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IND 115

Revenue from Contracts with Customer

#1 Introduction :- Revenue being integral part of entity, we required standard on Revenue Recognition

purpose of standard

- i) measurement of Revenue
- ii) Recognition

How

&

When

↓
will be discussed
in IND AS 115



AS-9 (Covers only 5 types of Revenue)

- i) sales
- ii) Royalty
- iii) service
- iv) Dividend
- v) Interest

+

AS-7 Const. Contract.

+

GIN

↳ i) Real estate.

↳ ii) Dot-combo

↳ Standard was required for understanding meaning of Revenue?

↳ Standard was required for pricing of

- Cashback
- loyalty points/
- Discount



Bonus.

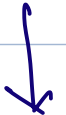
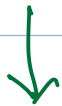
Vouchers



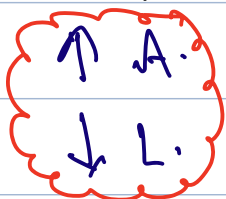
IND AS 115

Came into existence.

Revenue from Contracts with customers



a) increase in economic benefits by



Lead to ↑ E

b) an agreement b/w two/more parties.



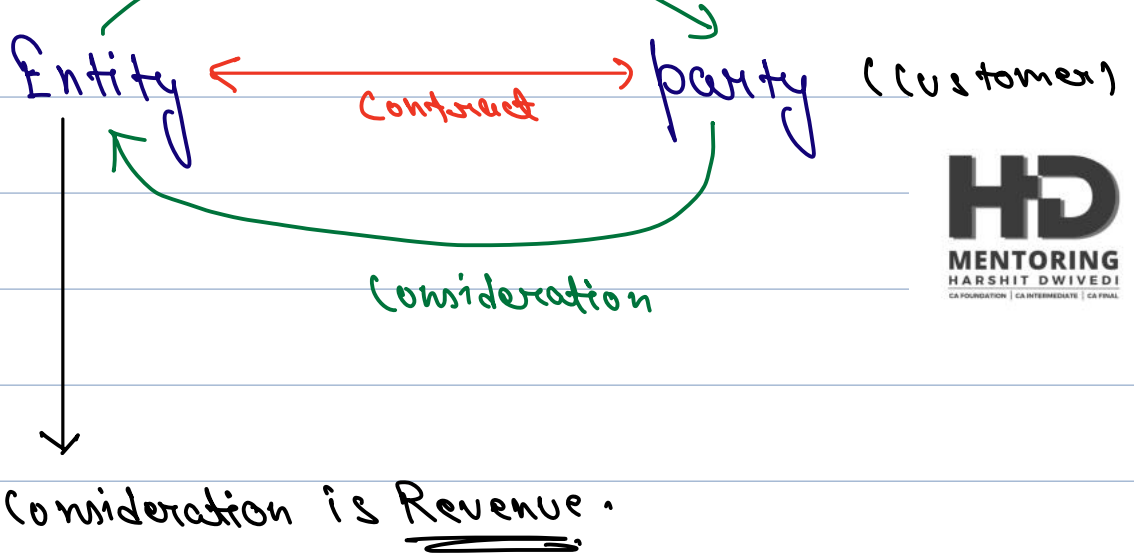
that creates enforceable rights for 1 party only

obligation to another party.

