the asset (a forward),
- b) An entity's right to repurchase the asset (a call option), and
- c) An entity's obligation to repurchase the asset at the customer's request (a put option).

For an obligation or right to purchase an asset to be accounted for as a repurchase agreement, it needs to exist at contract inception, either as a part of the same contract or in another contract. An entity's subsequent decision to repurchase an asset (after transferring control of that asset to a customer) without reference to any pre-existing contractual right would not be accounted for as a repurchase agreement. However, in cases in which an entity decides to repurchase a good after transferring control of the good to a customer, the entity should carefully consider whether the customer obtained control in the initial transaction. Furthermore, it may need to consider the application guidance on principal versus agent considerations.

Forward or call option held by the entity

If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a customer does not obtain control of the asset. This is because the customer will have a limited ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset even though it may have physical possession of the asset. Consequently, the entity should account for the contract as either of the following:

- a) A lease in accordance with Ind AS 17 Leases if the entity can or must repurchase the asset for an amount that is less than the original selling price of the asset, or
- b) A financing arrangement, if the entity can or must repurchase the asset for an amount that is equal to or more than the original selling price of the asset.

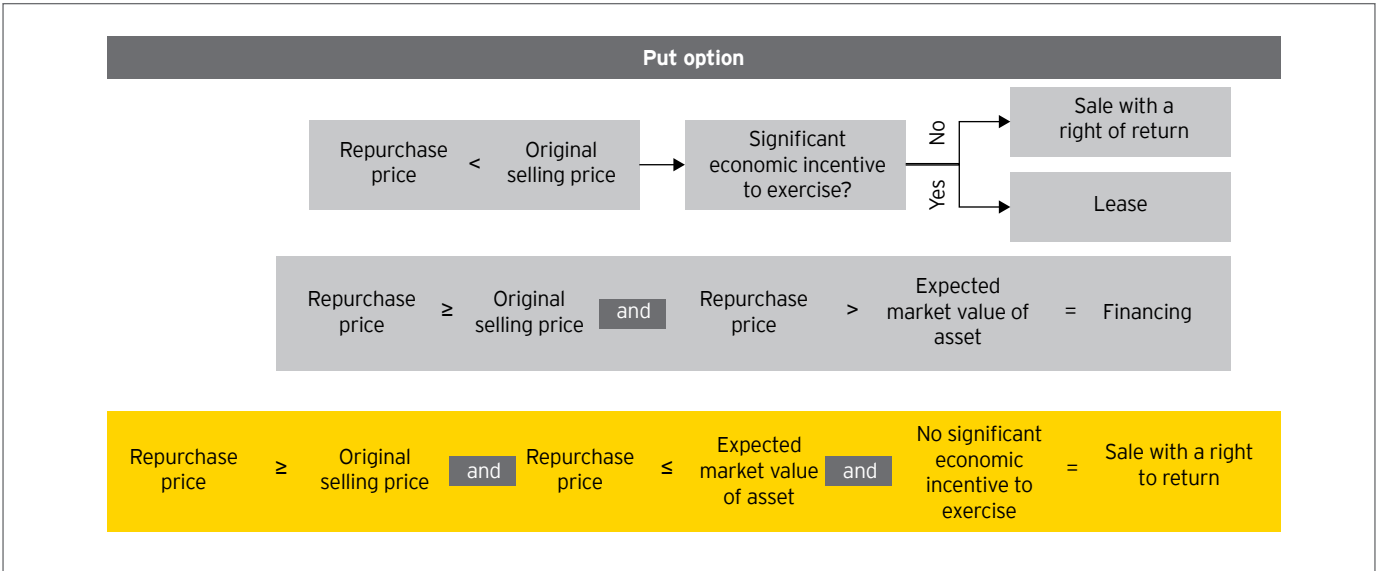
When comparing the repurchase price with the selling price, an entity considers the time value of money.

An entity that enters into a financing arrangement continues to recognise the transferred asset and recognises a financial liability for the consideration received from the customer. The entity recognises any amounts that it will pay upon repurchase in excess of what it initially received as interest expense over the period between the initial agreement and the subsequent repurchase. The entity derecognises the liability and recognises revenue if it does not exercise a call option and it lapses.

Put option held by the customer

A put option allows a customer, at its discretion, to require the entity to repurchase a good and indicates that the customer has control over that good. The customer has the choice of retaining the item, selling it to a third party, or selling it back to the entity.

The accounting for an arrangement with a put option depends on whether the customer has a significant economic incentive to exercise its right and the amount the entity must pay when the customer exercises the put option. The following diagram depicts this accounting:



If an entity has an obligation to repurchase the asset at the customer's request (a put option) at a price that is lower than the original selling price of the asset, the entity should evaluate at contract inception whether the customer has a significant

economic incentive to exercise that right. To determine whether a customer has a significant economic incentive to exercise its right, an entity should consider various factors, including the relationship of the repurchase price to the expected market

value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the customer has a significant economic incentive to exercise the put option.

- ▶ If the customer has a significant economic incentive to exercise that right, the entity should account for the agreement as a lease in accordance with Ind AS 17.
- ▶ If the customer does not have a significant economic incentive to exercise that right, the entity should account for the agreement as a sale of a product with a right of return.

If the repurchase price of the asset is equal to or greater than the original selling price and is more than the expected market value of the asset, the contract is in effect a financing arrangement. If the repurchase price of the asset is equal to or

Ind AS 115 does not provide any guidance on determining whether 'a significant economic incentive' exists to exercise put option and judgement may be required to make this determination.

greater than the original selling price and is less than or equal to the expected market value of the asset, and the customer does not have a significant economic incentive to exercise its right, then the entity should account for the agreement as sale of a product with a right of return.

Shipment of goods to a customer

Arrangements that involve shipment of goods to a customer might include promises related to the shipping service. Management should assess the explicit shipping terms to determine when control of the goods transfers to the customer and whether the shipping services are a separate performance obligation.

Shipping and handling services may be considered a separate performance obligation if control of the goods transfers to the customer before shipment, but the entity has promised to ship the goods (or arrange for the goods to be shipped). If control of a good does not transfer to the customer before shipment, shipping is not a separate promised service to the customer. Rather, it may be a fulfillment cost.

Management should also assess whether the entity is the principal or an agent for the shipping service if it is a separate performance obligation. This will determine whether the entity should record the gross amount of revenue allocated to the shipping service or the net amount, after paying the shipper.

Example 5 - Shipment services - Whether distinct?

Consumer Limited (CL) sells washing machines and on request of customer arranges a transporter to deliver goods at the customers door step. The delivery terms state that legal title and risk of loss passes to the customer on delivery to the transporter. CL though not legally obliged has a history of providing free replacement of goods damaged during transit. CL is acting as principal in provision of shipping service.

Customer has control of the washing machines at the time they are shipped and can sell them to another party or divert them to another location. CL cannot sell the washing machine to another customer (e.g., by redirecting the shipment).

There are at least two performance obligations: (1) sale of the washing machines, and (2) shipment service (including transit loss). Customer obtains control when washing machine is handed over to transporter. Thus, CL will recognise revenue when control transfers to the customer (that is, upon delivery to transporter) and recognise revenue allocated to the shipping service (including transit loss) when performance takes place.

Consignment arrangements

Entities frequently deliver inventory on a consignment basis to other parties (e.g., distributor, dealer). By shipping on a consignment basis, consignors are better able to market products by moving them closer to the end-customer. However, they do so without selling the goods to the intermediary (consignee). Under Ind AS 115, indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

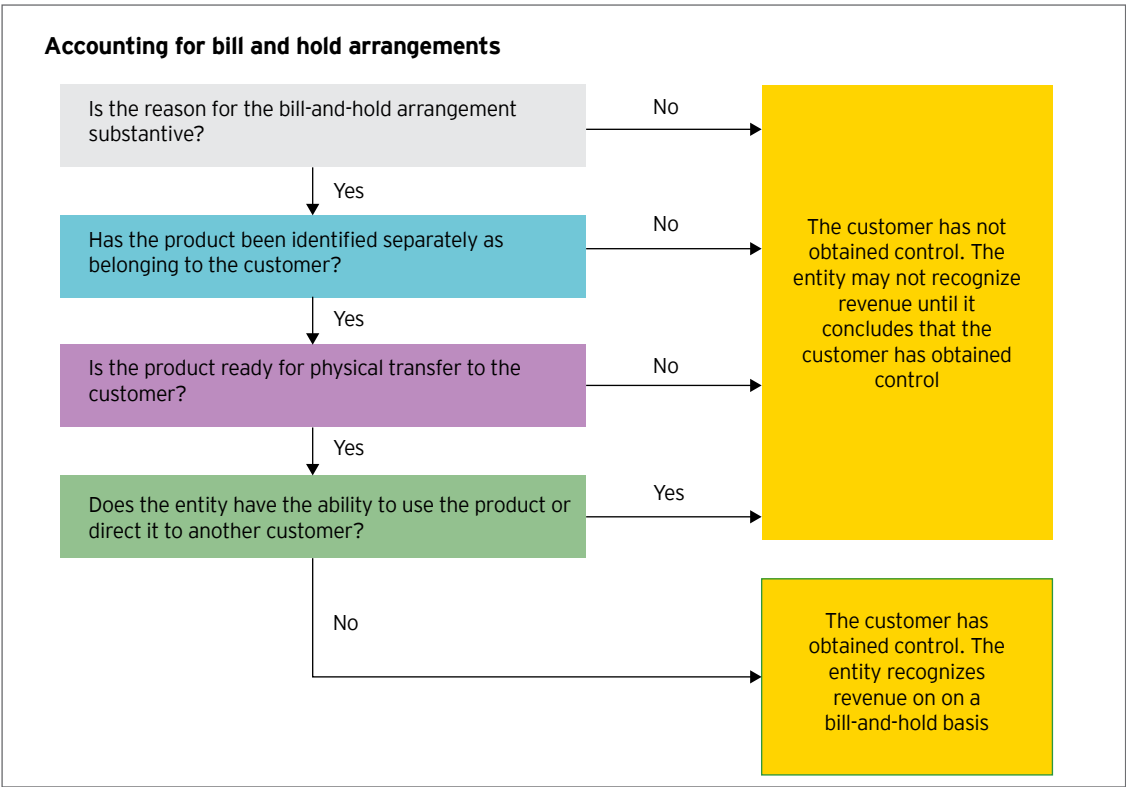
- a) The product is controlled by the entity until a specified event occurs, such as the sale of the product to a customer of the dealer or until a specified period expires,
- b) The entity is able to require the return of the product or transfer the product to a third party (such as another dealer)
- c) The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

In consignment arrangements, revenue is not recognised when the products are delivered to the consignee because control is not transferred. Revenue is generally recognised on sale to end customer.

Bill-and-hold arrangements

A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future. For example, a customer may request an entity to enter into such a contract because of the customer's lack of available space for the product or because of delays in the customer's production schedules.

An entity should determine when it has satisfied its performance obligation to transfer a product by evaluating when a customer obtains control of that product. For some contracts, control is transferred either when the product is delivered to the customer's site or when the product is shipped, depending on the terms of the contract (including delivery and shipping terms). However, for some contracts, a customer may obtain control of a product even though that product remains in an entity's physical possession. In that case, the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the product even though it has decided not to exercise its right to take physical possession of that product. Consequently, the entity does not control the product. Instead, the entity provides custodial services to the customer over the customer's asset.



If an entity recognises revenue for the sale of a product on a bill-and-hold basis, the entity should consider whether it has remaining performance obligations (e.g., for custodial services). If yes, the entity should allocate a portion of the transaction price to the remaining services. Though not specified in the standard, such allocation is required only when material in the overall context of financial statements.

If an entity recognises revenue for the sale of a product on a bill-and-hold basis, it should consider whether there is remaining performance obligations (e.g., for custodial services) and allocate a portion of the transaction price to the remaining services.

or to stand ready to transfer, goods or services in the future. Revenue would normally be recognised when the entity satisfies its performance obligation. However, since entities will frequently not be required by customers to fully satisfy their performance obligations, the expected breakage would be recognised as revenue in proportion to the pattern of rights exercised by the customer. If an entity does not expect to be entitled to a breakage amount, it would not recognise any breakage amounts as revenue until the likelihood of the customer exercising its right becomes remote. An exception to this process is when the entity is required to remit the payment to another party (e.g., the government). Such an amount is recognised as a liability.

When estimating any breakage amount, an entity has to consider the constraint on variable consideration. That is, if it is highly probable that a significant revenue reversal would occur for any estimated breakage amounts, an entity should not recognise those amounts until the breakage amounts are no longer constrained.

Breakage and prepayments for future goods or services

In certain industries, an entity will collect non-refundable payments from its customers for goods or services that the customer has a right to receive in the future. However, a customer may ultimately leave that right unexercised (often referred to as 'breakage'). Retailers, for example, frequently sell gift cards that are not completely redeemed and airlines sometimes sell tickets to passengers who allow the tickets to expire unused.

When an entity receives consideration that is attributable to a customer's unexercised rights, the entity recognises a contract liability equal to the amount prepaid by the customer for the performance obligation to transfer,





7.

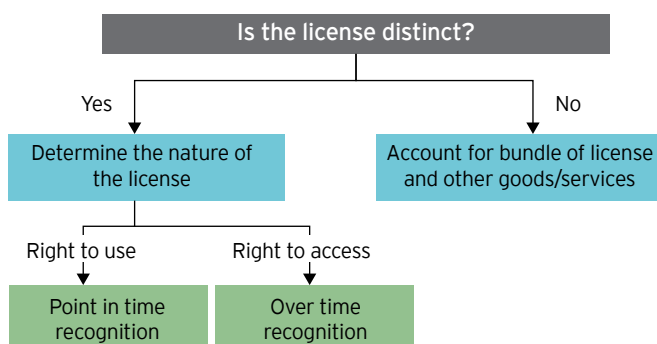
Licences of intellectual property

A license arrangement establishes a customer's rights related to an entity's intellectual property (IP) and the obligations of the entity to provide those rights. Licenses are common in the following industries:

- ▶ Technology - software and patents
- ▶ Entertainment and media - motion pictures, music, and copyrights
- ▶ Pharmaceuticals and life sciences - drug compounds, patents, and trademarks
- ▶ Retail and consumer - trade names and franchises

Ind AS 115 provides application guidance specific to the recognition of revenue for licences of IP, which differs from the recognition model for other promised goods and services. The following decision tree summarises how the new standard applies to licenses of intellectual property

Accounting for licenses of intellectual property



Identifying performance obligations in a licensing arrangement

Contracts for licences of IP frequently include explicit or implicit promises for additional goods and services (e.g., equipment, upgrades, maintenance and installation). When a contract with a customer includes a licence of IP and other promised goods or services, an entity will need to determine whether the licence of IP and the other promises are distinct (i.e., are separate performance obligations under step 2). Ind AS 115 outlines a two-step process for this determination:

- a) Consideration of whether the good or service is capable of being distinct
- b) Consideration of whether the good or service is separately identifiable from other promises in the contract

To conclude that a good or service is distinct, an entity will need to satisfy both the criterion.

Licences of IP that are not distinct

Given below are two examples where a customer only benefits from the combined output of the licence of IP and the related good or service. Thus, licences of IP that are not distinct:

- ▶ A licence that is a component of, and integral to the functionality of, a tangible good (e.g., software embedded in the operating system of a car)
- ▶ A licence from which the customer can benefit only in conjunction with a related service (e.g., media content that the customer can access only via an online service or drug component which requires proprietary R&D services from the entity)

A licence that is not distinct from other promised goods or services in a contract should be combined into a single performance obligation. The entity should assess whether the licence is the predominant item in the combined performance obligation. If yes, it will often need to consider the licensing application guidance for revenue recognition. See below for further discussion on applying the licensing application guidance.

If the license is incidental to the bundle, the assessment of whether the license is a right to access or a right use IP will not be relevant to the accounting for the bundle.

Licences of IP that are distinct

If the promise to grant the licence is distinct from the other promised goods or services in the contract and, therefore, the promise to grant the licence is a separate performance obligation, an entity should determine whether the licence transfers to a customer either at a point in time or over time. When determining whether a licence of IP transfers to a customer (and revenue is recognised) over time or at a point in time, the standard states that an entity provides a customer with either:

- ▶ A right to access the entity's IP throughout the licence period for which revenue is recognised over the licence period, or
- ▶ A right to use the entity's IP as it exists at the point in time the licence is granted for which revenue is recognised at the point in time the customer can first use and benefit from the licensed IP.

Licences that provide right to access

A license of IP that changes over time as a result of an entity's activities likely provides a customer (the licensee) with a right to access the IP as it exists throughout the arrangement. This is because the customer is not able to direct the use of and obtain substantially all of the remaining benefits from the license when it was initially transferred. Rather, the benefit is consumed as the entity provides access to the IP over the license period. An entity's promise in granting a licence is a promise to provide a right to access the entity's IP if all of the following criteria are met:

- a) The contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the IP to which the customer has rights.
- b) The rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities identified above.

Example 1 - Right to access the entity's intellectual property

Company A is the creator of a famous animated cartoon show. It grants a three-year license to a customer to use the cartoon characters. The customer can use the entity's characters in various ways, such as in shows or parades, televisions, radio and newspapers advertisements etc. within reasonable guidelines. The contract requires the customer to use the latest images of the characters.

There are no other goods or services provided to the customer in the arrangement. When entering into the license agreement, the customer reasonably expects that company A will continue to produce the show, develop the characters, and perform marketing to enhance awareness of the characters.

Evaluation

Company A's continued production and marketing of the show, and development of the characters, indicate that Company A will undertake activities that significantly affect the IP (the character images). The customer is directly exposed to any positive or negative effects of Company A's activities, as the Customer must use the latest images that could be more or less positively received by the public as a result of company A's activities. These activities are not separate performance obligations. The license therefore meets the criteria for a right to access IP. Company A will recognize revenue over time. Revenue recognition will commence when the show first airs because this is when the customer is able to benefit from the license.

- c) Those activities do not result in the transfer of a good or a service to the customer as those activities occur.

When all of the above criteria are met, a vendor accounts for the licence as a performance obligation satisfied over time.

Licenses that provide a right to use IP

Licenses that do not meet all three criteria to be accounted for as a right to access IP are accounted for as a right to use IP. Revenue is recognised in those circumstances at a point in time, because the customer is able to direct the use of and obtain substantially all of the benefits from the license at the time when control of the license is transferred to the licensee.

To illustrate, consider that a vendor grants a franchise licence to a customer, which provides the customer with a right to use the vendor's trade name and sell its products for a period of 10 years. The IP to which the customer has rights to is 'static' and is not affected by continuing involvement by the vendor. Therefore the license provides the customer a right to use the IP. This results in a performance obligation satisfied at a point in time, i.e., when control of the licence is transferred to the customer.

Sales-based or usage-based royalties on licences of IP

Ind AS 115 provides specific application guidance on the recognition of revenue for sales-based or usage-based royalties on licences of IP, which differs from the requirements that apply to other revenue from licences. It requires royalties received in exchange for licences of IP to be recognised at the later of when:

- a) The subsequent sale or usage occurs
- b) The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (or partially satisfied).

An entity recognises the royalties as revenue for such arrangements when (or as) the customer's subsequent sales or usage occurs, unless that pattern of recognition accelerates revenue recognition ahead of the entity's satisfaction of the performance obligation to which the royalty solely or partially relates, based on an appropriate measure of progress.

The requirement for a sales-based or usage-based royalty applies when the royalty relates only to a license of IP or when a license of IP is the predominant item to which the royalty relates (e.g., when the customer would ascribe significantly more value to the license than to the other goods or services to which the royalty relates). Ind AS 115 does not define "predominant" and, therefore, judgment may be required to make this assessment.



Contractual restrictions of time, geography, or use within a single license are attributes of that license. They do not impact whether the license is a right to access or a right to use IP.



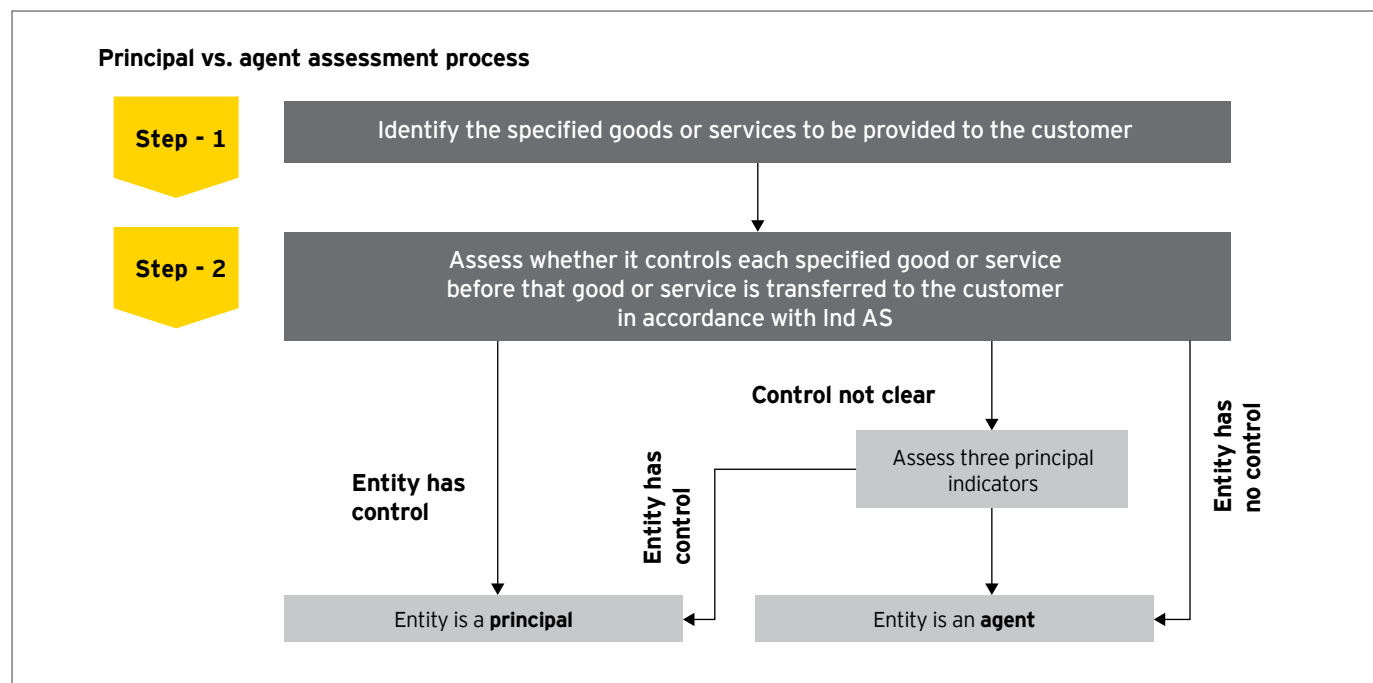
8.

Principal vs. agent considerations

When more than one party is involved in providing goods or services to a customer, Ind AS 115 requires an entity to determine whether it is a principal or an agent in the transaction by evaluating the nature of its promise to the customer. An entity is a principal (and, therefore, records revenue on a gross basis) if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent (and, therefore, records as revenue the net amount that it retains for its agency services) if its role is to arrange for another entity to provide the goods or services.

