

THANKS TO
of WIRC of ICAI

"Ind AS 115 & 116"

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Occupation

- 1980 CA
- 1980 TO 2010 - INDUSTRY CAREER IN 7 COUNTRIES AND 7 EMPLOYERS
- 2010 TO 2022 -- & on faculty & consultant in IFRS, Ind AS, Valuation, start-up advisory
- Own EdTech start-up as well

awards & accolades

- **Limca Record Holder - 2011**
- **Edtech entrepreneur award winner - 2022**
- **Global record & research award winner -2020**
- **Asia-Pacific webinar award winner -2021**
- **Flag bearer of the profession award fm ICSI**

Ind as 115

**REVENUE FROM CONTRACTS WITH
CUSTOMERS**

Scope

Not customer = Counterparty sharing in risks & benefits resulting from activity/process e.g. in oil & gas, pharma sectors

Ind as 115 is applicable only if counterparty is a customer.

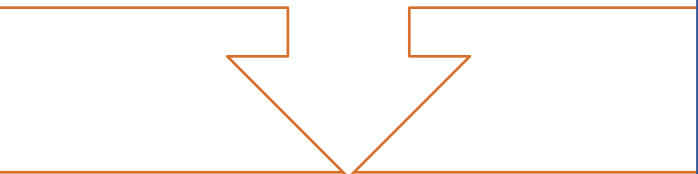
Customer is a party who has—

- Contracted with entity to obtain goods & services (G/S) which are output of entity's ordinary activities
- In exchange for consideration

Ind as 115 covers accounting for incremental costs of obtaining a contract & costs incurred to fulfil a contract if not within the scope of another Standard

Contract with customer may be partially covered by Ind as 115 & partially by other standards (Ind AS 109, 110, 111 & Ind AS 27,28)

If other Standards specify how to separate &/or initially measure one or more parts of contract-



- 1) It is to be applied first
- 2) Part so initially measured to be excluded from the transaction price

If not, Apply Ind as 115 to separate &/or initially measure part/s of contract

Steps in Revenue Recognition

1) Identification of contract with customer

2) Identification of performance obligation in the contract

3) Determine the transaction price

4) Allocate the transaction price to the performance obligations in the contract

5) Recognition of revenue as & when the performance obligations are performed

Identification of contract with customer

Revenue recognition is done w.r.t contract

Criterion for recognition –

1) Approval of Parties to contract & Commitment to performance of obligations

Contract -Written/Oral/customary business practices & a matter of Law

2) Each party's rights regarding G/S(G/S) to be transferred are identified – G/S identified

3) Payment terms are identified

- a. Need not be fixed/stated in contract
- b. Enforceable right to payment needed

4) Contract has Commercial Substance -- Risk/Timing/Amount of the entity's future cash flows expected to change due to contract

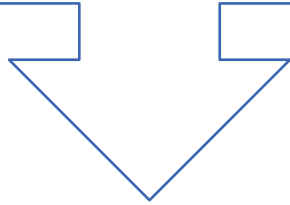
5) Probable that entity will collect the consideration in exchange of G/S to be transferred to customer

Amount of consideration may be < contract price if variable consideration & discount offered

Only customer's ability & intention to pay consideration when due considered

Identification of contract with customer

If contract has no fixed duration & can be terminated or modified by either party at any time or automatically renewed on a periodic basis



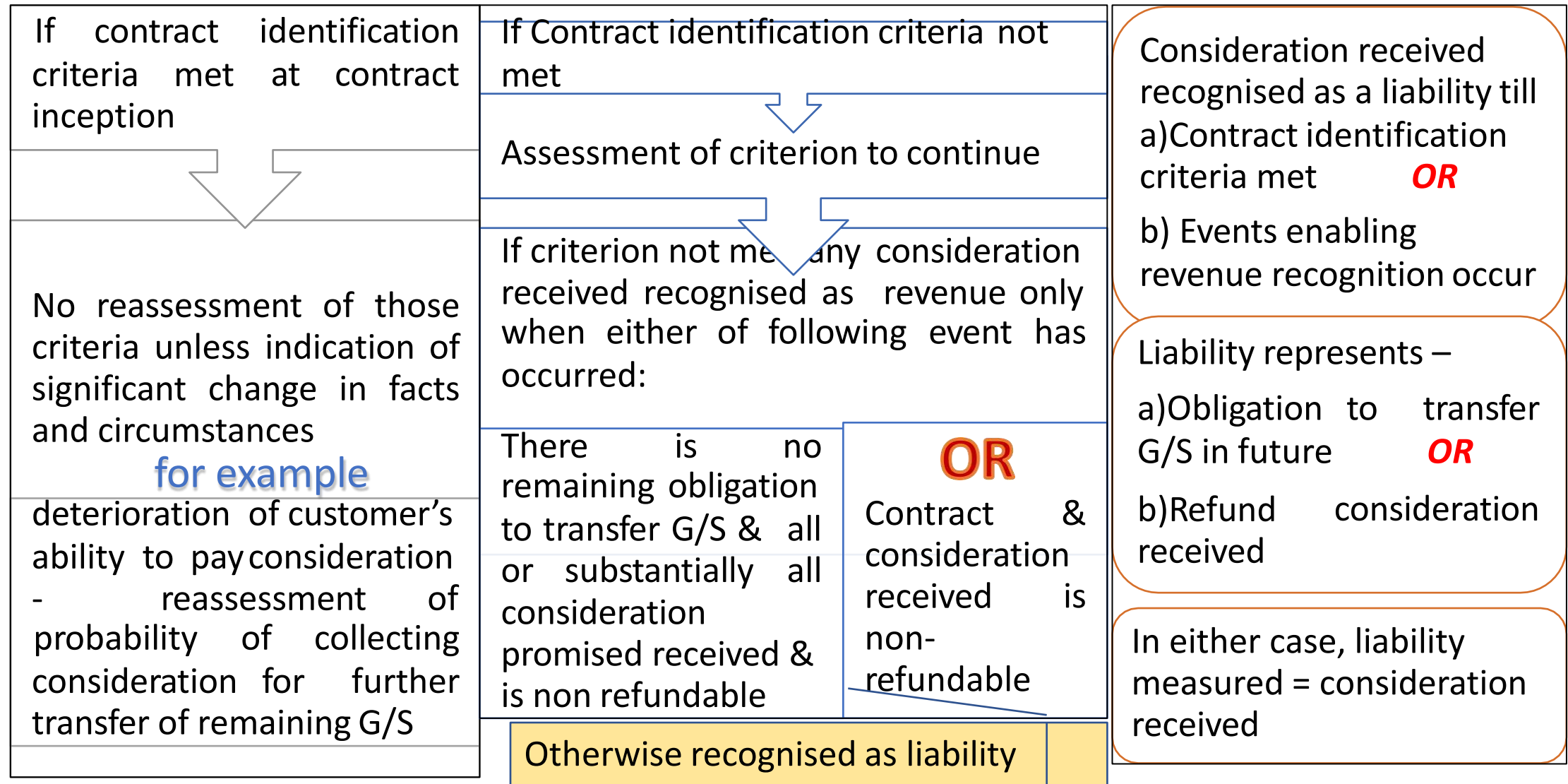
Ind as 115 is applicable to duration of contract i.e. contractual period in which parties have present enforceable rights and obligations

