

Awareness program on Ind AS Knowledge Session

Ind AS 115 - Revenue from contracts with customers

Resource person
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AGENDA

1. BASIC UNDERSTANDING
2. IND AS 115 REVENUE FROM CONTRACTS WITH CUSTOMERS
3. PRESENTATION OF CONTRACT ASSETS AND LIABILITIES
4. DISCLOSURE
5. COMPARISION WITH IFRS 15
6. COMPARISION WITH AS 7- CONSTRUCTION CONTRACTS AND AS 9 - REVENUE RECOGNITION
7. COMPARISION WITH IND AS 11 - CONSTRUCTION CONTRACTS AND IND AS 18 – REVENUE
8. SERVICE CONCESSION ARRANGEMENTS

BASIC UNDERSTANDING

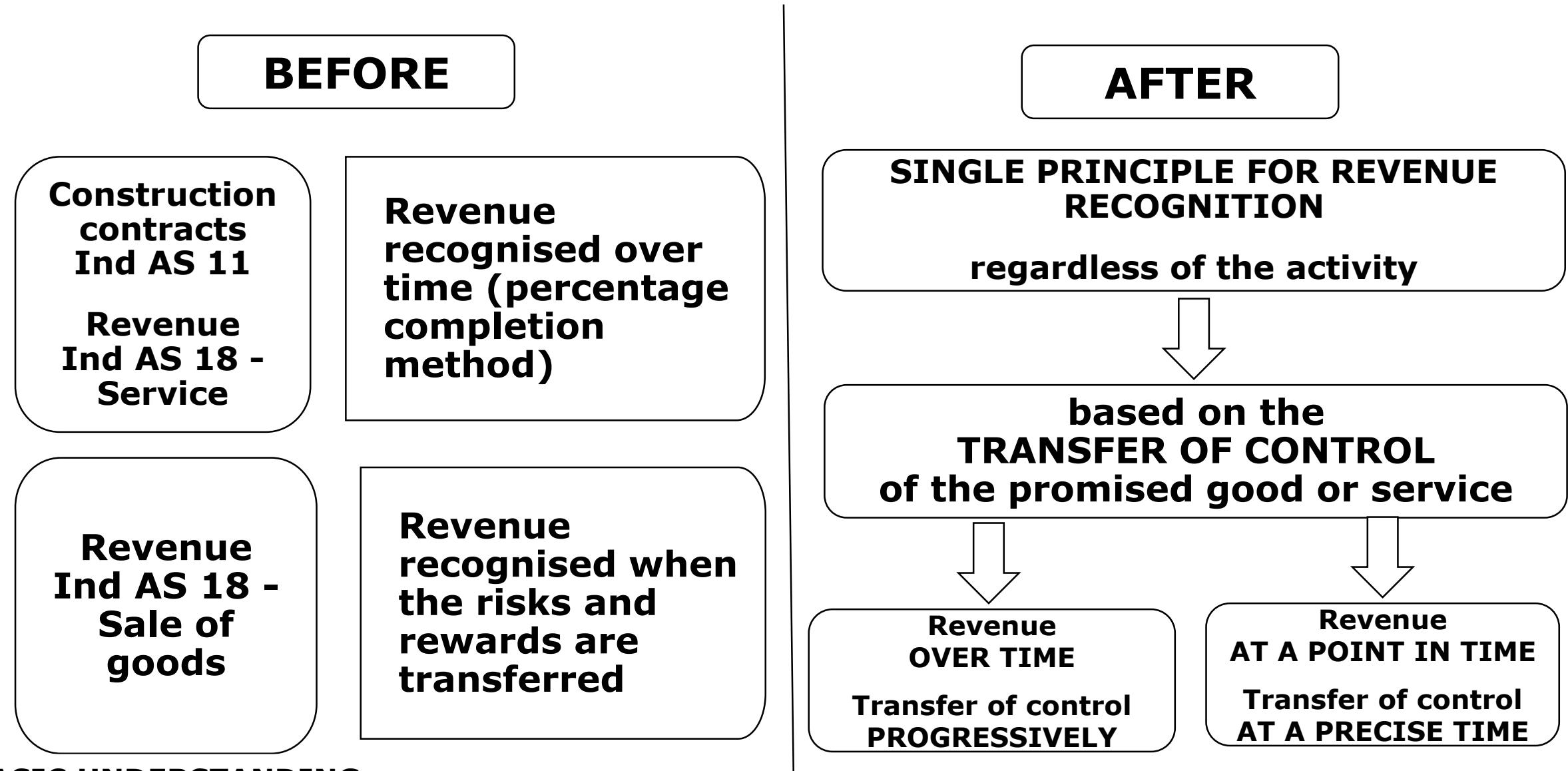
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1. Timetable for implementation of Ind AS 115
2. A new obligating event for revenue recognition, applicable to all activities
3. Transition requirements
4. Standard exclusions
5. Changes from the previous standards
6. Core principle

TIMETABLE FOR IMPLEMENTATION OF IND AS 115

- Ind AS 115 – 'Revenue from Contracts with Customers' - Notify on **28 March 2018** by the Ministry of Corporate Affairs ('MCA') for companies following Indian Accounting Standards ('Ind AS') effective from **1 April, 2018**.
- Ind AS 115 is based on IFRS 15, under IFRS and ASC 606, under US GAAP, which are internationally effective from annual periods starting **January 1, 2018**.
- With effect from financial year beginning from 1 April 2018, **Ind AS 115** would replace the existing Ind AS standards, i.e., **Ind AS 18 – Revenue and Ind AS 11 - Construction Contracts**.

A NEW OBLIGATING EVENT FOR REVENUE RECOGNITION, APPLICABLE TO ALL ACTIVITIES



TRANSITION REQUIREMENTS

Application date: Start of the reporting period after 1 April, 2018; and

Options:

Option-1: Retrospectively to each prior reporting period presented in accordance with Ind AS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, subject to certain expedients. In this case; Comparative information to be presented only for the immediately preceding period

Option-2: Retrospectively with the cumulative effect of initially applying Ind AS 115 - Revenue from Contracts with Customers, recognised at the date of initial application. In this case; cumulative effect of initially applying Ind AS 115 shall be recognised as an adjustment to the opening retained earnings.

This can be opted only to contracts that are not completed contracts or all contracts at the date of initial application.

STANDARD EXCLUSIONS

Ind AS 115 is applicable to all contracts with customers except:

- **lease contracts** within the scope of Ind AS 116 - 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; and
- **non-monetary exchanges between entities** in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

It may happen that **partially a contract within scope** of Ind AS 115 and partially within the scope of other standards

CHANGES FROM THE PREVIOUS STANDARDS

- Under Ind AS 115 'Revenue from Contracts with Customers' revenue is recognised when **customer obtain control of goods or services**. Under earlier Ind AS 18 Revenue and Ind AS 11 Construction contracts revenue is recognised when there is **transfer of risk and rewards**.
- Customer obtain the control when the customer has **ability to direct the use** of and obtain benefit from the good and service. However, the **customer** defined in the Ind AS 115 not defined in earlier standards.
- The assessment required for the **over the time** or at **a point of time** revenue recognition criteria.