Principal vs. agent evaluation

Given below is an overview of Ind AS 115 guidance for the evaluation:



Ind AS 115 focuses on control of the specified goods or services as the overarching principle for entities to consider in determining whether they are acting as a principal or an agent. This could result in entities reaching different conclusions than they did under Ind AS 18.

Identifying the specified good or service

An entity must first identify the specified good or service (or unit of account) to be provided to the customer in the contract in order to determine the nature of its promise. A specified good or service may be a distinct good or service or a distinct bundle of goods and services. In many situations, especially those involving tangible goods, identifying the specified good or service will be relatively straightforward. For example, if an entity is reselling laptop computers, the specified good that will be transferred to the customer is a laptop computer. However, the assessment may require significant judgement in other situations, such as those involving intangible goods or services. In these situations, the specified good or service may be the underlying good or service a customer ultimately wants to obtain (e.g., a flight, a meal) or a right to obtain that good or service (e.g., in the form of a ticket or voucher).

Control of the specified good or service

The second step in determining the nature of the entity's promise is for the entity to determine whether the entity controls the specified good or service before it is transferred to the customer. An entity cannot provide the specified good or service to a customer (and, therefore, be a principal) unless it controls that good or service prior to its transfer. In assessing whether an entity controls the specified good or service prior to transfer to the customer, the entity should consider the definition of control given in Step 5 of the model. If, after evaluating the control, an entity concludes that it controls the specified good or service before it is transferred to the customer, the entity is a principal in the transaction. If the entity does not control that good or service before transfer to the customer, it is an agent.

There is a general apprehension that the control principle is easier to apply to tangible goods than to intangible goods and services. To address this aspect, Ind AS 115 includes application guidance on how the control principle applies to certain arrangements (including service transactions). Ind AS 115 explains that an entity which is a principal obtains a right to a service to be performed by the other party. This will give the entity an ability to direct that party to provide the service to the customer on the entity's behalf.

Consider an example related to an airline ticket reseller (ABC Limited). In this case, the specified good or service is the right to fly on a specified flight (in the form of a ticket). ABC pre-purchases the airline tickets before a specific customer is identified and must pay for it. ABC determines the prices at which the airline tickets will be sold to its customers. ABC sells the tickets and collects the consideration from customers. ABC controls the right to each flight before it transfers that specified right to one of its customers because ABC has the ability to direct the use of that right by deciding whether to use the ticket to fulfil a contract with a customer and, if so, which contract it will fulfil. ABC also has the ability to obtain the remaining benefits from that right by either reselling the ticket or, alternatively, by using the ticket itself. Hence, ABC controls the right before it is transferred to the customer and is, therefore, a principal.

Consider one more example where an entity (DEF) sells meal vouchers that entitle customers to future meals at specified restaurants selected by the customer. The specified good or service is the right to a meal (in the form of a voucher). DEF does not pre-purchase or commit itself to purchase the vouchers from the restaurants before they are sold to a customer. Instead, DEF waits to purchase the voucher until a customer requests a voucher from a particular restaurant. Vouchers are created only at the time that they are transferred to a customer and do not exist before that transfer. Thus, the right does not exist before the customer obtains it. DEF does not at any time have the ability to direct the use of the vouchers or obtain substantially all of the remaining benefits from the vouchers before they are transferred to customers. DEF does not control the right before it is transferred to the customer and is, therefore, an agent.

Indicators that an entity is the principal

After considering the guidance above, it may still not be clear whether an entity controls the specified good or service. Therefore, Ind AS 115 provides the following three indicators of when an entity controls the specified good or service and is, therefore, a principal:

- a) The entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (e.g., primary responsibility for the good or service meeting customer specifications).

- b) The entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (e.g., if the customer has a right of return).
- c) The entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties.

The above indicators are meant to support an entity's assessment of control, not to replace it. The indicators do not override the assessment of control, should not be viewed in isolation and do not constitute a separate or additional evaluation. Furthermore, they should not be considered a checklist of criteria to be met or factors to be considered in all scenarios. Considering one or more of the indicators will often

be helpful and, depending on the facts and circumstances, individual indicators will be more or less relevant or persuasive to the assessment of control. If an entity reaches different conclusions about whether it controls the specified good or service by applying the standard's definition of control versus the principal indicators, the entity should re-evaluate its assessment, considering the facts and circumstances of its contract.

Determining whether an entity is the principal or an agent in an arrangement can require significant judgment. Management should obtain detailed understanding of the relationships and contractual arrangements between the parties.

Example 1 - Principal vs. agent assessment

- ▶ Entity Z sells to the customer (a) hardware, and (b) maintenance services for a fixed term.
- ▶ Entity Z develops the price quote and offers customer high technology hardware from third-party Vendor X, amongst several vendors.
- ▶ There are 2 performance obligations: (a) hardware and installation, and (b) maintenance services.

Hardware and installation

- ▶ The hardware is delivered directly to the Customer's site via drop shipment from Vendor X.
- ▶ The installation services are completed by Entity Z.
- ▶ Entity Z never obtains physical possession of the hardware, but does have legal title while the goods are in transit from Vendor X to the Customer.
- ▶ Entity Z is responsible for any correction to the equipment resulting from errors in the specifications.
- ▶ Vendor X is responsible for warranties arising from defects in hardware and for this purpose interacts directly with Customer. Entity Z is not involved.

Maintenance services

- ▶ Entity Z arranges for Vendor X to provide maintenance services to the Customer, for a three year term.
- ▶ Customer receives maintenance directly from Vendor X. For this purpose, the Customer interacts directly with Vendor X and Entity Z is not involved.

Example 1 – Principal vs. agent assessment (cont'd.)

Payment terms

- ▶ Customer makes all payments to Entity Z, as per terms agreed between them.
- ▶ Entity Z makes all payments to Vendor X, as per terms agreed between them.

Issue

Is Entity Z acting as a principal or an agent?

Evaluation

Assess control of hardware sale transaction	Entity Z considers control and other indicators and concludes that: ▶ Entity Z is responsible for the suitability of the hardware to meet the customer's requirements. ▶ Entity Z is responsible for providing overall hardware and installation, and a significant service of integrating the hardware (input) and the installation into a combined output, viz., specialised hardware. ▶ Agreement between Entity Z and Vendor X may preclude Vendor X from diverting the hardware to another party. ▶ Entity Z does not have the inventory risk of the hardware, because it does not buy the hardware before obtaining a contract and does not hold the hardware in inventory. ▶ Entity Z has full discretion in establishing the price for the hardware to its customers ▶ Entity Z's profit margin is the difference between the price it negotiates with Customer and Vendor X
Assess control of maintenance service	Entity Z considers control and other indicators and concludes that: ▶ Customer interacts directly with Vendor X and Vendor X has responsibility for providing the maintenance services. ▶ The inventory risk criteria is not relevant for services. ▶ Entity Z has discretion in establishing the price for the maintenance service to a certain degree (an agent may have some flexibility in setting prices in order to generate additional revenue)

Entity Z is principal in relation to the hardware, but agent in relation to the provision of maintenance services.

Revenue recognition implications

When the entity is the principal in the arrangement, the revenue recognised is the gross amount to which the entity expects to be entitled. The entity recognises a corresponding expense for the commission or fee it has to pay to any agent in addition to the direct costs of satisfying the contract. When the entity is the agent, the revenue recognised is the net amount that the entity is entitled to retain in return for its services as the agent.

After an entity determines whether it is the principal or the agent and the amount of gross or net revenue that would be recognised, the entity recognises revenue when or as it satisfies its performance obligation. An entity satisfies its performance obligation by transferring control of the specified good or service underlying the performance obligation, either at a point in time or over time. That is, a principal would recognise revenue when (or as) it transfers the specified good or service to the customer. An agent would recognise revenue when its performance obligation to arrange for the specified good or service is complete.

The determination of whether the entity is acting as a principal or an agent affects the amount as well as timing of revenue the entity recognises.

In some contracts in which the entity is the agent, control of specified goods or services promised by the agent may transfer before the customer receives related goods or services from the principal. For example, an entity might satisfy its promise to provide customers with loyalty points when those points are transferred to the customer and the entity has no ongoing involvement. In contrast, if the points entitle the customers to future goods or services to be provided by the entity, the entity may conclude it is not an agent. In these cases, the entity's performance obligation may only be satisfied when the future goods or services are provided.





9.

Contract modifications

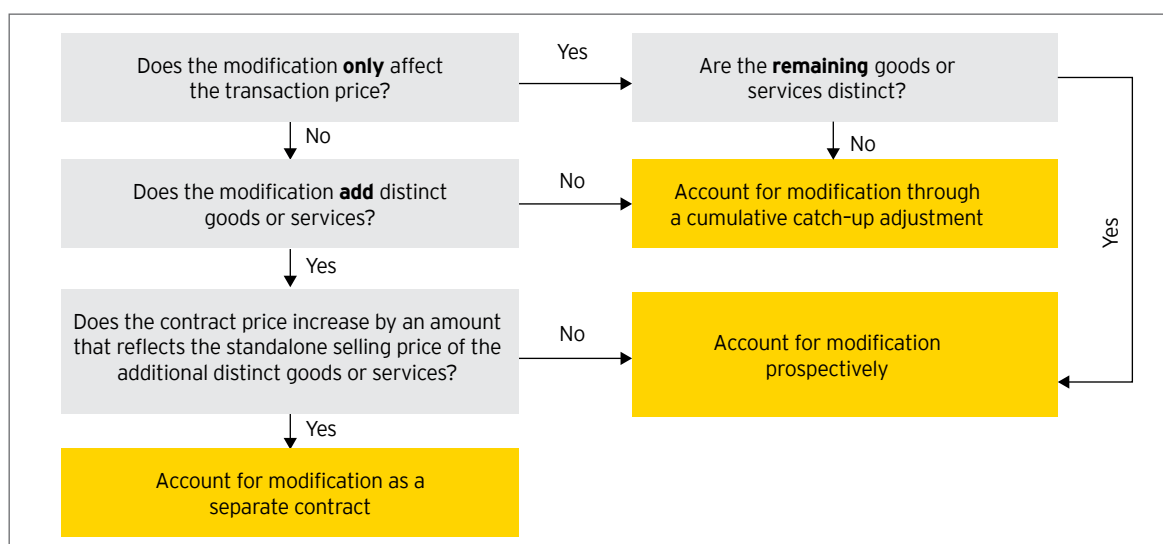
Any change in an existing contract is a modification. A contract modification may arise due to change in the scope or price (or both) of a contract. In some industries and jurisdictions, a contract modification may be described as a change order, a variation or an amendment. A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. A contract modification could be approved in writing, by oral agreement or implied by customary business practices. If the parties to the contract have not approved a contract modification, an entity should continue to apply Ind AS 115 to the existing contract until the contract modification is approved.

A contract modification may exist even though the parties to the contract have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the contract but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity should consider all relevant facts and circumstances including the terms of the contract and other evidence. If the parties to a contract have

approved a change in the scope of the contract but have not yet determined the corresponding change in price, an entity will estimate the change to the transaction price arising from the modification in accordance with requirements for estimating variable consideration and constraining those estimates.

In determining whether the rights and obligations created by a modification are enforceable, an entity should consider all relevant facts and circumstances including terms of the contract and other evidence.

Ind AS 115 contains detailed requirements with regard to for contract modifications. Depending on the specific facts and circumstances, a modification may be accounted for as a separate contract or a modification of the original contract. This is explained with the help of the diagram and examples below.



Contract modification accounted for as a separate contract

A contract modification is treated as a separate contract if the modification results in:

- ▶ A promise to deliver additional goods or services that are distinct.
- ▶ An increase in the price of the contract by an amount of consideration that reflects the entity's stand-alone selling price of those goods or services adjusted to reflect the circumstances of the contract.

Example 1 - Contract modifications – sale of additional goods

Company A enters into an arrangement with Company B (customer) to sell 400 units of a particular product for INR500,000 (INR125 per unit). The goods are distinct and are transferred to the customer over a six-month period. In the fifth month, the parties modify this contract to provide for transfer of additional 50 units @ INR120 per unit. The price of the additional units represents the standalone selling price on the modification date. The difference in selling price per unit represents discount in the normal course of business, considering the fact that company B is an existing customer and Company A does not have to incur any additional marketing/selling cost to acquire the customer.

Evaluation

The additional units to be transferred are distinct and the price of the goods represents the standalone selling price. Thus, modification to sell an additional 50 units @ INR 120 per unit is accounted for as a separate contract. The existing contract accounting is not impacted by the modification.

Contract modification is not a separate contract

If contract modification is not accounted for as a separate contract, then the entity's accounting for the modification depends on whether the remaining goods or services under the modified contract are distinct from those goods or services transferred to the customer before the modification. If they are distinct, then the entity accounts for the modification as if it were a termination of the existing contract and the creation of a new contract. In this case, the entity does not reallocate any change in the transaction price to performance obligations that are completely or partially satisfied on or before the date of the contract modification. Instead, the modification is accounted for prospectively and the amount of consideration allocated to the remaining performance obligations.

Example 2 – Contract modifications accounted for prospectively

Xerox Services Limited (XSL) enters into a three-year service contract with a customer to service their Xerox machines across all locations in India for a total consideration of INR21,00,000 (INR7,00,000 per year). The standalone selling price for one year of service contract at inception of the contract is INR7,00,000 per year. XSL accounts for the contract as a series of distinct services.

At the end of the second year, the parties agree to modify the contract as follows: (1) the fee for the third year is reduced to INR6,10,000, and (2) Customer agrees to extend the contract for another two years for INR14,00,000 (INR7,00,000 per year). At the date of modification, the standalone selling price for one year of service is INR6,85,000.

Evaluation

The remaining services to be provided are distinct. However, the price of the contract did not increase by an amount of consideration that reflects the standalone selling price of the additional services. Thus, the modification is not accounted for as a separate contract. Rather, it is treated as if the existing arrangement was terminated and a new contract created on a prospective basis.

Amount of revenue to be recognised prospectively for each year over the remaining 3 years of the modified contract is INR6,70,000 calculated as below:

Consideration for one year remaining under the original contract:	INR6,10,000
Two additional years @ INR7,00,000 per year:	INR14,00,000
Total consideration	INR20,10,000
Consideration per year	INR6,70,000

If the modification to the contract does not add distinct goods or services, then the entity accounts for it on a combined basis with the original contract, as if the additional goods or services were part of the initial contract – i.e. a cumulative catch-up adjustment.

Example 3 – Cumulative catch-up adjustment

Xerox Services Limited (XSL) enters into a three-year service contract with a customer to service their Xerox machines across all locations in India for a total consideration of INR21,00,000 (INR7,00,000 per year). At the end of the second year, the parties agree that consideration should be at INR7,50,000 per year for all three years because the volumes were much larger than expected. XSL will recognise an additional revenue of INR1,00,000 (INR50,000 per year) as a cumulative catch up adjustment, as soon as the modification is approved by the customer.



10.

Other topics

Warranties

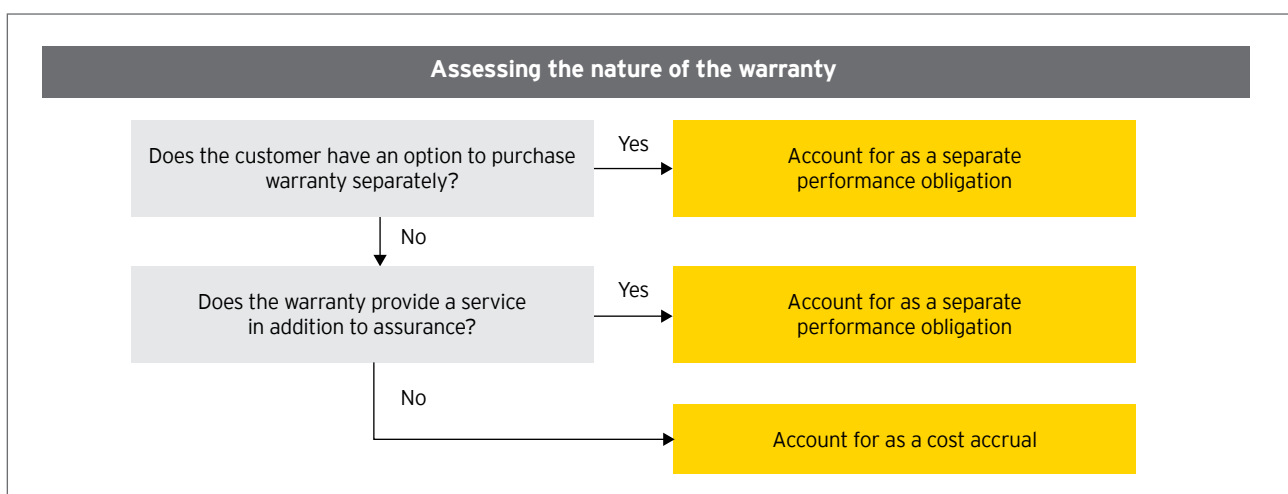
Warranties are commonly included in arrangements to sell goods or services. They can be explicitly stated, required by law or implied based on the entity's customary business practices. The price of a warranty may be included in the overall purchase price or listed separately as an optional product. The standard identifies two types of warranties:

- ▶ Assurance-type warranties, i.e., warranties that promise the customer that the delivered product is as specified in the contract
- ▶ Service-type warranties, i.e., warranties that provide a service to the customer in addition to assurance that the delivered product is as specified in the contract

To determine whether a warranty is an assurance-type or service-type warranty, an entity will consider factors such as:

- Whether the warranty is required by law - If the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a performance obligation because such requirements typically exist to protect customers from the risk of purchasing defective products.
- The length of the warranty coverage period - The longer the coverage period, the more likely it is that the promised warranty is a performance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.
- The nature of the tasks that the entity promises to perform - If it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (e.g., a return shipping service for a defective product), then those tasks likely do not give rise to a performance obligation.

Accounting for warranties



Some contracts may include both an assurance-type warranty and a service-type warranty. These two types of warranties should be accounted for separately. However, if the entity cannot reasonably account for them separately, the warranties

are accounted for as a single performance obligation (i.e., revenue would be allocated to the combined warranty and recognised over the period the warranty services are provided).

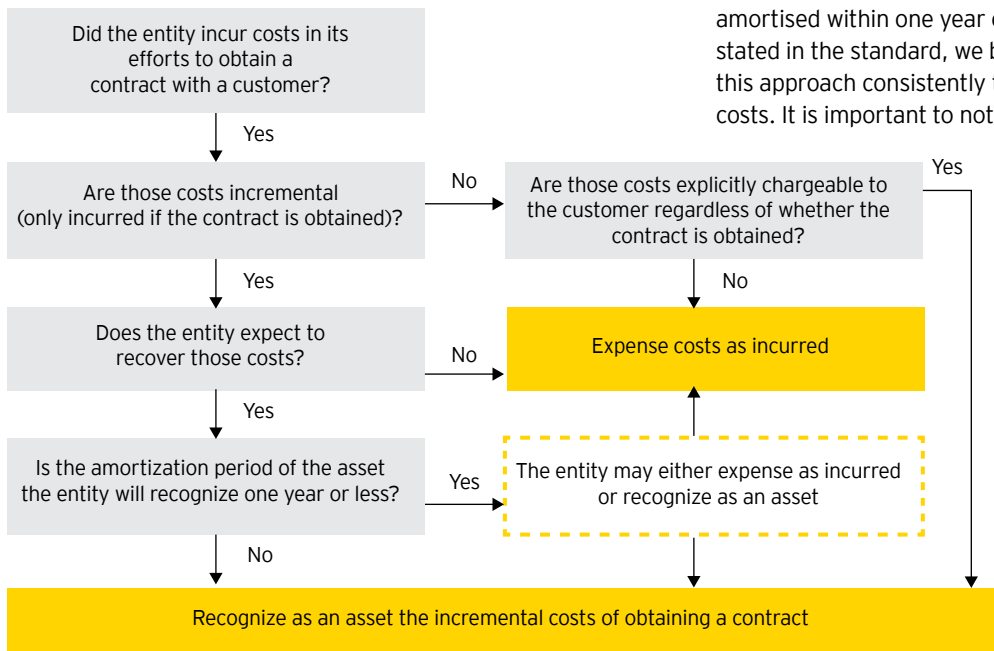
Contract cost

Ind AS 115 specifies the accounting treatment for costs an entity incurs to obtain and fulfil a contract to provide goods and services to customers. An entity only applies these requirements to costs incurred that relate to a contract with a customer that is within the scope of Ind AS 115.

Costs to obtain a contract

Before applying the cost requirements in Ind AS 115, entities should consider the scoping provisions of the standard. Specifically, an entity should first consider the requirements on consideration payable to a customer. Ind AS 115 requires any consideration payable to a customer to be reduced from revenue and the same cannot be treated as cost. The following chart explains accounting for costs to obtain a contract:

Cost to obtain a contract overview



Only incremental costs of obtaining a contract should be recognised as assets. All other cost should be expensed as incurred unless those cost are chargeable to the customer even if the contract is not obtained. Incremental costs of obtaining a contract are those costs that would not have been incurred if the entity would not have obtained the contract (e.g., sales commissions). Bid, proposal, and selling and marketing costs (including advertising costs), as well as legal costs incurred in connection with the pursuit of the contract, are not incremental, as the entity would have incurred those costs even if it did not obtain the contract. Fixed salaries of employees are

also not incremental because those salaries are paid regardless of whether a sale is made.

If an entity pays a sales commission to the salesperson, manager, and regional manager upon obtaining a new contract, all of the payments will be incremental costs. The timing of a payment does not on its own determine whether the costs are incremental; however, management should consider whether the payment is contingent upon factors other than obtaining a contract. For example, a bonus payment that is calculated based on obtaining contracts is similar to a commission, but if the bonus is also based on the individual’s overall performance in relation to non-sales-related goals, it is likely not an incremental cost.

Practical expedient

As a practical expedient, Ind AS 115 permits an entity to immediately expense contract acquisition costs when the asset resulting from capitalising such costs would have been amortised within one year or less. While this is not explicitly stated in the standard, we believe entities would need to apply this approach consistently to all short-term contract acquisition costs. It is important to note that the amortisation period for incremental costs may not always be the initial contract term. Rather the amortisation period will include the renewal and potential renewal period.

Costs to fulfil a contract

The standard divides contract fulfilment costs into two categories: (1) Costs that give rise to an asset; and (2) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, Ind AS 115 makes it clear that any other applicable

standards are considered first. If those other standards preclude capitalisation of a particular cost, then an asset cannot be recognised under Ind AS 115. If other standards are not applicable to contract fulfilment costs, Ind AS 115 provides the following criteria for capitalisation:

- ▶ The costs directly relate to a contract or to a specifically identifiable anticipated contract (e.g., costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved).

- ▶ The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- ▶ The costs are expected to be recovered.

If all of the criteria are met, an entity is required to capitalise these costs. If the costs incurred in fulfilling a contract do not give rise to an asset, based on the criteria above, they must be expensed as incurred.

Significant judgement may be required to determine whether costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future.

