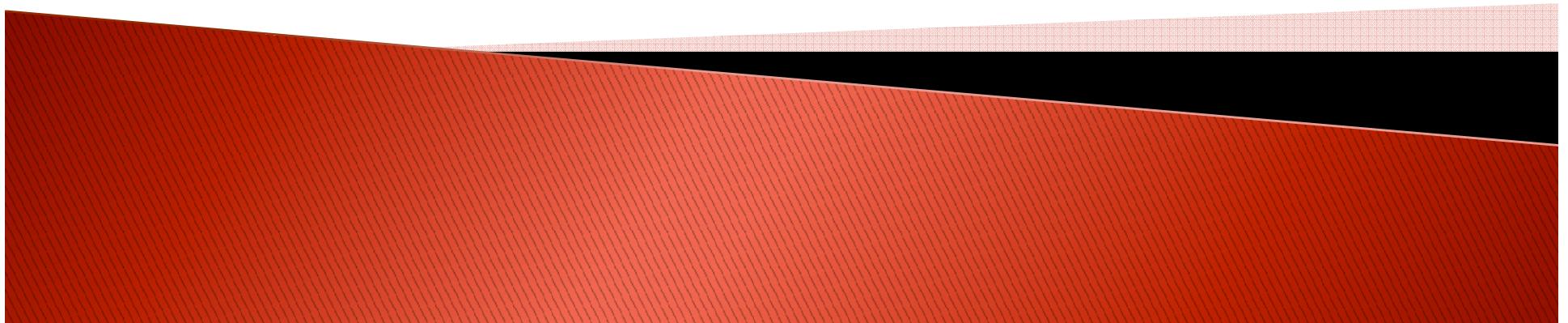


W.I.R.C.
7 Days intensive work shop On IND
AS
Mumbai

June,25,2015

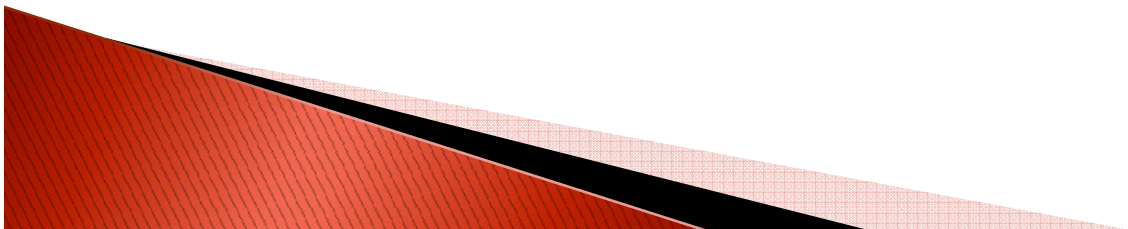
CA. KISHOR PARIKH

B.Com. FCA. Dip.IFRS (U.K)



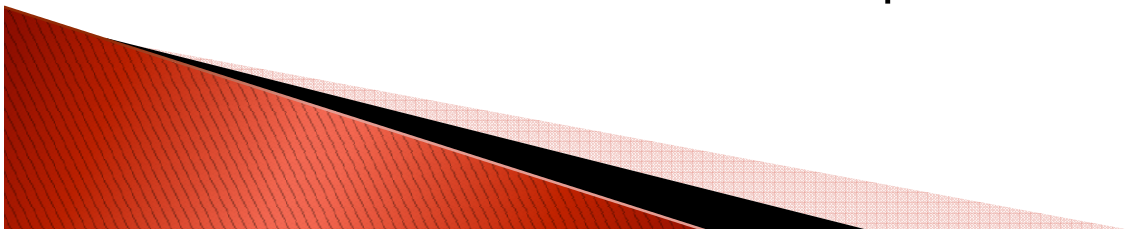
Objective:

- ▶ The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.



Scope:

- ▶ An entity shall apply this Standard to all contracts with customers, except the following:
 - (a) Lease contracts within the scope of Ind AS 17, Leases;
 - (b) Insurance contracts within the scope of Ind AS 104, Insurance Contracts;
 - (c) 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 Joints Ventures; and
 - (d) non- monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfill demand from their customers in different specified locations on a timely basis.



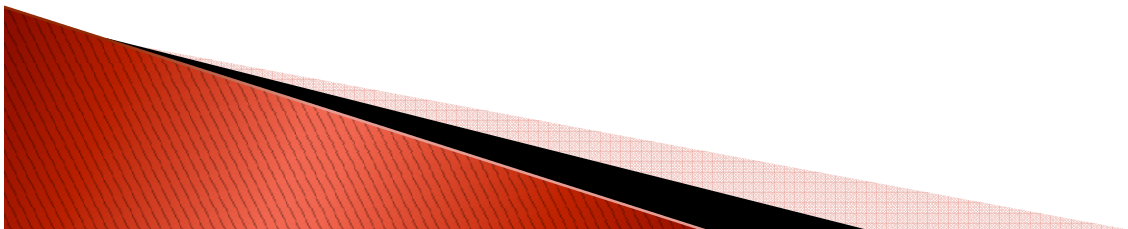
- ▶ IND AS 115 supersedes the following:

1. IND AS 18–Revenue

- ▶ Appendix A: Revenue–Barter Transactions involving advertising services
- ▶ Appendix B: Customer Loyalty Programmes
- ▶ Appendix C: Transfer of Assets from Customers

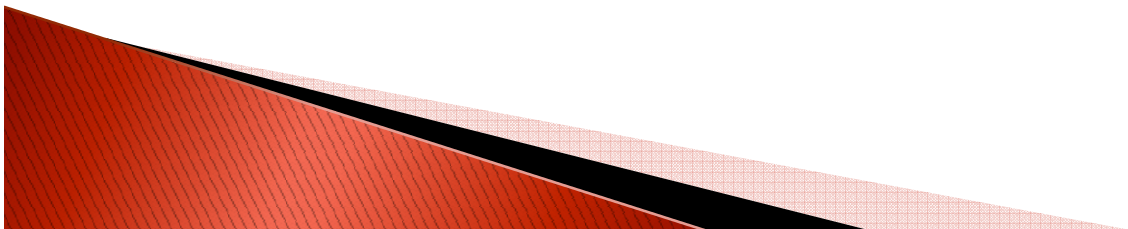
2. IND AS 11–Construction Contract

- ▶ Appendix A: Service Concession Arrangements
- ▶ Appendix B: Service Concession Arrangements–Disclosures

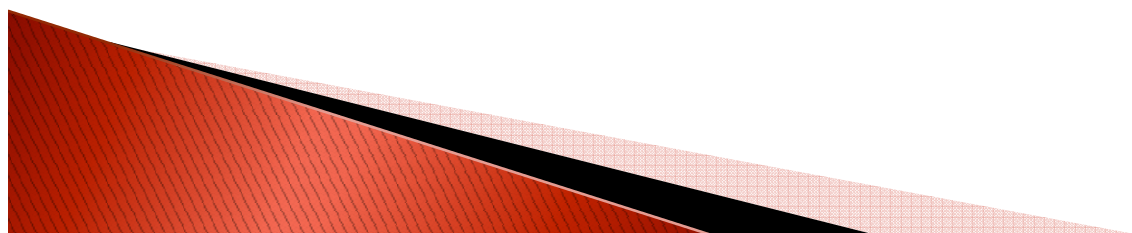


Definitions

- ▶ **Contract**– An agreement between two or more parties that creates enforceable rights and obligations.
- ▶ **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 (for example, 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 contribution from equity participants.

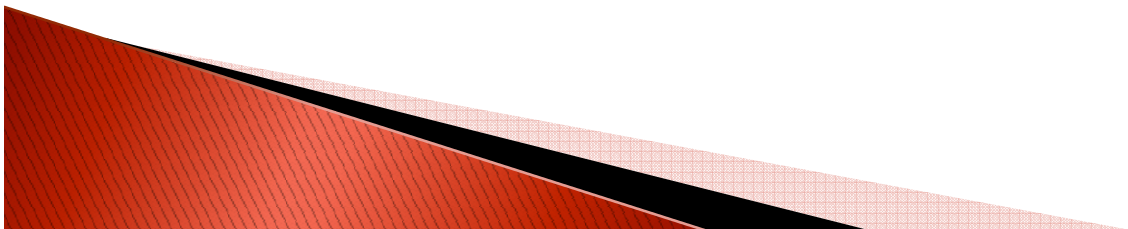


- ▶ **Performance obligation**– A promise in a contract with a customer to transfer to the customer either:
 - ▶ (a) goods or service (or a bundle of goods or services) that is distinct; or
 - ▶ (b) a series of distinct goods or services that are substantially the same and that have the same pattern 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 the third parties.