No contract if each party has unilateral enforceable right to terminate a wholly unperformed contract without compensating other party

A contract is wholly unperformed if both criteria are met -

- Any promised G/S are not yet transferred to customer &
- Entity has not yet received nor entitled to receive any consideration for promised goods or services

Identification of contract with customer



Identifying performance obligations

Done @ contract inception

Identify as a performance obligation each promise to transfer to customer

1) A good/service/bundle of G/S that is **DISTINCT**

Called Unbundling

or

2) A series of distinct G/S that are substantially the same having same pattern of transfer to the customer

Criteria for G/S to be distinct

Customer can benefit from **G/S** either on its own or together with other readily available resources

Benefit = G/S could be used, consumed, sold for amount greater than scrap value or otherwise held in a way generating economic benefits

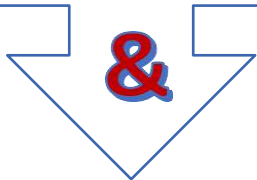
Entity's promise to transfer **G/S** separately identifiable from other promises in the contract

Distinct goods or services

G/S distinct if both criteria met



1) Customer can benefit from G/S either on its own or together with other resources readily available to customer



2) Entity's promise to transfer G/S to customer is separately identifiable from other promises in contract (G/S is distinct within the context of contract)

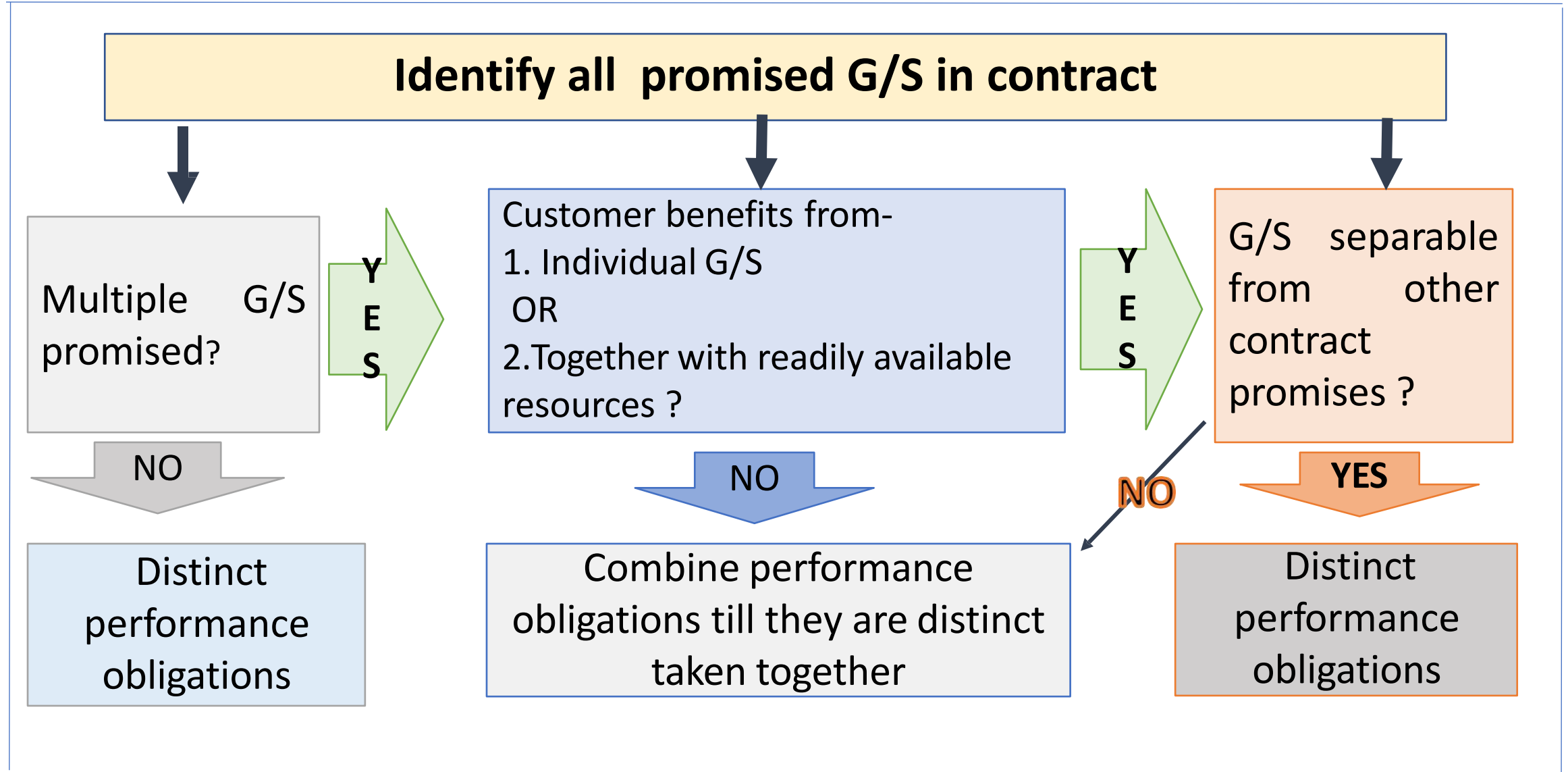
Conditions to determine whether customer can benefit from G/S

If G/S could be used, consumed, sold for amount greater than scrap value or otherwise held in a way that generates economic benefits -

- On its own or
- Only in conjunction with other readily available resources, i.e. G/S sold separately by entity/another entity/already obtained from entity/other transactions or events

Various factors may provide evidence that customer can so benefit like regular sales of G/S separately

Identifying performance obligations



Satisfaction of performance obligations

Revenue recognised when (or as) performance obligation satisfied by transfer of a promised G/S

Asset transferred when (or as) customer obtains control of that asset

Whether performance obligation is satisfied –

- * Over time or

- * At a point in time

decided at contract inception

Repurchase agreement considered in evaluating control

Control = ability to direct use of & obtain substantially remaining benefits from asset & ability to prevent others from doing

Benefits = potential cash flows/savings in (outflows) obtained directly or indirectly by using asset to–

- Produce goods or provide services

- Enhance the value of other assets

- Using the asset to settle liabilities or reduce expenses

- Selling or exchanging the asset

- Pledging the asset to secure a loan

- Holding the asset

Performance obligations satisfied over time

Transfer of control of G/S over time = performance obligation satisfied over time

Revenue is recognised over time if one of the following criteria met-

- 1) Customer simultaneously receives & consumes benefits of performance as entity performs **OR**
- 2) Performance creates/enhances asset that customer controls as it is created or enhanced **OR**
- 3) Performance does not create an asset with an *alternative use* to entity & it has enforceable right to payment for performance completed to date

No Alternative use-
1. Contractual restriction on directing asset for another use during creation/enhancement of asset OR
2. Practical limitation on directing completed asset to another use
Assessment made at contract inception & not updated unless contract modified