CORE PRINCIPLE

- Revenue shall be recognized on transfer of promised goods and services means **transfer of control**
- Customer obtain the control when the customer has **ability to direct the use** of and obtain benefit from the good and service.
- The assessment required for the **over the time** or at **a point of time** revenue recognition criteria.
- **Five step** model for the revenue recognition
- Sale of **other non financial asset** e.g. property, plant and equipment, even the **disposal is not the ordinary course of business** then also the consideration and control need to be **determined and assessed based on Ind AS 115**

IND AS 115 REVENUE FROM CONTRACTS WITH CUSTOMERS

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REVENUE RECOGNITION – FIVE STEP MODEL

STEP 1: IDENTIFICATION OF THE CONTRACT WITH A CUSTOMER

STEP 2: IDENTIFY THE PERFORMANCE OBLIGATIONS

STEP 3: DETERMINE THE TRANSACTION PRICE

STEP 4: ALLOCATE THE TRANSACTION PRICE

STEP 5: RECOGNISE REVENUE WHEN (OR AS) PERFORMANCE OBLIGATIONS ARE SATISFIED

FIVE STEP MODEL

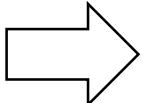
KEY STEPS TO APPLY FOR REVENUE RECOGNITION

Step 1	Identify the contract with the customer	Assess whether the contract is within the scope of Ind AS 115. "Customer" is now a defined term
Step 2	Identify the performance obligations	Determine whether the goods and services in the contract are distinct
Step 3	Determine the transaction price	Determine fixed and variable consideration
Step 4	Allocate the transaction price	Allocate based on a relative stand-alone selling price basis using acceptable Methods
Step 5	Recognise Revenue when (or as) performance obligations are satisfied	Recognise revenue at a point in time or over the period of time based on performance Obligations

FIVE STEP MODEL

STEP 1: IDENTIFICATION OF THE CONTRACT WITH A CUSTOMER

What is a contract ?



An agreement between 2 or more parties that creates enforceable rights and obligations

The parties have approved the contract and are committed to perform their respective obligations

It is probable that the entity will collect the consideration to which it will be entitled

Account for a contract only when 5 criteria are met

The entity can identify each party's rights regarding the goods or services to be transferred

The contract has commercial substance

The entity can identify the payment terms for the goods or services to be transferred

STEP 1: IDENTIFICATION OF THE CONTRACT WITH A CUSTOMER

-WHAT ARE THE CONSEQUENCES IF CRITERION IS MET / NOT MET (1/2)

Does the contract meet the criteria listed in Ind AS 115 at inception?

No

Continue to assess the contract to determine whether the criteria are subsequently met

Yes

The contract is accounted for in accordance with Ind AS 115 i.e. revenue may be recognised

See next slide for the accounting consequence in case consideration is received

No reassessment of those criteria unless there is an indication of a significant change in facts and circumstances

STEP 1: IDENTIFICATION OF THE CONTRACT WITH A CUSTOMER

-WHAT ARE THE CONSEQUENCES IF CRITERION IS MET / NOT MET (1/2)

Did the entity receive consideration from the customer (and the criteria for identifying a contract are met)?

No

Nothing to do

Yes

Does the entity have *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*?

Yes

Recognise the consideration received as revenue

No

Has the contract been *terminated* and the consideration received from the customer is *non-refundable*?

Yes

Recognise the consideration received as a liability until one of the above events occurs or until the criteria in Ind AS 115 are subsequently met

No

STEP 1: IDENTIFICATION OF THE CONTRACT WITH A CUSTOMER

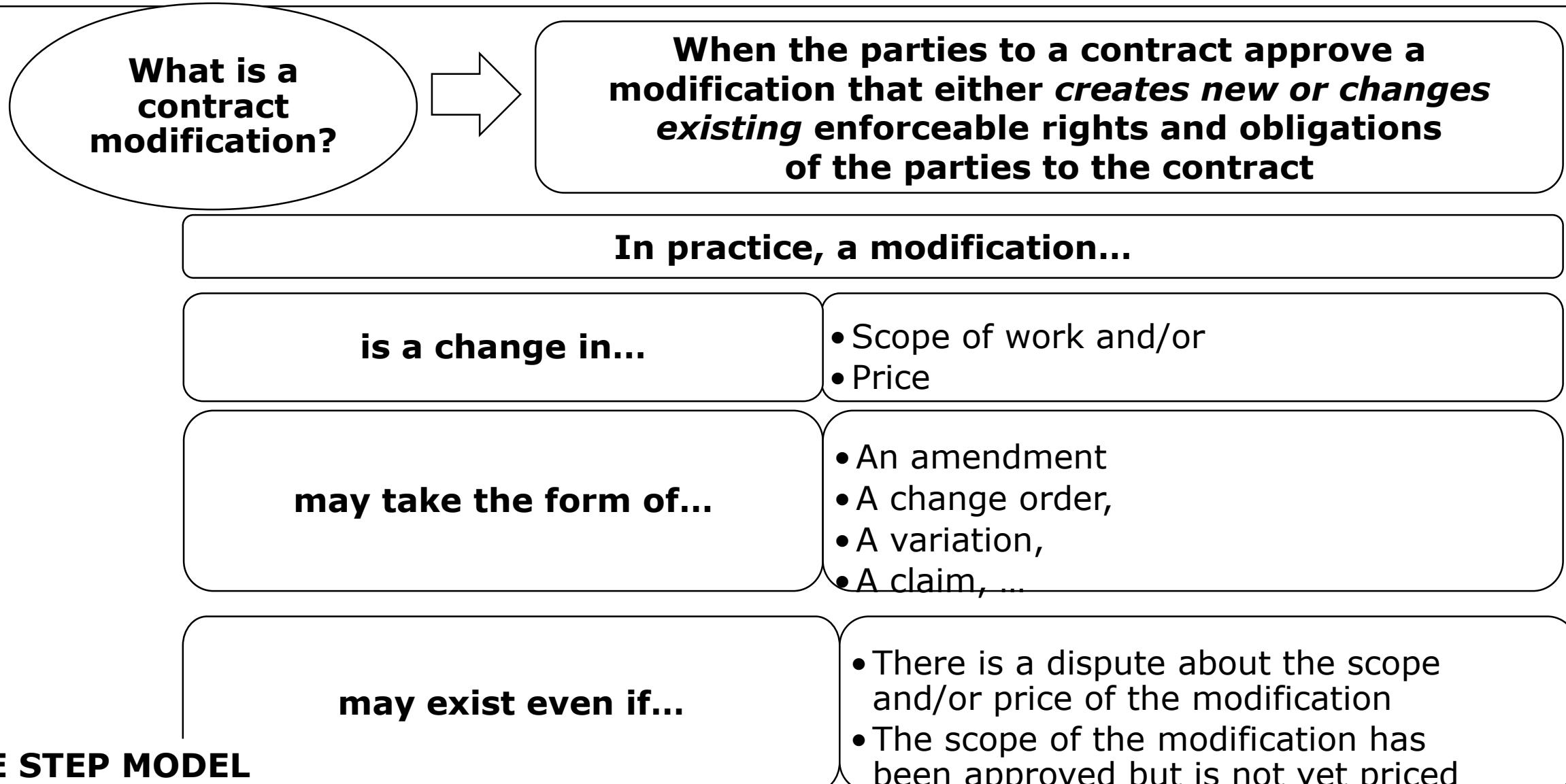
- COMBINATION OF CONTRACTS

Combination of two or more contracts is mandatory under certain conditions:

- Contracts are **entered into at or near the same time**; and
- Contracts are entered into **with the same customer** (or related parties of the customer); and
- One or more of the following criteria are met:
 - The contracts are **negotiated as a package** with a single commercial objective
 - The amount of consideration to be paid **in one contract depends on the price or performance of the other contract**; or
 - The goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a **single performance obligation** in accordance with Ind AS 115

Combination of contracts will apply to the transactions currently accounted for using Ind AS 18 where no guidance exists. The requirements are not much different from those already included in Ind AS 11.