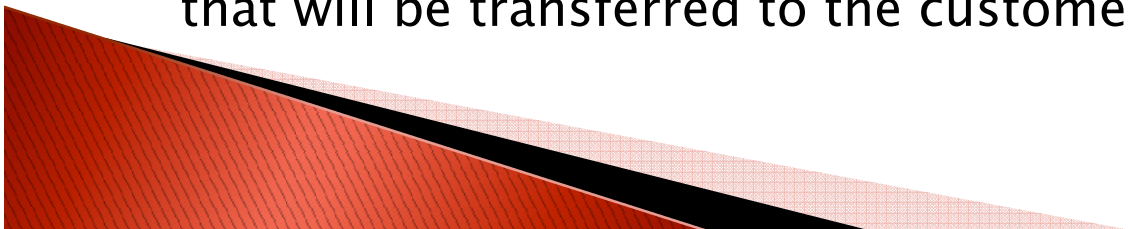
The five-step model for recognising revenue from contracts with customers

- ▶ Step 1: Identify the contract(s) with a customer
- ▶ Step 2: Identify the performance obligations in the contract
- ▶ Step 3: Determine the transaction price
- ▶ Step 4: Allocate the transaction price to the performance obligations in the contract
- ▶ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation



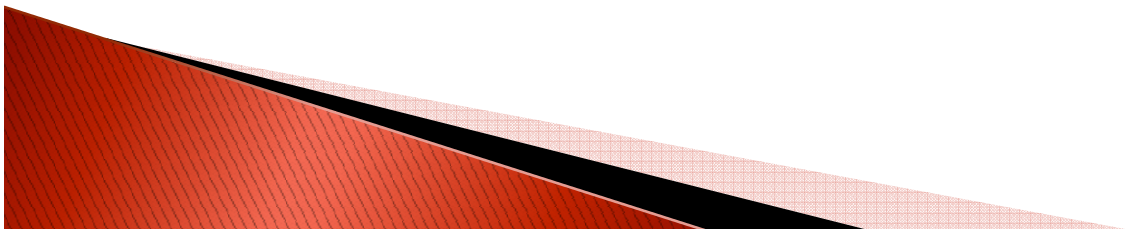
Step 1: Identifying the contract

- ▶ An entity shall account for a contract with a customer that is within the scope of this standard only when all of the following criteria are met:
 - (a) The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
 - (b) The entity can identify each party's rights regarding the goods or services to be transferred;
 - (c) The contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
 - (d) 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.



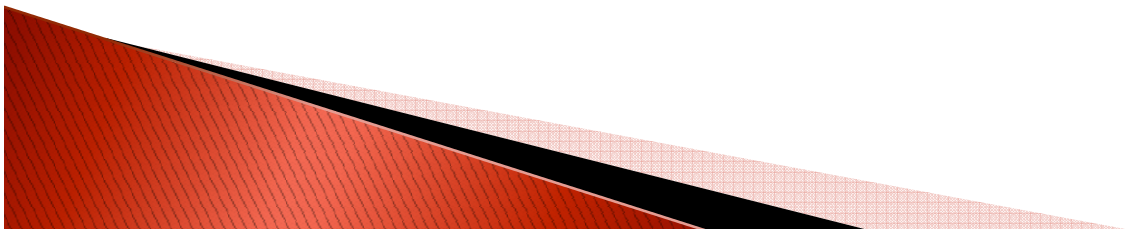
Contract Modification

- ▶ 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. 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.



Combination of contract

- ▶ An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:
 - (a) the contracts are negotiated as a package with a single commercial objective.
 - (b) The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
 - (c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.



Step 2: Identify the separate performance obligations in the contract

- ▶ At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:
 - (a) a good or service (or a bundle of goods or services) that is **distinct**;
or
- ▶ A good or service is distinct if the customer can benefit from the good or service on its own or together with other readily available resources and the good or service is separately identifiable from other promises in the contract. Each distinct good or service will be a separate performance obligation.
- ▶ For example, an IT hardware company sells printers and laptops that are compatible with each other and compatible with other laptops and printers available in the market. The company would consider the printer and the laptops separate performance obligation under the contract, as it can sell the laptop and printer immediately.

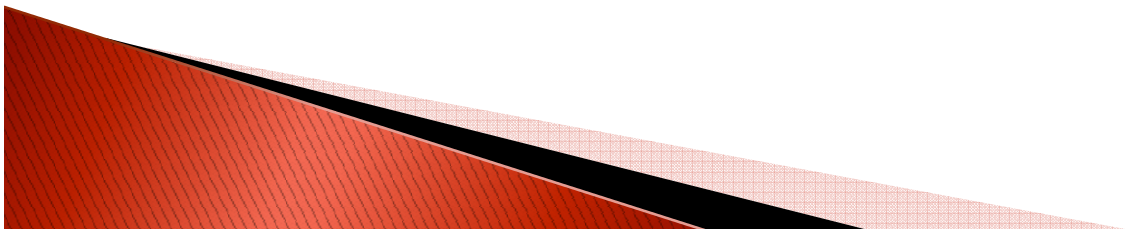


(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

▶ A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

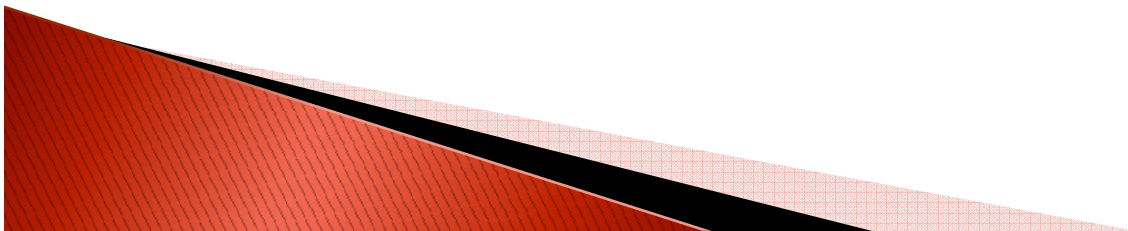
(a) Each distinct good or service in the series that the entity promises to transfer to the customer who meet the criteria to be a performance obligation satisfied over time; and

(b) The same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

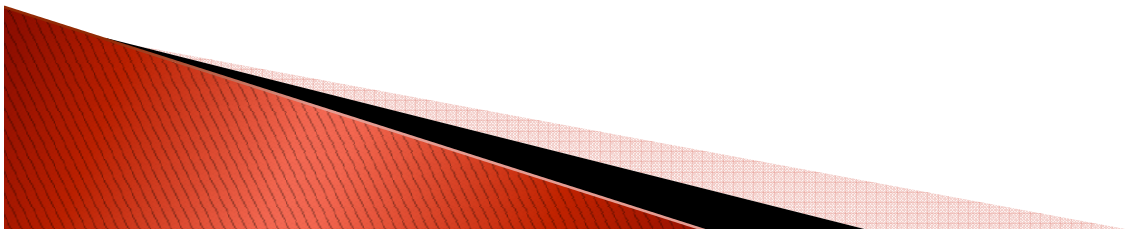


Step 2: Identify the separate performance obligations in the contract

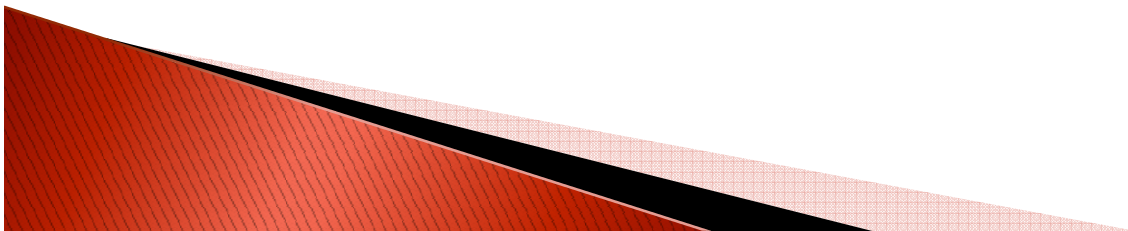
- ▶ Performance obligation need not be explicitly stated in the contract but include implied promises arising out of entity's business practice or published policies that create a valid expectation in the mind of the customer. Performance obligations include activities that transfer goods or services to a customer.



- ▶ In some cases, all the goods and services promised in a contract may constitute a single performance obligation. This may happen when the entity provides a significant service of integrating the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted. In other words, the entity is using the goods or service as an input to produce and deliver to customer the combined output specified by the customer.

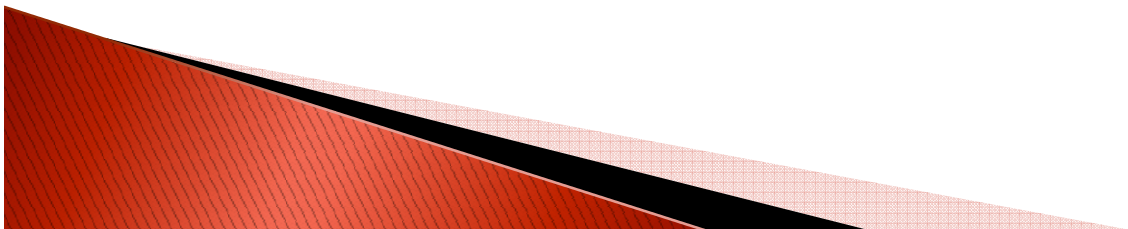


- ▶ Whether or not a good or service is a separate performance obligation is also dependent on whether it significantly modifies or customises another good or service promised in the contract.



