IND AS 115
Revenue from Contracts with Customer

Superceded wef 1-4-18 :

Ind AS 11 *Construction contracts*

Ind AS 18 *Revenue*

Customer Loyalty Programs

Agreements for the Construction of Real Estate

Transfers of Assets from Customers

Barter Transactions Involving Advertising

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Overview & transition

- On 28 May 2014, The IASB and FASB Boards jointly issued a new converged revenue recognition standard.
- This standard replaces the majority of existing IFRS and US GAAP requirements on revenue recognition
- Contains the accounting principles for all revenue arising from contracts with customers
- In India
  - Effective for annual periods beginning on or after 1 April, 2018
  - Early adoption is not permitted for Ind AS preparers

OBJECTIVE

- To provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets.
- To remove inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework
- The new revenue standard replaces the multiple set of guidance with a single revenue recognition model, regardless of industry
- Transfer from **"risk and reward" model to "control model"** to recognize revenue

Not Applicable

- Ind AS 17 *Leases*;
- Ind AS 109 Financial Instruments *,*
- Ind AS 110 *Consolidated Financial Statements*,
- Ind AS 111 *Joint Arrangements*,
- Ind AS 27 *Separate Financial Statements* and
- IndAS 28 *Investments in Associates and Joint Ventures*;
- Ind AS 104 Insurance Contracts*s*;
- AND non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Applicability

- ➢ Counterparty is Customer
- If partially within the scope of other Standards :-
  - ➢ Segregation – initial measurement as per other standards
  - ➢ If not possible, segregation as per this standard

KEY TERMINOLOGY

- **Performance Obligation** : A promise in a contract with a customer to transfer to the customer either:
  - a good or service (or a bundle of goods or services) that is distinct; or
  - a series of distinct goods or services that are substantially same and that have same pattern of transfer to customer.
- **Contract Assets** An entity’s right to consideration in exchange for G&S 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.

BASIC PRINCIPLE

The core principle of Ind AS 115 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services.

Generally individual contract but can be portfolio of contracts(or performance obligation) with similar characteristics

Five Steps Model – (COPAR)

1. Identify contract with a customer
2. Identify separate performance obligations in contract
3. Determine transaction price
4. Allocate transaction price to separate performance obligations in contract
5. Recognise revenue when entity satisfies a performance obligation

Step 1 : Identify the Contract

- Define Contract
- Whether a valid Contract (Commercial, Agreed, identifiable obligations, consideration will flow etc.)
- Commercial substance
- Transaction price may not be fixed or part of contract as long as there is enforceable right to payment.
- Enforceable Rights
- Whether auto renewal or fixed duration
- No contract if unilateral enforceable rights to terminate a contract without compensation.
- Assess at the inception and Not to reassess subsequently unless significant change
- Money recd as revenue if, non refundable, or PO over

1 Identify Contract : Scope of Contract

- Contract is Approved
- Both parties are committed to perform their part of obligation
- Possible to identify the rights for G & S to be transferred
- Identify payment terms
- Commercial substance (Risk, timing of amt of cashflow)
- Probable that entity will collect consideration (Customers ability, intention, price concessions)

Does not exist if each party has the unilateral enforceable right to terminate the wholly unperformed contract without compensating the other party

Step 1 : Identify the Contract- Combining Contract

An entity shall combine two or more contracts entered into **at or near the same time** with the same customer **(or related parties)** and account for the contracts as a single contract if one or more of the following criteria are met:

(a) negotiated as a package with a single commercial objective;

(b) 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 the contracts) are a single performance obligation

1 : Identify Contract- Modification of Contract

- Modification = Change in scope of Scope or price of Contract that creates new or changes existing enforceable rights and obligations of the parties to the contract, or due to dispute.
- Must be approved.
- **Modification as a separate** if :
  - Distinct additional promised goods or services
  - the price reflects the entity's *stand-alone selling prices* with any appropriate adj. to that price to reflect the circumstances of the particular contract. E.g. No addl. Selling Costs

Focus is on determination of enforceability of revised rights & obligations

1 : Identify Contract- Modification of Contract

If modification NOT a separate contract :

To account promised G&S NOT YET TRFD as under:

- As if terminated and New Contract Accted as IF remaining G&S are distinct from G&S trfd, Amount of consideration to be allocated to the remaining PO (or to the remaining distinct G&S in a single PO identified is the sum of:

  (i) the consideration promised by the customer (including amounts already received from the customer) that was included in the estimate of the transaction price and that had not been recognised as revenue; and

  (ii) the consideration promised as part of contract modification.