STEP 1: IDENTIFICATION OF THE CONTRACT WITH A CUSTOMER - CONTRACT MODIFICATION-(1/2)



STEP 1: IDENTIFICATION OF THE CONTRACT WITH A CUSTOMER

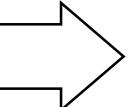
- CONTRACT MODIFICATION-(2/2)

Change in scope of work and price

Are the additional goods or services “distinct”?

Yes

No

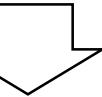
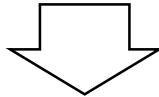


Modification is part of the existing contract i.e. single partially satisfied purchase order

Adjustment of revenue at the date of contract modification on a **cumulative catch-up basis**

For a price that reflect their **stand-alone selling prices** ?

Yes



No

Modification is a **separate contract**

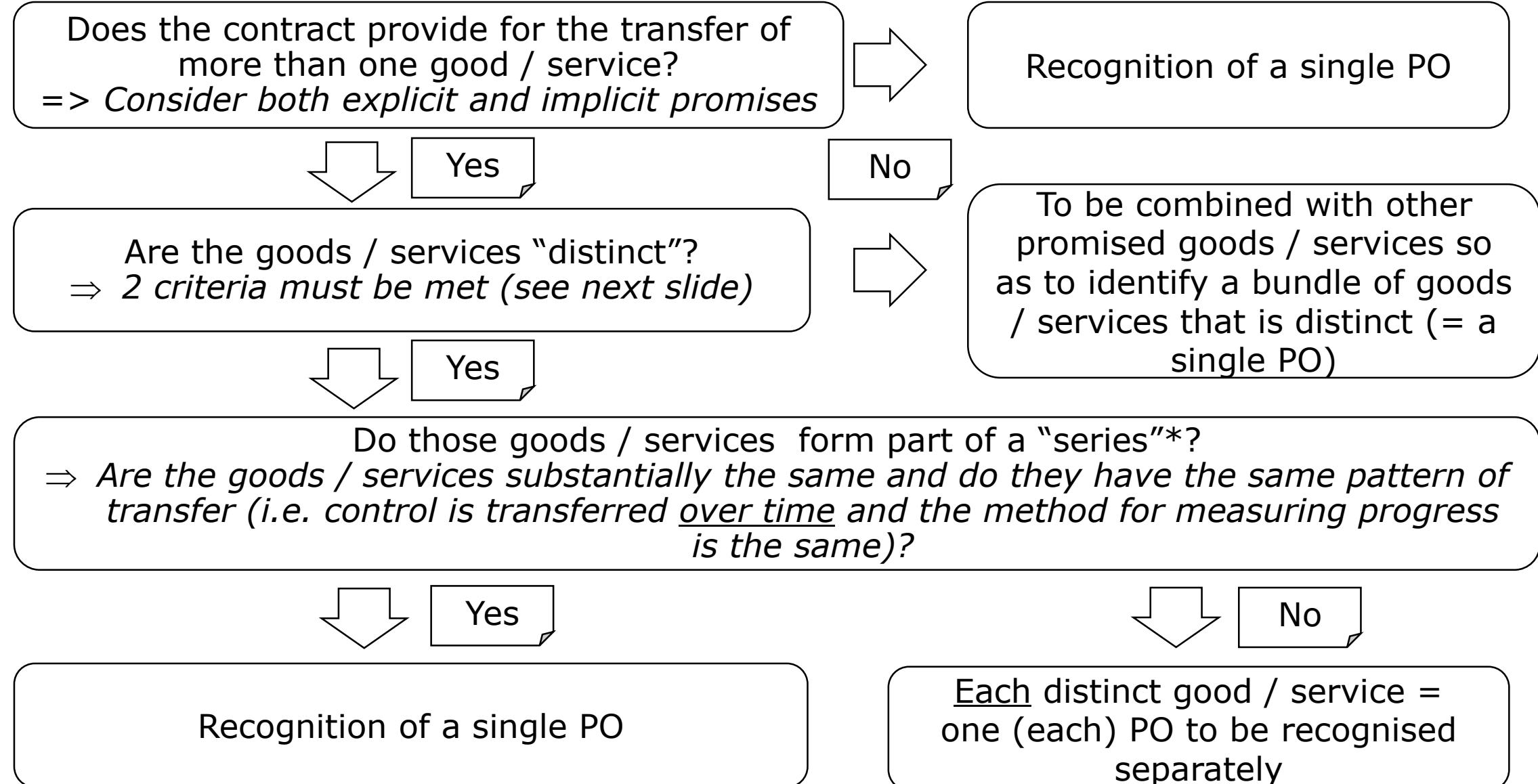
Separate accounting

Termination of the existing contract and **creation of a new contract**

Prospective accounting

FIVE STEP MODEL

STEP 2: IDENTIFY THE PERFORMANCE OBLIGATIONS



* This concept applies to goods or services that are delivered consecutively

STEP 2: IDENTIFY THE PERFORMANCE OBLIGATIONS

A good or service that is promised to a customer is distinct if 2 criteria are met

« Capable of being distinct »

The customer can benefit from the good / service

Ind AS 115.27(a)

AND

« Distinct in the context of the contract »

The promise to transfer the good / service is “separately identifiable” from other promises in the contract

**Ind AS 115.27(b)
Ind AS 115.29**

- Either on its own
- Or together with readily available resources

In practice: could the good or service be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits?

Does the entity regularly sells a good / service separately?