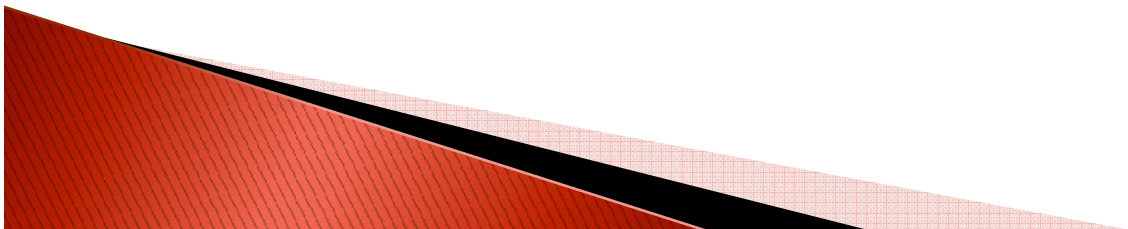
Non-refundable upfront fees

- ▶ In some contracts, an entity charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, activation fees in telecommunication contracts, setup fees in some service contracts and initial fees in some supply contracts.
- ▶ In most cases, the upfront fee is an advance payment for future goods or services and therefore, would be recognised as revenue when those future goods or services are provided.



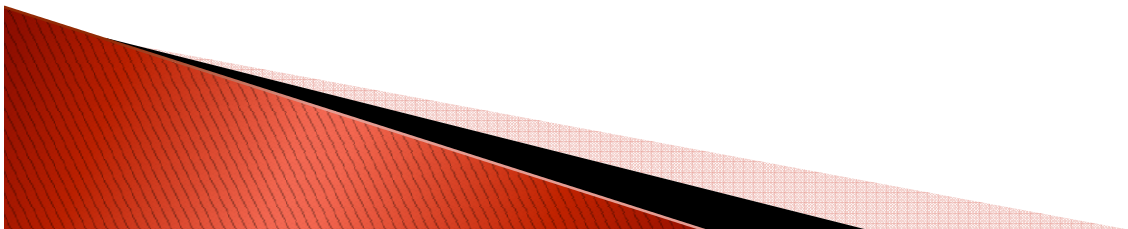
Step 3: Determination of transaction price

- ▶ An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is 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 (for example, some sales tax)
- ▶ The consideration promised in a contract with a customer, may include fixed amounts, variable amounts, or both.



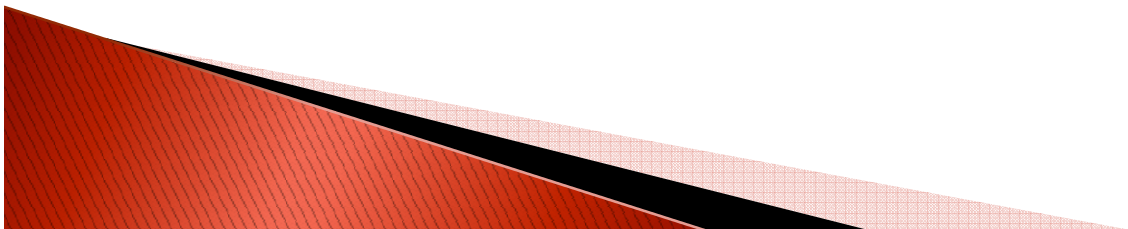
Variable Consideration

- ▶ Companies might contract to provide goods or services for consideration that is variable upon certain future events. Variable consideration may be explicit in the contract or may implicitly arise as a result of customary practices or stated policies that create a valid expectation in the mind of the customer.
- ▶ Typical examples include performance bonuses, discounts, rebates, price concessions, refunds and penalties. Broadly under IND AS 18 and AS 9, these revenues are generally recognised when the contingencies no longer exist. Under IND AS 115, either a probability-weighted expected value or the most likely amount, whichever better predicts the amount of consideration to which the entity will be entitled is used.



Variable Consideration

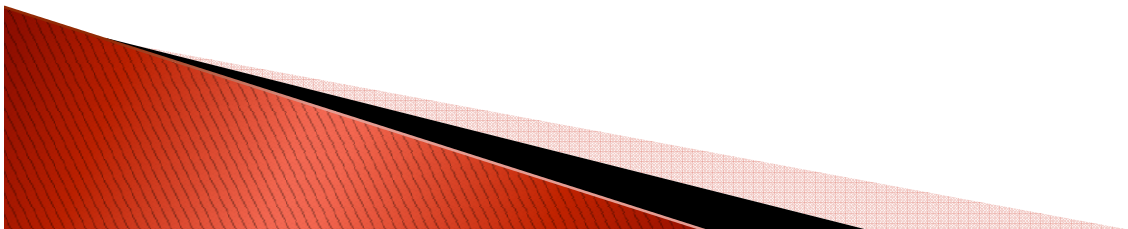
- ▶ An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled
- ▶ (a) the expected value– the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts.
- ▶ (b) the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the most single most likely outcome of the contract).



Sale with a right of return

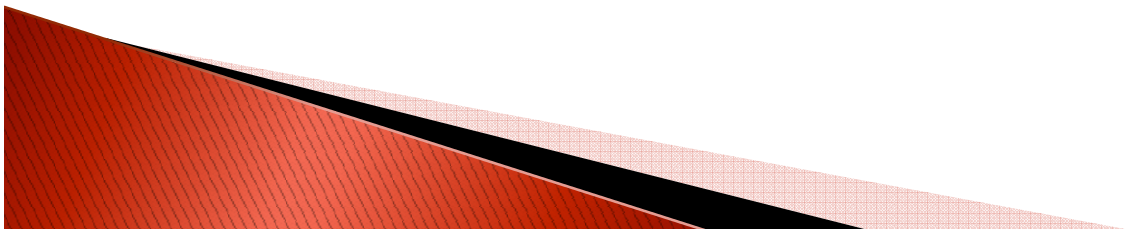
In some contracts, an entity transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

- ▶ A full or partial refund of any consideration paid;
- ▶ A credit that can be applied against amounts owed, or that will be owed, to the entity; and
- ▶ Another product in exchange.



Example

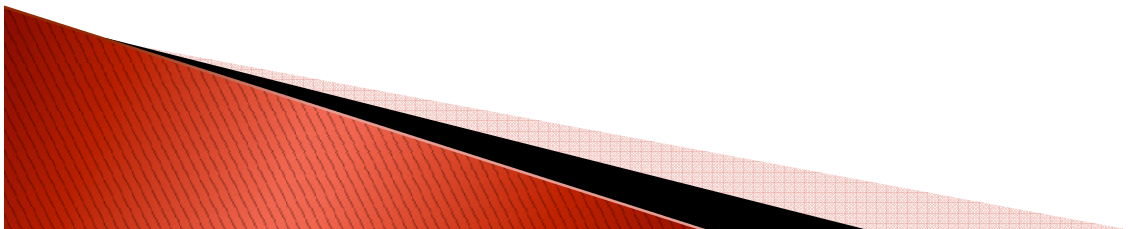
- ▶ Sold 100 shirts @Rs.1000 per shirt with a right to return within 60 days
- ▶ Expected return of 25%
- ▶ Can return goods for Rs 600 per shirt



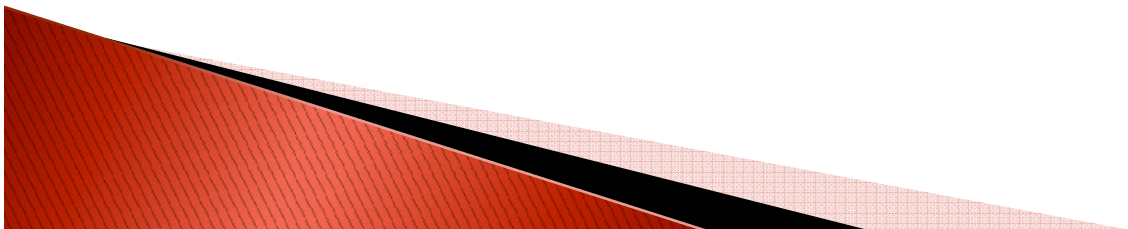
Example– Volume discounts

- ▶ Retailer provides the following volume discounts to a customer provided on a financial year basis. It expects that it will sell 25,000 units to the customer based on the customer's business plan

Price per unit (Rs.)	Sales Volume (units)
40	Up to 10,000
30	10,000–20,000
20	20,000–30,000