Given below examples of costs that may meet the first criterion for capitalisation (i.e., costs that relate directly to the contract) and some costs that must be expensed as incurred

Direct costs that may be eligible for capitalisation	Costs to be expensed as incurred
▶ Direct materials ▶ Direct labour ▶ Allocations of costs that relate directly to the contract or to contract activities (e.g., costs of contract management and supervision, insurance and depreciation of equipment used in fulfilling the contract) ▶ Costs that are explicitly chargeable to the customer under the contract ▶ Other costs that are incurred only because an entity entered into the contract (e.g., payments to subcontractors).	▶ General and administrative costs (unless explicitly chargeable to the customer) ▶ Costs of wasted materials, labour or other resources ▶ Costs that relate to satisfied performance obligations or partially satisfied performance obligations ▶ Costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations.

Amortisation of capitalised costs

Any capitalised contract costs are amortised, with the expense recognised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer.

An entity updates the amortisation method and period when there is a significant change in the expected timing of transfer to the customer of the goods or services to which the asset relates and accounts for such a change as a change in accounting estimate in accordance with Ind AS 8.

Impairment of capitalised costs

Any asset recorded by the entity is subject to an assessment of impairment at the end of each reporting period. This is because costs that give rise to an asset must continue to be recoverable throughout the contract (or period of benefit, if longer), in order to meet the criteria for capitalisation.

An impairment exists if the carrying amount of any asset(s) exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services. Impairment losses are recognised in profit or loss.

Onerous contracts

Onerous contracts are those where the cost to fulfil the contract exceeds the consideration expected to be received under the contract. Ind AS 115 does not provide guidance on the accounting for onerous contracts or onerous performance obligations. Ind AS 37 contain applicable guidance on the accounting for onerous contract losses, and those requirements should be used to identify and measure onerous contracts. Ind AS 37 requires that if a contract is onerous, the present obligation under the contract should be recognised and measured as a provision. Such provision is measured at the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Ind AS 115 will require a significant change in practice for entities that have historically amortised sales commissions over the non-cancellable term of the initial contract.



11.

Presentation and disclosure

Ind AS 115 provides explicit presentation and disclosure requirements that are more detailed than under the current Ind AS and increase the volume of required disclosures that entities will have to include in their annual financial statements. If an entity prepares condensed or complete interim financial statements in accordance with Ind AS 34 *Interim Financial Reporting*, then disclosures required in interim financial statements will also increase. Many of the new requirements involve information that entities have not previously disclosed/collated.

Key changes from the current Ind AS

In practice, the nature and extent of changes to an entity's financial statements will depend on a number of factors, including, but not limited to, the nature of its revenue-generating activities and level of information previously disclosed. Nevertheless, the following table summarises, at a high level, the types of changes that many entities could expect when they adopt Ind AS 115. This is not an exhaustive list.

Ind AS 115 requirements	Current disclosures	Potential changes
Disaggregated revenue (Ind AS 115.114 - 115)	Revenue by segment and by significant category in accordance with Ind AS 108 <i>Operating Segments</i>	▶ Further disaggregation within segments ▶ Disaggregation by multiple categories
Contract balances (Ind AS 115.116 - 118)	Potential Management Discussion & Analysis (MD&A) discussion of significant work in progress and deferred revenue	▶ Additional quantitative requirements for contract balances ▶ More prescriptive requirements for narrative discussion ▶ Applies to all contract balances
Performance obligations (Ind AS 115.119 - 120)	Potential MD&A discussion of 'backlog'	▶ Disclosures for all unsatisfied performance obligations at the reporting date (when not applying the practical expedient) ▶ Only includes amounts included in the transaction price
Significant judgements (Ind AS 115.123 - 126)	General requirements for disclosures of sources of estimation uncertainty in accordance with Ind AS 1.125	▶ New narrative and quantitative disclosures about judgements used when determining timing and measurement of revenue recognition
Assets recognised from the costs to obtain or fulfil a contract (Ind AS 115.127 - 128)	No legacy requirements	▶ New narrative and quantitative disclosures about the balances and amortisation (including impairment losses) of contract costs assets

Entities may also need to reassess their accounting policy disclosures. Under the current Ind AS, entities provided brief and, sometimes, boilerplate disclosures of the policies for revenue recognition. The brevity may have been due, in part, to the limited guidance provided in Ind AS 18/ Ind AS 11. Given the complexity of Ind AS 115 requirements, the policies that apply to revenues and costs within the scope of Ind AS 115 will be more challenging to explain and require entities to provide more tailored and detailed disclosures.

Ind AS 115 significantly increases the volume of disclosures required in entities' financial statements. Many of the required disclosures are completely new.

Presentation within the primary financial statements

Revenue from contracts with customers

Entities are required to present in the statement of profit and loss (P&L), or disclose in the notes, the amount of revenue recognised from contracts with customers separately from other sources of revenue.

In the ordinary course of business, an entity may undertake other transactions that do not generate revenue, but are incidental to the main revenue-generating activities. To comply with Ind AS 115 requirement, an entity must present revenue from contracts with customers separately from other sources of revenue in P&L or notes thereto.

Contract balances

Ind AS 115 requires an entity to present the following items separately in the balance sheet:

- ▶ **Contract asset:** An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer
- ▶ **Contract liability:** An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer
- ▶ **Receivable:** An entity's right to consideration that is unconditional (only the passage of time is required before payment of that consideration is due).

The standard allows an entity to use alternative descriptions in the balance sheet. However, an entity must disclose sufficient information so that users of the financial statements can clearly distinguish between unconditional rights to receive consideration (receivables) and conditional rights to receive consideration (contract assets). Entities are required to disclose impairment losses from contracts with customers separately from other impairment losses, either in the P&L or in the notes.

Current versus non-current presentation

Unless an entity presents its balance sheet on a liquidity basis, it will need to present assets or liabilities arising from contracts within the scope of Ind AS 115 as current or non-current in the balance sheet. Ind AS 115 does not provide guidance on making this determination. Rather, entities will need to consider the requirements in Ind AS 1 and Ind AS complaint Schedule III.

Other presentation considerations

Contract assets and liabilities should be determined at the contract level and not at the performance obligation level. This is because the rights and obligations in a contract with a customer are interdependent.

Since Ind AS 115 does not provide requirements for offsetting, entities will need to apply the requirements of other Ind AS (e.g., Ind AS 1 and Ind AS 32) to determine whether it is appropriate to offset contract assets and liabilities against other balance sheet items (e.g., receivable).

Assets recognised from the costs to obtain or fulfil a contract

If an entity recognises incremental costs of obtaining the contract and/or costs to fulfil a contract as assets under Ind AS 115, the standard requires that such assets are presented separately from contract assets and contract liabilities in the balance sheet or disclosed separately in the notes to the financial statements. However, the standard is silent on the classification of these assets. Therefore, entities will need to develop an appropriate accounting policy.

Considering the nature of costs to obtain a contract and the lack of guidance, we believe an entity may choose to present these costs as either:

- ▶ A separate class of intangible assets in the balance sheet and its amortisation in the same line item as amortisation of intangible assets within the scope of Ind AS 38 *Intangible Assets*, or

- ▶ A separate class of asset (similar in nature to work in progress, or 'inventory') in the balance sheet and its amortisation within changes in contract costs, other expenses or similar line items

The nature of costs to fulfil a contract is such that they directly affect the entity's performance under the contract. Therefore, costs to fulfil a contract should be presented as a separate class of asset in the balance sheet and its amortisation within changes in contract costs, other expenses or similar line items.

Assets and liabilities arising from rights of return

An entity may recognise refund liabilities and an asset for the right to recover products on settling that liability. An entity needs to present the refund liability separately from the corresponding asset (on a gross basis, rather than a net basis).

Significant financing components

When a significant financing component exists in a contract, there are two components: a revenue component (for the notional cash sales price); and a loan component (for the effect of the deferred or advance payment terms). The amount allocated to the significant financing component is presented separately from revenue recognised. The financing component is presented as interest expense (when the customer pays in advance) or interest income (when the customer pays in arrears).

Impairment losses on receivables, with or without a significant financing component, are presented in line with the requirements of Ind AS 1 and disclosed in accordance with Ind AS 107 *Financial Instruments: Disclosures*. However, Ind AS 115 is clear that such amounts are disclosed separately from impairment losses from other contracts.

Disclosures within the notes to the annual financial statements

Disclosure objective

In accordance with Ind AS 115, the objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

Entities may need to expend additional effort to track impairment losses on assets arising from contracts covered under Ind AS 115 separately, from impairment losses on assets arising from other contracts.

- Its contracts with customers
- The significant judgements, and changes in the judgements, made in applying Ind AS 115
- Any assets recognised from the costs to obtain or fulfil a contract with a customer

An entity should consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity should aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

Entities should review their disclosures to determine whether they have met the standard's disclosure objective to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. For example, some entities may make large payments to customers that do not represent payment for a distinct good or service and therefore reduce the transaction price and affect the amount and timing of revenue recognised. Although there are no specific requirements in the standard to disclose balances related to consideration paid or payable to a customer, an entity may need to disclose qualitative and/or quantitative information about those arrangements to meet the objective of disclosure requirements in the standard if the amounts are material.

Entities are required to ensure that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

Disaggregation of revenue

The standard includes the following disclosure requirements in relation to the disaggregation of revenue:

Disclosure requirements Ind AS 115		
Quantitative	▶ Disaggregated revenue by categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors	Ind AS 115.114
	▶ If the entity applies Ind AS 108 <i>Operating Segments</i> , an entity must disclose sufficient information to enable users of financial statements to understand relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment.	Ind AS 115.115

While the standard does not specify precisely how revenue should be disaggregated, the application guidance indicates that the most appropriate categories for a particular entity will depend on its facts and circumstances. When selecting a category to use to disaggregate revenue, entities should consider how revenue is disaggregated for other purposes, including:

- ▶ How it discloses revenue in other communications (press releases , other public filings etc.)
- ▶ How information is regularly reviewed by the chief operating decision maker to evaluate the financial performance of operating segments (in accordance with Ind AS 108)
- ▶ How other information is used by the entity, or users of the financial statements, to evaluate financial performance or make resource allocation decisions

In addition, entities need to make this determination based on entity-specific and/or industry-specific factors that would be most meaningful for their businesses. Examples of categories might include, but are not limited to, the following:

Category	Example
Type of good or service	Major product lines
Geographical region	Country or region
Market or type of customer	Government and non-government customers
Contract duration	Short-term and long-term contracts
Timing of transfer of goods or services	Goods or services transferred to customers: At a point in time Over time
Sales channels	Goods sold: Directly to consumers Through intermediaries

Since entities are encouraged to tailor their disclosure of disaggregated revenue, they are unlikely to follow a single approach. Ind AS 115 clarifies that an entity need not to duplicate disclosures required by another standard. For example, an entity that provides disaggregated revenue disclosures as part of its segment disclosures, in accordance with Ind AS 108, does not need to separately provide disaggregated revenue disclosures if the segment-related disclosures are sufficient to meet Ind AS 115 requirements.

Contract balances

The following disclosures are required for an entity's contract balances and changes in the balances:

Disclosure requirements Ind AS 115		
Quantitative	▶ The opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed	Ind AS 115.116(a)
	▶ Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period	Ind AS 115.116(b)
	▶ Revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (e.g., changes in transaction price)	Ind AS 115.116(c)
Qualitative	▶ Explanation how the timing of satisfaction of its performance obligations relates to the typical timing of payment and the effect that those factors have on the contract asset and contract liability balances	Ind AS 115.117
Quantitative or qualitative	Explanation of the significant changes in the contract asset and the contract liability balances during the reporting period, for example: ▶ Changes due to business combinations ▶ Cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability (including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price) or a contract modification ▶ Impairment of a contract asset ▶ A change in the time frame for a right to consideration to become unconditional (i.e., for a contract asset to be reclassified to a receivable) ▶ A change in the time frame for a performance obligation to be satisfied (i.e., for the recognition of revenue arising from a contract liability)	Ind AS 115.118

Ind AS 115 requires entities to separately disclose balances from contracts with customers. Entities having material receivables from other contracts, say lease contracts, will need to separate these balances for disclosure purposes.

In addition to the disclosures on contract balances and changes, Ind AS 115 requires entities to disclose the amount of revenue recognised in the period that relates to amounts allocated to performance obligations that were satisfied (or partially satisfied) in previous periods (e.g., due to a change in transaction price or in estimates related to the constraint on revenue recognised). This information is not required elsewhere in the financial statements and will provide relevant information about the timing of revenue recognised that was not a result of performance in the current period.

Performance obligations

Information about performance obligations

An entity needs to disclose the below qualitative information about its performance obligations:

Disclosure requirements Ind AS 115		
Qualitative	Information about performance obligations in contracts with customer, including a description of the following:	
	▶ When the entity typically satisfies its performance obligations (e.g., upon shipment, upon delivery, as services are rendered or upon completion of service) including when performance obligations are satisfied in a bill-and-hold arrangement	Ind AS 115.119(a)
	▶ Significant payment terms (e.g., when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained)	Ind AS 115.119(b)
	▶ The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e., if the entity is acting as an agent)	Ind AS 115.119(c)
	▶ Obligations for returns, refunds and other similar obligations	Ind AS 115.119(d)
	▶ Types of warranties and related obligations	Ind AS 115.119(e)

Transaction price allocated to remaining performance obligations

An entity provides information about unsatisfied or partially satisfied performance obligations as follows:

Disclosure requirements Ind AS 115		
Quantitative or qualitative	▶ The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period	Ind AS 115.120(a)
	▶ An explanation of when the entity expects to recognise this amount as revenue, using either:	Ind AS 115.120(b)
	▶ Quantitative information (i.e., using time bands that would be most appropriate for the duration of the remaining performance obligations), or ▶ Qualitative information	
Practical expedient	An entity needs not disclose information about the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, when either of the following conditions is met: ▶ The original expected duration of the underlying contract is one year or less, or ▶ The entity recognises revenue from the satisfaction of the performance obligation in accordance with Ind AS 115.B16. That paragraph permits, as a practical expedient, that if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (e.g., a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognise revenue equal to the amount to which the entity has a right to invoice.	Ind AS 115.121

Disclosure requirements Ind AS 115		
Qualitative	► An entity must explain qualitatively whether it is applying the practical expedient in Ind AS 115.121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with Ind AS 115.120. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained	Ind AS 115.122

The example explains how an entity can make the required disclosure.

Example 1 - Disclosure of the transaction price allocated to the remaining performance obligations

On 30 June 2017, an entity enters into two contracts (Contracts A and B) with separate customers to provide services. Each contract has a two-year non-cancellable term. The entity considers the requirements in paragraphs 120-122 of Ind AS 115 in determining the information in each contract to be included in the disclosure of the transaction price allocated to the remaining performance obligations at 31 December 2017.

Contract A

Cleaning services are to be provided over the next two years typically at least once per month. For services provided, the customer pays an hourly rate of INR50. Because the entity bills a fixed amount for each hour of service provided, the entity has a right to invoice the customer in the amount that corresponds directly with the value of the entity's performance completed to date in accordance with paragraph B16 of Ind AS 115. Consequently, no disclosure is necessary if the entity elects to apply the practical expedient in this regard.

Contract B

Cleaning services and lawn maintenance services are to be provided as and when needed with a maximum of four visits per month over the next two years. The customer pays a fixed price of INR800 per month for both services. The entity measures its progress towards complete satisfaction of the performance obligation using a time-based measure.

The entity discloses the amount of the transaction price that has not yet been recognised as revenue in a table with quantitative time bands that illustrates when the entity expects to recognise the amount as revenue. The information for Contract B included in the overall disclosure is as follows:

	2018 INR	2019 INR	Total INR
Revenue expected to be recognised on this contract as of 31 December 2017	9,600(a)	4,800(b)	14,400
(a) INR9,600 = INR800 × 12 months.			
(b) INR4,800 = INR800 × 6 months.			

Significant judgements

The standard specifically requires disclosure of significant accounting estimates and judgements made in determining the transaction price, allocating the transaction price to performance obligations and determining when performance obligations are satisfied. These requirements exceed the general requirements for significant judgements and accounting estimates in Ind AS 1.

Determining the timing of satisfaction of performance obligations

Ind AS 115 requires entities to provide disclosures about the significant judgements made in determining the timing of satisfaction of performance obligations. The disclosure requirements for performance obligations that are satisfied over time differ from those satisfied at a point in time, but the objective is similar: to disclose the judgements made in determining the timing of revenue recognition.

Disclosure requirements Ind AS 115		
Qualitative	For performance obligation satisfied over time:	
	▶ The methods used to recognise revenue (e.g., a description of the output methods or input methods used and how those methods are applied)	Ind AS 115.124(a)
	▶ An explanation of why the methods used provide a faithful depiction of the transfer of goods or services	Ind AS 115.124(b)
	For performance obligations satisfied at a point in time, significant judgements made in evaluating when a customer obtains control of promised goods or services	Ind AS 115.125

Determining the transaction price and the amounts allocated to performance obligations

Given the importance placed on revenue by financial statement users, the standard requires entities to disclose qualitative information about the methods, inputs and assumptions used in their annual financial statements to determine the transaction price and allocate it, as follows:

Disclosure requirements Ind AS 115		
Qualitative	Information about methods, inputs and assumptions used for the following:	
	▶ Determining the transaction price, which includes, but is not limited to: ▶ Estimating variable consideration ▶ Considering the effects of time value of money ▶ Measuring fair value of non-cash consideration	Ind AS 115.126(a)
	▶ Assessing whether an estimate of variable consideration is constrained	Ind AS 115.126(b)
	▶ Allocating the transaction price, including: ▶ Estimating stand-alone selling prices of promised goods or services ▶ Allocating discounts to a specific part of the contract (if applicable) ▶ Allocating variable consideration to a specific part of the contract (if applicable)	Ind AS 115.126(c)
	▶ Measuring obligations for returns, refunds and other similar obligations	Ind AS 115.126(d)
	▶ Reconciling the amount of revenue recognised in the statement of profit and loss with the contracted price showing separately each of the adjustments made to the contract price, for example, on account of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc., specifying the nature and amount of each such adjustment separately.	Ind AS 115.126AA

Disclosing information about the methods, inputs and assumptions used to determine and allocate the transaction price will be a change in practice for some entities. Entities with diverse contracts will need to make sure they have the processes and procedures in place to capture all of the different methods, inputs and assumptions used.

Assets recognised from the costs to obtain or fulfil a contract

Ind AS 115 requires entities to disclose information about the assets recognised to help users understand the types of costs recognised as assets, and how those assets are subsequently amortised or impaired. The disclosure requirements are as below:

Disclosure requirements Ind AS 115		
Qualitative	▶ Description of the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer	Ind AS 115.127(a)
	▶ The method it uses to determine the amortisation for each reporting period	Ind AS 115.127(b)
Quantitative	▶ The closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer, by main category of asset (e.g., costs to obtain contracts with customers, pre-contract costs and setup costs)	Ind AS 115.128(a)
	▶ The amount of amortisation recognised in the reporting period	Ind AS 115.128(b)
	▶ The amount of any impairment losses recognised in the reporting period	Ind AS 115.128(b)

Practical expedients

The standard allows entities to use certain practical expedients and requires them to disclose their use:

Disclosure requirements Ind AS 115		
Qualitative	▶ The fact that an entity elects to use one of the practical expedients about:	Ind AS 115.127(a)
	▶ The existence of a significant financing component (Ind AS 115.63)	
	▶ Incremental costs of obtaining a contract (Ind AS 115.94)	

Disclosures in interim financial statements

If an entity prepares condensed interim financial statements in accordance with Ind AS 34, then Ind AS 34 requires entities to disclose disaggregated revenue information, consistent with the disclosure required for annual financial statements. Although none of the other annual Ind AS 115 disclosure requirements applies to condensed interim financial statements, entities will need to comply with the general requirements in Ind AS 34. For example, Ind AS 34.15 requires an entity to include in its interim financial report, sufficient information to explain events and transactions that are significant to an understanding of the changes in the entity's financial position and performance since the end of the last annual reporting period.

Transition disclosures

This section outlines specific transition related disclosure requirements. In addition to disclosures specifically required and stated below, entities will need to consider the requirement in Ind AS 1 to provide a third balance sheet as at the beginning of the preceding period. Ind AS 1 requires the third balance sheet be presented if an entity: (a) applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items; and (b) retrospective application, restatement or reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period. Refer chapter relating to 'Effective date and transitional provisions' for guidance relating to the application of the full retrospective method and modified retrospective method.

Disclosures under the full retrospective approach

Entities applying the full retrospective method are required to disclose the information below, but need not repeat it in subsequent periods.

Disclosure requirements Ind AS 115		
Qualitative	▶ The title of the Ind AS ▶ When applicable, that the change in accounting policy is made in accordance with its transitional provisions ▶ The nature of the change in accounting policy ▶ When applicable, a description of the transitional provisions ▶ When applicable, the transitional provisions that might have an effect on future periods	Ind AS 8.28(a)-(e), (h)
	▶ If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied ▶ If an entity uses any of the practical expedients allowed under full retrospective approach, the entity must disclose the following information: ▶ The expedients that have been used ▶ To the extent reasonably possible a qualitative assessment of the estimated effect of applying each of those expedients ▶ Refer chapter relating to 'Effective date and transitional provisions' for guidance relating to application of practical expedients when using the full retrospective approach.	Ind AS 115.127(b)
Quantitative	▶ The amount of the adjustment relating to periods before those presented, to the extent practicable	Ind AS 8.28(g)
	▶ For the current period and each prior period presented, to the extent practicable, the amount of the adjustment: ▶ For each financial statement line item affected ▶ If Ind AS 33 <i>Earnings per Share</i> applies to the entity, for basic and diluted earnings per share	Ind AS 8.28(f)
Practical expedient	▶ Although permitted to do so, an entity need not present the quantitative information required by Ind AS 8.28(f) for periods other than the annual period immediately preceding the first annual period for which Ind AS 115 is applied (the 'immediately preceding period')	Ind AS 115.C4

Disclosures under the modified retrospective approach

An entity applying the modified retrospective approach is required to make the disclosures below:

Disclosure requirements Ind AS 115		
Quantitative and qualitative	▶ For reporting periods that include the date of initial application, an entity will provide both of the following additional disclosures): ▶ The amount by which each financial statement line item is affected in the current reporting period by the application of Ind AS 115 as compared to Ind AS 11 and Ind AS 18 ▶ An explanation of the reasons for significant changes	Ind AS 115.C8

Disclosure requirements Ind AS 115		
Qualitative	▶ If an entity uses the practical expedient allowed under the modified retrospective approach, the entity must disclose the following: ▶ The expedient that has been used ▶ To the extent reasonably possible a qualitative assessment of the estimated effect of applying the expedients	Ind AS 115.C6, C7A

Transition disclosures in interim financial statements in the year of adoption

Ind AS 34 requires an entity to disclose changes in accounting policies, including the effect on prior years that are included in the condensed interim financial statements. Furthermore, Ind AS 34.16A(a) requires that, in the event of a change in accounting policy, an entity discloses “a description of the nature and effect of the change”. Thus, higher-level transition disclosures than those required for annual financial statements may be sufficient in the condensed interim financial statements prepared as per Ind AS 34. In addition, as discussed earlier, entities will need to provide disaggregated revenue disclosures in their condensed interim financial statements, both in the year of adoption and on an ongoing basis.