1) Evaluation of enforceable right to payment.e.t terms of contract, applicable laws. 2) Need not be for fixed amount - must at least compensate for performance completed to date if contract terminated by customer/another party for reasons other than failure to perform as promised

Performance obligations satisfied at a point in time

Performance obligation not satisfied over time is satisfied at a point in time - determined w.r.t requirements for control

Indicators of transfer of control

Customer has obtained ability to direct use of & obtain substantially all remaining benefits from asset &/or restrict access of other entities to those benefits -

a) Entity has present right to payment - customer is presently obliged to make payment

b) Customer has legal title to asset—indicates which party has ability to direct use & derive benefits

c) Physical possession of the asset transferred

d) Customer has significant risks and rewards of ownership of asset

e) Customer has accepted the asset

Legal title retained solely as protection against non-payment - control may still be obtained

Physical possession may not mean control
e.g. Repurchase, Consignment, Bill-and-hold arrangements,

Measuring progress of performance obligation satisfied over time

Revenue recognised over time by measuring progress towards complete satisfaction of performance obligation –
To establish link between revenue recognised & performance obligation satisfied

Single method of measurement to be applied consistently to similar performance obligations & in similar circumstances

Remeasurement of progress @ end of each reporting period

Methods for measuring progress - output & input methods

Appropriate method determined w.r.t nature of goods/services. It shall -

- Include any G/S for which control is transferred
- Exclude any G/S for which control is not transferred
- Update measure of progress to reflect any changes in the outcome of performance obligation - accounted for as a change in accounting estimate in accordance with IAS 8

Reasonable measures of progress for a performance obligation satisfied over time

Revenue recognised only if progress towards complete satisfaction of performance obligation can be reliably measured

Reliable measurement not possible if reliable information required to apply appropriate method of measuring progress is lacking

If reasonable measurement not possible, (e.g. early stages of contract) but costs incurred in satisfying performance obligation are expected to be recovered – Recognise revenue only to the extent of costs incurred

Measurement - Determining the transaction price

May include fixed or variable or both amounts

Nature, timing & amount of consideration affect transaction price

Considerations in determining price –

- Variable consideration
- Constraining estimates of variable consideration
- Existence of a significant financing component
- Non-cash consideration
- Consideration payable to a customer

Revenue recognised when/as performance obligation satisfied

Amount of revenue = transaction price (excluding estimates of variable consideration that are constrained) allocated to that performance obligation

Determined w.r.t terms of contract & customary business practices = amount of consideration to which entity expects to be entitled excluding amounts collected on behalf of third parties (e.g. GST, sales tax)

Determined assuming transfer of G/S as per existing contract & contract will not be cancelled/renewed/modified

Determining the transaction price -Variable consideration

Variable consideration amount is estimated

Consideration can vary if entity's entitlement is contingent on the occurrence or non-occurrence of a future event

Variability of consideration may be explicitly stated in contract

Promised consideration is variable if-

- Customer has a valid expectation arising from entity's customary business practices, published policies or specific statements amount less than stated contract price will be accepted **OR**
- Other facts & circumstances indicative of intention to offer a price concession

Sale with
right of
return or
fixed
performance
bonus

Expected
price
concession
like discount,
rebate,
refund

Estimate of variable consideration

Estimation Methods -

- Expected value - sum of probability-weighted amounts in a range of possible consideration amounts - appropriate if large number of contracts with similar characteristics
- Most likely amount - the single most likely amount in a range of possible consideration amounts - if contract has only two possible outcomes (e.g. performance bonus achieved or not achieved)

One method to be consistently applied

Information (historical, current & forecast) reasonably available to identify reasonable number of possible consideration amounts

Information = similar to that management uses during the bid-and-proposal process & establishing prices

Constraining estimates of variable consideration

Variable consideration included only to the extent that there is high probability that significant reversal in revenue recognised will not occur when uncertainty subsequently resolved



Assessment based on likelihood & magnitude of revenue reversal

Reassessment of variable consideration & constraints at each reporting date to -

- Represent circumstances present @ end of reporting period &
- Changes in circumstances during reporting period

Factors increasing likelihood/magnitude of revenue reversal (not limited to) -

- Consideration highly susceptible to factors outside entity's influence, like volatility in market, judgement or actions of third parties, weather conditions, high risk of obsolescence of G/S
- Uncertainty not expected to be resolved for long period.
- Entity's experience/other evidence with similar types of contracts is limited or has limited predictive value
- Entity has a practice of offering price concessions or changing payment terms & conditions of similar contracts in similar circumstances
- Contract has large number & broad range of possible consideration amounts

Refund liability

Recognised if some/all consideration received is expected to be refunded

Measured at –

Amount to which entity not expected to be entitled

Refund liability & corresponding change in transaction price & contract liability to be updated at each reporting date

Significant financing component in contract

Consideration adjusted for effects of time value of money if customer/entity gets significant benefit

Explicitly stated OR implied by payment terms

Objective of adjustment - to recognise revenue = reflecting cash price customer would have paid when/as G/S transferred to customer

Assessment of whether Contract contains a financing component & whether it is significant done w.r.t both the following -

- Difference, if any, between promised consideration amount & cash S.P of promised G/S&
- Combined effect of both of the following:
 - Expected length of time between transfer of promised G/S& payment by customer
 - Prevailing interest rates in the relevant market

Significant financing component in contract

Factors indicating **NO** significant financing component-

- Advance payment & timing of transfer of G/S is at customer's discretion
- Substantial amount of consideration is variable & its amount or timing varies depending on occurrence or non-occurrence of a future event not substantially within customer/entity's control e.g. sales-based royalty
- Difference between promised consideration & cash selling price
 - For reasons other than provision of finance &
 - Difference proportional to reason for difference.

e.g. protection from other party for failing to adequately complete its obligations

Practical expedient – NO adjustment if payment period = one year or less

Discount rate = rate reflected –

-In separate financing transaction between entity and customer

-Credit characteristics of the party receiving, collateral or security, assets transferred in contract

Rate = discounting consideration to cash price

Not to be updated for changes in interest rates or other circumstances like customer's credit risk

Non-cash consideration

Recognised at fair value - If not reasonably estimated measured indirectly w.r.t stand-alone S.P of G/S

F.V may vary because of form of consideration like change in share price

For variability due to other reasons like performance of entity principles of constraining estimates of variable consideration are applicable

G/S contributed by customer for contract fulfilment, recognised as consideration received if entity obtains control

Consideration payable to a customer

Includes –

- Cash amounts paid/expected to be paid to customer/other parties
- Credit or other items (e.g. coupon/voucher) applied against amounts owed to the entity/other parties purchasing entity's G/S

Recognised as reduction of transaction price & revenue - Unless in exchange for distinct G/S – which is accounted for as purchase of distinct G/S

If includes variable amount- - transaction price estimated

Consideration payable > F.V of G/S received, excess accounted for as reduction of transaction price

F.V of G/S cannot be determined - all consideration payable to customer treated as a reduction of transaction price & recognised as the reduction of revenue when (or as) later of either events occurs –

- a) Revenue recognised for transfer of related G/S

- b) Entity pays/promises to pay consideration – may be conditional on future event, or implied