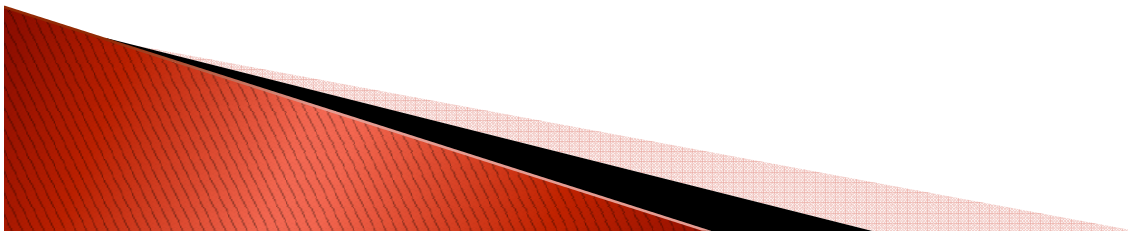


- ▶ Retailer will recognise sales at the average price of Rs. 32 determined as follows and on the basis that it expects that it is highly probable that a significant reversal of revenue will not take place:
- ▶ = Rs 32. per unit $(40*10000+30*10000+20*5000)/25000$



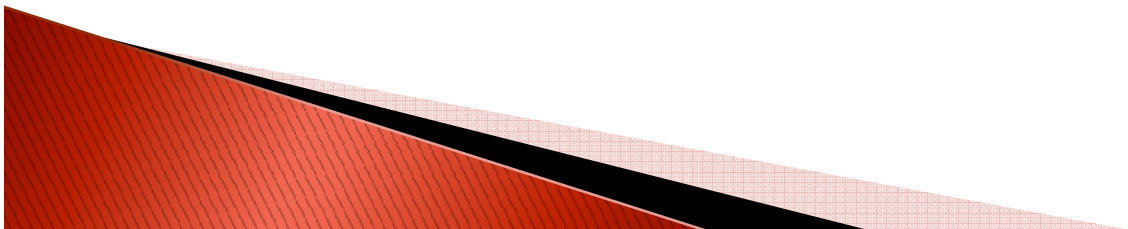
Example– Cash discounts

- ▶ Entity sold goods of Rs 10000 on 90 days credit.
- ▶ Prompt payment within 30 days with 10% discount
- ▶ Discount is expected in 40% of the transactions.



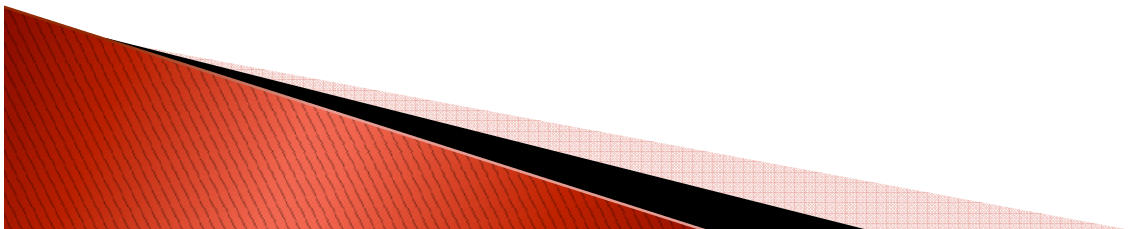
Example–Significant financing component

- ▶ On 31st March 2011, Alpha sold goods for a price of Rs,12.1 million. The terms of the sale allowed the customer to extend the credit and the price was payable by the customer in cash as on 31st March 2013. Discount rate appropriate for the risk of this transaction was attributed to 10%. What would be the revenue that would be recognised ?



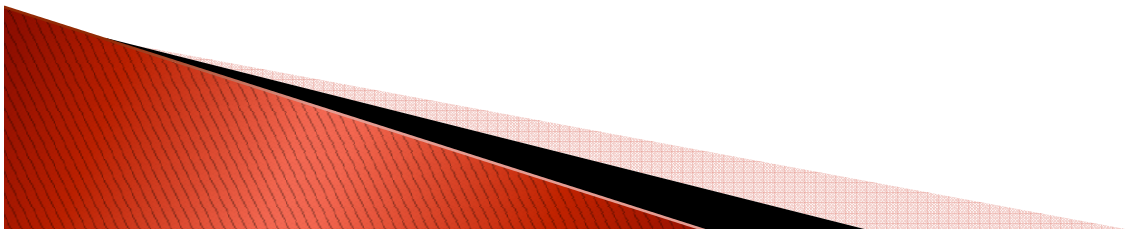
Significant financing component

- ▶ In the instant case, the treatment under *IND AS 115 Revenue from Contracts with Customers* would be as under:
 - (a) On 31st March 2011, Alpha Ltd will recognise only Rs. 10 m ($\text{Rs. } 12.1 \text{ m} / (1 + 10\%)^2$) as credit to revenue and debit to receivables.
 - (b) On 31st March 2012, it will recognise Rs. 1 m ($\text{Rs. } 10 \text{ m} * 10\%$) as finance income and debit to receivables.
 - (c) On 31st March 2013, it will recognise Rs. 1.1 m ($\text{Rs } 11 \text{ m} * 10\%$) as finance income and debit to receivables.



Example–Advance Payment

- ▶ An entity enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e. the performance obligation will be satisfied at a point of time). The contract includes two alternative payment options: payment of Rs. 50,000 in two years when the customer obtains control of the asset or payment of Rs.40,000 when the contract is signed. The customer elects to pay Rs.40,000 when the contract is signed.



Advance Payment

- ▶ The following journal entries illustrate how the entity would account for the significant financing component:
- ▶ (a) recognise a contract liability for the Rs.40,000 payment received at contract inception.

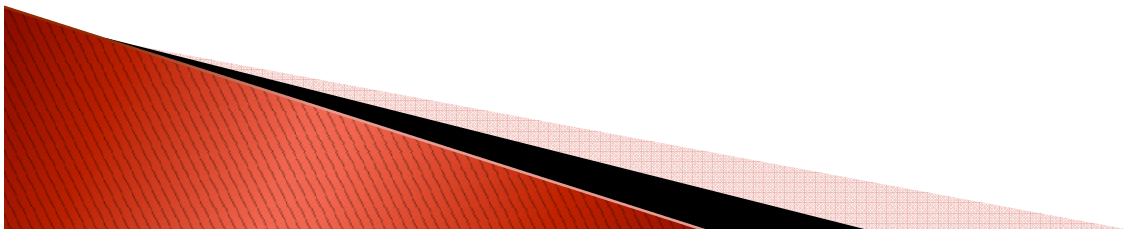
Cash	Rs.4000
Contract Liability	Rs.4000

- ▶ During the two years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration (in accordance with IND AS 15 and accretes the contract liability by recognising interest on Rs.4,000 at 6% for two years:

Interest expense	Rs.494
Contract liability	Rs.494

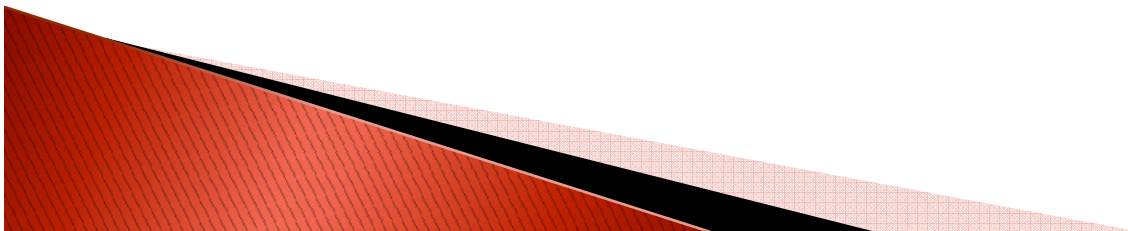
- ▶ Recognise revenue for the transfer of the asset:

Contract liability	Rs.4,494
Revenue	Rs.4,494



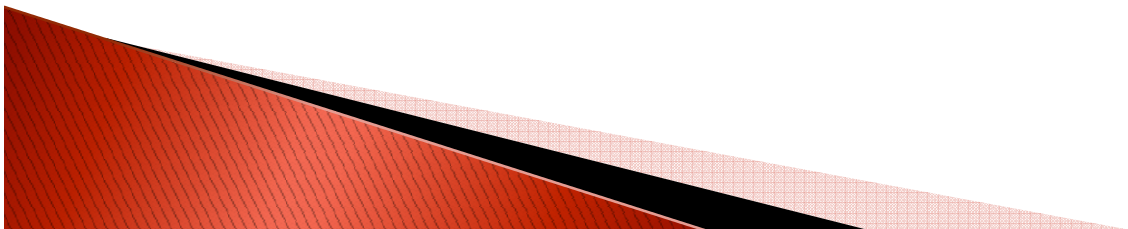
Example–Non cash consideration

- ▶ Company enters into a contract to deliver a product at the end of the month for which it will receive 10,000 shares of Customer on delivery.