Non-exhaustive list

Summary of indicators:

- The entity does not use the good or service as an input to produce output (i.e. no significant integration service)
- The good or service does not significantly modify or customise another good or service promised in the contract
- The good or service is not highly interdependent on, or highly interrelated with, other goods or services promised in the contract

STEP 2: IDENTIFY THE PERFORMANCE OBLIGATIONS - WARRANTIES

Assurance-type warranty*

Factors to be considered to make the distinction

- **Ind AS 37 is applied:**

- If the customer does not have the option to purchase a warranty separately, and
- The warranty (or part of it) does not provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications

Service-type warranty**

- **The warranty is accounted for as a PO (with an allocation of a portion of the transaction price to that PO) if:**

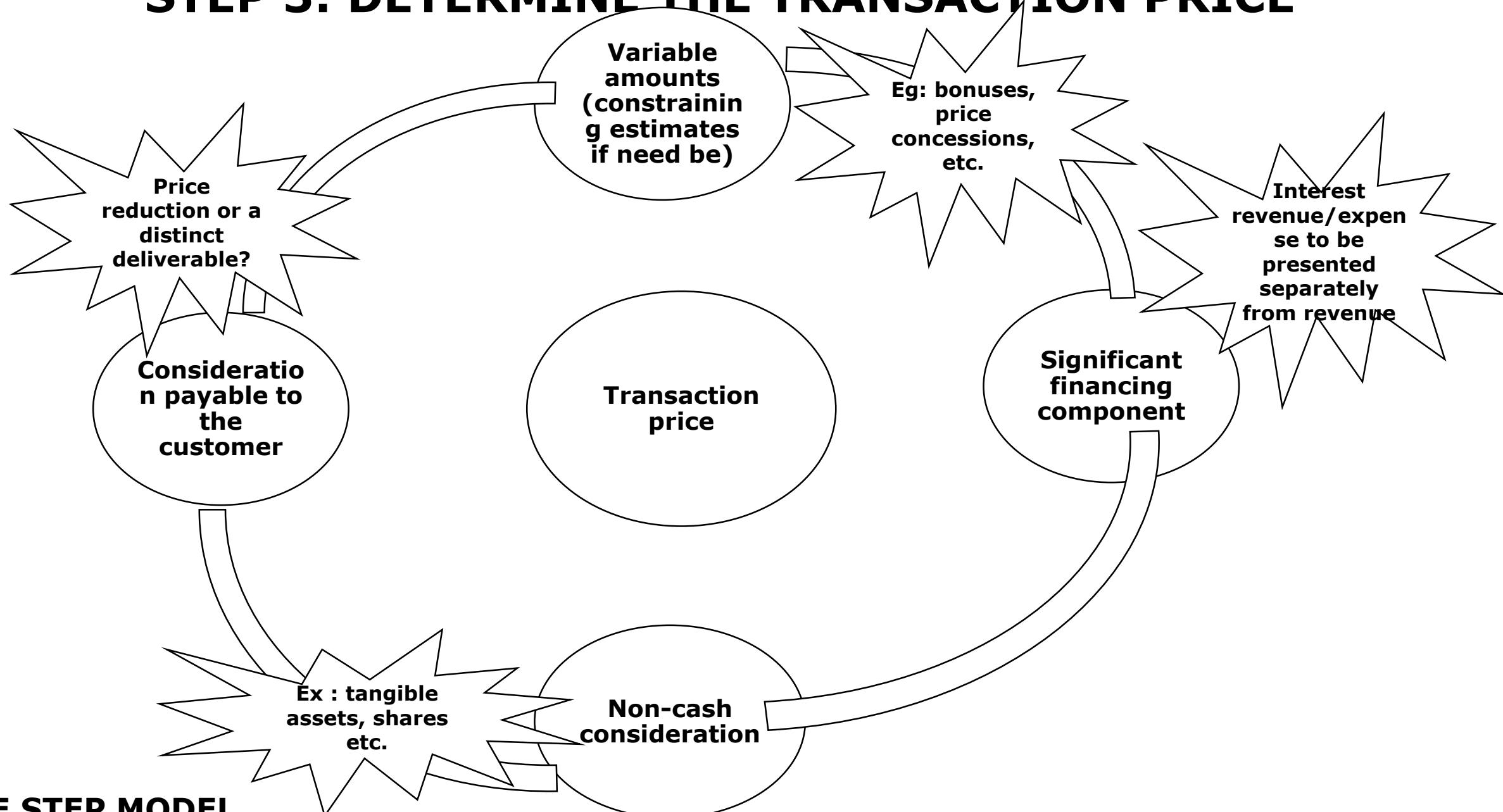
- The customer has the option to purchase a warranty separately (which means that the warranty is a distinct service) or
- Additional services are provided in addition to the assurance that the product complies with agreed-upon specifications

* Warranties that provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications

** Warranties that provide the customer with a service in addition to this assurance

If non-allocable- As one PO- Recognised over the period

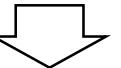
STEP 3: DETERMINE THE TRANSACTION PRICE



STEP 3: DETERMINE THE TRANSACTION PRICE - PRINCIPAL VS. AGENT CONSIDERATION

Does the entity control the specified good/service before it is transferred to the customer ?

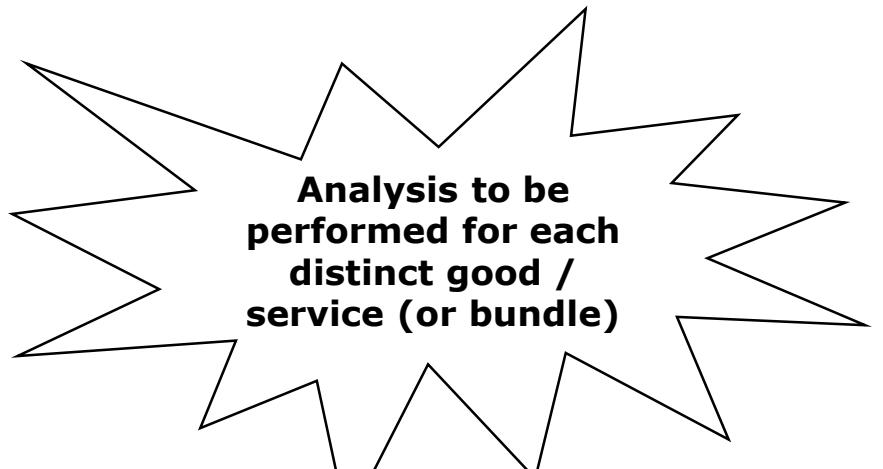
No



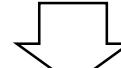
AGENT

REVENUE = NET AMOUNT (*), i.e. fee or commission

(*) Might be the net amount of consideration that the agent retains after paying the other party the consideration received



Yes



PRINCIPAL

REVENUE = GROSS AMOUNT of consideration

Indicators → an entity is a principal:

- The entity is **primarily responsible for fulfilling the promise** to provide the specified good/service.
- The entity has **inventory risk** before the specified good/service has been transferred to a customer, or after transfer of control (e.g. right of return).
- The entity has **discretion in establishing the price** for the specified good/service. This indicator shall be considered carefully.
- **The exposure to credit risk is no longer relevant** (previous indicator under Ind 18 was removed)

Judgment required

Not exhaustive!