- IF Remaining G&S are NOT distinct , may need adj to revenue recognised.

Step 2

IDENTIFY PERFORMANCE OBLIGATION

Step 2 : Identify Performance Obligations

- At the inception of contract, its obligation for identify goods and services promised as well performance obligation
  - Thus, not applicable if, contract for JV, Collaborator, partner etc.
- Goods and services distinct,
- Single method to measure
- PO Promised + Implied with valid expectations (Thus, include customary business practice)

Step 2 : Identify Performance Obligations

- A **performance obligation** is defined as a promise in a contract with a customer to transfer either
  - *"**distinct**"* good or service; or
  - Series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer
- Promises to transfer are Identified PO at contract inception and determined based on a) **Contractual terms** b) **Customary business practices ,** published policies or specific statements if, at the time of entering into the contract, those promises create a **valid expectation**
- Exclude activities that do not result in the transfer of a good or service to the customer. (e.g. Admin Tasks, - Trf of service to customer)
- Two-step model to identify which goods or services are **distinct:**
  - Customer can benefit from the individual good or service on its own or with other readily available resource
  - Promise to transfer the goods or service is separately identifiable from other promises

SEPARATELY IDENTIFIABLE IF : Customer can benefit 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. Direct benefit or in conjuction with other resource.

- G&S is separately identifiable in following:
  - the entity does not provide a significant service of integrating
  - G&S does not significantly modify or customise another G&S promised in the contract.
  - not highly dependent on, or highly interrelated with, other goods or services promised in the contract.
- Factors to be considered
  - Sold generally separately
  - How customer can benefit out of it
  - Goods and Services are significantly modified to fulfill contract
  - G & S Inter related and thus requires needs to integrate them to fulfill contract.
- When more than one G & S are sold:
  - Ascertain whether they are distinct
  - If they are distinct , Account them separately else, combine

Satisfaction of Performance Obligation

Satisfies PO Over Time Or At A Point In Time

- To determine at the contract inception
- Depends on the Transfer of Control

Step 3 :
Determine Transaction Price

Step 3 : Determine Transaction Price

- **The transaction price** is the amount to which an entity **expects to be entitled** in exchange for the transfer of goods and services.
- Transaction price would reflect the effects of the following:
  - ➢ Variable consideration (including application of constraint)
  - ➢ Consideration paid or payable to a customer.
  - ➢ Non-cash consideration, measure at it's FV
  - ➢ Significant financing component (time-value of money)
- Excludes amounts collected on behalf of third parties e.g. GST)
- When making this determination, an entity will consider past customary business practices
- To estimate the Variable considerations- Use expected value or most likely amount whichever can be predicted better
- Present Value Exception , if < 1 yr

Trans. Price Determination : VARIABLE CONSIDERATION

- Transaction price may vary because of bonuses, discounts, rebates, refunds, credits, price concessions, incentives or other similar items.
- Methods for estimating variable consideration a) **Expected value** b) **Most likely amount.**
- An entity to use the same method to estimate the variable consideration throughout the life of the contract.
- Required to evaluate whether to 'constrain' amounts of variable consideration included in transaction price.
- Update its estimate of variable consideration, including the application of the constraint, at the end of each reporting period

Trans. Price Determination : VARIABLE CONSIDERATION

- Estimate entitlement

  (Discounts, rebates, refunds, credits, price concessions, incentives, perf. bonuses, penalties or other similar items e.g contingent upon happening or non happening of an event, right to return,) Variable also if, Customer has valid expectations, of entity’s customary practices,
- Estimate Probability Weighted Amount or Most likely amount
- REFUND LIABILITY
- Price Protection Policy
- REASSESS VARIABLE CONSIDERATION at each BS Date