Allocating transaction price to performance obligations based on stand alone selling price

Objective - allocate transaction price to each performance obligation to which entity expects to be entitled in exchange for transferring promised G/S

Determine - 1) Stand-alone S.P at contract inception of the distinct G/S underlying each performance obligation in contract

2) Allocate transaction price in proportion to stand-alone S.Ps

Stand-alone S.P = Price at which a promised G/S sold separately to a customer

Best evidence – a) Observable price of a G/S sold separately in similar circumstances and to similar customers

b) A contractually stated price/list price may be (not be presumed) the stand-alone **S.P**

Estimating stand-alone S.P

<p>Stand-alone S.P not directly observable - needs to be estimated</p>	<p>1. Adjusted market assessment approach—</p> <ul style="list-style-type: none">a) Price a customer would be willing to pay orb) Competitors prices adjusted for entity's costs & margins	<p>Can be used only if -</p> <ul style="list-style-type: none">1.S.P highly variable - broad range of prices -or2.S.P uncertain - not established for that G/S as previously not sold on a stand-alone basis
<p>Stand-alone S.P estimated –</p>	<p>2. Expected cost plus a margin approach</p>	
<ul style="list-style-type: none">• After considering all information reasonably available like market conditions, entity-specific factors, customers• Maximising use of observable inputs• Applying estimation methods consistently in similar circumstances.	<p>3. Residual approach—(Total transaction price) – (sum of observable stand-alone S.Ps of other G/S promised in contract)</p>	

Allocation of discount

Discount exists if (sum of the stand-alone selling prices of promised G/S) > (promised consideration)

Discount allocated to only one or more, but not all performance obligations **(before using residual approach)** if **ALL** the following criteria are met -

- Regular sale of each distinct G/S or bundle of G/S on stand-alone basis
- Regular sale on stand-alone basis of bundle/s of some of those distinct G/S at a discount to stand-alone S.P of G/S in each bundle
- Discount attributable to each bundle of G/S substantially same
- Observable evidence of performance obligation/s to which entire discount in the contract belongs



otherwise

Proportionately to all performance obligations – As transaction price allocated to each performance obligation on relative stand-alone S.P of underlying G/S

Allocation of variable consideration

Variable consideration may be attributable to -

- Entire contract or
- Specific part of the contract, such as either of the following
- One/more, but not all, performance obligations (e.g. a contingent performance)
- One/more, but not all, distinct G/S in a series of distinct G/S forming part of a single performance obligation e.g. increase in 2nd year linked to inflation index

Variable amount & subsequent changes allocated entirely to a performance obligation or to a distinct G/S if **BOTH** criteria met -

- Terms relate specifically to entity's efforts to satisfy the performance obligation/transfer G/S or specific outcome of performance obligation or transferring distinct G/S
- It is consistent with allocation objectives considering performance obligations and payment terms

Changes in the transaction price

Transaction price can change due to resolution of uncertain events or changes in circumstances etc

Subsequent changes price - allocated to performance obligations on the same basis as at contract inception

Transaction price not reallocated to reflect changes in stand-alone selling prices after contract inception

Consequently

Amounts allocated to satisfied performance obligation-recognised as revenue or reduction of revenue in the period in which transaction price changes

If criteria for allocating variable consideration are met, change in transaction price is allocated entirely to one or more but not all, performance obligations or distinct G/S, if the remaining G/S are not distinct & therefore, form part of a single performance obligation

Changes in the transaction price

A change in transaction price arising due to contract modification is accounted for according to principles applicable to contract modification

A change in transaction price occurring after a contract modification - change allocated in whichever of the following ways is applicable:

- Change allocated to performance obligations identified in the contract before modification if, & to the extent that, the change is attributable to variable consideration promised before the modification & it is so accounted for
- If modification was not accounted for as a separate contract change allocated to performance obligations in the modified contract i.e. unsatisfied performance obligations

Contract costs

Incremental costs of obtaining a contract =
Costs incurred to obtain a contract that would not have been incurred if contract had not been obtained

e.g. sales commission

- 1) Recognised as an asset if expected to be recovered
- 2) Recognised as expense when amortisation period of asset that would have been recognised is one year / less

Costs that would have been incurred regardless of whether contract was obtained - recognised as an expense when incurred, unless explicitly chargeable to customer whether contract is obtained or not

Costs to fulfil a contract

Costs incurred in fulfilling a contract **NOT** in the scope of another Standard, e.g. Ind AS 2, Ind AS 16 or Ind AS 38 - recognised as asset only if the costs meet **ALL** of the following criteria -

- a) Costs relate directly to a contract or an anticipated contract that can be specifically identified
- b) Costs generate or enhance resources of entity to be used in satisfying/or in continuing to satisfy performance obligations in future &
- c) Costs are expected to be recovered

e.g. costs relating to –
1. services to be provided under renewal of existing contract or
2. costs of designing an asset to be transferred under a specific contract not yet approved

Costs to fulfil a contract

Costs incurred to fulfil a contract within the scope of another Standard – accounted for in accordance with those Standards

Costs directly relating to a contract include -

- Direct labour – e.g. salaries & wages of employees providing promised services directly to customer
- Direct materials – e.g. supplies used in providing promised services to customer
- Allocations of costs directly related to contract activities – e.g. costs of contract management & supervision, insurance & depreciation of tools & equipment used in fulfilling contract
- Costs explicitly chargeable to customer under contract;
- Other costs incurred only because of entering into contract, e.g. payments to subcontractors

Costs to fulfil a contract

Following costs recognised as expenses when incurred

- General and administrative costs (unless explicitly chargeable to customer under contract)
- Costs of wasted materials, labour or other resources not reflected in contract price
- Costs relating to satisfied / partially satisfied performance obligations (or relating to past performance)
- Costs for which distinction can not be made whether they relate to unsatisfied/ satisfied /partially satisfied performance obligations

Presentation - Contract asset & Contract liability

Contract liability = obligation to transfer G/S for which consideration received or is due

Contract asset = right to consideration in when that right is conditioned on something other than the passage of time, e.g. entity's future performance

Impairment provisions of Ind AS 109 applicable .

Receivable = unconditional right to consideration

- ***Only the passage of time is*** required before payment of consideration is due.
- Present right to payment (may be subject to refund in future)

Presentation - Contract asset & Contract liability

When either party to contract has performed, contract presented in SOFP as a contract asset/liability

Any unconditional rights to consideration presented separately as a receivable

Consideration received/right to consideration that is unconditional before transfer of G/S presented as a contract liability when payment made/becomes due (whichever is earlier)

Transfer of G/S to customer before payment of consideration or before payment is due presented as a contract asset, excluding any amounts presented as a receivable

Presentation

Receivable accounted in accordance with Ind AS 109.

On initial recognition –

(measurement of receivable as per Ind AS 109 -corresponding amount of revenue) recognised as expense (e.g. impairment loss)

Alternative descriptions for terms ‘contract asset’ & ‘contract liability’ in SOFP may be used. If so used sufficient information to distinguish between receivables and contract assets shall be provided.