In India, listed entities are required to publish quarterly financial results in the format prescribed by the Securities and Exchange Board of India (SEBI). These results contain specific disclosures required in the format and do not contain all Ind AS 34 disclosures. Financial results also contain note(s) related to key developments and changes in accounting policies, etc., during the period. At the time of finalising this publication, SEBI had not prescribed any specific disclosure for Ind AS 115 in the quarterly financial results. This indicates that quarterly financial results published by listed entities may include disclosures related to Ind AS 115 adoption based on the general requirements of Ind AS. For example, the results will include disclosures related to changes in accounting policies.

Pre-adoption disclosure

When an entity has not applied a new standard that has been issued but is not yet effective, the entity is required to consider disclosing all of the following:

- ▶ The title of the new standard
- ▶ The nature of the impending change or changes in accounting policy
- ▶ The date by which application of the standard is required

- ▶ The date as at which it plans to apply the standard initially
- ▶ A discussion of the impact that initial application of the standard is expected to have on the entity's financial statements or, if that impact is not known or reasonably estimable, a statement to that effect

Globally, regulators like European Securities and Markets Authority (ESMA) have clarified their expectation that in 2017 financial statements, the pre-adoption disclosures relating to IFRS 15 should be entity specific, providing both qualitative and quantitative impact and whether the entity intends to apply the full or modified retrospective method.

At the time of finalising this publication, Indian regulators had not specified their expectations with regard to disclosures required in March 2018 financial statements for impact likely to arise from Ind AS 115 application. However, it may be noted that all Ind AS companies will start applying Ind AS 115 from 1 April 2018 onward and listed entities having 31 March year-end will publish their June 2018 quarterly financial results using Ind AS 115 principles. Hence, one will expect high degree of preparedness. Particularly, Indian entities should be geared up for providing high-quality data on likely Ind AS 115 impact in the March 2018 financial statements.

All Ind AS companies having 31 March year-end will start applying Ind AS 115 from 1 April 2018 onward. They should be geared up for providing high-quality data on the likely Ind AS 115 impact in March 2018 financial statements.

Sample disclosure on the likely impact from Ind AS 115 adoption is given in Appendix 1 to this publication.



12.

Effective date and transitional provisions

Effective date

Ind AS 115 is applicable for annual reporting periods beginning on or after 1 April 2018. An entity will apply Ind AS 115 to all interim reporting periods falling within the first year of its application. The table below illustrates the applicability date of Ind AS 115 for listed entities with differing year-ends and assumes that entities report results four times in a year (annual and quarterly).

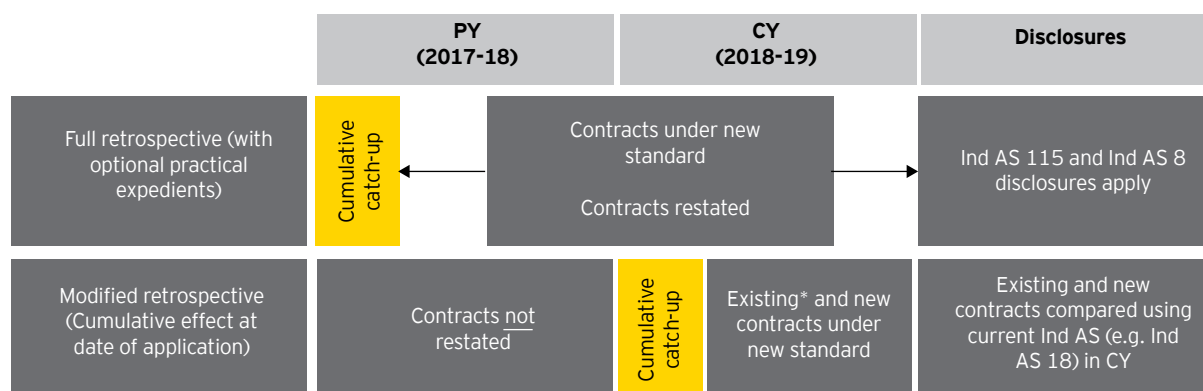
Year-end	Mandatory application for annual results	Mandatory application for quarterly results
31 December	1 January 2019	Quarter ending 31 March 2019 onward
31 March	1 April 2018	Quarter ending 30 June 2018 onward
30 June	1 July 2018	Quarter ending 30 September 2018 onward
30 September	1 October 2018	Quarter ending 31 December 2018 onward

Transition methods

Ind AS 115 requires retrospective application. It permits either 'full retrospective' adoption or a 'modified retrospective' adoption. These two approaches are discussed below. For transition, Ind AS 115 defines the following terms:

- ▶ **The date of initial application** – The start of the reporting period in which an entity first applies Ind AS 115. For example, for an entity whose annual reporting period ends on 31 March, the date of initial application will be 1 April 2018, regardless of the transition method selected.
 - ▶ **Completed contract** – A contract in which the entity has fully transferred all of the identified goods and services before the date of initial application. The words 'transferred all of the goods or services' are not meant to imply that an entity will apply the 'transfer of control' notion in Ind AS 115 to goods or services that have been identified in accordance with the current Ind AS (viz., Ind AS 11 or Ind AS 18). Rather they should mean performance in accordance with the requirements of those standards. Consequently, the term 'transferred' would mean 'delivered' within the context of contracts for the sale of goods and the term 'transferred' would mean 'performed' within the context of contracts for rendering services and construction contracts. In some situations, this may require an entity to use judgement when determining whether it has transferred goods or services to the customer.
- Consider the following examples:
- ▶ **Contract is completed** – A retailer sells a specific products to a customer on 31 March 2018, with immediate delivery. The customer has a poor credit history. Therefore, the retailer requires the customer to pay half of the consideration upfront and half within 60 days. In accordance with Ind AS 18, the retailer recognises half of the consideration at the time of the sale. However, the retailer concludes it is not probable that it will be able to collect the remainder and defers recognition of this amount. Because the goods are delivered prior to the date of initial application of the new standard (viz., 1 April 2018), the contract is considered to be completed.
 - ▶ **Contract is not completed** – An entity entered into a contract to provide a service and loyalty points to a customer on 31 May 2017. In accordance with Appendix B to Ind AS 18 'Customer Loyalty Programmes', the entity allocated a portion of the total contract consideration to the loyalty points and deferred recognition until the points are exercised on 15 May 2018. The entity completes the required service within six months and recognises revenue related to the service over that period in accordance with Ind AS 18. As at the date of initial application of Ind AS 115 (viz., 1 April 2018), the entity has not yet performed in relation to the loyalty points. As a result, the contract is not considered to be completed.

Full vs. modified retrospective adoption



* Entities may elect either to apply Ind AS 115 only to contracts that are not completed or to all contracts, including completed contracts at the date of initial application

Full retrospective adoption

Entities electing the full retrospective adoption will apply the requirements of Ind AS 115 to each period presented in the financial statements, in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to certain practical expedients. In accordance with Ind AS 8, when an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. The resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance retained earnings. However, some adjustment may be made to another component of equity (e.g., to comply with an Ind AS).

To ease the potential burden of applying Ind AS 115 on a fully retrospective basis, Ind AS 115 provides the following reliefs. An entity may use one or more of these practical expedients when applying Ind AS 115 retrospectively

- For completed contracts, an entity need not restate contracts that:
 - Begin and end within the same annual reporting period, or
 - Are completed contracts at the beginning of the earliest period presented.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those modifications. Rather, an

entity will reflect aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

- Identifying the satisfied and unsatisfied performance obligations,
 - Determining the transaction price, and
 - Allocating the transaction price to the satisfied and unsatisfied performance obligations.
- d) For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

The entity should apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity should disclose all of the following information:

- The expedients that have been used
- To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

Whilst the practical expedients will provide some relief, they will not make transition to Ind AS 115 hassle free. For example, an entity will still need to use significant judgement and make estimates.

Entities may elect to apply none, some or all of these expedients. However, if an entity elects to use any of them, it must apply that expedient consistently to all contracts within all periods presented. It would not be appropriate to apply the selected expedient to some, but not all, of the periods presented. Entities that choose to use some, or all, of the relief will be required to provide additional qualitative disclosures (i.e., the types of relief the entity has applied and the likely effect of that application).

Modified retrospective adoption

Entities that elect the modified retrospective method will apply the standard retrospectively to only the most current period presented in the financial statements (i.e., the initial period of application). To do so, the entity will have to recognise the cumulative effect of applying Ind AS 115 retrospectively as an adjustment to the opening balance of retained earnings (or other appropriate components of equity) at the date of initial application.

Under this method, Ind AS 115 will be applied to either all contracts at the date of initial application (e.g., 1 April 2018) or only contracts that are not completed at this date. Depending on how an entity elects to apply the modified retrospective method, it will have to evaluate either all contracts or only those that are not completed before the date of initial application as if the entity had applied the new standard to them since inception. An entity will be required to disclose how it has applied the modified retrospective method.

An entity applying Ind AS 115 retrospectively using the modified retrospective adoption approach may also use the practical expedient mentioned at point (c) (related to contract modifications) of the full retrospective adoption approach. This practical expedient may be used either:

- a) For all contract modifications that occur before the beginning of the earliest period presented, or
- b) For all contract modifications that occur before the date of initial application.

If an entity uses this practical expedient, it will apply the expedient consistently to all contracts and disclose the information related to use of practical expedient (refer disclosure mentioned above).

Entities that use the modified retrospective method will need to choose the transition method at the entity-wide level. This will require entities to carefully consider whether they will apply Ind AS 115 to all contracts or only to contracts that are not completed as at the date of initial application.

An entity that elects to apply the modified retrospective method will be required to make certain disclosures in the year of initial application. These disclosures are described in the presentation and disclosure section. Specifically, the entity must disclose the amount by which each financial statement line item is affected as a result of applying Ind AS 115. Furthermore, an entity must disclose an explanation of the reasons for any significant changes between the reported results under Ind AS 115 and under Ind AS 11/ Ind AS 18.

Entities applying the modified retrospective method will be effectively required to maintain two sets of accounting records in the year of adoption to comply with the disclosure requirement.

Key transition considerations

Regardless of the transition method they choose, many entities will have to apply the standard to contracts entered into in prior periods. The population of contracts will be larger under the full retrospective method. However, under the modified retrospective method, entities will, at a minimum, have to apply Ind AS 115 to all contracts that are not completed as at the date of initial application, regardless of when those contracts commenced.

The standard has provided some relief from a full retrospective method, in the form of several practical expedients, and provided the option of a modified retrospective method, which provides one practical expedient. However, there are still a number of application issues that may make applying Ind AS 115 difficult and/ or time-consuming.



Impact on key industry sectors



Retail and consumer products

Customer options for goods or services

Retail and consumer products (RCP) entities frequently give customers an option to purchase additional goods or services. These options come in many forms, including sales incentives (e.g., coupons with a limited distribution and competitor price matching programmes), customer award credits, contract renewal options (e.g., waiver of certain fees) or other discounts on future goods or services.

The accounting under Ind AS 115 may be more complex for retail and consumer product entities that grant options to customers to purchase additional goods or services. Entities will need to use significant judgement to determine which options provide material rights to the customers.

Ind AS 115 states that when an entity grants a customer the option to acquire additional goods or services, that option is a separate performance obligation if it provides a material right that the customer would not receive without entering into the contract. The assessment of whether the entity has granted its customer a material right could require significant judgement. For example, an entity may give customers who spend INR10,000 or more during a specified period, INR1,500 discount on a future purchase within a specified period. An entity will have to determine whether this offer represents a material right and, if so, allocate a portion of the transaction price to it on a relative stand-alone selling price basis.

Principal versus agent considerations

Retailers typically enter into contracts with third parties to provide goods or services to be sold through their sales channels to their customers. Under Ind AS 115, when other parties are involved in providing goods or services to an entity's customer, the entity must determine whether its performance obligation is to provide the good or service itself (i.e., the entity is a principal) or to arrange for another party to provide the good or service (i.e., the entity is an agent). The determination of whether the entity is acting as a principal or an agent affects the amount of revenue the entity recognises. When the entity is the principal in the contract, the revenue recognised is the gross amount. When the entity is the agent, the revenue recognised is the net amount.

Retailers will have to carefully consider the effect on their principal-agent analysis when they control goods only momentarily (i.e., when they have 'flash title') before selling goods to an end-customer.

A principal's performance obligations in a contract differ from an agent's performance obligations. For example, if an entity obtains control of the goods or services of another party before it transfers those goods or services to the customer, the entity's performance obligation may be to provide the goods or services itself. Therefore, the entity is likely to be acting as a principal. However, an entity that obtains legal title of a product only momentarily before legal title is transferred

Because it can be challenging at times to identify the principal in a contract, Ind AS 115 provides indicators to help an entity make this determination. Consequently, consistent with current practice, entities will need to carefully evaluate whether a gross or net presentation is appropriate.

Rights of return

Ind AS 115 requires the refund liability to be presented separately from the corresponding asset (on a gross basis, rather than a net basis). The return asset and refund liability are also subject to additional disclosure requirements.

Many consumer products entities make payments to their customers. Common examples of consideration paid to a customer include slotting fees, co-operative advertising arrangements, buy downs or price protection, coupons and rebates, 'pay-to-play' arrangements and purchase of goods or services. In addition, some entities make payments to the customers of resellers or distributors that purchase directly from them. For example, manufacturers of breakfast cereals offer coupons to consumers even though their direct customers are the grocery stores that sell to end-customers. The promise to pay the consideration might be contractual or implied by the entity's customary business practice.

Since consideration paid to a customer can take many forms, entities will have to carefully evaluate each transaction, or type of transaction, to determine the appropriate accounting treatment.



Reseller and distributor arrangements

It is common for RCP entities to provide resellers with greater rights than end-customers in order to maintain a mutually beneficial relationship and maximise future sales opportunities through the reseller. For example, an entity may provide a reseller with price protection and extended rights of return. Entities will need to evaluate when control of the product transfers to its customer. To do this, entities may need to first assess whether their contracts with resellers are consignment arrangements. In the retail industry, consignment arrangements are also described as 'scan-based trading'.

If an entity concludes that its contract with a reseller is not a consignment arrangement, the reseller will likely be considered a customer of the entity. The entity will recognise revenue upon the transfer of control of the promised goods in the amount to which the entity expects to be entitled. Under current Ind AS, some entities wait until the product is sold to the end-customer to recognise revenue because the entity cannot reliably measure the future price changes resulting from price protection. This results in revenue deferral until the reseller sells the product to an end-customer. This will not be acceptable under Ind AS 115. Rather entities will apply the variable

consideration requirements to estimate the transaction price including the guidance relating to constraining estimates of variable consideration.

Entities will need to carefully assess the facts and circumstances of their contracts to determine whether the accounting treatment will change under Ind AS 115.

Omni-channel considerations

As retailers enhance their supply chain by integrating online and mobile sales and inventory channels with traditional brick and mortar locations to create multiple sales channels (e.g., buy from the retailer's website/ app or in its physical store), retailers will need to evaluate when control of their product transfers to the customer (i.e., at what point revenue should be recognised for the sale). Retailers will also need to evaluate whether the contract with the customer includes multiple performance obligations.

Example 1 - Omni-channel considerations

XYZ Retailer (XYZ), a discount retailer, offers a promotion for customers to purchase a DVD of a new movie ahead of its release to the general public for INR400. The promotion includes the DVD that customers may pick up in stores after the movie is released to the general public and a one-time, on-demand download (available for 24 hours after download) of the movie, which customers can download and view prior to obtaining the DVD version in stores.

Assume XYZ determines there are two performance obligations in the contract (the DVD and the download) and estimates a transaction price of INR400. Because XYZ routinely sells new release DVDs to its customers, it determines the stand-alone selling price (i.e., observable price) for the DVD is INR300. In addition, through its online television and movie subscription business, XYZ routinely sells new release movies for download and, as a result, determines the stand-alone selling price for the one-time download is INR100. In this example, XYZ will recognise revenue based on the contract amount for each performance obligation because there is no discount in the arrangement.

At the time of purchase, XYZ does not recognise any revenue because XYZ has not satisfied either of its performance obligations. The recognition of INR100 as revenue for the download of the movie would depend on the application guidance for distinct licences of intellectual property. XYZ will recognise revenue of INR300 for DVD when the customer obtains control of DVD at the store.



Engineering and construction

While many principles in Ind AS 115 are similar to today's requirements, engineering and construction (E&C) entities should not assume that the pattern of revenue recognition for their arrangements will be unchanged. Key issues for the E&C industry include accounting for contract modifications, applying constraint to variable consideration, evaluating significant financing components and measuring progress towards satisfaction of a performance obligation.

Contract modifications

Parties to E&C arrangements frequently agree to change orders that modify the scope or price (or both) of a contract. Contractors also regularly submit claims to customers when unanticipated additional costs are incurred as a result of delays, errors or changes in scope caused by the customer. Ind AS 115 states that 'a contract modification exists when the parties to a contract approve a modification that either creates new, or changes existing, enforceable rights and obligations of the parties to the contract'. Approvals of a modification may be written, oral or implied by the entity's customary business practices.

Generally, if a contract modification has not been approved, Ind AS 115 is not applied to the modification until the approval occurs. However, the standard also states that an entity may have to account for a contract modification prior to the parties reaching final agreement on changes in scope or pricing (or both). Instead of focusing on the finalisation of a modified agreement, these requirements focus on the enforceability of the changes to the rights and obligations in the contract. That is, once the entity determines that the revised rights and obligations are enforceable, the entity is required to account for the contract modification. To illustrate, consider a contract for construction of building. The contract contains a clause that if there is any delay by the customer in providing the contractor access to the land for any reason, the contractor will be entitled to an additional compensation which is equal to actual costs incurred as a result of the delay. The customer has not provided the contract access to the land on a timely basis and the contractor incurs additional cost. Whilst the customer is disagreeing with the contractor's claim, the contractor may after evaluating the legal basis determine that it has an enforceable

right to the additional compensation. Consequently, it will account for the claim as a contract modification under Ind AS 115.

E&C entities will need to carefully evaluate performance obligations at the date of a modification to determine whether the remaining goods or services to be transferred are distinct and the prices are commensurate with their stand-alone selling prices. The accounting will vary significantly depending on the conclusions reached. These aspects are discussed in the chapter related to contract modifications.

Variable consideration

The transaction price (or contract revenue) is the consideration the contractor expects to be entitled to in exchange for satisfying its performance obligations. This determination is more complex when the contract price is variable. Common types of variable considerations seen in E&C companies include accounting for awards or incentive payments, penalties, change orders or variations, and claims and liquidated damages. An E&C entity is required to estimate each type of variable consideration using either the 'expected value' or the 'most likely amount' method, whichever method better predicts the amount of consideration to which the entity expects to be entitled. To include variable consideration in the estimated transaction price, the contractor also needs to apply constraint and has to conclude that it is 'highly probable' that a significant revenue reversal will not occur when the uncertainties related to the variability are resolved.

When estimating variable consideration to be included in revenue and applying constraint, E&C entities will need to

consider a variety of factors, including the extent of their experiences with similar arrangements, uncertainties that may exist in the latter periods of a long-term contract and market and other factors which may be outside of their control (e.g., weather). E&C entities may find this evaluation to be more difficult in certain cases, e.g., where the contract is very long-term, outcome depends on external factors or the contractor has limited past experience. E&C entities will need to determine how the existence of such indicators affects their assessment of the constraint, which may be different for each individual claim since the risks associated with each claim could vary. E&C entities will want to make sure they sufficiently and contemporaneously document the reasons for their conclusions, including conclusions about both corroborating and contrary evidence.

While E&C entities already estimate the variable consideration they expect to earn, they may need to change their processes for making those estimates and possibly their conclusions about when and how much variable consideration to include in the transaction price due to the constraint.

Existence of significant financing component

Long-term contracts with various payment terms are common in the E&C industry. Under Ind AS 11, an EAC opinion suggested that retention money should be discounted to its present value (refer the EAC opinion Discounting of deferred debts (retention money) on ICAI website). Under Ind AS 115, companies will need to assess the timing of customer payments in relation to the transfer of goods or services. A difference in the timing of when payments are made in relation to when goods and services are transferred could indicate that a contract contains a significant financing component. Financing may be provided by either party – so a contractor could recognise less revenue (and record interest income) or more revenue (and record interest expense). In either case, total revenue will be different from the consideration received from the customer. Identifying a significant financing component in a contract may require judgment. It could be particularly challenging in a long-term arrangement when product or service delivery and cash payments occur throughout the term of the contract over an extended period of time. However, a significant financing component does not exist in all situations that include progress payments or a difference in timing between payments and transfer of goods and services. In particular, amounts retained by the customer in a long-term arrangement (commonly referred to as ‘retainage’ or ‘retention’) are usually intended to provide the customer with a form of security that the seller will perform as specified under the contract, rather than to provide the customer with a significant financing benefit. If this is the case, then there is no financing component requiring separation.

Example 1: Significant financing component – retention money

An entity enters into a contract for the construction of a building that includes scheduled milestone payments for the performance by the entity throughout the contract term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the entity's expected performance. The contract provides that a specified percentage of each milestone payment is to be withheld (i.e., retained) by the customer throughout the arrangement and paid to the entity only when the building is complete.

Evaluation

The entity concludes that the contract does not include a significant financing component. The milestone payments coincide with the entity's performance and the contract requires amounts to be retained for reasons other than the provision of finance. The withholding of a specified percentage of each milestone payment is intended to protect the customer from the contractor failing to adequately complete its obligations under the contract.

Satisfaction of performance obligations

The change to the control model under Ind AS 115 will require E&C entities to carefully assess when revenue can be recognised. Ind AS 115 requires that an entity should determine at contract inception whether it will transfer control of a promised good or service over time, regardless of the length of the contract or other factors. In our view, for many construction-type contracts, it is likely that E&C entities will determine that control of many goods or services is transferred over time. Hence, they will recognise revenue over time as the contract progresses. E&C entities will be required to understand all contract terms related to control and legal ownership of work in progress, as well as whether the asset has no alternative use and the entity has a right to payment for performance completed to date, when determining whether their construction-type contracts meet the criteria to recognise revenue over time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

Measuring progress

When a performance obligation is satisfied over time, the standard provides two types of methods for measuring progress under the contract: input methods or output methods. The standard requires an entity to select a single measurement method for the relevant performance obligations that best depicts the entity's performance in transferring goods or services and it does not allow a change of method. That is, a performance obligation must be accounted for under the method the entity selects (i.e., either an input or output method) until it has been fully satisfied.

The standard does not say which method (input or output) is preferable, but it says that entities are required to use careful judgement in evaluating the advantages and disadvantages of each method and consider both the nature of the promised goods and services and the entity's performance. The selected method is required to be applied to similar arrangements in similar circumstances.

Uninstalled materials

E&C entities applying an input method that uses costs incurred to measure progress towards completion may find that certain costs incurred do not contribute to the entity's progress in satisfying the performance obligation. For example, entities would exclude the costs that may be related to wasted materials or other significant inefficiencies, while measuring progress. Furthermore, when uninstalled materials meet all of the four criteria in the extract below, an entity will recognise revenue in an amount equal to the cost of the goods (i.e., at zero margin) and adjust its measure of progress to exclude the costs from the costs incurred and from the transaction price (i.e., from both the numerator and the denominator of its percentage complete calculation).