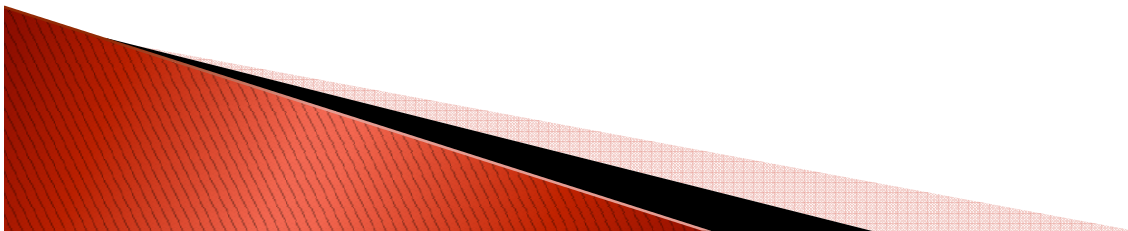
Consideration payable to a customer

- ▶ Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer).
- ▶ Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price.



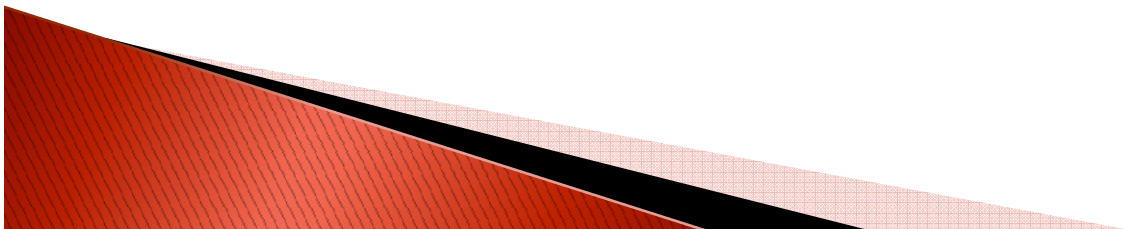
Step 4: Allocate the transaction price to the separate performance obligation

- ▶ The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.



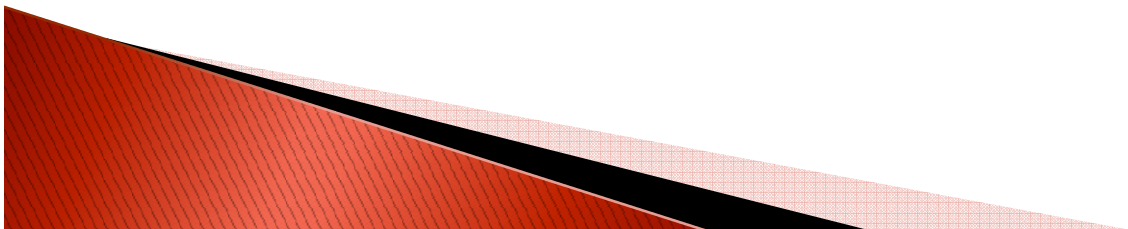
Allocation based on stand-alone selling prices

- ▶ Suitable methods for estimating the stand-alone selling price of a good or service include, but are not limited to , the following:
- ▶ (a) Adjusted market assessment approach– an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services.
- ▶ (b) Expected cost plus plus a margin approach–an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.
- ▶ (c) Residual approach– an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract.



Example–Allocation of discount

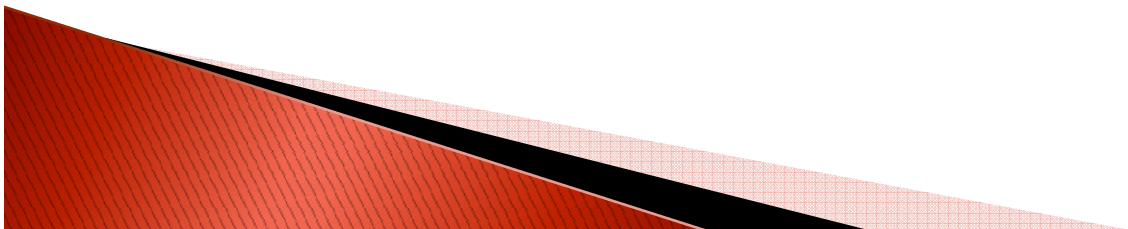
- ▶ An entity sells A,B and C for Rs.400
- ▶ Standalone selling price of products A Rs.200, B Rs.100 based on market assessment approach.
- ▶ Standalone selling price of product C Rs.300 based on Cost+Margin approach.



Solution

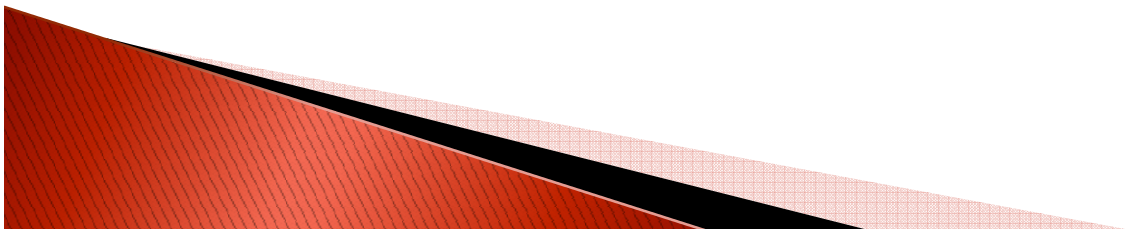
- ▶ Discount of Rs.200 shall be divided proportionately.

Product	Standalone S.P	Allocated Transaction Price
A	200	133
B	100	67
C	300	200
	600	400



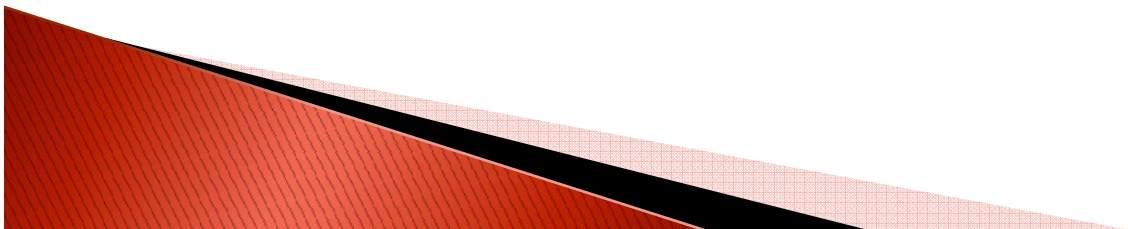
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

- ▶ Under IND AS 9 *Revenue Recognition*, revenue is recognised as the underlying risks and rewards in the goods or services are transferred to the customer. Under IND AS 115, revenue is recognised as the performance obligation is satisfied.
- ▶ An entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur over time or at a point in time. 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 includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.



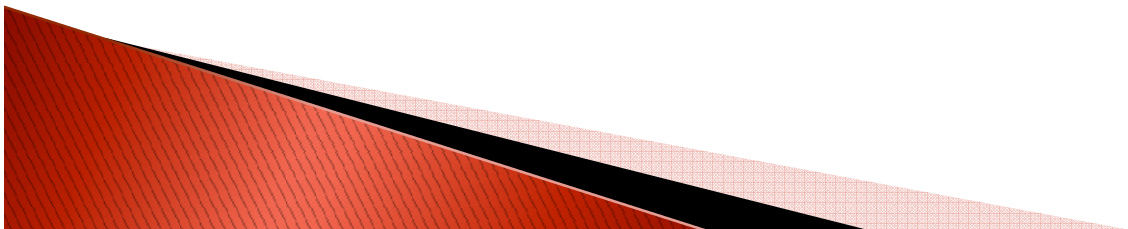
Performance obligation completed at a point of time

- ▶ (a) *The entity has a present right to payment for the asset.*
- ▶ (b) *The customer has legal title to the asset.*
- ▶ (c) *The entity has transferred physical possession of the asset.*
- ▶ (d) *The customer has the significant risks and rewards of ownership of the asset.*
- ▶ (e) *The customer has accepted the asset.*



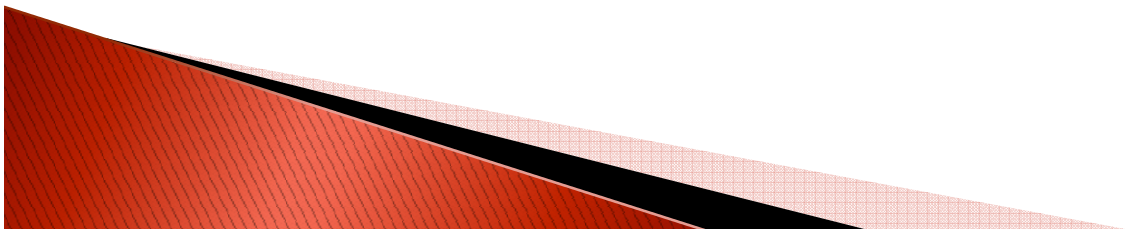
Revenue recognised over time

- ▶ When any of the following criteria are met, the entity should recognise revenue over time.
- ▶ (a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
- ▶ (b) The performance of the entity creates or enhances an asset (eg. Work in progress) that the customer controls as the asset is created or enhanced.
- ▶ (c) 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.