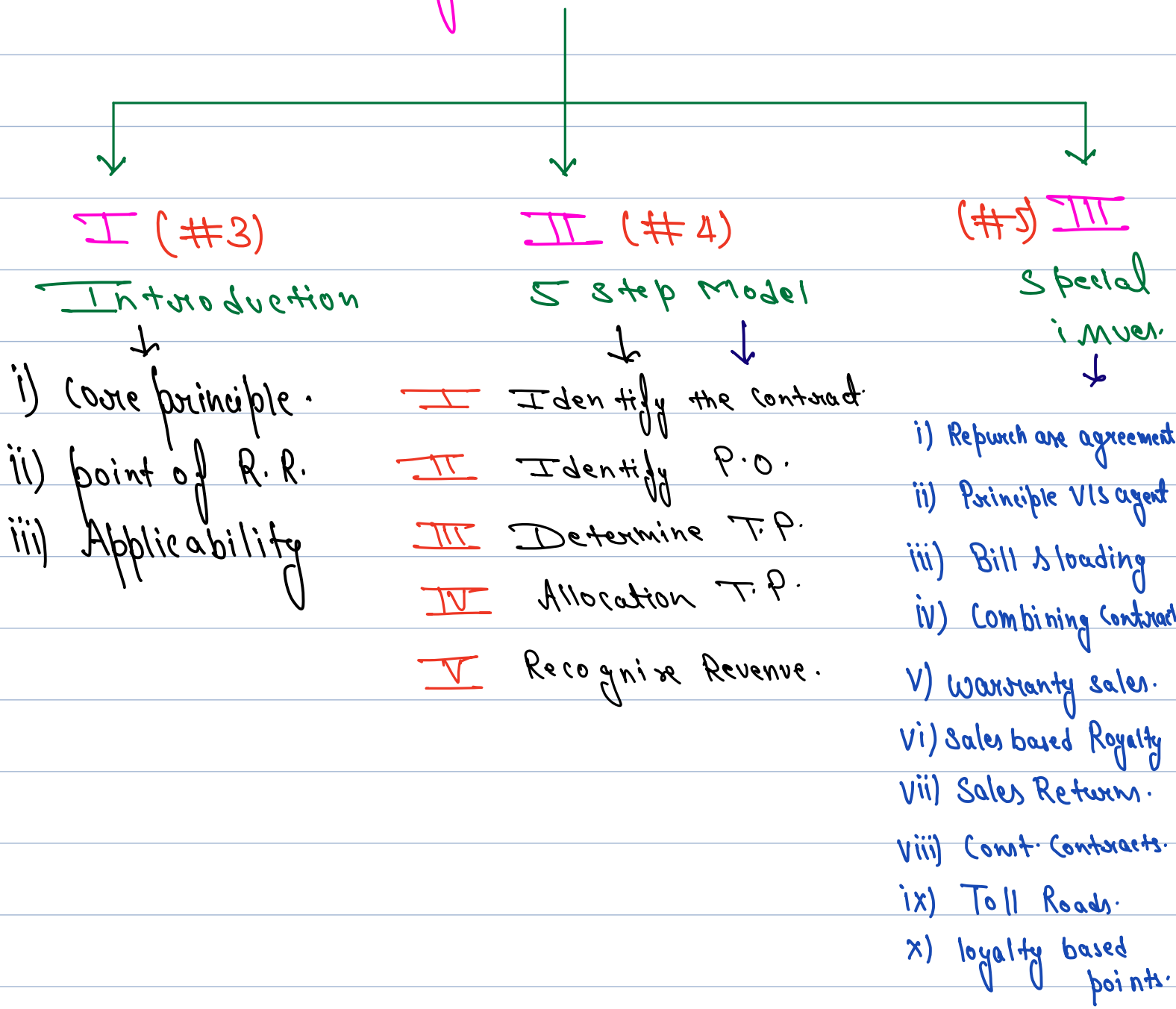
c) a party that has

contracted with an entity to obtain goods that are output of entity in ordinary course of Biz.

↑ net g/soc.



#2 Overview of standard.



#3 Introduction (Part I)



This std. gives us principles for

- a) amount
- b) nature
- c) Timing
- d) uncertainty of R. R.

→ Revenue should be recognised after control of g/srv. are transferred in exchange of promised consideration

→ it applies to all contracts with customer
↓
any random person is customer

→ It is not appli. to:

- ↳ Lease (IND AS 116)
- ↳ ins. (IND AS 104)
- ↳ financial inst. (109)
- ↳ Biz. Comb. (103)
- ↳ J.V. (111)
- ↳ Exchange.
(Non monetary exch in same line biz.)

#4 Part - II → 5 Step Model

Step 1 Identify the Contract.

5 Criteria

i) Contract is approved
& parties are committed.
{ Perform. obligation }

+

ii) Performance obligation is satisfied.

+

iii) Consideration is known

+

iv) Commercial substance exist.

+

v) Certainty of collection

↓

if all 5 criteria mentioned above gets fulfilled we can say that contract is identified.

if 5 criteria not met

Case 1:-

Consideration is received.

Cash bank Dr
To liability

& remains the contract till the conditions gets fulfilled.

Case 2:-

Consideration not received.

↓

streamer.

Contract term.

↓

Period for which relation b/w parties exist.

one of parties cannot come out

of contract term w/o penalty.

↳ exception

↓

customer can come out w/o loss to the entity.

Modification

↓

i) Δ in P.O.
or

ii) Δ in price

↓

a) Cancel old contract & Recognise New Cont.

or

b) catch up adj.

or

c) both.

↓
Refer note

note-1 :- Pricing for Modification

Δ in P.O.