- a) The good is not distinct
- b) The customer is expected to obtain control of the good significantly before receiving services related to the good
- c) The cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation
- d) The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good (but the entity is acting as a principal)

Contract costs

Ind AS 115 includes specific contract cost guidance that may result in a change in the measurement and recognition of contract costs vis-a-vis the accounting currently followed. Under Ind AS 115, contractors will no longer be able to defer costs if the performance obligation qualifies for over-time recognition unless such costs qualify for capitalisation based on either the costs to obtain or costs to fulfil the contract guidance. Importantly, costs incurred in satisfying a performance obligation are charged to expense as incurred. If a contractor uses a measure of progress other than cost-to-cost, this will likely result in uneven margins in individual reporting periods over the life of the contract.



Mining and metal

Inventory exchanges with the same counterparty

Entities in the mining and metals (M&M) sector may exchange inventory with other entities in the same line of business. This can occur with commodities such as uranium, coal or certain concentrates, for which suppliers exchange or swap inventories in various locations to supplement current production, to facilitate more efficient management of capacity and/or to help achieve lower transportation costs.

While both Ind AS 18 and Ind AS 115 scope out certain non-monetary exchanges, the specific wording used in the two standards differs. Whilst Ind AS 18 uses the words 'similar in nature and value', Ind AS 115 uses the words 'exchanges between entities in the same line of business to facilitate sales to customers or potential customers'. These differences in wording create some uncertainty as to whether this requirement can be interpreted and applied in the same way as the current Ind AS. In particular, whether some transactions that are currently treated as exchanges of dissimilar goods (and, hence, revenue generating) may not be considered to be revenue-generating if the entities are in the same line of business and the exchange is intended to facilitate sales to customers or potential customers.

Challenges in identifying the customer

There are many complex contracts in the M&M sector and there is some diversity in the accounting for these contracts. While, in many transactions, the customer is easily identifiable, in others, it may be less clear. This may be particularly true when assessing production sharing contracts (PSCs) or royalty arrangements.

Production sharing contracts/arrangements

While PSCs are more commonly found in the oil and gas sector, similar arrangements also exist in the mining and metals sector and may be referred to as PSCs or contracts of work

(CoWs) (for simplicity, in this publication, they will collectively be referred to as PSCs). A PSC is a contract between some form of national government entity of a host country and the contracting enterprise (the mining company) to carry out minerals exploration, development and production activities, or any combination of the three, in accordance with the specified terms of the contract. The mining company generally will be responsible for extracting the government entity's share of production from the mine and is typically responsible for 100% of exploration costs and some or all of development and production costs.

Currently, there are no specific requirements within Ind AS governing the accounting for PSCs. These contracts are generally considered to be more akin to working interest relationships than pure services contracts. Thus, under current Ind AS, revenue is generally recognised only when the mining company receives its share of the extracted minerals under the PSC and sells those volumes to third-party customers. However, in other arrangements, the entity's share of production is considered a fee for services which is recognised as the services are rendered to the national government entity.

Ind AS 115 notes that, in certain transactions, while there may be payments between parties in return for what appears to be goods or services of the entity, a counterparty may not always be a 'customer' of the entity. Instead, the counterparty may be a collaborator or partner that shares the results from the activity or process. Generally, contracts with collaborators or partners are not within the scope of Ind AS 115. No additional guidance has been provided for determining whether certain revenue generating collaborative arrangements will be in the scope of the standard. Therefore, the parties to such arrangements need to consider all facts and circumstances, such as the purpose of the activities undertaken by the counterparty, to determine whether a vendor-customer relationship exists that is subject to the standard.

In determining whether the contract between the government entity and the mining company is within the scope of the standard, an entity must look to the definition of a 'customer' and what constitutes 'ordinary activities'. It may be that certain parts of the PSC relationship involve the mining entity and the national government entity acting as collaborators (and, hence,

that part of the arrangement would be outside the scope of Ind AS 115), whilst the two parties may act as supplier and customer for other parts of the arrangement. If the latter occurs, then that part of the contractual arrangement will be within the scope of Ind AS 115 and an analysis of the impact of the requirements will be necessary.

Royalty income

Entities in the M&M sector sometimes sell part of their interests in a mine or area, or a particular stream of resource (e.g., the owner of a copper/gold resource may sell off access to the mineral sands resource). The transaction may involve an upfront payment and/ or a requirement for the acquiring entity to pay the vendor a royalty amount over a certain period of time (e.g., based upon a fixed INR amount per volume of product extracted from the area). Alternatively, the acquiring entity may pay a net profit interest, i.e., a percentage of the net profit generated by the interest sold. There may be other types of arrangements where the M&M entity grants another entity a right in return for a royalty payment.

Unlike Ind AS 18, Ind AS 115 does not scope out revenue from the extraction of minerals. Therefore, regardless of the type of product being sold, if the counterparty to the contract is determined to be a customer, then the contract will be in scope of Ind AS 115. If a royalty arrangement is considered to be a supplier-customer relationship (and, hence, is in scope), M&M entities may face a number of challenges in applying the standard. These challenges may include identifying the performance obligations, determining the transaction price (e.g., if consideration is variable and dependent upon actions by the customer), applying the constraint on variable consideration, and reallocating the transaction price when and if there is a change in the transaction price.

When considering the accounting for such royalties, Ind AS 115 contains specific requirements that apply to licences of IP, which may appear similar to some types of royalty arrangements in the M&M sector. However, it is important to note that these requirements only apply to licences of IP and not all sales-based or usage-based royalties. So, the general requirements applicable to variable considerations, including those relating to the constraint, will need to be considered.

If the royalty arrangement is not considered to relate to a contract with a customer nor to a collaborative arrangement, but instead, relates to the sale of a non-financial asset (e.g., an interest in a mine), Ind AS 115 may still require some changes. This is because the existing requirements for the recognition

and measurement of a gain or loss on the transfer of some non-financial assets that are not the output of an entity's ordinary operations (e.g., property, plant and equipment in the scope of Ind AS 16) have been amended to now refer to the requirements of Ind AS 115.

Provisionally priced contracts

Sales contracts for certain commodities (e.g., copper) often include provisional pricing at the time of shipment of the metal concentrate, for which final pricing is based on a future price. The final sales price may be based on the average market price for a particular future period (the quotational period or QP) or the price on a fixed date after delivery. Such arrangements are common when an entity produces a mineral concentrate that is sold to a smelter or refiner that produces fully refined metal for sale into the market.

Under current Ind AS, if these price adjustment features meet the definition of an embedded derivative, they are separated from the contract and accounted for under Ind AS 109 starting at the date of delivery. Revenue is then initially recognised at the estimated fair value of the total consideration received or receivable when the mineral concentrate is delivered. This fair value is estimated by reference to forward market prices. Any changes in the fair value of the embedded derivative from the date of delivery to the end of the QP are recognised in profit or loss for the period. Ind AS 109 does not specify the presentation of such subsequent fair value movements. Consequently, this has led to some divergent practices for presenting fair value gains or losses in profit or loss. The majority of sector participants present these movements as part of revenue, whilst others present them as part of derivative/other gains and losses.

Provisional pricing features that are considered embedded derivatives that require separation under Ind AS 109 will be outside the scope of Ind AS 115. Whilst it is clear that the movements in these embedded derivatives cannot be described as revenue from contracts with customers, there have been no other specific changes which would prohibit these amounts from being presented as part of another revenue caption. Given this, the common current practice of presenting movements in the fair value of embedded derivatives as part of total revenue is likely to continue. However, the specific disclosure requirements of Ind AS 115 require entities to track and present revenue from contracts with customers separately (either on the face of the statement of profit and loss or in the notes to the financial statements) from other sources of revenue.

Principal vs. agent – Royalty and other payments to mineral owners

M&M entities frequently enter into royalty arrangements with owners of mineral rights (e.g., governments or private land owners). These royalties are often payable upon the extraction and/or sale of mineral ore. The royalty payments may be based on a specified rate per unit of the commodity or the entity may be obliged to dispose of all of the relevant production and pay over a specified proportion of the aggregate proceeds of sale, often after deducting certain extraction costs. There are also other types of arrangements, which may be referred to as royalty payments/arrangements, but may potentially represent a different type of arrangement. Under these arrangements the royalty holder may have retained (or obtained) a more direct interest in the underlying production and may undertake mineral extraction and sale independently.

With respect to these payments, Ind AS 115 will require an entity to determine whether it obtains control of all of the underlying mineral ore once extracted, sells the product to its customers and then remits the proceeds to the royalty holder. If so, the mining entity will be considered to be acting as the principal and, hence, would recognise the full amount as revenue with any payments to the royalty holder being recognised as part of cost. Where the entity does not obtain control over those volumes, it may be acting as the royalty

holder's agent and extracting the ore on its behalf. This will result in net revenue recognition.

Shipping terms – identification of performance obligations

Given the location of the commodities produced in the mining and metals sector, they generally have to be shipped to the customer. Such transportation may occur by road, rail or sea. The terms associated with shipping can vary significantly. With respect to these arrangements, M&M entities will need to assess common shipping terms and conditions to determine the impact on:

- ▶ **Control** – These terms may impact the assessment of when the good is considered to transfer to the customer, i.e., when control passes.
- ▶ **Identification of performance obligations** – The question has arisen as to whether the provision of shipping services represents a separate performance obligation or simply one of the underlying tasks that support the transfer of control of the goods to the customer and is a cost of fulfilling the contract.

The change from the risk and reward model under current Ind AS to a control model under Ind AS 115 will require mining and metals entities to closely examine their customer contracts and the associated shipping terms to determine whether there will be any impact on how and when revenue is recognised.





Life science

Collaboration agreements

Life sciences entities frequently enter into complex collaboration agreements with other parties. In certain arrangements, a counterparty may not be 'a customer' of the entity, as defined in Ind AS 115. Instead, the counterparty may be a collaborator or partner that shares risks and benefits of developing a product to be marketed, i.e., when two pharmaceutical (pharma) companies enter into a collaborative arrangement to develop a product candidate. Depending on facts and circumstances, these arrangements may also contain vendor-customer relationship components, e.g., the collaborator or partner may meet the definition of a customer for some aspects of the arrangement.

The scope of Ind AS 115 is clear that the standard applies only to contracts with customers to provide goods or services in the ordinary course of business. It does not apply to contracts

with entities which do not meet the definition of customer. For example, an agreement between two life science companies to share and develop equally in the significant risks and rewards associated with development will not be covered in the scope of Ind AS 115 if the parties do not have a vendor-customer relationship. However, if a life sciences entity is licensing its intellectual property or providing research and development (R&D) services, the arrangement is likely to be covered in the scope of Ind AS 115.

Life sciences entities may find it challenging to determine whether their collaborative arrangements are within the scope of Ind AS 115. The standard does not provide any additional application guidance for determining whether certain revenue-generating collaborative arrangements are within the scope of Ind AS 115. This will require the parties to consider all of the facts and circumstances to determine whether a vendor-customer relationship exists that is subject to the standard.

Example 1: Collaboration agreement

A life sciences company (ABC) enters into a collaboration agreement with another life sciences company (DEF). Under the agreement, ABC will share equally in the development of a specific drug candidate. Is this arrangement within the scope of Ind AS 115?

Evaluation

Based on the limited facts given, it appears that the entities will simply work together to develop the drug. If this is correct, it is unlikely that this arrangement is covered within the scope of Ind AS 115. However, if the substance of the arrangement is that ABC is selling its compound to DEF and/ or providing R&D services to DEF and those activities are part of ABC's ordinary activities, then this arrangement will be covered within the scope of Ind AS 115.

We believe that entities should also consider whether other applicable guidance (e.g., Ind AS 111, Ind AS 109 or Ind AS 38) exists that should be applied when an arrangement is a collaboration or financing rather than a contract with a customer.

Participation on a joint steering committee

Collaborative R&D arrangements often include provisions requiring constitution of and participation on a joint steering committee (JSC) to make decisions about the collaborative activities. For example, a biotechnology entity that has a revenue contract with a pharma entity could be required to provide its expertise through participation on a JSC in addition to licensing a product candidate and performing R&D services. If participation in the JSC is determined to be a promised service in the arrangement, the life sciences entity will have to consider whether its participation in the JSC is distinct from other promised goods or services (e.g., whether other parties could perform the service, or whether participation in the JSC requires unique skills or expertise that result in a significant integration of goods and services). The resultant revenue recognition implications will follow accordingly.

Milestone and other variable payments

Many life sciences entities enter into long-term contracts which may include significant variable payment, such as, rebates, incentives, performance bonuses, contingencies or concessions. For example, the transaction price may vary depending on the price at which the product is sold by a reseller or distributor or on achieving certain milestones. Additional complexity can arise because attrition rates in this industry are high. Also, variable consideration can result from explicit contract terms or can be implied by a life sciences entity's past business practices or intentions under a contract.

Ind AS 115 requires an entity to estimate variable consideration using the method (i.e., most likely amount or expected value) that best predicts the amount to which the entity will be entitled. An entity includes in the transaction price, amounts for which it is highly probable that a significant revenue reversal will not occur (i.e., a constraint on variable consideration is applied before including it in the transaction price). Life sciences entities should consider all information (e.g. historical, current and forecast) that is reasonably available to them when applying either of these methods. The requirement to estimate variable consideration will likely require life sciences entities to make changes to their accounting policies, accounting systems and/or internal controls over financial reporting. For example,

life sciences entities may need to adjust their processes and controls for calculating rebates on product sales due to the requirement in Ind AS 115 to estimate variable consideration.

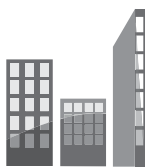
To illustrate, a pharma entity sells drug compounds to a reseller. The reseller pays a minimum base price upfront. Additional consideration depends upon the final sale price by the reseller and the pharma entity will receive a particular percentage of the margin (sale price minus cost) earned by the reseller. The pharma entity will estimate variable consideration using either the expected value or the most likely amount method, whichever method is best suited to the facts and circumstances of the case and then subsequently apply the constraining estimates to the variable consideration. The resultant amount is an adjustment to revenue. The entity cannot defer the revenue recognition for the top-up amount till final sale by the reseller.

Licences of IP

Life sciences entities commonly enter into arrangements with customers that include licences of IP, such as licences for product candidates or patented drug formulas. Ind AS 115 distinguishes between licences that represent the transfer of a right to use an entity's IP and licences that represent the provision of access, over a period of time, to an entity's IP, and specifies criteria to determine which type of licence is being sold. Revenue for the former will typically be recognised at a point in time; revenue for the latter will typically be recognised over the period of access.

Ind AS 115 also provides application guidance on the recognition of revenue for sales-based or usage-based royalties received in exchange for licences of IP and requires that royalties are recognised at the later of when: (1) the subsequent sale or usage occurs; or (2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (in whole or in part). That is, an entity recognises the royalties as revenue when (or as) the customer's subsequent sales or usage occurs, unless that recognition pattern accelerates revenue recognition ahead of the entity's satisfaction of the performance obligation to which the royalty solely or partially relates, based on an appropriate measure of progress.

A life sciences entity will have to analyse the facts and circumstances of each contract (or type of contract) to determine when and how to apply the application guidance to licences of IP. The units of account and timing of revenue recognition may also change.



Real estate developers

Currently, the *Guidance Note on Accounting for Real Estate Transactions* (GN) deals with accounting for real estate transactions and requires real estate companies to apply the percentage of completion method. Unlike Ind AS 18, Ind AS 115 does not contain any reference to GN. This implies that once Ind AS 115 becomes applicable, accounting for real estate will be covered under Ind AS 115.

Collaboration agreement

Many real estate companies enter into joint development agreements (JDAs) with the land owner. These agreements entail the land owner granting the real estate developer permission to construct building in return for ownership of a part of the building. For example, a landowner may enter into a joint property development arrangement with a property developer/ real estate entity. The proceeds on the sale of the completed property are shared at an agreed proportion between the landowner and the property developer. Sometimes the landowner may receive its consideration by way of a portion of the completed real estate property instead of from sales to customers. In practice, JDAs may be structured in different manners and may involve significantly different terms and conditions.

Real estate companies entering into joint development agreements will need to closely examine the terms and conditions of the arrangement to determine their true economic substance. This will govern their accounting.

The scope of Ind AS 115 is clear that the standard applies only to contracts with customers to provide goods or services in the ordinary course of business. It does not apply to contracts with entities which do not meet definition of customer. Real estate companies engaged in such arrangements will need to

closely examine the terms and conditions of the arrangement to determine their true economic substance. Particularly, the management will need to make the following assessment:

- ▶ Is it a joint arrangement? If yes, it would be in the scope of Ind AS 111.
- ▶ Is the landowner in substance selling the land to the property developer?
- ▶ Is the property developer providing construction services to the landowner?

Appropriate accounting for such arrangements will depend upon such determination.

Agreements for construction/sale of real estate

A real estate developer may enter into an agreement for sale with one or more buyers either on completion of construction or before construction is completed. Given below are key Ind AS 115 considerations for each scenario.

Sale of completed property

A real estate developer may sell real estate units after the construction of the property is completed. In such cases, Ind AS 115 will require recognition of revenue at the point in time when control is transferred to customer. The developer will need to consider the following five indicators:

- ▶ The developer has a present right for payment for the property (e.g., a flat in a building)
- ▶ The developer has transferred legal title of the flat
- ▶ The developer has transferred physical possession of the flat to the customer
- ▶ The developer has transferred the significant risks and rewards of ownership of the flat to the customer
- ▶ The customer has accepted the flat

For recognition of revenue, not all five indicators need to be satisfied. Nor is more weight placed on any one indicator. A real estate developer will need to assess all five indicators

carefully on a collective basis to determine the point in time at which revenue is recognised. In many real estate transactions, control may transfer when the buyer obtains legal title and physical possession of the asset. However, in some cases transfer of legal title may not be coterminous to transfer of risk and rewards or acceptance by customer. Judgement and consideration of the specific facts and circumstances will be required in these instances.

Pre-sales of under development property

Real estate developers often enter into agreements for sale with one or more buyers before construction is complete. Such agreements may take diverse forms and involve certain unique terms and conditions. The experience indicates that recognition of revenue from such agreements poses significant challenges.

Since the GN will not apply, real estate developers will need to evaluate revenue recognition based on Ind AS 115. Under Ind AS 115, revenue is recognised when or as the entity satisfies each performance obligation. This requirement is one of the key hurdles for real estate companies. A real estate developer will have to evaluate whether it satisfies the performance obligation to its customer at the time of delivery of the real estate unit or over time as the construction is in progress. If an entity cannot demonstrate that the performance obligation is satisfied over time, it will not be able to recognise revenue over time. In simpler terms, the entity will have to record real estate sales on the completed contract method, instead of the percentage of completion method (POCM).

An entity transfers control of a good or service over time rather than at a point in time when one of the following criteria are met:

1. The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. For example, when cleaning services are provided the customer simultaneously receives and consumes the benefits.
2. The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, for example, a machinery is constructed for the customer at the customer's site, and the customer has control over the under construction machinery as it is being constructed.
3. The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

The **first criterion** is not applicable because the entity's performance creates an asset, i.e., the real estate unit that is not consumed immediately.

The **second criterion** in which control of a good or service is transferred over time is where the customer controls the asset as it is being created or enhanced. For example, many construction contracts contain clauses indicating that the customer owns any work-in-progress as the contracted item is being built. In many jurisdictions, the individual units of an apartment block are only accessible by the purchaser on completion or near completion. However, the standard does not restrict the definition of control to the purchaser's ability to access and use (i.e., live in) the apartment. In Ind AS 115.33, the standard specifies that the benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly in many ways, such as by:

- a) Using the asset to produce goods or provide services (including public services)
- b) Using the asset to enhance the value of other assets
- c) Using the asset to settle liabilities or reduce expenses
- d) Selling or exchanging the asset
- e) Pledging the asset to secure a loan
- f) Holding the asset

In some jurisdictions it may be possible to pledge, sell or exchange the unfinished apartment. Careful consideration will be required of the specific facts and circumstances. The September 2017 IFIRC Update, discusses this issue in detail and concludes that the second criterion is not fulfilled in most developments of a multi-unit complex. Consequently, PCOM cannot be applied in such cases. Particularly, the IFIRC emphasised the following:

1. In applying the second criterion, it is important to apply the requirements for control to the asset that the entity's performance creates or enhances. In a contract for the sale of a real estate unit that the entity constructs, the asset created is the real estate unit itself. It is not, for example, the right to obtain the real estate unit in the future. The right to sell or pledge this right is not evidence of control of the real estate unit itself.
2. The entity's performance creates the real estate unit under construction. Accordingly, the entity assesses whether, as the unit is being constructed, the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the part-constructed real estate unit. The IFRIC observed the following:

- a) Although the customer can resell or pledge its contractual right to the real estate unit under construction, it is unable to sell the real estate unit itself without holding legal title to it.
- b) The customer has no ability to direct the construction or structural design of the real estate unit as the unit is constructed, nor can it use the part-constructed real estate unit in any other way.
- c) The customer's legal title (together with other customers) to replace the real estate entity, only in the event of the entity's failure to perform as promised, is protective in nature and is not indicative of control.
- d) The customer's exposure to changes in the market value of the real estate unit may indicate that the customer has the ability to obtain substantially all of the remaining benefits from the real estate unit. However, it does not give the customer the ability to direct use of the unit as it is constructed.

Thus, the customer does not control the part-constructed unit.

The **third criterion** on which control is transferred over time has the following two requirements and both must be met:

- ▶ The entity's performance does not create an asset with alternative use to the entity.
- ▶ The entity has an enforceable right to payment for performance completed to date.

Asset with no alternative use

An asset created by an entity has no alternative use if the entity is either restricted contractually or practically from readily directing the asset to another use (e.g., selling it to a different customer). A contractual restriction on an entity's ability to direct an asset for another use must be substantive. In other words, a buyer could enforce its rights to the promised asset if the entity sought to sell the unit to a different buyer. In contrast, a contractual restriction may not be substantive if the entity could instead sell a different unit to the buyer without breaching the contract or incurring significant additional costs. Furthermore, a practical limitation exists if an entity would incur significant economic losses to direct the unit for another use. A significant economic loss may arise when significant costs are incurred to redesign or modify a unit or when the unit is sold at a significantly reduced price.

Enforceable right to payment for performance completed to date

An entity has an enforceable right to payment for performance completed to date if, at any time during the contract term, the entity would be entitled to an amount that at least compensates it for work already performed. This right to payment, whether by contract or by law, must be present, even in instances in which the buyer can terminate the contract for reasons other than the entity's failure to perform as promised. The entity's right to payment by contract should not be contradictory to any law of the land. On the other hand, statute may provide an enforceable right to payment, but in the contract the entity may have abrogated its' right, in which case, the entity will be deemed not to have that right.

To meet this criterion, the amount to which an entity is entitled must approximate the selling price of the goods or services transferred to date, including a reasonable profit margin. The standard clarifies that including a payment schedule in a contract does not, by itself, indicate that the entity has an enforceable right to payment for performance completed to date. The real estate developer needs to examine information that may contradict the payment schedule and may represent the entity's actual right to payment for performance completed to date (e.g., an entity's legal right to continue to perform and enforce payment by the buyer if a contract is terminated without cause). In order to have an enforceable right to payment for performance completed to date, an entity does not need to have a present unconditional right to payment. Instead, it must have enforceable right to demand and/ or retain payment for performance completed to date upon customer termination without cause. In addition to that, if the entity receives a non-refundable upfront payment that represents the full transaction price and the entity's right to retain and not refund the payment is enforceable upon termination by the customer, this will demonstrate the entity's enforceable right to payment for performance completed to date. This is because a full upfront payment would at least compensate an entity for the work completed to date through-out the contract.