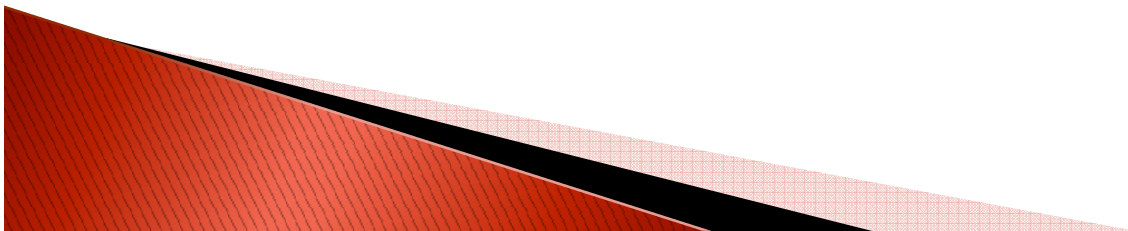


Example

- ▶ Contractor enters into a contract with Customer to build a plant on Customers' land. The contract has the following terms:
- ▶ The plant is built as per Customers' specifications.
- ▶ Customer can make changes to these specifications over the contract term.
- ▶ Progress payments are made by Customer throughout construction.
- ▶ Customer can cancel the contract at any time (with a termination penalty); any work in progress is the property of Customer.
- ▶ The goods and services in the contract are not distinct, so the arrangement is accounted for as a single performance obligation.
- ▶ *When should Contractor recognize revenue from this contract?*



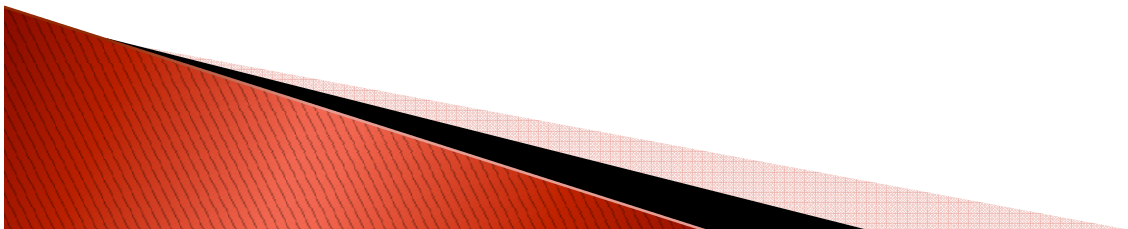
- ▶ Contractor recognize revenue as it builds the plant because the performance obligation is satisfied over time. Customer controls the work in progress because any work performed is owned by Customer if the contract is terminated, and it can make changes to the design specifications over the contract term.



Measurement of completion of performance obligation

- ▶ Input Method
- ▶ Cost incurred
- ▶ Hours spent

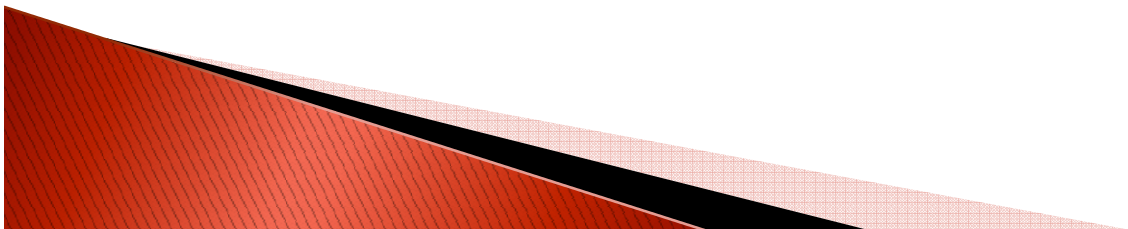
- ▶ Output Method
- ▶ Survey
- ▶ Milestone reached
- ▶ Units produced/delivered



Example– Uninstalled materials

- ▶ In November 2002, an entity contracts with a customer to refurbish a 3–storey building and install new elevators for total consideration of Rs.5 million. The promised refurbishment service, including the installation of elevators, is a single performance obligation satisfied over time.
- ▶ A summary of the transaction price and expected costs is as follows:

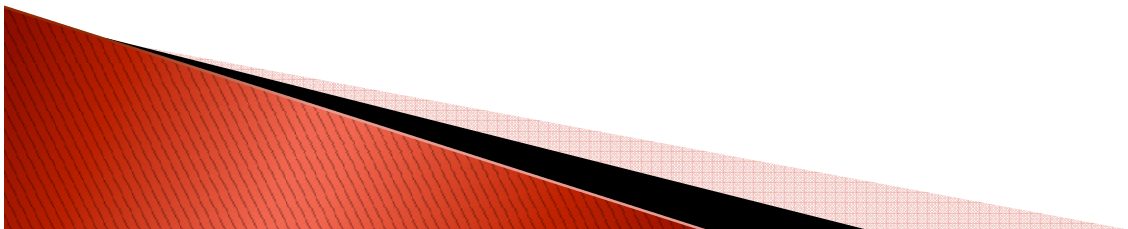
	<u>Rs</u>
Transaction price	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	<u>2,500,000</u>
Total expected costs	<u>4,000,000</u>



Uninstalled materials

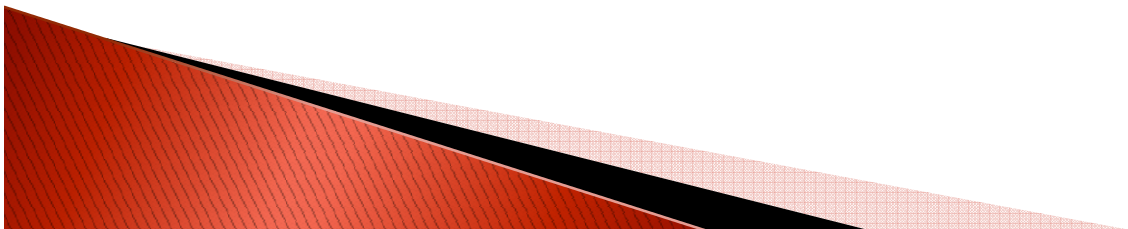
- ▶ As of 31 December, 2002, the entity observes that:
- ▶ (a) other costs are incurred (excluding elevators) are Rs 500,000; and
- ▶ (b) performance is 20 percent complete (Rs 500,000 / Rs 2,500,000)
- ▶ Consequently, at 31 December 2002, the entity recognises the following:

	Rs
▶ Revenue	2,200,000
▶ Cost of goods sold	2,000,000
▶ Profit	200,000



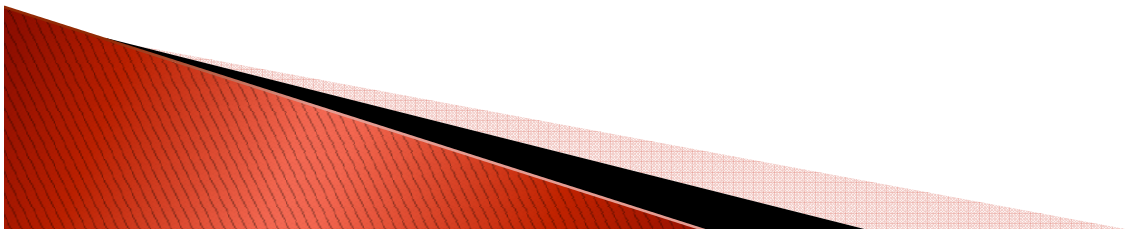
Warranties

- ▶ It is common for an entity to provide (in accordance with the contract, the law or the entity's customary business practices) a warranty in connection with the sale of a product (whether good or service). The nature of a warranty can vary significantly across industries and contracts. Some warranties provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.



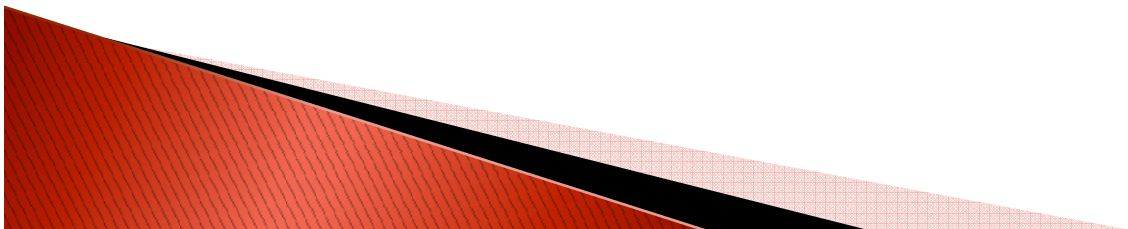
Customer loyalty points

- ▶ Customer options to acquire additional goods or services for free or at a discount come in many forms, including sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods or services.
- ▶ Id, in a contract, an entity grants a customer the option to acquire additional goods or services, that option gives rise to a performance obligation in the contract only if the option provides a material right to the customer that it would not receive without entering into that contract.