Sale with a right of return

Revenue from sale with a right of return recognised to include –

Consideration to which entity expects to be entitled, i.e. without recognising revenue for products expected to be returned

- A refund liability
- An asset & corresponding adjustment to cost of sales for right to recover products from customers on settling refund liability

1. Promise to stand ready to accept returned product - Not performance obligation
2. Obligation to provide refund performance obligation

Measured at (Carrying amount of product - expected costs to recover products & potential decreases in value)

Exchanges for same type, quality, condition & price or defective for functional product not considered shall be evaluated in accordance with

Principal versus agent considerations

When another party provides G/S -
Entity to determine whether it acts as a principal or as an agent

Principal

If entity controls G/S before transfer to customer

Revenue recognised in gross amount of expected consideration

Agent

Entity's performance obligation - to arrange for provision of G/S by another party

Recognises revenue - expected fee or commission/net amount of consideration retained after paying other party consideration for G/S to be provided by party

Customer options for additional goods or services

Option to acquire additional G/S - performance obligation only if option provides a material right to customer not received without entering into that contract - in effect payment in advance for future G/S

Revenue recognised when future G/S transferred or when option expires

Option to acquire additional G/S reflecting stand-alone selling price - Not material right –Not performance obligation

Allocate transaction price to performance obligations on a relative stand-alone S.P basis
If S.P not directly observable on the basis of estimate adjusted for
- discount receivable without exercising option &
- likelihood of option not been exercised

Licensing

License may be granted with explicitly or implied promise to transfer G/S

Evaluate if promise to grant a licence is distinct from G/S

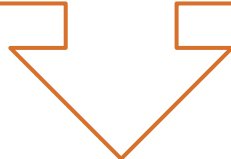
If not distinct both must be recognised together as a single performance obligation.

Determine if satisfied over time or at a point in time

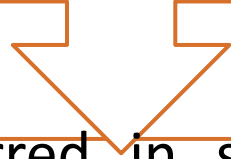
Non-refundable upfront fees - joining, activation & initial fees

Such fees @/or near contract inception need to be assessed whether -

- 1) relate to transfer of G/S &
- 2) G/S separate performance obligation



If advance payment for future G/S – revenue recognised when G/S provided.
Period of recognition extends beyond initial contractual period if customer granted option to renew contract with material right



If fees compensate for costs incurred in setting up a contract not satisfying performance obligation - activities & related costs disregarded when measuring progress

Disclosure

Objective - to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows

Disclosure of qualitative and quantitative information about -

- Contracts with customers
- Significant judgements & changes in them, made in applying this Standard to contracts &
- Assets recognised from the costs to obtain or fulfil a contract

Level of detail necessary to satisfy the disclosure objective & emphasis on various requirements to be considered by entity

Aggregation or disaggregation - not to obscure useful information by inclusion of large amount of insignificant detail or aggregation of items of different characteristics

Disclosure

Contract with customers

- Amounts to be presented in statement of income
 - Revenue recognised from contracts with customers separately from other sources of revenue
 - Impairment losses recognised under IFRS 9) on any receivables or contract assets separately from impairment losses from other contracts

Disaggregation of revenue

- Into categories depicting how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.
- Disclosure of sufficient information to enable understanding the relationship between the disclosure of disaggregated revenue and revenue information for each reportable segment

Disclosure

Contract balances

- Opening & closing balances of receivables, contract assets and contract liabilities
- Revenue recognised in reporting period included in contract liability balance at beginning of period
- Revenue recognised in reporting period from performance obligations satisfied (or partially satisfied) in previous periods (e.g. changes in transaction price).
- Explanation of how timing of satisfaction of its performance obligations and effect of those factors on contract asset & liability balances. The explanation may use qualitative information.

Disclosure

Explanation of significant changes in contract asset & liability balances during reporting period. Explanation to include qualitative and quantitative information.

Examples of changes in balances of contract assets & liabilities

- Changes due to business combinations
- Cumulative catch-up adjustments to revenue affecting corresponding contract asset or liability
- Impairment of a contract asset
- Change in the time frame for a right to consideration to become unconditional (i.e. for a contract asset to be reclassified to a receivable)
- Change in the time frame for a performance obligation to be satisfied (i.e. for the recognition of revenue arising from a contract liability)

Service Concession Arrangements

Different types of arrangements

Service Contracts (specific tasks e.g. debt collection or routine repair and maintenance)

Leases (e.g. operator leases asset from public sector and has responsibility for operating and maintaining asset)

Concessions (maintenance and operation, build-operate-transfer and build-operate own)

Divestitures/privatisations/regulated industries under licence

Technical provisions of contracts vary by sector and legal framework varies by country

Typical types of public-to-private arrangements

Arrangement Type	Asset ownership	Operations and maintenance	Capital investment	Commercial risk	Typical Duration	Residual Interest		
Service Contract (eg specific tasks Data collection)	Public	Private and or Public	Public	Public	1-5 years	Public		
Lease (e.g. lease of an asset)	Public	Private	Public	Shared	8-20 years	Public		
Concession (egg build- operate-transfer)	Public	Private	Private	Private and Public	25-30 years	Public		
Concession (egg build-own-operate)	Private	Private	Private	Private	25-30 years	Private		
100% Divestiture/ Regulated industries under licence	Private	Private	Private	Private	Indefinite or (may be limited by licence)	Private		

Ind AS 116

LEASES

Ind AS 116 -Scope

All leases, including leases of right-of-use assets in a sublease,
except the following -

Exploration Leases - minerals, oil, natural gas and similar non-regenerative resources

Leases of biological assets –IND AS 41 Agriculture held by a lessee

Service concession arrangements -

Licences of intellectual property granted by a lessor within scope of Ind as 115 Revenue from Contracts with Customers