. . . . . . Transaction Price

- Non Cash considerations : At FV
- If Cust Contributes G or S (Material etc.), determine whether entity obtains control over them. If so, acct as contribution recd from customer.
- Considerations payable to Customers (Disc, rebates , incentives, etc) Reduction in Trans Price.
- E.g. Coupon/voucher,
  – Actually paid or payable
  – To customer
  – Customer has right to adjust the amount

Trans Price– Payable to Customer

- For Distinct G&S , acct as purchase
- If FV of G&S recd can not be estimated = Reduce trans Price
- If the amount of consideration payable to the customer exceeds the FV of the distinct G&S that the entity receives from the customer, then such an excess as a reduction of the transaction price .

  E.g.Voucher, Display of Product. Addl Service

Step 4 :
Allocation of Transaction Price

Step 4 : Allocation of Transaction Price

Standalone SP

- Basically, allocate to each contract / perf Oblig. separately
- Requires to ascertain at the inception of the contract
- Estimate, if requires
- If TP changed subsequently, allocate (may increase or reduce revenue already accounted for)

Where the contract has multiple obligations w.r.t. relative to its selling prices

- Estimate standalone SP, if not available:
  - Adjusted mkt adjustment approach
  - Expected cost + margin approach
  - Any other, only in exceptional cases

Step 4: Allocate the transaction price to the performance obligations

- When the stand-alone selling price is not directly observable, an entity is required to estimate the selling price by:

Method	Description
Adjusted market assessment	Focuses on the amount that the market is willing to pay for good and services.
Expected cost plus a margin	Focuses primarily on internal factor, but has an external component as well. Margin must reflect the rate market would willing to pay.
Residual	Assumes entity can estimate stand-alone selling price for all but one of the promised goods and services.

- These are not the only estimation method permitted. Standard allows any reasonable estimation method as long as entity maximize the use observable market input
- Allocation of Discount : One or More PO or to ALL PO, Proportionate
- Allocation of Variable Consideration
- Changes in Transaction Price

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Step 5 :
Recognise Revenue

when (or as) performance obligations satisfied

Step 5 : Recognise Revenue when (or as) performance obligations are satisfied

- Revenue is recognized upon satisfaction of an identified PO by transferring a promised good or service to a customer.

- Recognizing revenue upon **transfer of control** is a different approach from the 'risk and rewards' model that exist in IndAS 18.

- 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 can transfer ″over time″ or at a ″point in time″
  - ➢ First the entity determines if the control transfers over time
  - ➢ If control does not transfer over time, the presumption is that control transfer at a point in time.

CONTROL

Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Includes the ability to prevent other entities. The benefits of an asset are the potential cash flows that can be obtained directly or indirectly in many ways, such

- using the asset to produce goods or provide services;
- using the asset to enhance the value of other assets;
- using the asset to settle liabilities or to reduce expenses;
- selling or exchanging the asset;
- pledging the asset to secure a loan; and
- holding the asset.

CONTROL IS TRFD

"OVER A PERIOD OF TIME" OR

"AT A POINT IN TIME"

Step 5 : Recognise Revenue when (or as) performance obligations are satisfied

- - A good or service is generally considered to be transferred when the customer obtains "control". either over time or at a point in time.
- - Control also means the ability to prevent others from directing the use of and receiving the benefit from a goods or service.

- **PO Satisfied AT A POINT IN TIME – Factors to be considered**
  - The entity has a present right to payment
  - Customer has legal title to the asset
  - Transfer of physical possession to substantially all of the remaining benefits from, the asset or to restrict the access of other entities
  - Customer has significant risk and rewards of ownership of the asset
  - Customer has accepted the asset

Step 5 : Recognise Revenue when (or as) performance obligations are satisfied

- **PO Satisfied OVER A TIME**

  Customer simultaneously receives and consumes then (OR WHEN)
  - entity has an enforceable right to payment for performance completed to date
  - An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted contractually
  - Considering the contract as well as the Laws to ascertain enforceable right.
  - the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract is terminated by the customer or another party

Measuring progress towards complete satisfaction of PO

recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation.