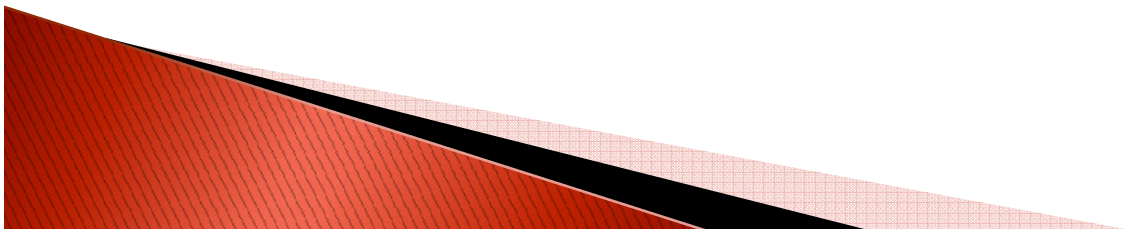
Example

- ▶ Customer purchased product of RS.200,000.
- ▶ 10 loyalty points for every Rs. 100 purchase.
- ▶ Each point is redeemable in Re.1 within 3 years.
- ▶ Retailer expects 19000 points to be redeemed.
- ▶ Standalone selling price is of Rs.0.95 per point.
- ▶ 1st year 9000 points are redeemed.



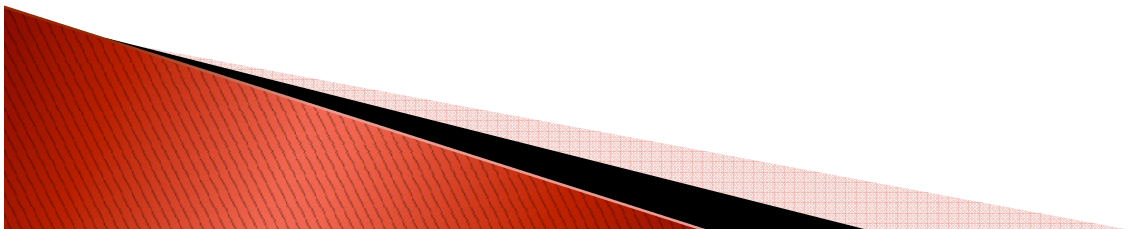
Consignment arrangements

- ▶ When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end customers, it should evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, revenue is not recognised upon delivery of a product to another party if the delivered product is held on consignment.



Bill and hold arrangements

- ▶ Following criteria must be met for a customer to have obtained control of a product in a bill-and-hold arrangement:
- ▶ (a) the reason for the bill-and-hold arrangement must be substantive (eg. The customer has requested the arrangement)
- ▶ (b) the product must be identified separately as belonging to the customer.
- ▶ (c) the product currently must be ready for physical transfer to the customer; and
- ▶ (d) the entity cannot have the ability to use the product or to direct it to another customer.



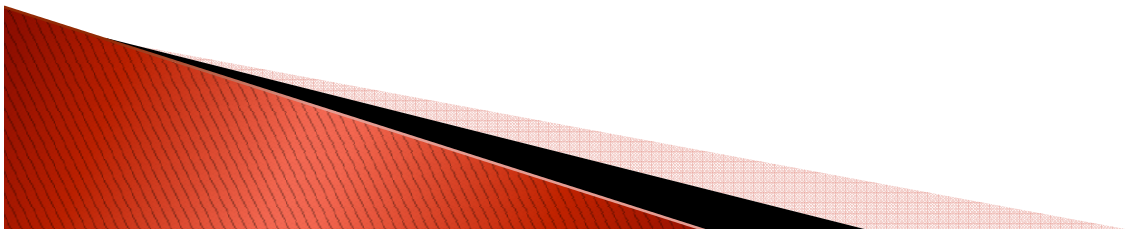
Contract Costs

- ▶ Incremental costs of obtaining a contract
 - Costs incurred to obtain a contract that would not have incurred if the contract had not been obtained
- ▶ Costs to fulfill a contract
 - direct labour
 - direct materials
 - allocations of costs that relate directly to the contract or to contract activities (costs of contract management and supervision, insurance and depreciation of tools and 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 (payments to subcontractors)



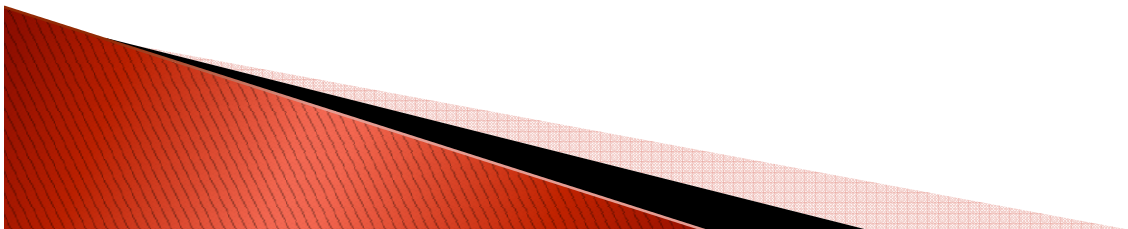
Incremental costs of obtaining a contract

- ▶ Cost expected to be recovered from customer
 - Recognise as an Asset
- ▶ Costs that would have been incurred regardless of whether the contract was obtained
 - Expense
 - Unless explicitly chargeable to the customer



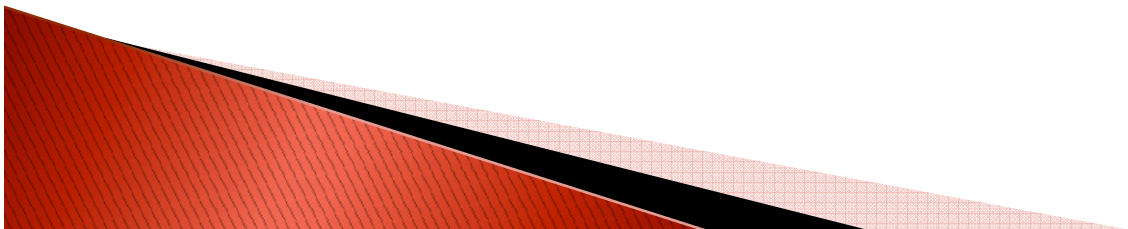
Costs to fulfill a contract

- ▶ Within scope of another standard?
 - IAS 2, IAS 16, IAS 38
 - Go to that standard
- ▶ If not – recognise an asset if
 - the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify
 - the costs generate or enhance resources of the entity that will be used in satisfying PO in the future
 - the costs are expected to be recovered



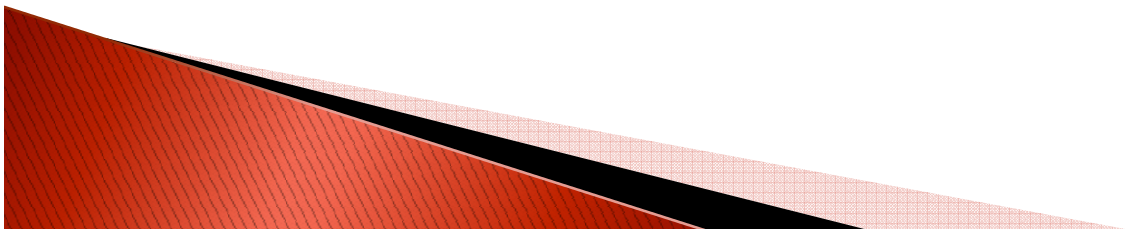
Cost to be expensed

- ▶ general and administrative costs
- ▶ costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the price of the contract
- ▶ costs that relate to satisfied PO (or partially satisfied PO) in the contract
- ▶ costs for which an entity cannot distinguish whether the costs relate to unsatisfied PO or to satisfied PO