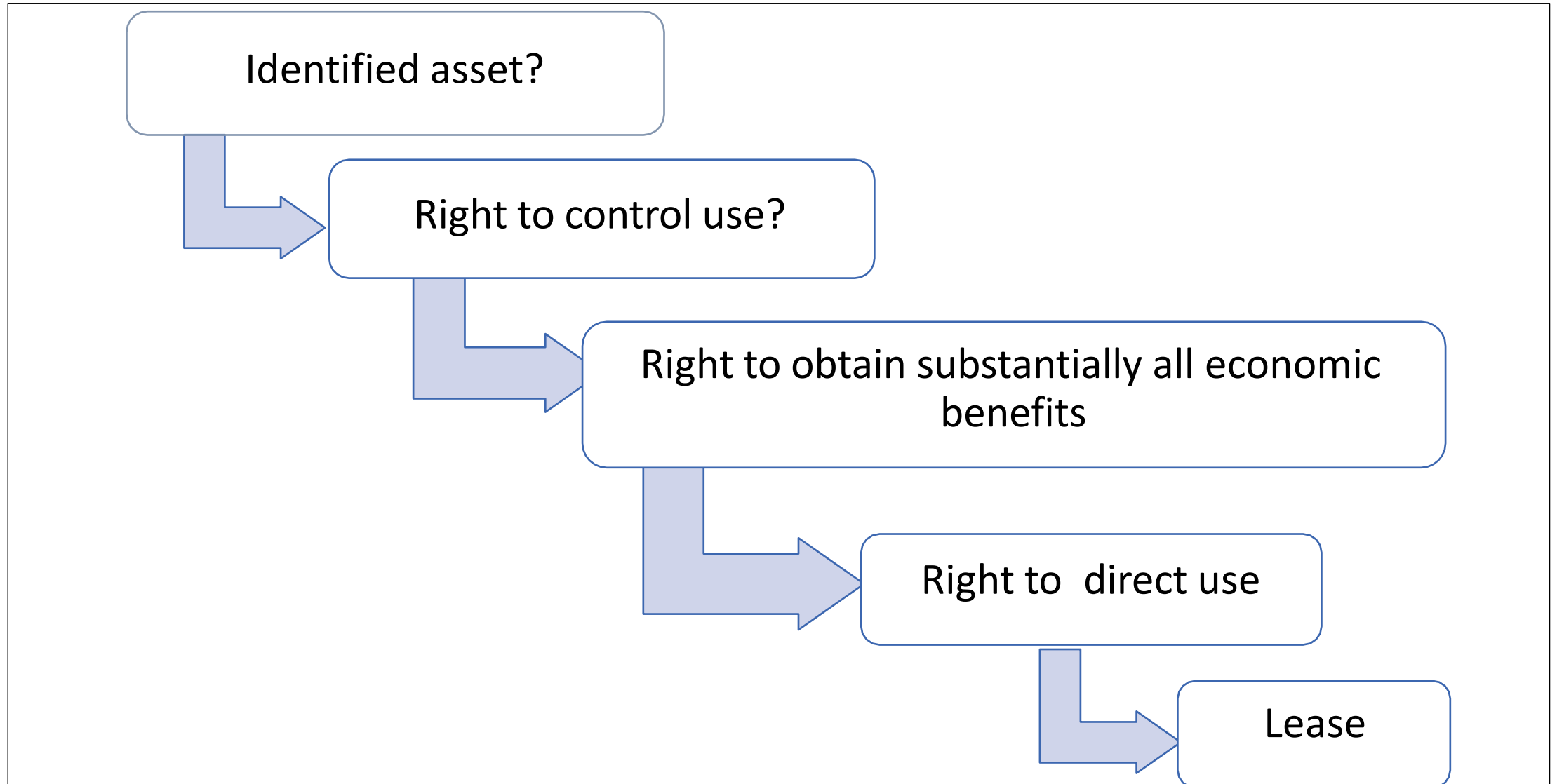
Rights held by a lessee under licensing agreements – Ind AS 38 Intangible Assets for items like motion picture films, video recordings, plays, manuscripts, patents and copyrights.

May be applied to leases of intangible assets other than the above

Lessee may elect not to apply Ind AS 116 on a lease by lease basis to -
1.Short-term leases
2. Leases of low value asset

Identifying lease

Assessment made at inception of contract



Identifying a lease

if contract conveys –

- **right to control** use of
- an **identified asset**
- for a **period of time / amount of use**
- for **consideration**

Right to control - customer has both–

- right to obtain substantially all **economic benefits**

&

- **right to direct use** of **identified asset**

Right to direct use = customer can change how and for what purpose asset is used throughout use period

No right to direct use if supplier has substantive right to substitute asset throughout lease period

Protective rights of supplier (protect personnel, ensuring compliance with laws etc. do not, prevent customer from having right to direct use of asset.

Separating a contract into Lease & Non-lease components

Accounting by lessee

Consideration allocated to each lease component on the basis of relative stand-alone price of lease component & aggregate stand-alone price of non-lease components

Stand-alone price determined on the basis of separate price of lessor/similar supplier for each component

Practical expedient - election by class of underlying asset not to separate lease & non-lease components

Separated non-lease components - accounted for applying other applicable Standards

Estimate (maximum use of observable information), if observable stand-alone price not readily available

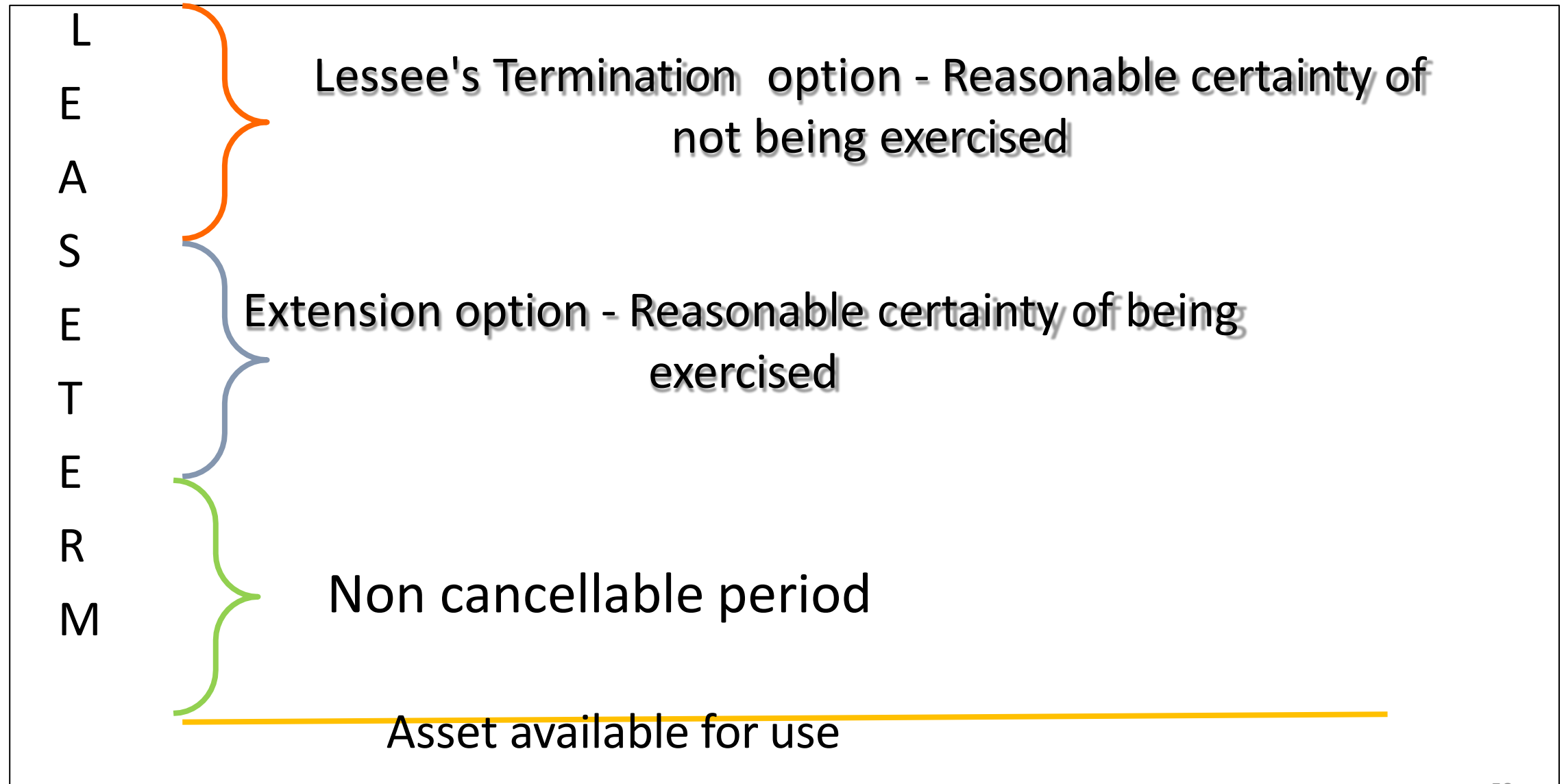
Account for as single lease

Accounting by lessor



Allocate consideration in contract by applying Ind as 115

Lease term



Lease term

Non-cancellable period + periods covered by **both**

1. Extension option – reasonable certainty of exercise &

2. Termination option - reasonably certainty of not exercising

- Lease term revised - change in non-cancellable period of lease

- 1) Relevant facts & circumstances creating economic incentive to exercise/not to exercise option considered in determining reasonable certainty
- 2) Reassessment of certainty on occurrence of significant event/change in circumstances - within control of lessee.