In some contracts, a customer may have a right to terminate the contract only at specified times during the life of the contract or the customer might not have any right to terminate the contract. If a customer acts to terminate a contract without having the right to terminate the contract at that time (including when a customer fails to perform its obligations as promised), the contract (or other laws) might entitle the entity to continue to transfer to the customer the goods or services promised in the contract and require the customer to

pay the consideration promised in exchange for those goods or services. In those circumstances, an entity has a right to payment for performance completed to date because the entity has a right to continue to perform its obligations in accordance with the contract and to require the customer to perform its obligations (which include paying the promised consideration).

Many real estate developers sell real estate on a small down payment, followed by the rest of the payment being made at the time of delivery of the real estate; for example, a 10:90 scheme, wherein 10% of the consideration is paid upfront on booking, followed by 90% payment on delivery of the unit. The customer can walk away without making the rest of the payment if the customer is not interested in taking delivery of the unit. Such real estate contracts do not meet the criterion of enforceable right to payment for performance completed to date.

In light of the requirements of Ind AS 115, many real estate companies in India may not qualify for POCM. However, the third criterion discussed above can result in real estate companies recording revenue using the POCM method. To qualify for POCM recognition, real estate companies should ensure that they have a contractual right to collect payment from the customer for work completed to date and that the contractual right is not in contradiction with any law of the land. Given that real estate laws in India is a state subject, such evaluation will be done state by state, and can get extremely complicated.

Common amenities

Real estate developers may have to apply considerable judgement to identify performance obligations within their contracts. For example, a real estate developer may transfer an individual unit whilst the construction of the swimming pool or club house which is a contractual obligation is not yet completed. In evaluating revenue recognition on common amenities, entities would consider:

- ▶ The parties involved (e.g., customer and homeowner's association)
- ▶ Whether separate performance obligations exist and what they are (e.g., goods or services)
- ▶ To which parties the promises (potentially performance obligations) are made

Our experience indicates that amenities are promised implicitly or explicitly to the home owners. Thus, the homeowners are

considered to be the customer for the amenities and they are performance obligations. A real estate owner needs to assess whether the amenities represent a separate performance obligation. The pattern of revenue recognition will depend on the identification of the performance obligations, (that is, whether the amenities were distinct from the residential units) and whether the criteria were met for performance obligations satisfied over time. This will require significant judgement and evaluation will depend upon specific facts. For example, if the real estate unit cannot be sold without the promise of amenities because the location is very remote, the unit and the amenities may be one performance obligation. However, a different conclusion can be reached if the location of the unit is in a more developed area and the customer could separately arrange for the necessary amenities (e.g. roads and utilities).

Sales commission

Real estate developers usually pay selling commission to various brokers for getting real estate contracts. The commission payable to each broker is usually determined as a specific percentage of the sales value of the real estate. In accordance with the terms of agreement, this amount becomes payable once developers enter into a binding sales contract with the customers. These arrangements may differ, e.g., they could take many shapes, such as:

- a) Brokerage is fully paid on execution of the agreement for real estate sales. It may be refundable partly/fully if the agreement is not fulfilled by the customer. Such refunds may be adjusted against other payables to the broker or from the amount to be refunded to the customer.
- b) Brokerage is paid proportionately as and when amounts are received from the customer.
- c) Brokerage is paid on receipt of the full amount from the customer.

Under Ind AS 115, incremental costs of obtaining a contract (e.g., sales commissions) will be required to be capitalised as cost to obtain contract. Any capitalised contract costs are amortised, with the expense recognised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. Such expenses will not form part of the POCM calculations. As a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Software and cloud entities

Software licences

Software arrangements commonly involve the delivery of multiple goods and services, such as a software licence, unspecified or specified future upgrades and enhancements, maintenance and other professional services. Goods or services promised in a contract with a customer can either be explicitly stated in the contract or implied by an entity's customary business practice. The determination of whether a licence is distinct may require judgement. In some software arrangements, a software licence will be distinct because it is the only promise in the contract. In other arrangements, the customer will be able to benefit from the licence on its own or with readily available resources and it will be separately identifiable from the other goods or services in the contract. An example of a distinct licence is a software package that can be used on its own without customisation or modification and future upgrades are not necessary for the customer to retain continued functionality of the software for a reasonable period of time after the initial free maintenance period.

In some other contracts, the customer can benefit from the licence only with another good or service that is promised (explicitly or implicitly) in the contract. For example:

- (i) A software licence may be embedded in a software-enabled tangible good and the software significantly influences the features and functionality of the tangible good. The customer cannot benefit from the software licence on its own, nor is it separable from the tangible good.
- (ii) Certain types of software, such as antivirus software, require frequent upgrades to keep the software current in order for it to be beneficial to the customer. The customer cannot obtain benefit from the software without also obtaining the subsequent upgrades. In these situations, the software licence, together with the unspecified upgrades, will form a single distinct performance obligation.
- (iii) Entities may enter into arrangements with customers that involve significant production, modification or customisation of licenced software. Under Ind AS 115,

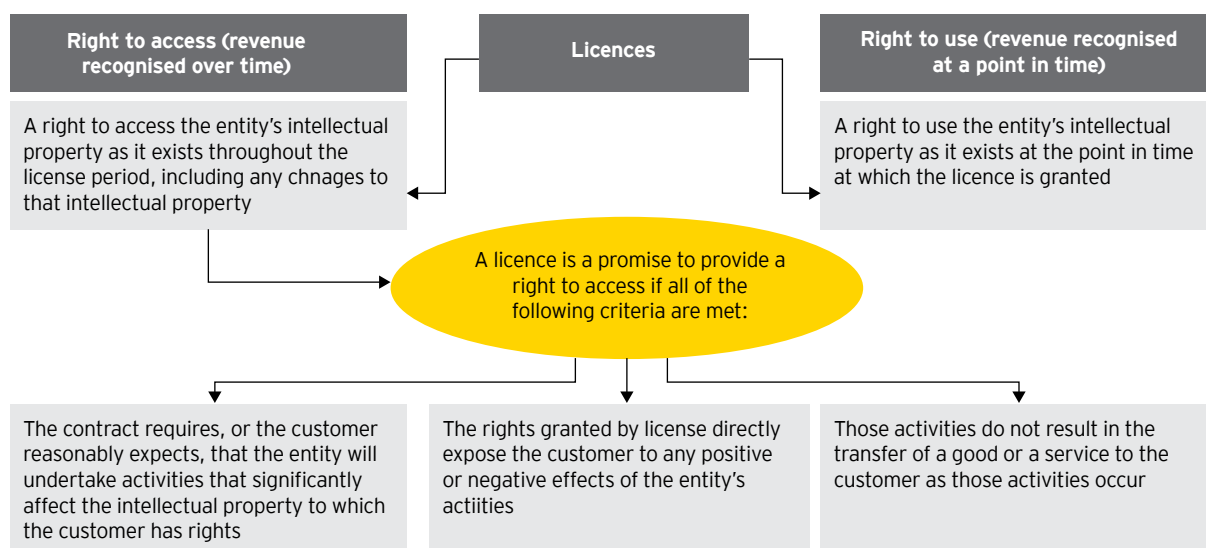
entities may conclude that the software licence is not distinct within the context of the contract. That is, the software licence and professional services are generally highly interrelated and significant integration and modification is required. Therefore, the licence and services together are a single performance obligation.

Licences that an entity determines are not distinct are combined with other promised goods or services in the contract until a separate performance obligation is identified. When a licence is not distinct from the other goods or services, the company will need to determine whether the combined performance obligation is satisfied (1) over time or (2) at a point in time. To make this determination, the entity should assess whether the licence is the predominant item in the combined performance obligation. If yes, it will often need to consider the licensing application guidance for revenue recognition.

Distinct software licences

The standard provides additional application guidance to help entities determine when control transfers for distinct licences of IP, based on the nature of the promise to the customer. This application guidance is applicable for both perpetual and term software licences. The following decision tree on the next page summarises how the new standard applies to licences of IP:

Software entities may find that many licences will represent rights to use the software and the related revenue will be recognised at a point in time. This is because the benefits from the entity's activities in the contract (e.g., unspecified upgrade rights) are separate performance obligations.



If the licence does not meet all three criteria, the licence is a right to use by default and the entity would recognise revenue at the point in time when the licence is delivered. Alternatively, a software licence that represents a right to access the software is recognised over the licence period if an entity concludes that there are activities that will significantly affect the software licence during the licence period beyond the unspecified future upgrades. That is, whilst the unspecified upgrades can directly change the IP, other activities could also significantly affect it.

Sales or usage based royalties

Ind AS 115 provide an exception relating to the recognition of variable consideration for sales-or usage-based royalties received in exchange for licenses of IP. Under this exception, royalties should be recognised as the underlying sales or usages occur, as long as this approach does not result in the acceleration of revenue ahead of the company's performance. This means that, in many cases, the accounting treatment of contingent royalty transactions may remain consistent with current practice under Ind AS.

However additional complexities may arise when a sales-or usage-based royalty relates to both a license of IP and other goods or services. The royalty exception should only be applied when the license of IP is the predominant item to which the royalty relates. Since the standards do not provide a specific definition of 'predominant,' judgment will be required to determine whether the predominant item to which a royalty relates is the license component. If a customer would ascribe significantly more value to the licence component, it would likely be predominant.

Specified upgrades

Entities may provide customers with a right to specified upgrades or enhancements as part of a software arrangement. These upgrade rights may be explicit in the arrangement and/or implied by the vendor's customary business practices. Under Ind AS 115, entities will need to evaluate whether the rights to receive specified upgrades or enhancements are promised goods or services and potentially separate performance obligations. If the specified upgrade is a separate performance obligation, a portion of the transaction price is allocated to it and revenue recognition is deferred until the specified upgrade is provided.

Post-contract support

Most arrangements involving software also include promises for the right to receive services or unspecified upgrades and enhancements (or both) after the licence period begins. Generally, these services include telephone support and correction of errors (bug fixes or debugging), as well as unspecified upgrades or enhancements. These activities are commonly known as post-contract support (PCS). Under the current Ind AS, due to limited guidance, some entities may combine PCS with the software as a single component, whilst other entities may separate PCS as a separate component from the software or even into multiple separate components.

PCS is not a unique service contemplated or defined in Ind AS 115. As a result, entities will need to evaluate whether the individual services that comprise PCS will be separate performance obligations under Ind AS 115. For example, a software entity may conclude that the promise to provide

unspecified future upgrades and enhancements is a distinct promised good or service in the contract and, therefore, is a separate performance obligation. The entity may also determine that bug fixes and telephone support are provided to ensure that the software is functioning as promised. As a result, those services would be part of the assurance warranty coverage for the software and not a revenue element (such warranties will be accounted for under Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*). However, other entities may conclude that the promise to provide telephone support and bug fixes contains both an assurance-type warranty (non-revenue element) and service-type warranty (revenue element). These evaluations will significantly impact accounting.

Considerations for cloud arrangements

Cloud services arrangements may include cloud services (such as software-as-a-service (SaaS)) or other products or services. These arrangements also frequently include a licence of the software, for which the customer may (or may not) have the right to take possession. Cloud services entities also frequently offer professional services, such as implementation, data migration, business process mapping, training and project management services, in addition to the cloud service itself. These professional services may be required for a customer to begin using the cloud services in the manner described in the contract.

Ind AS 115 provides a framework for identifying the performance obligations in a contract. When an entity determines that the promised goods or services are distinct, it will need to determine whether it is providing a software licence (as a separate performance obligation from the hosting service) or a service (a licence and hosting services that, together, are a single performance obligation because the two promises are not distinct from one another).

In some contracts, the assessment of whether the licence is distinct will be relatively straightforward. For example, an entity may provide a customer with a software licence, but only in conjunction with a hosting service. In addition, the customer cannot take control of the licence or use the software without the hosting service. In this example, the customer cannot benefit from the licence on its own and the licence is not separable from the hosting services. Therefore, the licence is not distinct and would be combined with the hosting service. However, many arrangements are more complex. For example, in some contracts, some of the software (enabling certain functionality) resides on the customer's premises, and the customer has the ability to take control of that software. However, other

functionality is provided by the hosting service and the customer cannot take control of that software. As a result, this determination may require significant judgement, depending on the terms of the contract.

Software entities may reach different conclusions about separate performance obligations under Ind AS 115. Software entities will need to carefully consider whether the good or service is separable from other promises in the contract, which may be challenging and will require significant judgement.

Non-refundable upfront fees

In many transactions, customers may pay an upfront fee at contract inception, which may relate to the initiation, activation or set-up of a good to be used or a service to be provided in the future. Under Ind AS 115, entities must evaluate whether non-refundable upfront fees relate to the transfer of a good or service, which is a distinct performance obligation. In addition, the existence of such fees may indicate that there are other implied elements in the contract, such as the option to renew a service at a discounted rate because the upfront fee would not be charged for the renewal period. In such situations, the identified promised goods and services would also include those implied items.

To illustrate, a software entity enters into a contract with a customer to provide a software licence and one-year subscription to cloud services, wherein the consideration to be paid by the customer is an upfront non-refundable payment of INR10,00,000 and an annual fee of INR5,00,000. The customer has the right to renew the cloud services each year for INR5,00,000. The software entity has assessed that the software licence and the cloud services is a single performance obligation, as the software licence can only be used with the entity's cloud services. The entity assesses that the upfront fees is not associated with transfer of any goods or services and represents a material renewal right because the renewal price in subsequent years is lower than the amount paid in the first year (INR15,00,000). The software entity will value the renewal right, based on the average tenure of the customer relationship. The consequence is that the upfront fee is recognised over the customer contract/relationship period (after considering contract renewal).



Telecommunication

Portfolio approach

Ind AS 115 generally applies to individual contracts with customers. This can be complex for telecom entities, which may have millions of contracts with customers. The standard recognises this practical difficulty and allows an entity to combine contracts for revenue recognition. Ind AS 115 states that an entity can account for a portfolio of similar contracts together if the entity expects that the result will not be materially different from the result of applying Ind AS 115 to the individual contracts.

Telecommunications entities need to assess whether using the portfolio approach for some or all of the steps of the model will be simpler than accounting for millions of contracts individually. Ind AS 115 does not provide application guidance on how an entity would apply the portfolio approach. We believe telecom entities will have to consider the following key questions:

- ▶ How will an entity apply the portfolio approach?
- ▶ How will an entity establish its portfolios?
- ▶ How does an entity determine that the effect of using the portfolio approach (for some or all aspects of the model) would not differ materially from applying the standard on an individual contract basis?

When an entity applies the portfolio approach to only certain aspects of the model, the first step will be to determine the parts of Ind AS 115 to which the portfolio approach will be applied. Assume a telecom entity has decided to use the portfolio approach to identify the costs to obtain and fulfil a contract and subsequent account for contract assets (i.e., amortisation and impairment testing of contract assets). The telecom entity will need to determine how to establish portfolios for capitalised contract costs or contract assets that share similar characteristics. It will also need to consider the factors that distinguish portfolios.

Entities that want to use the portfolio approach more broadly may wish to consider whether they need to implement certain steps of the model on a contract-by-contract basis. These decisions will likely be based on: the types of contracts typically entered into by an entity; the prevalence of contract

modifications; and the IT and accounting system enhancements that an entity may need to perform in order to implement the standard on a contract-by-contract basis.

The standard does not expect entities that use the portfolio approach to explicitly prove that the result of using the portfolio approach is not materially different from that of the contract-by-contract method. Rather, the entities should take a reasonable approach and document its basis.

Free or discounted goods and services

Wireline entities frequently offer incentives, such as free products or services to attract new customers. For example, wireline entities may give new customers a free month of service or a free premium channel and free tablets, among other things, to entice them to sign up for services. Wireless companies may also give free or discounted equipment or promotional rates to customers as an incentive to enter into the contract. These free or discounted services represent promised goods and services under the contract and need to be assessed to determine whether they represent separate performance obligations. If they represent separate performance obligations, a portion of the transaction price will be allocated to these items.

Some wireless entities may argue that handsets should not be considered separate performance obligations because wireless entities did not view themselves as being in the business of selling handsets. However, this is not a valid argument. Under Ind AS 115, all goods or services promised to a customer in a contract give rise to performance obligations. As a result,

the wireless handsets provided in most arrangements are promised goods within the arrangements. Furthermore, because handsets are capable of being distinct, and are distinct in the context of the contract for wireless service plans, they will be accounted for as separate performance obligations. Ind AS 115 will also require entities to allocate total transaction consideration to the identified performance obligations

(handset and monthly service) based on their relative stand-alone selling prices. Revenue is recognised when (or as) each performance obligation is satisfied. The result is that, under the Ind AS 115, wireless entities may allocate more or less consideration to a subsidised handset than under their current accounting policies.

Example 1: Allocation of transaction price

In January 20x8, customers A and B enter into two-year contracts with a wireless company (ABC). ABC offers two handsets along with two-year service contracts. The first handset is a model that has been in the market for 18 months, and ABC is offering it for free (the standalone selling price is INR350). The second handset is the newest version of the phone, which includes improved features and functionality. ABC is offering this handset for INR160 (the stand-alone selling price is INR480). Both offers are under the subsidy model, where the customer pays for a handset at a reduced price in return for agreeing to a two-year service contract. Assume that ABC does not charge activation fees.

ABC offers a 1 GB data plan with unlimited voice and text for INR40 per month over a two-year contract period. Assume the standalone selling price of the 1 GB data plan (with unlimited voice and text) is INR40 per month. Any data usage in excess of 1 GB is rounded up to the next GB and priced at INR10 per extra GB. This is the standard pricing for all customers. The service plan is cancellable. However, the customer is subject to INR320 early-termination penalty, which decreases pro rata over the contract term.

Customer A selects the older model phone, and Customer B selects the newer model. Both customers select the 1 GB data plan (with unlimited voice and text). For purposes of this example, there are no rebates, incentives or other discounts provided and the time value of money has not been considered

Evaluation

The following table illustrates the differences in the allocation of the transaction price and revenue recognised between the likely current practice and Ind AS 115:

	Likely current practice (contract price)		Ind AS 115 (proportionate allocation)	
	Customer A	Customer B	Customer A	Customer B
	INR	INR	INR	INR
Handset revenue	0	160	256	373
Wireless service revenue	960	960	704	747
Total revenue	960	1,120	960	1,120

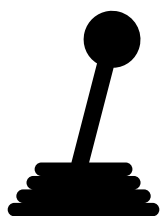
- ▶ Handset revenue for Customer A: $[\text{INR}350 / (\text{INR}960 + \text{INR}350) \times \text{INR}960]$. For Customer B: $[\text{INR}480 / (\text{INR}960 + \text{INR}480) \times \text{INR}1,120]$.
- ▶ Wireless service revenue for Customers A: $[\text{INR} 960 / (\text{INR} 960 + \text{INR} 350) \times \text{INR} 960]$. For customer B: $[\text{INR}960 / (\text{INR}960 + \text{INR}480) \times \text{INR}1,120]$.

A background image showing a close-up of a person's hands holding a smartphone. The person is wearing a light-colored, possibly beige, button-down shirt. The focus is on the hands and the phone, with the background being blurred. The phone is a dark color, and the screen shows some colorful icons. The lighting is soft and natural, suggesting an indoor setting with light coming from a window.

Set-top boxes

Telecom entities frequently provide their customers with set-top boxes/ modems/ routers (collectively referred to as 'set-top box') as part of providing video/ internet services, etc. to the customers. Under Ind AS 115, these entities will have to determine if the set-top box is a revenue element or a leasing element (i.e., which standard applies). Such determination may require complex judgement based on specific facts and will be carried out in accordance with the requirements of the applicable leasing standard. If it is concluded that such set-top boxes do not meet the definition of a 'lease' (and, therefore, is within the scope of Ind AS 115), a telecom entity will need to determine whether the set-top boxes (as well as modems and routers) are separate performance obligations. If the assets identified and used to deliver services to the customer are determined not to be distinct, the telecom entity will identify only one performance obligation for the monthly service and recognise the amount of the transaction price allocated to this performance obligation monthly.

As technology changes, telecom entities will have to evaluate all aspects of new products and/ or service offerings to determine whether the assets used to deliver services (e.g., set-top boxes) should be accounted for under Ind AS 115 or under another standard.



Automotive

The automotive sector includes entities that are original equipment manufacturers (OEMs) as well as automotive parts suppliers (APSSs). Ind AS 115 is likely to have revenue recognition and measurement impact for both types of entities.

Incentives

OEMs frequently offer sales incentives in contracts to sell vehicles to dealers. These sales incentives may be cash rebate bonuses or another type of incentive available to dealers and retail customers (who purchase the vehicle from the dealer). They may also include free, or heavily discounted, goods or services provided to retail customers, such as a free accessories or free maintenance for a specified period.

Treating a free good or service as a separate revenue element may be a change in practice for some OEMs. In addition, they will have to review their processes for estimating rebates and other forms of variable consideration.

Under Ind AS 115, cash incentives (i.e., cash, credits or other items that can be applied against amounts owed to the OEM) paid by the OEM to customers (dealers and retail customers) will generally be treated as a reduction of the transaction price and, therefore, of revenue. However, in some cases, the payment to the customer is in exchange for a distinct good or service that the customer transfers to the OEM. If the OEM is able to reasonably estimate the fair value of the distinct good or service transferred by the customer, the OEM accounts for that purchase in the same way it accounts for other purchases from suppliers. OEMs will need to evaluate whether Ind AS 115 changes their accounting for cash incentive programmes.

Under Ind AS 115, incentives, whether directly from the OEM to retail customers or indirectly through dealers, providing free or discounted goods will likely represent promised goods or services (i.e., revenue elements), rather than marketing incentives. An example of such indirect incentives is free maintenance services performed by a dealer for which the OEM provides reimbursement. Even if such incentives are not explicit promises in a contract, they would, nonetheless, be an implied promise if the OEM has a customary business practice that results in the retail customer having a valid expectation that the OEM is obligated to provide the maintenance services. Therefore, such amounts are considered as promises in the contract and the OEM will be required to account for the free services as a revenue element.

Repurchase options and residual value guarantees

OEMs may sell vehicles with a repurchase option or a residual value guarantee (e.g., when they sell fleets to rental car companies). An entity must first assess whether a repurchase option or a guarantee is in the scope of either Ind AS 17 or Ind AS 109.

Whilst the economics of a repurchase agreement and a residual value guarantee may be similar, the accounting outcome could significantly differ.

If those standards do not apply, arrangements with repurchase features must be evaluated under Ind AS 115 to determine whether they represent a sale, lease or financing, based on

the specified criteria. This evaluation includes considering factors such as the likelihood of a customer exercising a put option or the relationship between the repurchase price and the original selling price. Ind AS 115 also requires an entity to assess whether the guaranteed repurchase price is expected to significantly exceed the market value of the asset at the date of the repurchase and, therefore, provide the customer with a significant economic incentive to exercise the option. The resultant implications, e.g. financing, lease accounting or sale with a right to return will follow.

OEMs frequently agree to compensate the customer (make whole) for the difference between the resale price the customer obtains in an open market and the guaranteed minimum resale value. The compensation to the customer is generally accounted for as a reduction of the transaction price if it is not accounted for under Ind AS 109.