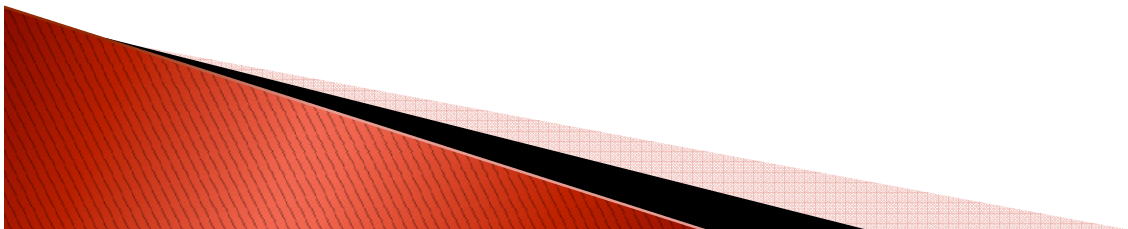
Amortisation and impairment

- ▶ Amortise
 - on a systematic basis consistent with the transfer to the customer of the goods or services to which the asset relates
- ▶ Impair if carrying amount of the asset recognised exceeds:
 - the remaining amount of consideration that the entity expects to receive; less
 - the costs that relate directly to providing those goods or services and that have not been recognised as expenses



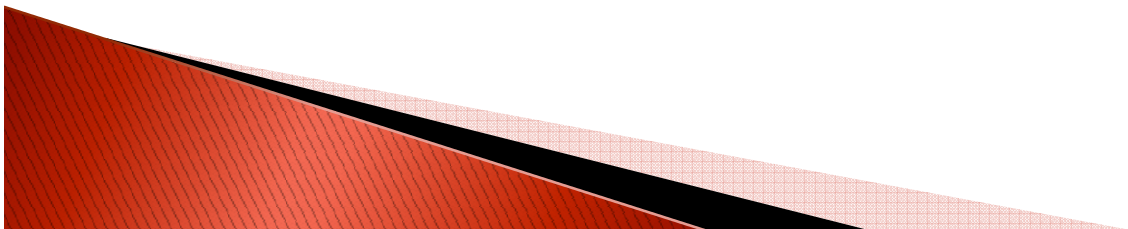
Repurchase agreements

- ▶ 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 repurchase asset may be the asset that was originally sold to the customer, an asset that is substantially the same as that asset, or another asset of which the asset that was originally sold is a component.



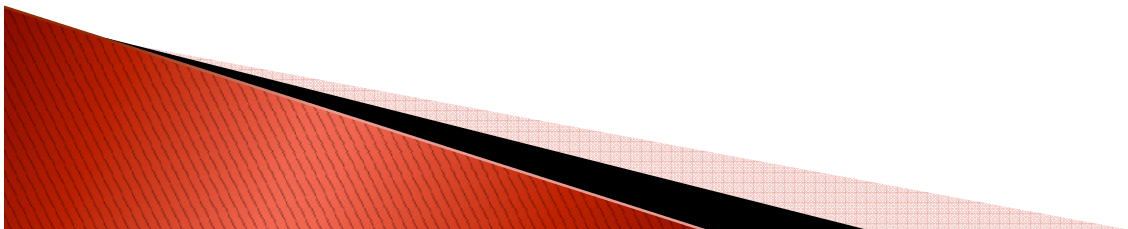
Principal versus agent consideration

- ▶ When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for the other party to provide those goods or services (i.e. the entity is an agent).



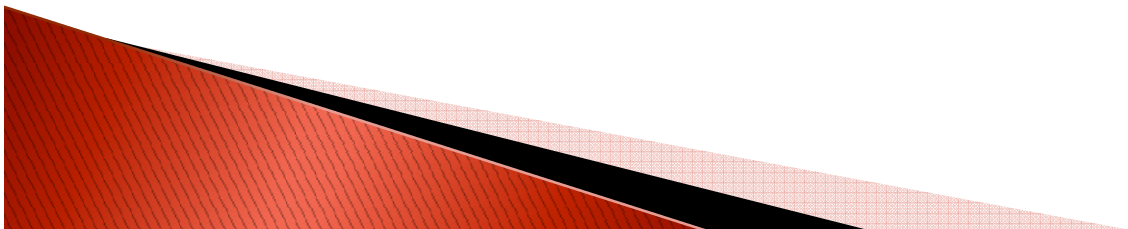
Principal versus agent consideration

- ▶ Indicators that an entity is an agent (and therefore does not control the good or service before it is provided to a customer) include the following:
 - ▶ Another party is primarily responsible for fulfilling the contract;
 - ▶ The entity does not have inventory risk before or after the goods have been ordered by a customer, during shipping or on return;
 - ▶ The entity does not have discretion in establishing prices for the other party's goods or services and, therefore, the benefit that the entity can receive from those goods or services is limited;
 - ▶ The entity's consideration is in the form of a commission; and
 - ▶ The entity is not exposed to credit risk for the amount receivable from a customer in exchange for the other party's goods or services.



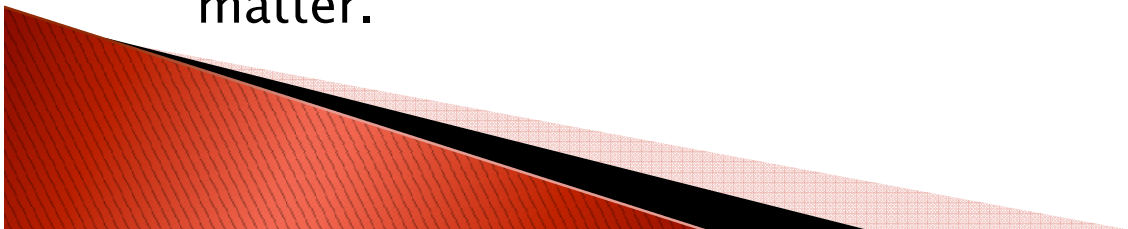
Disclosures (Illustrative)

- ▶ revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories;
- ▶ contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities;
- ▶ performance obligations, including when the entity typically satisfies its performance obligations and the transaction price that is allocated to the remaining performance obligations in a contract;
- ▶ significant judgements, and changes in judgements, made in applying the requirements to those contracts; and
- ▶ assets recognised from the costs to obtain or fulfil a contract with a customer.



Service Concession Arrangements

- ▶ Governments world over have introduced contractual service arrangements to attract private sector participation in the development, financing, operation and maintenance of public infrastructure. In India too, these arrangements are frequently used in many sectors including road, bridge infrastructure, airport, port and energy supply. These arrangements are commonly referred to as 'build-operate-transfer (BOT)', 'rehabilitate-operate-transfer' or 'public-to-private' service concession arrangements (SCA)
- ▶ Under Indian GAAP, there is no comprehensive guidance on accounting for service concession arrangements. The ICAI has issued an exposure draft of proposed Guidance Note on this matter. However, it is not final. This has resulted into adoption of differing practices under Indian GAAP. In contrast, Appendices C and D to Ind AS 115 provides comprehensive guidance on the matter.



Consideration for services provided and accounting model

Particulars of the payment	Applicable model	Basis
Hospital– Operator receives a fixed amount of revenue from the grantor however there is a payment deduction if the operator fails to ensure full availability of the hospital	Financial Asset	Operator does not bear demand risk. Has right to receive cash from the grantor. Deductions reflect failure to meet specified quality requirements.
Hospital– Operator receives a variable amount of revenue from the grantor, depending on actual occupancy at hospital. Grantor has not assured minimum occupancy to the grantor.	Intangible Asset	Operator bears demand risk Amounts depend on usage of the infrastructure Right to receive cash from grantor is not unconditional, i.e. it depends on usage

Consideration for services provided and accounting model

Particulars of the payment	Applicable model	Basis
<p>Toll road– Operator has right to charge users, without any minimum guarantee from grantor. Since it is an established road with consistent users, amounts receivable by the operator are subject to minimal variances.</p>	<p>Intangible Asset</p>	<p>Operator bears demand risk. Amount depend on usage of the infrastructure regardless of whether variation in usage is expected. No contractual right to receive cash or other financial assets from or at the direction of grantor.</p>
<p>Energy supply concession– Grantor regulates prices that the operator may charge to users. The grantor may revise prices or duration of concession depending on targeted rate of return.</p>	<p>Intangible Asset</p>	<p>Operator bears demand risk Amounts depend on usage of the infrastructure Operator does not have a right to receive cash or other financial asset from or on behalf of the grantor</p>

Disclosure requirements

- ▶ Appendix D to Ind AS 115 has broader scope than Appendix C. It requires an operator and a grantor to disclose the following:
 - ▶ (a) A description of the arrangement.
 - ▶ (b) Significant terms of the arrangement that may affect the amount, timing and certainty of cash flows (eg. The period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined.
 - ▶ (c) Nature and extent (eg. Quantity, time period or amount as appropriate) of:
 - ▶ (i) Rights to use specified assets.
 - ▶ (ii) Obligations to provide or rights to expect provision of services
 - ▶ (iii) Obligations to acquire or build items of property, plant and equipment
 - ▶ (iv) Obligations to deliver or rights to receive specified assets at the end of the concession period
 - ▶ (v) Renewal and termination options, and
 - ▶ (vi) Other rights and obligations (eg. Major overhauls);
 - ▶ (d) Changes in the arrangement occurring during the period, and
 - ▶ (e) How the service arrangement has been classified.