- ➢ Single Method of measuring progress , exclude control not transfd. To customer
- ➢ Reasonable measure of progress, in early stage of contract, not reasonably measurable the progress
- ➢ Input and Output Method

Step 5 : Recognise Revenue when (or as) performance obligations are satisfied

- Entity assess whether it transfer the control over time, using one of the following criteria
  - The customer simultaneously receives and consumes the benefits as the entity perform;
  - Create or enhance an asset that the customer controls; or
  - Does not create as asset with an alternative use to the entity and entity has enforceable right to payment for performance completed to date
- Measuring progress toward completion
  - The objective is to depict the entity's performance
  - Select a single method for a particular performance obligation:
    a) Output Method
    b) Input Method
- Entity needs to be able to reasonably measure its progress. If not, recognize revenue equal to costs (if expected to be recovered) until progress can be measured

Step 5: Recognize revenue when (or as) performance obligations are satisfied over time

- If none of the criteria for transfer over time are met, control transfers at a point in time.
- The following are indicators of when control is transferred:
  - The entity has a present right to payment for the good or service.
  - The customer has legal title to the asset.
  - The customer has physical possession.
  - The customer has the significant risk and rewards of ownership of asset.
  - The entity has evidence of the customer's acceptance of the asset.

. . . . Rev Recog – at a Point of Time.

Recognise revenue at a point of time :

- Entity to consider following indicators of transfer of control (in addition to requirements for control) to determine point in time:
  - entity has a present right to payment for asset
  - customer has legal title to asset
  - entity has transferred physical possession of asset
  - customer has significant risks and rewards of ownership of asset AND
  - customer has accepted asset

.. . . . . Step 5 Rev Recog – Alternative Use

Alternative Use:

When evaluating whether asset has alternative use to entity:

- consider at contract inception,
- effects of contractual and practical limitations
- on entity's ability to readily direct the promised asset to another customer

An asset would have an alternative use to entity if

- asset is largely interchangeable with other assets that entity could transfer to customer
- without breaching contract &
- without incurring significant costs that otherwise would not have been incurred in relation to that contract.

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.. . . . . Step 5 Rev Recog – Alternative Use

Conversely, asset would not have an alternative use if

- contract has substantive terms that preclude entity from directing asset to another customer or
- if entity would incur significant costs (for example, costs to rework the asset) to direct asset to another customer

.. . . . . Step 5 Rev Recog Measuring Progress

- Appropriate methods of measuring progress include output methods and input methods considering nature of G&S
- Reasonable measure of its progress . Thus, early stage, may not be possible to measure outcome of Perf Oblig.

CONTRACT COSTS

Basic Principle

- The incremental costs of obtaining a contract must be recognised as an asset if the entity expects to recover those costs.
- Costs incurred to fulfill a contract are recognised as an asset if and only if all of the following criteria are met:
  - the costs relate directly to a contract (or a specific anticipated contract); (Dir abour, Material etc.)
  - costs generate or enhance resources of entity that will be used in satisfying performance obligations in the future;
  - the costs are expected to be recovered.
  - To Expense out few costrs like Gen & Admin costs, Wasted costs, costs relating to satisfied of PO,
- **Capitalized costs are amortized** over the period in which the related goods or services are transferred and subject to impairment testing. The amortization period includes expected contract renewal periods.
- Asset recognised in respect of the costs to obtain or fulfill a contract is amortised on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

Principal V/S Agent

- Principal when it controls a promised good or service before the entity transfers the good or service to the customer.
- **Indicator** that an entity is an agent includes the following:
  - ➢ Another party is primary responsibility for fulfilling the contract
  - ➢ Entity does not have inventory risk
  - ➢ Entity does not have discretion in establishing prices
  - ➢ Entity's consideration is in the form of commission
  - ➢ Entity is not exposed to credit risk
- Standard includes the notion of considering whether entity has control of the goods or services as part of the evaluation, which adds an overarching principle for entities to evaluate in addition to the indicators.