Nomination fees

Automotive part suppliers (APSSs) may be required to make an upfront payment to OEMs to take part in the tendering process for specific projects. These payments are often called 'pay to play' or 'nomination fees'. Non-refundable up-front payments, including 'nomination fees', may be made before there is a contract with a customer. For example, they may be paid to participate in the tendering process, or upon signing a framework agreement – e.g., a master service agreement – which may not be legally binding.

Currently, there is diversity in practice over whether payments to customers are accounted for as a reduction in revenue, an expense or an asset. The application of Ind AS 115 may change accounting for some APSSs. APSSs will need to exercise significant judgement to determine whether these payments are recognised up-front as an expense, as a reduction of revenue or may be capitalised as an asset. If capitalised, then they are amortised as a reduction of revenue over the contract period (including renewals or expected renewals). If upfront payments are not in exchange for a distinct good or service, then the payments or amortisation thereof are accounted for as a reduction of the transaction price.

However, if an APS makes these payments when there is no enforceable contract with a customer or the contract term is very short, then additional judgement may be required to determine whether these payments:

- ▶ May be capitalised and amortised as a reduction of revenue over expected sales,

- ▶ Are recognised as a reduction of revenue over the existing contract, or
- ▶ Are recognised immediately in profit or loss

When determining the appropriate accounting for such up-front payments, factors to consider may include:

- ▶ The underlying reason for the payment
- ▶ Whether the payment is recoverable – e.g. if an exclusive relationship is secured and it is probable that the customer will make sufficient purchases to recover the payment; and
- ▶ The history of renewals and the average project life, which usually indicate whether the expected initial contract will be obtained and whether the payment will be recovered through the initial contract or anticipated renewals.

Payments made to a customer that are not specified in the contract may still represent consideration payable to a customer. APSSs need to develop a process to track such payments and evaluate whether they should be reduced from revenue.

Under Ind AS 115, not only direct payments to customer but also payments to customer's customer in the distribution chain are reduction of revenue. For example, a level 2 APS sells components to a level 1 APS, who after integrating these components into its goods, sells them to an OEM. Level 2 APS makes certain payments as nomination fees directly to the OEM, so that it can be added to the vendor list of the level 1 APS. This payment is a reduction from transaction price/revenue for the level 2 APS.

Tooling equipment

APSSs commonly enter into long-term arrangements with OEMs to provide specific parts, such as seat belts or steering wheels. An arrangement typically includes the construction for the tooling, which is required to be used when manufacturing the parts to meet the OEM's specifications. In many cases, the APSSs will construct and transfer the legal title for the tooling to the OEM after construction, even though they will retain physical possession of it in order to produce the parts.

Currently, some APSSs account for tooling as a revenue element because they have concluded it is a deliverable in the arrangement. Those APSSs will likely be able to reach the same conclusion under Ind AS 115, because these goods and services are likely to be a distinct performance obligation for which the customer pays and to which the entity allocates

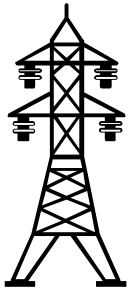


consideration for revenue recognition purposes.

Other APSs may have concluded that tooling is not a revenue element under the current Ind AS because it does not represent a deliverable in the arrangement. In order to reach the same conclusion under Ind AS 115, APSs will need to conclude that the tooling does not transfer a good or service to the customer and is similar to administrative tasks performed by a service provider to set up a contract. It is not clear whether this view will be permitted under the standard. As contract terms can vary, careful consideration of the APS's terms with its customers will be necessary.

Under Ind AS 115, if the tooling is determined to be a revenue element, the entity must first evaluate whether the tooling is distinct (i.e., both capable of being distinct and distinct within the context of the contract) and, therefore, a separate performance obligation. In making this evaluation, an APS will have to consider whether the tooling is separately identifiable from the production of the specified parts (e.g., is the tooling highly dependent on, or highly interrelated with, the production of the specified parts?). APSs' will have to apply significant judgement in making these determinations.

An entity recognises revenue when it transfers control of the promised good or service to the customer, which can occur over time or at a point in time. If the tooling is distinct, an APS would account for the tooling separately from the production of the other specialised parts. Revenue would be recognised for the tooling either over time or at a point in time, depending on how control of the tooling transfers to the OEM. If the tooling is not distinct, the APS would combine the tooling with the production. Revenue would be recognised as control of the specialised parts is transferred to the OEM. This evaluation will require judgement and careful consideration of the facts and circumstances.



Power and utility

P&U entities will apply Ind AS 115 to recognise revenue from all contracts with customers to provide goods or services, except to the extent the contracts (or parts thereof) are in the scope of other Ind AS, such as, Ind AS 17. Given below are key impacts that are likely to arise from Ind AS 115 application to P&U entities.

Identifying performance obligations

For many P&U arrangements (e.g., take-or-pay contracts and long-term power purchase agreements), entities will have to carefully consider whether the individual units of the good or service delivered are separate performance obligations. For example, a contract may involve a promise to transfer a number of identical units of energy, typically as individual kilowatt-hours (kWh). Under the new standard, a series of distinct goods or services (e.g., each kWh) that are transferred consecutively is treated as a single performance obligation if the distinct goods or services are substantially the same and would be recognised over time using the same measure of progress. Because electricity is generally simultaneously provided and consumed, an electricity contract will likely meet these criteria.

P&U entities now have to combine a series of goods and services that are substantially the same and have the same pattern of transfer into a single performance obligation, if certain criteria are met.

Further, P&U entities must also evaluate whether there are other distinct goods and services in their contracts. For example, an energy contract may include a promise to make capacity available to the customer on demand, provide transmission services or deliver renewable energy emissions credits. The proper identification of the performance obligations in these contracts may be complex, but will be critical for proper revenue recognition

Fixed and stepped-price arrangements

P&U entities will need to apply significant judgement when determining interaction between performance obligations and estimating standalone selling price for fixed and stepped-price arrangements. These types of contracts typically include only one good or service (e.g., a unit of energy, volume of gas or waste services) that are sold in multiple units over a period of time. Entities with such contracts should carefully consider the contractual terms and evaluate reasons for the price changes when identifying the performance obligations and determining how to allocate the transaction price to the performance obligations. These arrangements may also include aspects of variable consideration which will need to be evaluated further.

Unlike contracts to deliver electricity, contracts to deliver some commodities may not meet the criteria to be satisfied over time. Therefore, they may not meet the criteria for a single performance obligation comprised of a series of goods or services. For example, an entity may enter into a natural gas sales contract with an industrial customer that stores the natural gas for later use, rather than immediately consuming it. In these situations, entities may identify multiple performance obligations (e.g., each thermal unit). Ind AS 115 requires entities to determine the standalone selling price for contracts where separate performance obligations exist for each unit of commodity. However, it does not provide any specific application guidance as to how the standalone selling prices should be determined. It is unclear whether entities are required to use a current market price or other prices that may be available at the contract inception date, such as a forward price or a calculated value. This will require entities to exercise judgement.

In certain cases, Ind AS 115 permits an entity to recognise revenue for the amount it has the right to invoice, if that amount corresponds to the value it transfers to the customer. If a P&U entity qualifies for this practical expedient, it may be able to recognise revenue in the same manner as is generally done today (i.e., on an as-invoiced basis).

Example 1: Estimating the standalone selling prices

For simplicity, the scenarios below use yearly pricing for purposes of estimating the standalone selling price for the forward prices. We also assume the practical expedient has been applied to group distinct goods together into one-year performance obligations as discussed above in Step 2.

Scenario 1: Fixed price contract

Entity G enters into a three-year fixed price contract with customer H to deliver 10,00,000 units of electricity each year for a fixed price of INR65/MWh. There is an active market for electricity and the forward prices are as follows at contract inception: Year 1 - INR60/MWh, Year 2 - INR70/MWh and Year 3 - INR75/MWh.

Year	Spot price (i.e., same standalone selling price for each unit)			Forward price (i.e., different standalone selling price for each unit)		
	Current practice (INR)	Calculation	Revenue (INR)	Forward Selling price	% of price allocated	Revenue (INR)
1	6,50,00,000	10,00,000 x INR65	6,50,00,000	10,00,000 x INR60	29%	5,65,50,000
2	6,50,00,000	10,00,000 x INR65	6,50,00,000	10,00,000 x INR70	34%	6,63,00,000
3	6,50,00,000	10,00,000 x INR65	6,50,00,000	10,00,000 x INR75	37%	7,21,50,000
	19,50,00,000		19,50,00,000			1,95,000,000

As can be seen in this scenario, the assumption that each unit delivered has the same standalone selling price would result in the same accounting as currently used in practice.

Scenario 2: Stepped price contract

Entity 1 enters into a three-year fixed price contract with Customer J to deliver 10,00,000 units of electricity each year with the following fixed prices: Year 1 - INR60/MWh, year 2 - INR70/MWh and year 3 - INR75/MWh. The contract pricing is also equal to the forward prices in the active market at contract inception.

Year	Spot price (i.e., same standalone selling price for each unit)			Forward price (i.e., different standalone selling price for each unit)		
	Current practice (INR)	Calculation	Revenue (INR)	Forward selling price	% of price allocated	Revenue (INR)
1	6,00,00,000	10,00,000 x INR68.33	6,83,33,333	10,00,000 x INR60	29%	6,00,00,000
2	7,00,00,000	10,00,000 x INR68.33	6,83,33,333	10,00,000 x INR70	34%	7,00,00,000
3	7,50,00,000	10,00,000 x INR68.33	6,83,33,333	10,00,000 x INR75	37%	6,50,00,000
	20,50,00,000		20,50,00,000			20,50,00,000

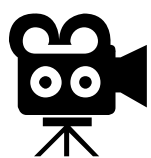
As can be seen in this scenario, assuming that each unit delivered has the same standalone selling price would result in different accounting compared to the current accounting practice. However, a similar revenue recognition profile as current practice would be achieved by using forward prices as the standalone selling price because (for simplicity) we have assumed that the forward prices of energy have been built into the pricing of the contract.

Contract modifications – Blend and extend modifications

Contract modifications are common in the P&U industry. In many cases, a modification will extend the period of the contract and change the overall pricing. For example, a P&U entity may agree to extend the period of a contract and create a blended price for the remaining units to be delivered over the extended term. Under current Ind AS, P&U entities account for blend and extend modifications on a prospective basis by applying the new contractual blended rate to all remaining units.

Under Ind AS 115, a P&U entity will generally account for a blend and extend modification prospectively, because the goods or services provided after the modification are distinct from those previously provided under the contract. A P&U entity will only apply a blended rate to the remaining goods and services if the new goods or services are priced above or below the stand-alone selling price, which would indicate that an economic relationship exists between the original and modified contracts. If a P&U entity determines that the price of the goods or services added in the modification is the standalone selling price at the date of modification (which may include adjustments to reflect the circumstances of the particular contract, e.g., reasonable discounts), the modification will be treated as a separate contract and the pattern of revenue recognition will likely differ from current practice. P&U entities may need to update their processes to allow for such analysis of blend and extend modifications.





Entertainment and media

The entertainment and media (E&M) sector is very wide. It includes sub-sectors such as film entertainment, television and cable broadcast, advertising, music, video games and publishing.

Identification of customers

Under Ind AS 115, it is important to identify whether the counterparty to the arrangement is a customer. The evaluation may be straightforward in many cases. However, in other cases, this evaluation will be more complex. E&M companies will need to evaluate their collaborative arrangements to determine if those arrangements are contracts with customers and therefore in the scope of Ind AS 115. For example, a film studio may enter into an arrangement with a counterparty (such as another production company) to co-develop a film. Such an arrangement will not be in the scope of Ind AS 115 if the parties share the risk of developing the film. However, the arrangement is likely to be covered under Ind AS 115 if the substance of the arrangement is that the studio is licensing its film to the counterparty or providing production services.

Licenses

Licenses in the E&M industry are very common and may take a variety of forms. Some common examples are license to a music album/ video, data or rights to a syndicated television show, or to utilise an animated character's image. Ind AS 18 does not contain any specific accounting for licences of E&M companies. Currently, the general practice is that revenue is not recognised under licensing arrangements until performance has occurred and the revenue has been earned. Under Ind AS 18, one may argue that the transaction is, in substance a sale and revenue is recognised upfront if the following conditions are met:

- ▶ The arrangement assigns IP rights for a non-refundable amount under a non-cancellable contract
- ▶ The licensee can use those rights freely
- ▶ The licensor has no remaining obligations to perform

The application of Ind AS 115 may result in significant changes to the accounting for licences. Firstly, a company should establish whether a license is distinct from other goods and services in the arrangement. In certain cases, the identification of distinct licenses may be challenging, especially when trying to differentiate between contractual provisions that (1) define the attributes of a single promised license, and (2) those that transfer control of additional rights to the customer. If the license is identified as distinct performance obligation, the revenue recognition will depend on whether a promise to grant a license provides a right to access IP or a right to use IP. This evaluation in turn is based on whether the IP is significantly affected by the company's activities.

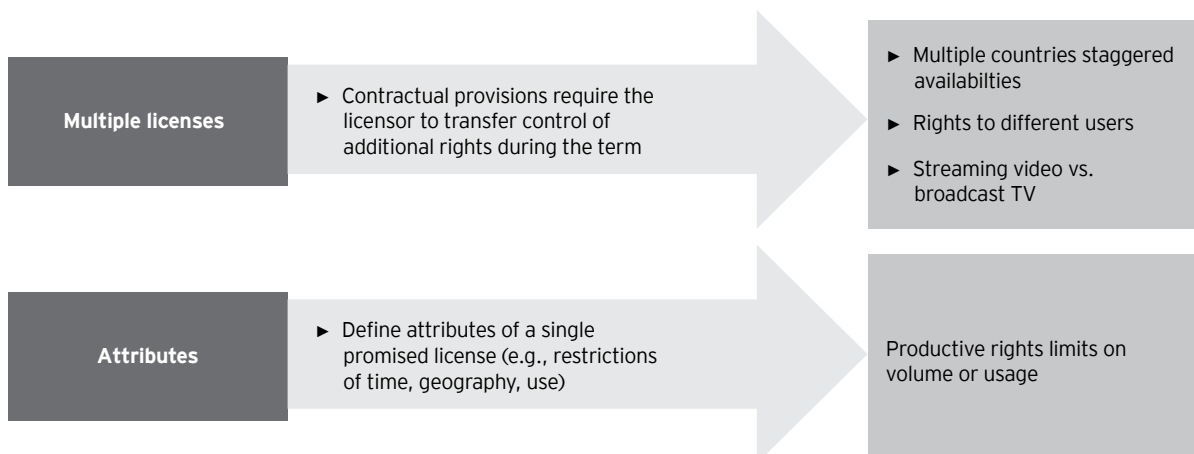
The overall impact is that revenue related to certain types of licenses may be accelerated, whereas others could be deferred compared to the current Ind AS accounting. For example, under Ind AS 18, an entity may have recognised revenue from assignment of franchise rights upfront, if subsequent services are paid separately. Under Ind AS 115, this revenue may be recognised over time. Similarly, under Ind AS 18, many companies recognised revenue related to software and media licences over the period. Subject to specific criteria being met, Ind AS 115 may require the revenue to be recognised at a point in time.

Contractual restrictions in license arrangements

Many licenses within the E&M industry include contractual provisions that restrict the licensee's use of the IP. For example, a license to a film for a three-year period may contain a contractual restriction that the licensee can run the film for maximum six times over the period. Ind AS 115 requires an entity to determine whether the additional rights/ restrictions are an attribute of the license and if not, to apply guidance for identifying performance obligations. Significant judgment will be required to assess whether a contractual provision in a license creates an obligation to transfer multiple licenses (and therefore separate performance obligations) or whether the provision is a restriction that represents an attribute of a single license.

Licenses

Contractual restrictions



Example 1: Contractual restrictions

Scenario 1

A film producers licenses rights that permit a cable TV channel to exhibit a film up to six times during a three -year term.

Scenario 2

The film producer licenses rights that permit a cable TV channel to broadcast a film/ television series domestically for the first three years for an upfront license fee. For years 4 and 5, the channel is provided with the right to broadcast the film/ television series internationally.

Evaluation

In scenario 1, the producer transfers control of all the licensed rights at inception. The contractual restrictions appear to be the attributes of the license. Such restrictions are not indicative of multiple performance obligations. Assuming that the licence is not significantly affected by the producer's future activities, it will recognise revenue at a point in time.

In scenario 2, the producer determines, after analysing specific provisions of the arrangement, that its promise is to deliver two licenses, viz., a domestic license and an international license. The arrangement requires the producer to transfer control of additional rights (right to broadcast internationally) at the beginning of year 4. This will require the producer to allocate the transaction price (i.e., the upfront fee) to the two separate performance obligations. The allocation should be based on relative standalone selling prices, and revenue should be recognized when the customer has the ability to use and benefit from its right to use the IP.

Sales-or usage-based royalties on licenses of IP

Many licence contracts contain sales or usage-based royalties. Ind AS 115 requires that revenue related to a sales-or usage-based royalty should not be recognised until the actual sale or usage occurs and the related performance obligation has been satisfied (or partially satisfied). However, once the sale or usage has taken place and the performance obligation is satisfied, Ind AS 115 does not allow any further deferral of revenue say because sale/ usage data is not available. Hence in a scenario where sales or usage data is not available at the end of reporting period, E&M companies will need to estimate the royalties for the period.

Barter transactions

Barter transactions are common amongst entities in various E&M subsectors. They typically exchange advertising for advertising or other goods or services. An entity should evaluate these transactions from the following key perspective:

- ▶ Ind AS 115 does not apply to non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.
- ▶ Ind AS 115 does not apply if an arrangement does not have a commercial substance.

Entities will need to assess the impact of the above exceptions carefully. If any of these exceptions apply, revenue for barter transaction cannot be recognised. If Ind AS 115 is applicable, judgment may also be necessary to determine the fair value of advertising services or the fair value of noncash consideration. A company must first look to the value of the good or service received, as opposed to the good or service surrendered, when measuring non-cash consideration received from a customer.

Producers and distributors of TV and film IP often license their programs/ films to TV stations and cable networks (broadcasters) for consideration that includes a fixed cash amount and the right to monetise advertising spots to be aired with the content (barter). An issue arises as to whether the advertising time received should be accounted for as non-cash consideration, which will require the producer to measure the advertising spots at fair value at contract inception. If this view is appropriate, the producer will recognise:

- ▶ Licensing revenue for both the cash consideration and the fair value of the advertising spots when the content is delivered to the broadcaster
- ▶ Advertising revenue (and corresponding cost of sales) for the subsequent sale of the advertising spots to advertisers.





Appendices





Appendix 1

Standard issued but yet effective

When an Ind AS has been issued but is not yet effective, Paragraph 8 of Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to make specific disclosures.

Given below is a sample disclosures to assist you in complying with the disclosure requirements. Users of this publication are encouraged to tailor this disclosure based on the facts and circumstances applicable to them.

Ind AS 115 *Revenue from Contracts with Customers*

Ind AS 115 was issued on 28 March 2018 and establishes a five-step model to account for revenue arising from contracts with customers. Under Ind AS 115, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede virtually all current revenue recognition requirements under Ind AS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 April 2018. The Company plans to adopt the new standard on the required effective date using the full retrospective method.

The Company is in the business of providing fire prevention and electronics equipment and services. The equipment and services are sold both on their own in separate identified contracts with customers and together as a bundled package of goods and/or services.

(a) Sale of goods

For contracts with customers in which the sale of equipment is generally expected to be the only performance obligation, adoption of Ind AS 115 is not expected to have any impact on the Company's revenue and profit or loss. The Company expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In preparing to adopt Ind AS 115, the Company is considering the following:

(i) Variable consideration

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Company recognises revenue from the sale of goods measured at the fair value of the consideration

received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Company defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under Ind AS 115, and will be required to be estimated at contract inception and updated thereafter.

Ind AS 115 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Company expects that application of the constraint will result in more revenue being deferred than under current Ind AS.

Rights of return

When a contract with a customer provides a right to return the good within the specified period, the Company currently accounts for the right of return using a probability-weighted average amount of return approach similar to the expected value method under Ind AS 115. Under the current accounting policy, the amount of revenue related to the expected returns is deferred and recognised in the balance sheet within *Trade and other payables*. A corresponding adjustment is made to the cost of sales. The initial carrying amount of goods expected to be returned is included within *Inventories*.

Under Ind AS 115, because the contract allows the customer to return the products, the consideration received from the customer is variable. The Company has decided to use the expected value method to estimate the goods that will be returned because this method better predicts the amount of variable consideration to which the Company will be entitled. The Company applied the requirements in Ind AS 115 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Company concluded that, when it adopts Ind AS 115, an adjustment to revenue from the sale of goods of INR2,88,000 would be needed with a

related adjustment to cost of sales of INR2,40,000 for 2017. Under Ind AS 115, the Company presents a refund liability and an asset for the right to recover products from a customer separately in the balance sheet. On transition to Ind AS 115, the Company will reclassify *Trade and other payables* in the amount of INR29,16,000 to *Refund liabilities* and related *Inventories* in the amount of INR20,01,600 to *Rights to recover products from customers on return*. In addition, *Refund liabilities* in the amount of INR3,00,000 and *Rights to recover products from customers on return* in the amount of INR2,28,000, will be recognised in the balance sheet. As a result of these adjustments, *Retained earnings* as at 31 March 2018 will decrease by INR72,000.

Volume rebates

In the Electronics segment, the Company provides retrospective volume rebates to its customers on all products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract. Under its existing accounting policy, the Company estimates the expected volume rebates using the probability-weighted average amount of rebates approach and includes them in *Trade and other payables*. These amounts may subsequently be repaid in cash to the customer or are offset against amounts payable by customer.

Under Ind AS 115, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Company considered that the most likely amount method better predicts the amount of variable consideration for contracts with only a single volume threshold, while for contracts with more than one volume threshold it would apply either the expected value method or the most likely amount method, depending on which of them better predicts the amount of variable consideration for the particular type of contract. The Company applied the requirements in Ind AS 115 on constraining estimates of variable consideration and concluded that an adjustment to reduce revenue from sale of goods by INR31,56,000 would be needed in 2017-18, with a corresponding increase in *Trade and other payables* (to be presented under Ind AS 115 as *Contract liabilities*). In addition, the Company would present a liability recognised for the expected future rebates as part of *Contract liabilities*.

Therefore, an amount of INR31,56,000 would be reclassified from *Trade and other payables* to *Contract liabilities*. In addition, *Contract liabilities* in the amount of INR11,37,600 will be recognised in the balance sheet for the effects of restating of prior periods. As result of these adjustments *Retained earnings* as at 31 March 2018 will decrease by INR42,93,600.