e.g. lessee-

1. Exercising option not previously included in determining lease term or
2. Not exercising option previously included in determining lease term
3. Event contractually obliging exercise of option not previously included in determining lease term/prohibiting exercising of option previously included in determining lease term

Lessee accounting

Lessee recognises @ commencement date right-of-use asset & lease liability

Initial measurement of right-of-use asset = at cost comprising of the following -

1. Initial measurement of lease liability

2. Lease payments at or before commencement date, less lease incentives
3. Lessee's Initial direct costs
4. Estimated costs of dismantling and removing asset, restoring site/asset to the condition required by lease terms & conditions applying Ind AS 37

Initial measurement of lease liability

Lease payments (discounted @ interest rate implicit in lease, if readily determined, if not, lessee's incremental borrowing rate) comprising -

1. Fixed payments (+ in-substance) - lease incentives
2. Variable payments, based on index/rate, initially measured using that index or rate
3. Expected payments under residual value guarantees
4. Exercise price of purchase option if reasonable certainty of its exercise
5. Termination penalties if lease term reflects exercise of termination option

Initial measurement of lease liability @ commencement date

Lease payments including the following-

- Fixed payments (including in-substance) less lease incentives
- Variable lease payments based on index/rate) initially measured using that index or rate
- Expected payments under residual value guarantees
- Exercise price of purchase option if reasonable certainty of its exercise
- Lease termination penalties if lease term reflects exercise of termination option

Discounted using interest rate implicit in lease, if that rate can be readily determined.

If not, using lessee's incremental borrowing rate

Cost model

Measurement at-

Cost less any accumulated depreciation & impairment losses

Adjusted for any remeasurement of lease liability

- Depreciation as per Ind AS 16 PPE
- If lease transfers ownership of asset to lessee by end of lease term or if cost of right-of-use asset reflects that lessee will exercise a purchase option – depreciation from commencement date to end of useful life or end of lease term, if it is earlier.
- Apply Ind AS 36 Impairment of Assets

Other measurement models

If right-of-use assets relate to class of PPE to which revaluation model applied in Ind AS 16 - revaluation model may be elected to be applied to all right-of-use assets relating to that class of PPE

Subsequent measurement of lease liability

Lease liability –

- Increased by interest on the liability
- Reduced by lease payments made
- Re-measured to reflect any reassessment/lease modifications/revision of in-substance fixed lease payments

Recognition in P/L (unless included in carrying amount of another asset) -

- Interest on the lease liability
- Variable lease payments not included in the measurement of the lease liability in the period in which the event or condition triggering those payments occurs.

Reassessment of lease liability

To reflect changes to lease payments

Recognised as adjustment to right-of-use asset - reduction in liability after asset become zero recognised in P/L

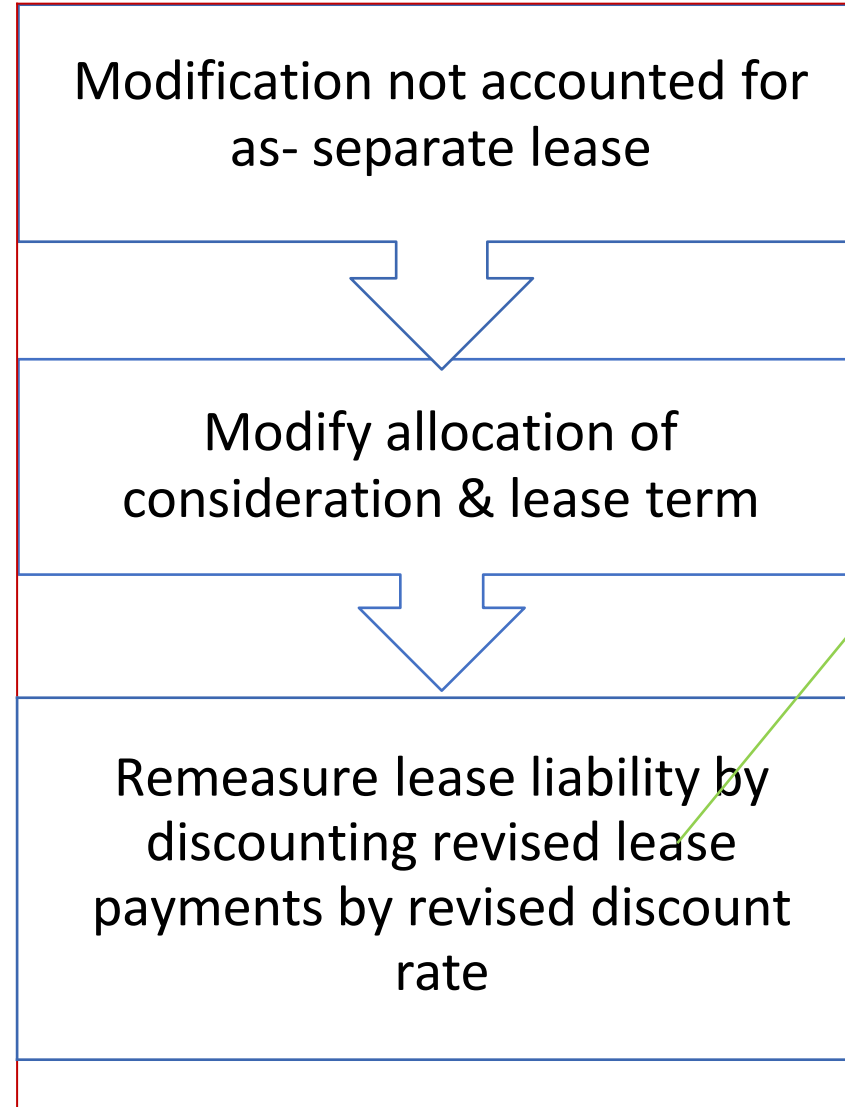
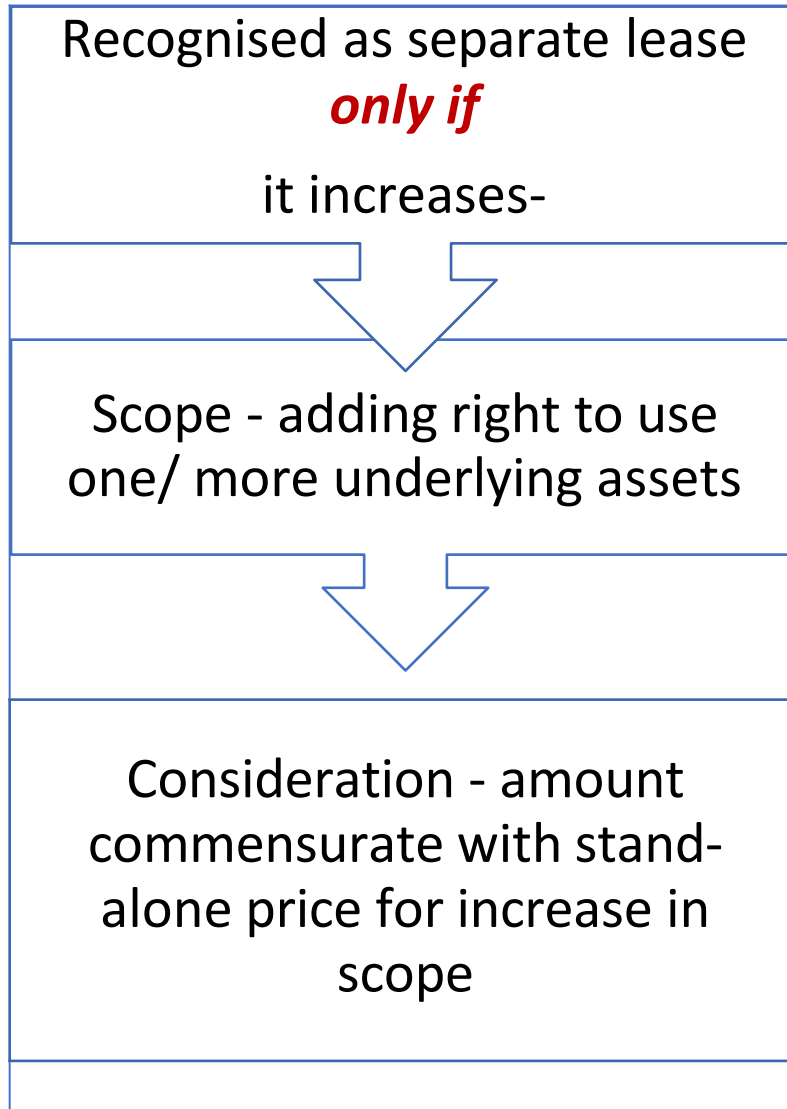
Using a revised discount rate, either due to the following-