STEP 3: DETERMINE THE TRANSACTION PRICE -VARIABLE CONSIDERATION

Amount of variable consideration shall be estimated by using either of the following 2 methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled

Consider all the information (historical, current and forecast) that is reasonably available

The expected value

- Sum of probability-weighted amounts in a range of possible consideration amounts
- Appropriate estimate if an entity has a large number of contracts with similar characteristics

The most likely amount

- Single most likely outcome of the contract
- Appropriate estimate if the contract has only two possible outcomes

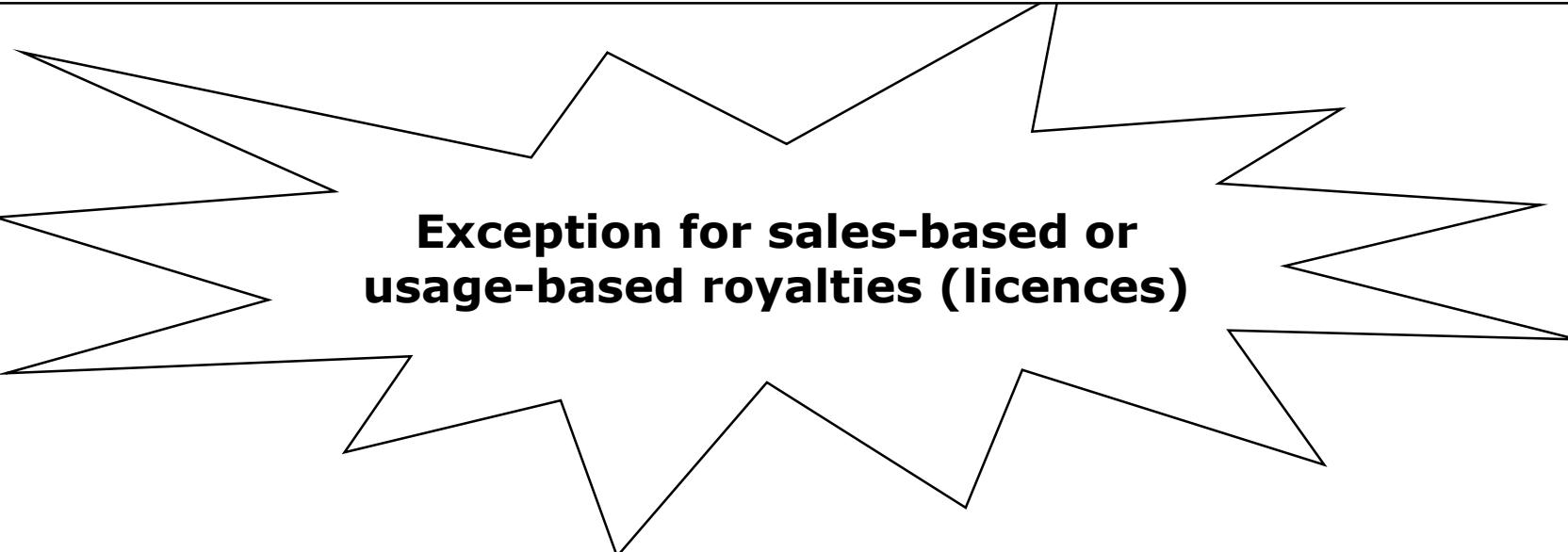
STEP 3: DETERMINE THE TRANSACTION PRICE -VARIABLE CONSIDERATION

Include some or all of an amount of variable consideration in the TP only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future

Exception for sales-based or usage-based royalties (licences)

STEP 3: DETERMINE THE TRANSACTION PRICE - CONSTRAINING ESTIMATES OF VARIABLE CONSIDERATION

Include some or all of an amount of variable consideration in the TP only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future``



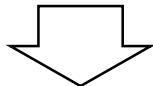
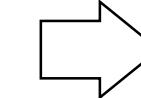
**Exception for sales-based or
usage-based royalties (licences)**

STEP 3: DETERMINE THE TRANSACTION PRICE - SIGNIFICANT FINANCING COMPONENT

Determining the transaction price (step 3) requires to consider the effects of the existence of a significant financing component in the contract in order to recognise revenue at the cash selling price

Does the entity expect that the period between when the entity transfers an asset to a customer and when the customer pays for that asset will be one year or less? (*)

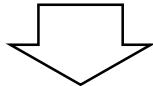
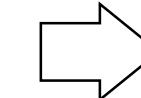
Yes



No

Does the contract contain a significant financing component?

No



Yes

Adjust the promised amount of consideration for the effects of the time value of money

(*) Practical expedient

No adjustment of the promised amount of consideration

STEP 3: DETERMINE THE TRANSACTION PRICE - NON-CASH CONSIDERATIONS

- To determine the transaction price in this case, an entity shall measure the non-cash consideration or promise thereof **at fair value**.
- If an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration **indirectly** by reference to the **stand-alone selling price of the goods or services promised to the customer in exchange for the consideration**.
- If a **customer contributes goods or services** (eg. materials, equipment or labour) to facilitate an entity's fulfilment of the contract, the entity shall assess whether **it obtains control of them**. If so, the entity shall account for the contributed goods or services as **non-cash consideration received from the customer**.

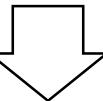
STEP 4: ALLOCATE THE TRANSACTION PRICE

General allocation method:

allocate the transaction price on a relative stand-alone selling price basis

Determine the “stand-alone selling price” of each performance obligation

Yes



Existence of an “observable price*”?

No

Best indication of the stand-alone selling price

Stand-alone selling price to be estimated

Several techniques possible:

- Adjusted market assessment approach
- Expected cost plus a margin approach ...

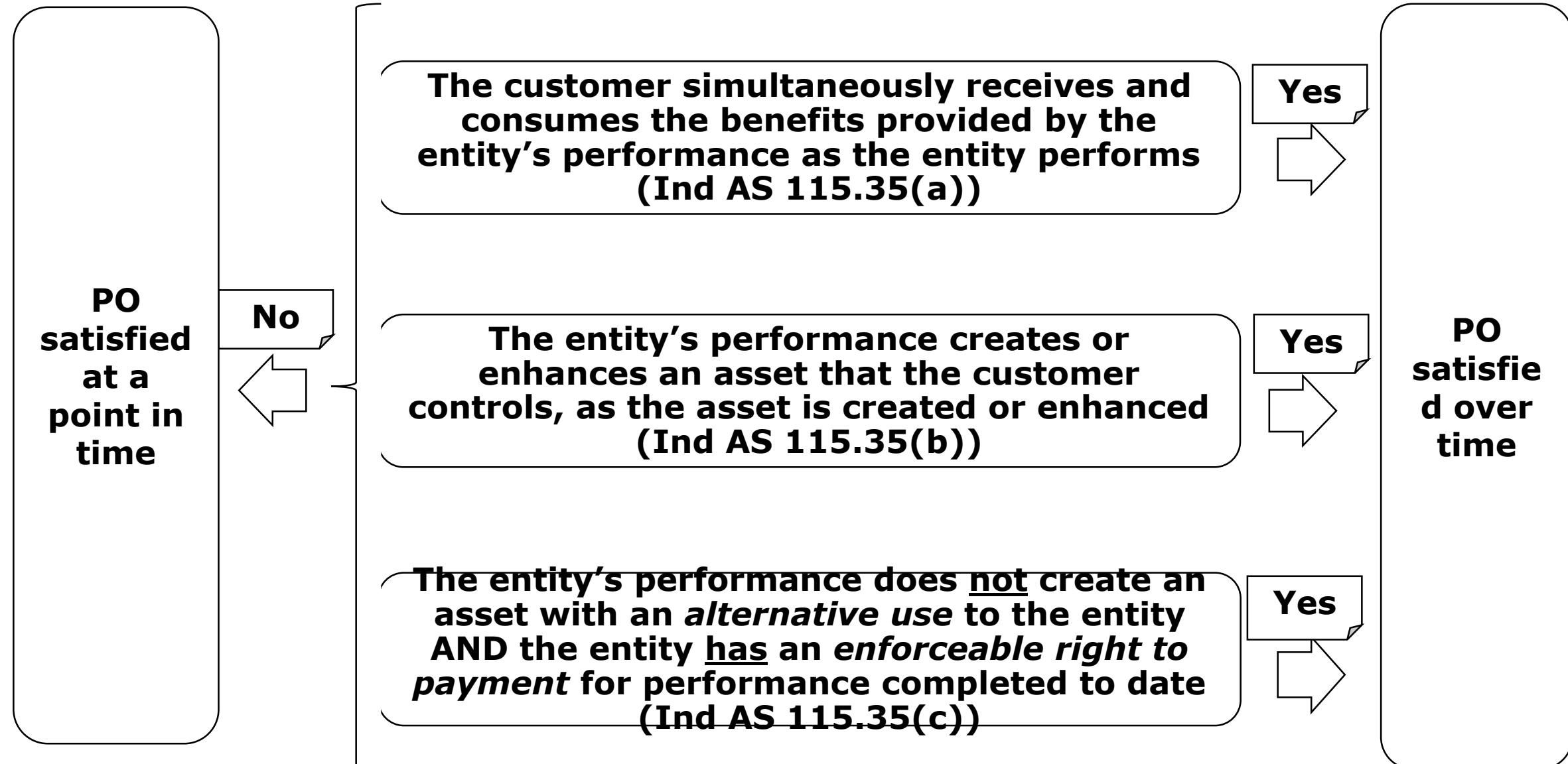
If the selling price is highly variable or uncertain, the residual approach may be used