Different Transactions

(a) performance obligations satisfied over time

(b) methods for measuring progress towards complete satisfaction of a performance obligation

(c) sale with a right of return;

(d) warranties;

(e) principal versus agent considerations

(f) customer options for additional goods or services;

(g) customers' unexercised rights;

(h) non-refundable upfront fees (and some related costs)

(i) licensing

(j) repurchase agreements;

(k) consignment arrangements;

(l) bill-and-hold arrangements ;

(**m) customer acceptance**; and

Key Differences – Ind AS 11/ 18 and Ind AS 115

Particulars	Ind AS 11/ 18	Ind AS 115
Contract approval	IndAS 18 does not provide specific guidance on oral contract or implied contract in accordance with customary business practices	Ind AS 115states that parties to the contract should approve the contract either in writing, orally or in accordance with customary business practices
Contract Modification	There is no clear guidance on accounting for contract modifications. Many entities account for contract modifications prospectively unless the Contract modification is explicitly tied to prior performance	Ind AS 115.20 provides a detailed application guidance on how to determine whether change in the contractual terms is treated as a separate contract or modification to existing contract and their accounting treatment
Arrangement that do not meet the definition of the Contract	IndAS 18 does not provide guidance on arrangements that do not meet the definition of the Contract	Ind AS 115.9 states that in an event in which arrangement do not meet the definition of Contract and entity receives consideration from the customer, the entity shall recognise revenue subject to occurrence of few conditions.

Key Differences – Ind AS 11/ 18 and Ind AS 115

Particulars	Ind AS 11/ 18	Ind AS 115
Customer options for additional goods or services	Ind AS 18 does not provide application guidance on how to distinguish between an option and marketing offer. Nor does it address how to account for options that have a material right	Ind AS 115provides detailed guidance on distinguishing between option and marketing offer. In addition, IFRS 15 requires the option to be accounted as a separate performance obligation if it provides a material right to the customer.
Variable consideration	Under IndAS 18, preparers often defer measurement of variable consideration until revenue is reliably measurable, which could be when the uncertainty is removed or when payment is received	Variable consideration should be estimated and included in the transaction price to the extent that it is highly probable that a significant subsequent reversal (constraint under variable consideration) in the cumulative amount of revenue recognised will not occur if estimates of variable consideration change.
Allocation of transaction price	IndAS 18 does not prescribe an allocation method for multiple –element arrangements	Ind AS 115 prescribes allocation of transaction price on a relative stand-alone selling price basis.

Key Differences – Ind AS 11/ 18 and Ind AS 115

Particulars	Ind AS 11/ 18	Ind AS 115
Allocation of discount	IndAS 18 does not provide any guidance on allocation of discount	Ind AS 115provides detailed guidance on allocation of discount to performance obligation. The Standard also provides ability to allocate a discount to some but not all performance obligations
Cost of obtaining and fulfilling a contract	IndAS 18 does not provide guidance on treatment of cost to obtain or fulfil a contract. Entity needs to refer to guidance under other accounting standards to determine appropriate treatment of such cost.	Ind AS 115 requires an entity to capitalize cost which relate to obtaining or fulfilling the contract and amortize them over the period of contract. In addition Ind AS 115 requires such cost to be tested for impairment on an annual basis.

Presentation and disclosure

- To enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers

- Present both qualitative and quantitative information about:
  - Contract with customers
  - Significant judgments and changes in judgments made in applying the standards to those contracts
  - Assets recognized from costs to obtain or fulfill a contract

- Specific disclosure requirement
  - Disaggregation of revenue
  - Reconciliation of contract balance
  - Performance obligation
  - Significant Judgment
  - Cost to obtain or fulfill a contract
  - Practical expedients

Difference IFRS 15 V/S IND AS 115

- Variation in amt of Consideration due to Penaltities
  - IFRS Change while IND AS Penalties NOT to be considered/
- In IND AS Excise is to be separately presented which is included in the revenue recognised in P&L
- Contract Price to be shown with Reconciliation in IND AS

QUESTIONS ?????

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