- Change in lease term
- Change in assessment of option to purchase the underlying asset .

Remeasurement using unchanged discount rate if there is a change in -

- Expected payment under residual value guarantee -.
- Future lease payments resulting from change in an index or a rate used to determine those payments.

Lease modifications



Decreasing carrying amount of right-of-use asset to reflect partial or full termination for lease modifications decreasing scope of lease.

Resulting gain or loss recognised in P/L

Lessor - Classifies leases into

Finance lease

Transfers substantially all risks & rewards incidental to ownership of underlying asset

Examples of situations individually / in combination leading to classification as finance lease –

- Ownership transferred to lessee by end of lease term
- Certainty of Lessee exercising option to purchase asset as price < FV
- Lease term = major part of the economic life
- PV of lease payments = substantially FV of asset
- Specialised asset only lessee can use

Indicative situations individually/ in combination can lead to finance lease classification-

- 1) Cancellation by lessee - lessor's losses borne by lessee
- 2) Gains /losses from FV fluctuations of residue accrue to lessee
- 3) Lessee can continue lease for secondary period @lower than market rent

Operating lease

Does not transfer substantially all risks & rewards incidental to ownership of underlying asset

Lessor -Finance leases - Recognition and measurement

At commencement date

- Recognise assets held under finance lease in SOFP presenting them as receivable = net investment in lease

Initial measurement

- Using interest rate implicit in lease
- Initial direct costs

Initial measurement of lease payments included in net investment in lease = payments for right to use underlying asset during lease term *not received at commencement date* -

- 1) Fixed payments (+in-substance) less any lease incentives payable
- 2) Index/rate based Variable lease payments initially measured using that index/rate
- 3) Any residual value guarantees provided by lessee/party related to lessee /third party unrelated to lessor
- 4) Exercise price of purchase option - if reasonable certainty of lessee exercising it
- 5) Payments of penalties for terminating lease, if lease term reflects exercising of termination option by lessee

Lessor- Finance leases -Subsequent measurement

Finance income recognised over the lease term

Lease payments to reduce both principal and unearned finance income

Derecognition & impairment requirements in Ind AS 109 applicable to net investment in lease

Regular review of estimated unguaranteed residual values -

An asset under a finance lease held for sale/ included in a disposal group – Ind AS 105 applicable

Lessor - Operating leases - Recognition and measurement

Lease payments recognised as income on straight-line basis/ another systematic basis, representing of use of asset

Costs, including depreciation recognised as expense

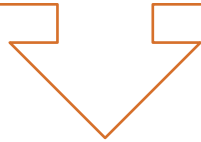
Initial direct costs of obtaining an operating lease added to carrying amount of underlying asset & recognised as expense over lease term on the same basis as lease income.

The depreciation policy to be consistent with lessor's normal depreciation policy for similar assets, Ind AS 16 and Ind AS 38 applicable.

IAS 36 applied to determine impairment & to account for same

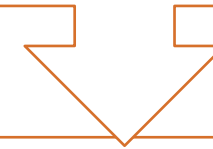
Sale and leaseback transactions

If seller-lessee transfers an asset to buyer-
lessor & leases that asset back from buyer-
lessor



Assessment of whether transfer of asset is a
sale is done
Transfer of asset is a sale if it satisfies
requirements of Ind as 115

If Transfer of asset is a sale
Buyer-lessor



Accounts for purchase of asset
applying applicable standards &
lease applying lessor
accounting - Ind AS 116

Sale and leaseback transactions - transfer of asset is sale

Seller-lessee



1. Measures right-of-use asset arising from leaseback at the proportion of the previous carrying amount of asset relating to right of use retained by seller-lessee.
2. Gain/loss relating to rights transferred to buyer-lessor only recognised

FV of consideration for sale of asset -

- **Not equal to** FV of asset / Payments

- Lease not @ market rates

Adjustments to measure sale proceeds at FV to be made-

Below-market terms =
prepayment of lease
payments


Above-market terms =
additional financing
provided by buyer-lessor to
seller-lessee

Adjustment Based on more readily determinable of the following -

1. Difference between FV of consideration sale and FV of asset
2. Difference between PV of contractual lease payments & PV of lease payments at market rates

Sale and leaseback transactions

Transfer of the asset is not a sale – sale does not satisfy the requirements of Ind as 115



- 1)The seller-lessee - shall continue to recognise transferred asset & recognises a financial liability equal to transfer proceeds, applying Ind AS 109
- 2)The buyer-lessor does not recognise transferred asset & recognises financial asset equal to transfer proceeds, applying Ind AS 109