*** When the entity sells the good/service separately in similar circumstances and to similar customers**

STEP 4: ALLOCATE THE TRANSACTION PRICE WHEN CHANGE IN CONTRACT OR CHANGE IN TRANSACTION PRICE

- After contract inception, the transaction price can change for **various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration** to which an entity expects to be entitled in exchange for the promised goods or services.
- An entity shall **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 shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a **satisfied performance obligation** shall be **recognised as revenue**, or as a reduction of revenue, in the period in which the transaction price changes.

STEP 5: RECOGNISE REVENUE WHEN (OR AS) PERFORMANCE OBLIGATIONS ARE SATISFIED



STEP 5: RECOGNISE REVENUE WHEN (OR AS) PERFORMANCE OBLIGATIONS ARE SATISFIED

MEASURING PROGRESS TOWARDS COMPLETE SATISFACTION OF A PERFORMANCE OBLIGATION

For POs satisfied over time, revenue is recognised over time by measuring the progress towards complete satisfaction of each PO so as to depict an entity's performance in transferring control of goods/services to a customer

Apply a single method of measuring progress for each PO

Appropriate methods include output methods and input methods

Apply that method consistently to similar POs and in similar circumstances

Update the measure of progress to reflect any changes in the outcome to the PO

Remeasure progress towards complete satisfaction at the end of each reporting date

STEP 5: RECOGNISE REVENUE WHEN (OR AS) PERFORMANCE OBLIGATIONS ARE SATISFIED

measuring progress towards complete satisfaction of a performance obligation – ConTd.

• Output Methods

Direct measurement of the value of goods/services transferred to date relative to the remaining goods/services promised

- Surveys of performance completed to date
- Appraisals of results achieved
- Milestones reached
- Time elapsed
- Units produced/delivered ...

Input Methods

Measurement based on the entity's efforts or inputs to satisfy a PO relative to the total expected inputs to the satisfaction of that PO

- Resourced consumed
- Labour hours expended
- Costs incurred
- Time elapsed
- Machine hours used ...

STEP 5: RECOGNISE REVENUE WHEN (OR AS) PERFORMANCE OBLIGATIONS ARE SATISFIED

recognise revenue AS the entity satisfies a performance obligation-Sales-based or usage-based royalties

- An entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:
 - (a) the subsequent sale or usage occurs; and
 - (b) 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).

PRESENTATION OF CONTRACT ASSETS AND LIABILITIES

Presentation of contract assets and liabilities

Presentation

PRESENTATION OF CONTRACT ASSETS AND LIABILITIES

Presentation of the remaining rights and performance obligations in a contract on a net basis labels are not mandatory

Assess the relationship between the entity's performance and the customer's payment

Assess for impairment in accordance with Ind AS 109

Contract asset

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

#

Receivable

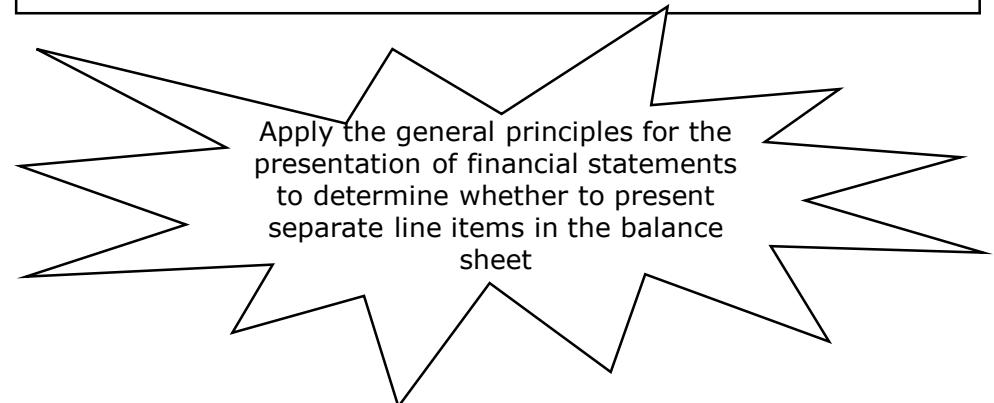
Any unconditional rights to consideration

Cf. Ind AS 115.105-109; IFRS 15.BC317-BC326

Contract liability

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

Apply the general principles for the presentation of financial statements to determine whether to present separate line items in the balance sheet



DISCLOSURE

- **Objective: enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers**
- **Focus on some disclosure requirements**

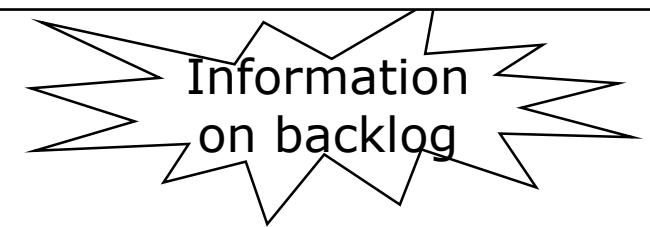
Objective: enable users of F/S to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers

Contracts with customers	Significant judgements made	Assets recognised from the costs to obtain or fulfil a contract
<ul style="list-style-type: none">• Disaggregation of revenue• Contract balances• Description of POs• Transaction price allocated to the remaining POs	<ul style="list-style-type: none">• Timing of satisfaction of POs• Transaction price and amounts allocated to POs	Qualitative and quantitative information shall be provided