(ii) Warranty obligations

The Company generally provides for warranties for general repairs and does not provide extended warranties in its contracts with customers. As such, most existing warranties will be assurance-type warranties under Ind AS 115, which will continue to be accounted for under Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*, consistent with its current practice. However, in certain non-standard contracts, the Company provides extended warranties that are currently accounted for under Ind AS 37. Under Ind AS 115, such warranties will be accounted for as service-type warranties and, therefore, will be accounted for as separate performance obligations to which the Company allocates a portion of the transaction price. When the Company adopts Ind AS 115 during the year ending 31 March 2019, the following adjustments are expected for 2017-18: The amount of INR1,39,200 recognised as short-term *Provisions* under Ind AS 37; and the related expenses included in cost of sales (INR1,39,200) will be derecognised. The revenue that should be allocated to the sale of service-type warranties (INR1,44,000) will be deferred and presented as the current portion of *Contract liabilities* of INR1,44,000. Since the Company did not have any unfulfilled extended warranties related to the years prior to 2017-18, *Retained earnings* as at 31 March 2018 will decrease by the difference of INR4,800.

(iii) Loyalty points programme (GoodPoints)

Under Appendix B to Ind AS 18 *Customer Loyalty Programmes*, the loyalty programme offered by the Company's Electronic segment results in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Company concluded that under Ind AS 115, the loyalty programme gives rise to a separate performance obligation because

Appendix 1 (cont'd.)

Standard issued but yet effective

it generally provides a material right to the customer. Under Ind AS 115, the Company will need to allocate a portion of the transaction price to the loyalty programme based on relative standalone selling price instead of the allocation using the fair value of points issued, i.e., residual approach, as it did under Appendix B to Ind AS 18. The Company determined that more revenue must be allocated to the goods sold in comparison to the existing accounting policy. When Ind AS 115 is adopted, the following adjustments are expected to the current year: Revenue from the sale of goods would increase and the current portion of *Deferred revenue* would decrease by INR43,200. In addition, INR72,000 would be reclassified from the non-current portion of *Deferred revenue* to the opening *Retained earnings*, with a cumulative effect on *Retained earnings* as at 31 March 2018 in the amount of INR1,15,200; the remaining balances of non-current *Deferred revenue* in the amount of INR3,98,400 and current portion of *Deferred revenue* in the amount of INR4,84,800 will be reclassified as non-current and current portions of *Contract liabilities*.

(b) Rendering of services

The Company's Fire Prevention segment provides installation services. These services are sold either on their own in contracts with the customers or bundled together with the sale of equipment to a customer. Currently, the Company accounts for the equipment and service as separate deliverables of bundled sales and allocates consideration between these deliverables using the relative fair value approach. The Company recognises service revenue by reference to the stage of completion. Under Ind AS 15, allocation will be made based on relative standalone selling prices. Hence, the allocation of the consideration and, consequently, the time of the amount of revenue recognised in relation to these sales would be affected.

The Company assessed that when Ind AS 115 is adopted, the current reporting period would be adjusted such that revenue from sale of goods would increase by INR4,08,000 because of re-allocation of the portion of contract consideration that, under Ind AS 18, was allocated to installation services and the current portion of *Deferred revenue* would be lower by the same amount. The effect on prior periods would be a decrease in the current portion of *Deferred revenue* and an increase in opening *Retained earnings* by INR1,44,000. In addition, the Company would reclassify INR72,000 from the non-current portion of *Deferred revenue* to the non-current portion of *Contract liabilities* and INR1,32,000 from the current portion of *Deferred revenue* to the current portion of *Contract liabilities*.

The Company concluded that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Company. Consequently, under Ind AS 115 the Company would continue to recognise revenue for these service contracts/service components of bundled contracts over time rather than at a point of time.

Applying a percentage of completion method, the Company currently recognises revenue and *Trade and other receivables*, even if receipt of the total consideration is conditional on successful completion of installation services. Under Ind AS 115, earned consideration that is conditional should be recognised as a contract asset rather than receivable. Therefore, on adoption of Ind AS 115, the Company will reclassify at 31 March 2018 INR1,00,32,000 from *Trade and other receivables* to the current portion of *Contract assets*.

(c) Equipment received from customers

The Company receives transfers of moulds and other tools for its manufacturing process from customers, which are recognised at fair value as property, plant and equipment under Appendix C to Ind AS 18 *Transfers of Assets from Customers* with a corresponding increase in *Deferred revenue*.

Ind AS 115 requires that the fair value of such non-cash consideration, received or expected to be received by the customer, is included in the transaction price. The Company has concluded that adoption of Ind AS 115 would not have an effect on the accounting for equipment received from customers. However, amounts that were presented previously as *Deferred revenue* would be presented under Ind AS 115 as *Contract liabilities*. This would result in reclassification as of 31 March 2018 of INR1,03,200 from the current portion of *Deferred revenue* to the current portion of *Contract liabilities* and INR3,19,200 from the non-current portion of *Deferred revenue* to the non-current portion of *Contract liabilities*.

(d) Advances received from customers

Generally, the Company receives only short-term advances from its customers. They are presented as part of *Trade and other payables*. However, from time to time, the Company may receive from customers long-term advances. Under the current accounting policy, the Company presents such advances as *Deferred revenue* under the non-current liabilities heading in the balance sheet. No interest was accrued on the long-term advances received under the current accounting policy.

Under Ind AS 115, the Company must determine whether there is a significant financing component in its contracts. However,

the Company decided to use the practical expedient provided in Ind AS 115, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Company expects, at contract inception, that the period between the Company transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Company will not account for a financing component even if it is significant.

Based on the nature of the goods and services offered and the purpose of payment terms, the Company determined that for the vast majority of the contracts that require customers to pay long-term advances, the payment terms were structured primarily for reason other than the provision of finance to the Company, i.e., advances are generally required from new customers, as well as customers with a history of late payments; they do not provide customers with an alternative to pay in arrears. In addition, the length of time between when the customer pays for the goods and the Company transfers goods to the customer is relatively short. Therefore, the Company has concluded that there is not a significant financing component in these contracts.

However, certain contracts between the Company and its customers include two alternative payment options: payments after a number of years when the customers obtain control over the assets and the payment of a smaller amount when the contracts are signed. For these contracts when the customer elects to use the prepayment option, the Company concluded that they contain a significant financing component because of the length of time between when the customer pays for the goods and when the Company transfers goods to the customer, as well as the prevailing interest rates in the market. The transaction price for such contracts will be determined by discounting the amount of promised consideration using the appropriate discount rate. When Ind AS 115 is adopted, adjustments to the current reporting period are expected such that *Deferred revenue* (presented under Ind AS 115 as non-current portion of *Contract liabilities*) would increase by INR76,800 reflecting the adjustment of the promised amount of consideration by the interest, with a related increase in the *Finance costs* for 2017-18 in the amount of INR64,800 and a decrease of INR12,000 in opening *Retaining earnings*. In addition, the Company would reclassify INR2,40,000 from the non-current portion of *Deferred revenue* and INR96,000 from the current portion of *Deferred revenue* to the current and non-current portions of *Contract liabilities*, respectively.

(e) Principal versus agent considerations

From time to time, the Company enters into contracts with its customers to acquire, on their behalf, special fire prevention equipment produced by foreign suppliers. Under these contracts, the Company provides procurement services (i.e., selects suitable suppliers and manages the ordering and delivery of the imported equipment). In these contracts, the Company is not considered to be primarily responsible for fulfilling the promise to provide the specified equipment. The Company does not have inventory risk before or after the specified equipment has been transferred to the customer as it purchases equipment only upon approval of the customer and the foreign supplier ships equipment directly to the customers. In addition, the Company has no discretion in establishing the price for the specified equipment. However, the Company's consideration in these contracts is determined as the difference between the maximum purchase price quoted by the customer and the final price negotiated by the Company with the foreign supplier. The Company bears credit risk on these transactions as it is obliged to pay the foreign supplier even if the customer defaults on a payment. Under the current accounting policy, based on the existence of credit risk and the nature of the consideration in the contract, the Company concluded that it has an exposure to the significant risks and rewards associated with the sale of equipment to its customers, and accounted for the contracts as if it is a principal. Ind AS 115 requires assessment of whether the Company controls a specified good or service before it is transferred to the customer. The Company has determined that it does not control the goods before they are transferred to customers, and hence, is an agent rather than principal in these contracts. In addition, the Company concluded that it transfers control over its services (of arranging for the provision of the equipment from a foreign supplier), at a point of time. When the Company adopts Ind AS 115, adjustments to the current period would decrease revenue from the sale of goods by INR94,94,400 and cost of sales by INR82,56,000 and increase revenue from rendering of services by the difference of INR12,38,400.

(f) Presentation and disclosure requirements

The presentation and disclosure requirements in Ind AS 115 are more detailed than under current Ind AS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Company's financial statements. Many of the disclosure requirements in Ind AS 115 are new and the

Appendix 1 (cont'd.)

Standard issued but yet effective

Company has assessed that the impact of some of these disclosures requirements will be significant. In particular, the Company expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: When determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. Also, extended disclosures are expected as a result of the significant judgement made when assessing the contracts where the Company has concluded that: It acts as an agent instead of a principal, there is a significant financing component and service-type warranties are provided. In addition, as required by Ind AS 115, the Company will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of

disaggregated revenue and revenue information disclosed for each reportable segment.

(g) Other adjustments

In addition to the major adjustments described above, on adoption of Ind AS 115, other items of the primary financial statements such as deferred taxes, assets held for sale and liabilities associated with them, profit or loss after tax for the year from discontinued operations will be affected and adjusted as necessary.

The recognition and measurement requirements in Ind AS 115 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property, plant and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Company.

In summary, the impact of Ind AS 115 adoption is expected to be, as follows:

Impact on equity (increase/ (decrease)) as of 31 March 2018 (1 April 2018: (INR7,65,600)):

	Adjustments	INR'000
Assets		
Investments at cost	(g)	(48)
Trade and other receivables	(b)	(10,032)
Inventories	(a)(i)	(2,002)
Rights to recover products from customers on return	(a)(i)	2,230
Contract assets (current)	(b)	10,032
Assets held for sale	(g)	29
Total assets		209
Liabilities		
Trade and other payables	(a)(i), (a)(i)	(10,392)
Refund liabilities	(a)(i)	3,216
Contract liabilities (current)	(a)(i), (a)(ii), (c), (d), (f)	12,634
Contract liabilities (non-current)	(c), (d), (f)	1,202
Provisions	(a)(ii)	(139)
Deferred revenue (non-current)	(a)(iii), (c), (d), (f)	(1,102)
Deferred revenue (current)	(a)(iii), (b), (c), (d), (f)	(1,411)
Deferred tax liabilities	(g)	(1,162)
Liabilities directly associated with assets held for sale	(g)	82
Total liabilities		2,928
Net impact on equity		(2,719)

	Adjustments	INR 000
Sale of goods	(a)(i), (a)(ii), (a)(iii), (b),(e)	(12,631)
Rendering of services	(e)	1,238
Cost of sales	(a)(i), (a)(ii), (e)	8,635
Finance costs	(d)	(65)
Income tax expense	(g)	859
Profit or loss after tax for the year from discontinued operations	(g)	(41)
Net impact on profit for the year		(2,004)

	Increase / decrease
Earnings per share	
Basic	(0.10)
Diluted	(0.07)
Earnings per share for continuing operations	
Basic	(0.10)
Diluted	(0.07)



Comparison with IFRS 15, *Revenue from Contracts with Customers*

1. In accordance with paragraph of 15 of IFRS 15, an amount of consideration, among other things, can vary because of penalties. However, paragraph 51 of Ind AS 115 has been amended to exclude penalties from the list of examples given in paragraph 51 due to which the amount of consideration can vary. Instead of this, paragraph 51AA has been inserted to explain the accounting treatment of 'penalties'.

2. Paragraph 126AA has been inserted to require entities to present a reconciliation of the amount of revenue recognised in the statement of profit and loss with the contracted price showing separately each of the adjustments made to the contract price specifying the nature and amount of each such adjustment separately.
3. In *Appendix C – Application Guidance*, paragraph B20AA has been inserted to explain the accounting treatment in case of transfers of control of a product to a customer with an unconditional right of return.

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Appendix 3

Key differences between the current Ind AS and Ind AS 115

The appendix covers only high level differences between the current Ind AS (Ind AS 18 and Ind AS 11) and Ind AS 115. The requirements of Ind AS 115 are fundamentally different from those under the current Ind AS. Particularly, Ind AS 115 prescribes a completely new model for revenue recognition. It also provides *comprehensive* application guidance on various aspects not addressed in the current Ind AS. A direct comparison of the current Ind AS with Ind AS 115 may not be sufficient to assess potential impact areas. A thorough analysis of the relevant facts and circumstances, review of the authoritative literature and appropriate professional/ technical advice is recommended.

Current Ind AS	Ind AS 115	Analysis
Relevant standards		
Ind AS 18 <i>Revenue</i> ▶ Appendix A to Ind AS 18 <i>Revenue—Barter Transactions Involving Advertising Services</i> ▶ Appendix B to Ind AS 18 <i>Customer Loyalty Programmes</i> ▶ Appendix C to Ind AS 18 <i>Transfer of Assets from Customers</i> Ind AS 11 <i>Construction Contracts</i> ▶ Appendix A to Ind AS 11 <i>Service Concession Arrangements</i> ▶ Appendix B to Ind AS 11 <i>Service Concession Arrangements: Disclosures</i> ▶ Guidance Note on Accounting for Real Estate Transactions	Ind AS 115 <i>Revenue from Contracts with Customers</i> ▶ Appendix D to Ind AS 115 <i>Service Concession Arrangements</i> ▶ Appendix E to Ind AS 115 <i>Service Concession Arrangements: Disclosures</i>	Ind AS 115 will replace virtually all of the current revenue recognition guidance. In Ind AS 115 scenario, there will be no separate guidance note for real estate companies. Rather, entities will evaluate their revenue recognition using Ind AS 115. Appendices D and E to Ind AS 115 prescribe accounting principles for services concession arrangements (SCA) which are similar to Appendices A and B to Ind AS 11. Hence, there is unlikely be a principle change in overall accounting for SCA. However, the concerned entities will use Ind AS 115 principles (instead of Ind AS 11 and Ind AS 18) while recognising revenues. Hence, there may be consequential impact.
Scope		
Ind AS deals with revenue arising from ▶ Sale of goods ▶ Rendering of services ▶ Interest, dividend and royalties It does not deal with revenue arising from lease agreements, dividends arising from investments which are accounted for under the equity method, insurance contracts, extraction of mineral ores, etc. Ind AS 11 is applied in accounting for construction contracts in the financial statements of contractors.	Ind AS 115 is applicable to all entities and all contracts with customers to provide goods or services in the ordinary course of business. However, it does not apply to: ▶ Lease contracts ▶ Insurance contracts ▶ Financial Instrument contracts and certain other contractual rights ▶ Certain non-monetary exchanges ▶ Certain put options on sale and repurchase agreements	The scope of Ind AS 115 is different vis-à-vis Ind AS 18 and Ind AS 11. For example, Ind AS 18 currently specifies accounting treatment for the recognition and measurement of interest and dividends. Interest and dividend income are excluded from the scope of Ind AS 115. Instead, the relevant recognition and measurement requirements are prescribed in Ind AS 109. Unlike Ind AS 18, Ind AS 115 does not contain any scope exclusion for revenue from extraction of mineral ores.

Appendix 3 (cont'd.)

Key differences between the current Ind AS and Ind AS 115

Current Ind AS	Ind AS 115	Analysis
Definition of customer		
Not defined	The 'customer' is defined as 'a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.'	Ind AS 115 will cover most contracts with customers. However, there are no elaborate requirements to assist in determining whether an arrangement is a vendor-customer arrangement or another type of arrangement (e.g., collaborative arrangements with partners). Entities will still need to apply judgement in this area.
Revenue recognition approach		
Separate requirements exist for recognition of revenue from sale of goods, rendering of service and construction contracts.	Ind AS 115 entails five steps model to account for revenue: ▶ Identify the contract(s) with a customer ▶ Identify the separate performance obligations ▶ Determine the transaction price ▶ Allocate the transaction price to the separate performance obligations ▶ Recognise revenue when (or as) the entity satisfies a performance obligation	The 5 step model in Ind AS 115 is a new concept and provides a structured model for entities to assess their revenue transactions.
Step 1: Identify the contract		
No requirement that there should be a written or formal evidence of an arrangement.	Contract defined as an agreement between two or more parties that creates enforceable rights and obligations. Contracts can be written, oral or implied by an entity's customary business practices. Applies to each contract that has been agreed upon with a customer and meets specified criteria Contracts must be combined when specified criteria are met Specifies how to account for contract modifications	Having oral and implied agreements as contracts may be a change in practice for some entities Assessing termination provisions when determining the contract duration may be a significant change for some entities Unlike the current Ind AS, Ind AS 115 specifies how to account for transactions with customers that do not meet the specified criteria for a contract.

Current Ind AS	Ind AS 115	Analysis
Step 2: Identify the performance obligation		
The revenue recognition criteria are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period during which the service is performed.	Performance obligations are promises (explicit or implicit) to transfer distinct goods or services, or a series of distinct goods or services, to the customer Identified at contract inception based on contractual terms and customary business practice If distinct (both individually and in the context of the contract), promised goods or services are accounted for separately Given below are few examples of likely separate performance obligations ▶ Free maintenance service ▶ Extended/ service-type warranty ▶ Customer option for additional goods and services ▶ Specified/ unspecified future upgrades	Current Ind AS has limited requirements for transactions with multiple deliverables. Ind AS 115 contains different basis and more extensive application guidance for determining performance obligations. Therefore, entities may identify different performance obligations (i.e., more or fewer performance obligations) compared to deliverables identified under the current Ind AS.
Step 3: Determining transaction price		
Revenue is measured at the fair value of the consideration received or receivable.	The transaction price is the amount of consideration to which an entity expects to be entitled to in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, sales taxes). The transaction price considers: ▶ Variable consideration (including application of the constraint) ▶ Consideration paid or payable to a customer ▶ Non-cash consideration ▶ Significant financing component	Fair value is no longer the measurement objective for revenue. Requirements for determining the transaction price are more extensive than current Ind AS. Many entities could see significant changes in how they estimate and account for variable consideration under the new standard.

Key differences between the current Ind AS and Ind AS 115

Current Ind AS	Ind AS 115	Analysis
Step 5: Recognise revenue		
Rendering of services and construction contracts		
Under current Ind AS, revenue from rendering of services/ construction contracts is recognised on a POCM basis.	No separate criteria for revenue recognition from rendering of services/ construction contracts. To recognise revenue over time, an entity must meet one of the following criteria: ▶ The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. ▶ The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced. ▶ The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.	Ind AS 115 does not presume that services are generally recognised over time and goods at a point in time. For each performance obligation identified in the contract, an entity is required to consider at contract inception whether it satisfies the performance obligation over time or at a point in time. This evaluation will require many entities to perform new analyses or to perform analyses that differ from what they do under current Ind AS. For example, entities that enter in to contracts to construct turnkey projects for a customer will no longer need to determine if the contract either meets the definition of a construction contract (in order to apply Ind AS 11) or is for the provision of services (under Ind AS 18) so as to recognise revenue over time. The criteria under Ind AS 115 are different and, as such, entities could reach different conclusions than they do today.
Measuring progress		
The stage of completion of a contract may be determined in a variety of ways. The entity uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include: ▶ The proportion that contract costs incurred for work performed to date bear to the estimated total contract costs ▶ Surveys of work performed ▶ Completion of a physical proportion of the contract work.	If control transfers over time, the standard requires the entity to select a single revenue recognition method for the relevant performance obligation that best depicts the entity's performance in transferring the goods or services using either an output or input method. It also contains specific requirements for measuring progress under cost-to-cost method.	Ind AS 115 does not dictate which approach an entity should use to measure performance. However, it is clear that an entity cannot use an input method based on costs incurred to measure progress when costs are disproportionate to the entity's progress throughout the life of the contract. Under Ind AS 115, any margin related to the uninstalled materials would be shifted to the other goods and services and recognised as the costs for those goods and services are incurred.

Appendix 3 (cont'd.)

Key differences between the current Ind AS and Ind AS 115

Current Ind AS	Ind AS 115	Analysis
Sale of goods		
Ind AS 18 focuses on transfer of significant risks and rewards and other specific criteria for revenue recognition.	No separate criteria for revenue recognition for sale of goods. If the criteria for recognition of revenue over time are not met, revenue is recognised at a point in time. Revenue is recognised when the customer obtains control of the promised goods or services. To help entities make such determination, Ind AS 115 provides five indicators.	Shift from risk and reward model to control model is a significant change from current requirement.
Other aspects		
Current Ind AS provides or limited guidance on specific topic	Ind AS 115 provide requirements and detailed application guidance on topic such as: ▶ Contract costs ▶ Licenses ▶ Warranties ▶ Rights of return ▶ Principal vs. agent ▶ Contract modifications ▶ Customer options for additional goods or services ▶ Customer acceptance ▶ Customers' unexercised rights ▶ Non-refundable upfront fees (and some related costs) ▶ Repurchase agreements ▶ Consignment arrangements ▶ Bill-and-hold arrangements	Going forward entities will need to consider specific guidance available under Ind AS 115. The new requirements may result in changes in practice for many entities.

Defined terms

Contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (e.g., the entity's future performance).
Contract liability	An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.
Customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
Income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.
Performance obligation	A promise in a contract with a customer to transfer to the customer either: a) A good or service (or a bundle of goods or services) that is distinct, or b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
Revenue	Income arising in the course of an entity's ordinary activities.
Stand-alone selling price (of a good or service)	The price at which an entity would sell a promised good or service separately to a customer.
Transaction price (for a contract with a customer)	The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.



Appendix 5

Abbreviations

APS	Automotive parts suppliers	Ind AS 115.114	Accounting standard 115, paragraph 114
CA 2013	Companies Act, 2013	Ind AS 101.App C. C2	Indian Accounting standard 101, Appendix C, paragraph C2
CoWs	Contracts of Work	Ind AS 108	Operating Segments
ECL	Expected credit loss	Ind AS 109	Financial Instruments
E&C	Engineering and Construction entities	IP	Intellectual Property
E&M	Entertainment and Media	JDA	Joint development agreement
ESMA	European Securities and Markets Authority	JSC	Joint Steering Committee
GST	Goods and Services Tax	M&M	Mining and Metals entities
IASB	International Accounting Standards Board	MCA	Ministry of Corporate Affairs
ICAI	Institute of Chartered Accountants of India	MD&A	Management Discussion & Analysis
IFRS	International Financial Reporting Standards	NACAS	National Advisory Committee on Accounting Standards
IFRS 15	Revenue from Contracts with Customers	Notified Ind AS	Accounting standards notified the Companies (Indian Accounting Standards) Rules, 2015 (as amended)
Ind AS	Accounting standards notified under the Companies (Indian Accounting Standards) Rules, 2006 (as amended) or Indian Accounting Standards or notified Ind AS	OCI	Other Comprehensive Income
Ind AS 1	Presentation of Financial Statements	OEM	Original equipment manufacturers
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors	P&L	Statement of Profit and Loss
Ind AS 11	Construction Contracts	P&U	Power and Utility entities
Ind AS 17	Leases	POCM	Percentage of completion method
Ind AS 18	Revenue	PSC	Production Sharing Contracts
Ind AS 32	Financial Instruments: Presentation	R&D	Research & development
Ind AS 34	Interim Financial Reporting	RBI	Reserve Bank of India
Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets	RCP	Retail and consumer products entities
Ind AS 115	Revenue from Contracts with Customers	SEBI	Securities and Exchange Board of India
		USGAAP	Generally Accepted Accounting Principles applicable in United States of America

Notes:

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