DISCLOSURE

Focus on some disclosure requirements

Disaggregation of revenue	Information about contract balances	Remaining performance obligations
<p><i>Disaggregation into categories that depict how revenue and C/F are affected by economic factors:</i></p> <ul style="list-style-type: none"> • Consider other disclosures, info. reviewed by CODM and other info. used • Explain relationship with segment disclosures 	<p>Combination of qualitative and quantitative disclosures:</p> <ul style="list-style-type: none"> • Opening and closing balances • Amount of revenue recognised from contract liabilities • Explanation of significant changes in contract balances 	<p>For contracts with an original expected duration of more than one year:</p> <ul style="list-style-type: none"> • Aggregate amount of the TP allocated to the remaining POs • Quantitative or qualitative explanation of when amounts will be recognised as revenue



COMPARISION WITH IFRS 15

COMPARISON WITH IFRS 15

COMPARISION WITH IFRS 15

COMPARISON WITH IFRS 15

TOPIC	IFRS 15- REVENUE FROM CONTRACTS WITH CUSTOMERS	IND AS 115- REVENUE FROM CONTRACTS WITH CUSTOMERS
Disclosure of Excise duty	No equivalent guidance	Guidance has been inserted to require an entity to present separately the amount of excise duty included in the revenue recognised in the statement of profit and loss.
Reconciliation of revenue recognised in the statement of profit and loss with the contracted price	There is a guidance on determining the transaction price and the amounts allocated to performance obligations	To this guidance further guidance has been added to present 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 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.
Sale with a right of return	There is a guidance on accounting of sale with the right to return by the customer.	Further guidance 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.

COMPARISON WITH IFRS 15

COMPARISON WITH IFRS 15

Topic	IFRS 15- Revenue from Contracts with Customers	Ind AS 115- Revenue from Contracts with Customers
Use of different terminologies	<p>With respect to presentation of financial statements, following terminologies are used:</p> <ul style="list-style-type: none"> • Statement of financial position • Statement of comprehensive income 	<p>Different terminologies are used in Ind AS 1, as follows:</p> <ul style="list-style-type: none"> • 'balance sheet' is used instead of 'statement of financial position' • 'statement of profit and loss' is used instead of 'statement of comprehensive income'
Amount of consideration	<p>An amount of consideration, among other things, can vary because of penalties.</p>	<p>However, as per Ind AS, 'penalties' are excluded from the list of examples given due to which an amount of consideration can vary. However, one paragraph has been inserted to explain the accounting treatment of 'penalties'.</p>

COMPARISON WITH IFRS 15

COMPARISON WITH IFRS 15

Topic	IFRS 15- Revenue from Contracts with Customers	Ind AS 115- Revenue from Contracts with Customers
Effective date and transition	<p>An entity shall apply Clarifications to IFRS 15 (see paragraph as mentioned above) retrospectively in accordance with IAS 8. In applying the amendments retrospectively, an entity shall apply the amendments as if they had been included in IFRS 15 at the date of initial application. Consequently, an entity does not apply the amendments to reporting periods or to contracts to which the requirements of IFRS 15 are not applied in accordance with the specified paragraphs as per the standard.</p>	<p>This Paragraph has been deleted as it is not relevant in Indian context since the same refer to application of these amendments in case where IFRS 15 was initially applied before issuance of amendments to the standard.</p>

COMPARISON WITH IFRS 15

COMPARISON WITH IFRS 15

Topic	IFRS 15- Revenue from Contracts with Customers	Ind AS 115- Revenue from Contracts with Customers
Effective date and transition	<p>If an entity applies IFRS 15 but does not yet apply IFRS 9 Financial Instruments, any reference in IFRS 15 to IFRS 9 shall be read as a reference to IAS 39 Financial Instruments: Recognition and Measurement.</p>	<p>This paragraph has been deleted as it to application of IAS 39, Financial Instruments, which is not relevant in Indian context.</p>

COMPARISON WITH IFRS 15

COMPARISION WITH AS 7- CONSTRUCTION CONTRACTS AND AS 9 - REVENUE RECOGNITION

COMPARISION WITH AS 7- CONSTRUCTION CONTRACTS AND AS 9 - REVENUE RECOGNITION

COMPARISION WITH AS 7 and AS 9

COMPARISON WITH AS 7- CONSTRUCTION CONTRACTS AND AS 9 - REVENUE RECOGNITION

Topic	AS 7- Construction Contracts and AS 9- Revenue Recognition	Ind AS 115- Revenue from Contracts with Customers
Scope	<p>AS 7 covers only revenue from construction contracts which is measured at consideration received / receivable.</p> <p>AS 9 deals only with recognition of revenue from sale of goods, rendering of services, interest, royalties and dividends.</p>	<p>Ind AS 115 comprehensively deals with all types of performance obligation contract with customer.</p> <p>However, it does not deal with revenue from 'interest' and 'dividend' which is covered in financial instruments standard.</p>
Multiple elements within a contract	No guidance is provided on this aspect.	Gives comprehensive guidance on how to recognise and measure multiple elements within a contract with customer.
Principal for Revenue Recognition	AS 7 and AS 9 do not provide any overarching principle to fall upon in case of doubt.	Specifies the core principle for revenue recognition which requires the 'revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services'.

COMPARISON WITH AS 7 and AS 9

COMPARISON WITH AS 7- CONSTRUCTION CONTRACTS AND AS 9 - REVENUE RECOGNITION

Topic	AS 7- Construction Contracts and AS 9- Revenue Recognition	Ind AS 115- Revenue from Contracts with Customers
Measurement of Revenue	<p>As per AS 9, Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them.</p> <p>As per AS 7, revenue from construction contracts is measured at consideration received/receivable and to be recognised as revenue as construction progresses, if certain conditions are met.</p>	<p>As per Ind AS 115, revenue is measured at transaction price, i.e., 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.</p>
Costs to obtain and fulfil a contract	<p>No guidance is provided regarding capitalisation of such costs.</p>	<p>Provides guidance on recognition of costs to obtain and fulfil a contract, as asset.</p>

COMPARISON WITH AS 7 and AS 9

COMPARISON WITH AS 7- CONSTRUCTION CONTRACTS AND AS 9 - REVENUE RECOGNITION

Topic	AS 7- Construction Contracts and AS 9- Revenue Recognition	Ind AS 115- Revenue from Contracts with Customers
Point of Revenue Recognition	<p>As per AS 9, revenue is recognised when significant risks and rewards of ownership is transferred to the buyer.</p> <p>As per AS 7, revenue is recognised when the outcome of a construction contract can be estimated reliably, contract revenue should be recognised by reference to the stage of completion of the contract activity at the reporting date.</p>	<p>As per Ind AS 115, revenue is recognised when the control is transferred to the customer.</p>
Service concession arrangements	No guidance provided.	Gives guidance on service concession arrangements and disclosures thereof.
Disclosure requirements	AS 7 and AS 9 contains limited disclosure requirements.	Ind AS 115 contains extensive disclosure requirements as compared to AS 7 and AS 9.

COMPARISON WITH AS 7 and AS 9

COMPARISION WITH IND AS 11 - CONSTRUCTION CONTRACTS AND IND AS 18 - REVENUE

COMPARISION WITH IND AS 11 - CONSTRUCTION CONTRACTS AND IND AS 18 - REVENUE

COMPARISION WITH IND AS 11 AND IND AS 18

COMPARISON WITH IND AS 11 - CONSTRUCTION CONTRACTS AND IND AS 18 - REVENUE

Topic	Ind AS 11- Construction Contracts and Ind AS 18- Revenue	Ind AS 115- Revenue from Contracts with Customers
Model for Revenue Recognition	<p>There are separate models for:</p> <ul style="list-style-type: none"> • Construction Contracts; • Goods; • Services; • Dividend, royalty and Interest. 	<p>There is a single model for performance obligations:</p> <ul style="list-style-type: none"> • Satisfied over time; • Satisfied at a point in time.
Timing of revenue recognition	<p>There is more focus on transfer of risks and rewards and limited guidance on various topics.</p>	<p>There is more focus on transfer of control and more guidance on :</p> <ul style="list-style-type: none"> • Separating elements • Allocating the transaction price • Variable consideration • Licenses • Options • Repurchase arrangements • Principal vs. agent assessment • Customer loyalty programme • Warranties • Capitalisation of contract expense

COMPARISON WITH IND AS 11 AND IND AS 18

COMPARISON WITH IND AS 11 - CONSTRUCTION CONTRACTS AND IND AS 18 - REVENUE

Topic	Ind AS 11- Construction Contracts and Ind AS 18- Revenue	Ind AS 115- Revenue from Contracts with Customers
Distinct Goods or services	Less guidance on provisions of distinct goods or services.	More detailed guidance w.r.t. provisions of distinct goods or services.
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.

COMPARISON WITH IND AS 11 AND IND AS 18

COMPARISON WITH IND AS 11 - CONSTRUCTION CONTRACTS AND IND AS 18 - REVENUE

Topic	Ind AS 11- Construction Contracts and Ind AS 18- Revenue	Ind AS 115- Revenue from Contracts with Customers
Methods to measure progress towards complete satisfaction of a performance obligation	<p>Depending on the nature of the transaction, the methods may include:</p> <ul style="list-style-type: none"> a. Surveys of work performed; b. Services performed to date as a percentage of total services to be performed; or c. The proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction 	<p>An entity applies one of two possible methods:</p> <ul style="list-style-type: none"> a. The input method or b. The output method

COMPARISON WITH IND AS 11 - CONSTRUCTION CONTRACTS AND IND AS 18 - REVENUE

Topic	Ind AS 11- Construction Contracts and Ind AS 18- Revenue	Ind AS 115- Revenue from Contracts with Customers
Contract modification	No guidance on contract modifications under Ind AS 18	A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract
Disclosure requirements	Ind AS 11 and Ind AS 18 contains limited disclosure requirements.	Ind AS 115 contains extensive disclosure requirements as compared to Ind AS 11 and Ind AS 18.
Sale of service	Percentage of completion method	Revenue is recognised at a point in time or over time dependent on specific criteria.

COMPARISON WITH IND AS 11 AND IND AS 18

COMPARISON WITH IND AS 11 - CONSTRUCTION CONTRACTS AND IND AS 18 - REVENUE

Topic	Ind AS 11- Construction Contracts and Ind AS 18- Revenue	Ind AS 115- Revenue from Contracts with Customers
Volume discount	There is no specific guidance on volume discounts.	The volume discount will be adjusted with the transaction price
Non cash transaction	No specific guidance on non cash transactions	There is guidance on the recognition of revenue for non cash transactions and its valued at fair value
Sales return	No specific guidance – consequently mixed practices	Revenue is recognised after deducting estimating returns. The guidance applicable for determining variable consideration applies to sales return. A refund liability and a corresponding right to the underlying asset is recognised for estimated returns.
Warranties	No guidance, However, in practice, both normal and extended warranties are recognised as costs.	Normal warranties recognised as cost. Extended warranties are recognised as a separate performance obligation.

SERVICE CONCESSION ARRANGEMENTS

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Feature of Service Concession Arrangements

- The service arrangement contractually **obliges** the operator to provide the **services to the public on behalf of the public sector entity**.
- The party that grants the service arrangement (**the grantor**) is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been devolved.
- The **operator** is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.
- The contract **sets the initial prices** to be levied by the operator and regulates price revisions over the period of the service arrangement.
- The operator is **obliged to hand over the infrastructure to the grantor** in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.
- often described as '**build-operate-transfer**', a '**rehabilitate-operate-transfer**' or a '**public-to-private**' service concession arrangement.

SERVICE CONCESSION ARRANGEMENTS

Treatment of the operator's rights over the infrastructure

- An infrastructure is within the scope of this guidance when following conditions apply:
 - the grantor controls or regulates **what services** the operator must provide with the infrastructure, **to whom** it must provide them, and **at what price**; and
 - the grantor controls—through ownership, beneficial entitlement or otherwise any significant **residual interest in the infrastructure** at the end of the term.
- Infrastructure under Ind AS 115 shall **not be recognised as property, plant and equipment** of the operator because the contractual service arrangement **does not convey** the right to control the use of the public service infrastructure to the operator.

SERVICE CONCESSION ARRANGEMENTS

Recognition and measurement of arrangement consideration

- The operator shall recognise and measure revenue in accordance with **Ind AS 115 for the services** it performs.
- The **nature of the consideration** determines its subsequent accounting treatment.
- The subsequent accounting for consideration received as a **financial asset and as an intangible asset** is detailed in next slides.

SERVICE CONCESSION ARRANGEMENTS

FINANCIAL ASSET : RECOGNITION

Recognise as Financial Asset



If the operator has an
**unconditional contractual right
to receive cash** or another financial
asset

The operator has an **unconditional right
to receive cash if** the grantor
contractually guarantees to pay the
operator:

Specified or determinable amounts

OR

the shortfall between amounts received from
users of the public service & specified or
determinable amounts, even if payment is
contingent on the operator

SERVICE CONCESSION ARRANGEMENTS

SERVICE CONCESSION ARRANGEMENTS

Financial asset : recognition contd.

- Ind AS 32, Financial Instruments: Presentation Ind AS 107, Financial Instruments: Disclosures and Ind AS 109, Financial Instruments apply to the financial asset
- The amount due from or at the direction of the grantor is accounted for in accordance with Ind AS 109 and measured at:
 - a) amortised cost;
 - b) fair value through other comprehensive income; or
 - c) fair value through profit or loss.

SERVICE CONCESSION ARRANGEMENTS

Intangible asset: recognition

Recognise as Intangible Asset



To the extent that it receives a right (a license) to charge users of the public service.

- **A right to charge users** of the public **service is not an unconditional** right to receive cash because the amounts **are contingent** on the extent that the public uses the service.
- **Ind AS 38 'Intangible Assets'** provide guidance on measuring intangible assets acquired in exchange for a non-monetary asset or assets or a combination of monetary and non-monetary assets.

SERVICE CONCESSION ARRANGEMENTS

- If the operator is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of the operator's consideration.
- The consideration received or receivable for both components shall be recognised in accordance with Ind AS 115.

**THANK YOU
CA SUSHIL PHOGAT**