Δ in price

↓



↓
either increase/decrease
in scope of contract

Consideration may
get increase/decrease
by same proportion
to Δ in scope of
contract.

III if increase in scope as well as Δ in
consideration then treat it as a separate
contract (Refer Q. 4 of textbook)

III when No Δ in p.o. & Δ in price then we
will derecognise old contract & recognise
New contract (Refer Q. 5 of textbook)

III whenever there is Δ in P.O. or Δ in price
or both & g.s. or in contract are related
to each other or they are not distinct.
with each other, then catch up adjustment
is made. (Refer Q. 6 of textbook)

An entity promises to sell 120 products to a customer for ₹ 120,000 (₹1,000 per product). The products are transferred to the customer over a six-month period. The entity transfers control of each product at a point in time.

After the entity has transferred control of 60 products to the customer, the contract is modified to require the delivery of an additional 30 products (a total of 150 identical products) to the customer at a price of ₹ 950 per product which is the standalone selling price for such additional products at the time of placing this additional order. The additional 30 products were not included in the initial contract.

It is assumed that additional products are contracted for a price that reflects the stand-alone selling price.

Determine the accounting for the modified contract?

Solⁿ :- As per IND AS 115 "Revenue from Contracts with customers, additional 30 units should be treated as separate contracts. reasons being.

i) these 30 units are sold at standalone S.P. of ₹ 950.

ii) Performance obligations of previous contract has no relation with p.o. of selling 30 extra units.

$$\begin{aligned} \therefore \text{here transaction price of new p.o.} \\ &= 30 \text{ units} \times ₹ 950 \text{ p. units.} \\ &= ₹ 28500 \end{aligned}$$

which shall be treated as new contract & Revenue should be recognised when control of 30 units are transferred.

Question# 5

ILL - 8 ICAI SM

On 1 April, 20X1, KLC Ltd. enters into a contract with Mr. K to provide

- A machine for ₹ 2.5 million
- One year of maintenance services for ₹ 55,000 per month

On 1 October 20X1, KLC Ltd. and Mr. K agree to modify the contract to reduce the amount of services from ₹ 55,000 per month to ₹ 45,000 per month.

Determine the effect of change in the contract?

Solnⁿ

- ∴ Contract b/w KLC Ltd & Mr. K got modified after 6 months i.e. ₹ 55,000 to ₹ 45,000 for maintenance services.
- ∴ KLC Ltd will acc for modification as if there is cancellation of existing contract and creation of new contract.
- ∴ Consideration for remaining contract will be ₹ 45,000 for remaining 6m = ₹ 27,000.
- is effect of change due to modification.

Question# 6

ILL - 9 ICAI SM

Growth Ltd enters into an arrangement with a customer for infrastructure outsourcing deal. Based on its experience, Growth Ltd determines that customising the infrastructure will take approximately 200 hours in total to complete the project and charges ₹150 per hour.

After incurring 100 hours of time, Growth Ltd and the customer agree to change an aspect of the project and increases the estimate of labour hours by 50 hours at the rate of ₹100 per hour.

Determine how contract modification will be accounted as per Ind AS 115 ?

Solution

Considering that the remaining goods or services are not distinct, the modification will be accounted for on a cumulative catch up basis, as given below:

Particulars	Hours	Rate (₹)	Amount (₹)
Initial contract amount	200	150	30,000
Modification in contract	50	100	5,000
Contract amount after modification	250	140*	35,000
Revenue to be recognized	100	140	14,000
Revenue already booked	100	150	15,000
Adjustment in revenue			(1,000)

$$*35,000 / 250 = 140$$

Step 2 Identify performance obligations.

- are promises to transfer goods/srv.
- There can be > 1 p.o. in one contract.
- It is unit of acing.

means Revenue should be recognized for each p.o.
(unit) separately.

p.o. assessed at

p.o. should be

special

inception (beginning) of contract.



acted separately or together

Care.
↓

g/srv. sold can be used with readily available resources (without installation)

g/srv. sold cannot be used with readily available resources. (installation is required)

1) Long term Contract.

↳ P.O. should be recognised as & when satisfied.

eg. → Netflix, Amazon, mobile recharge etc.

each p.o. should be recognised when control is transferred.

eg. → T.V. → P.O. 1
Laptop → P.O. 2
Car → P.O. 3
(Single P.O.)

2) Principle V/s Agent.

↳ P.O. should be recognised when Principle lost control of g/srv.

3) Upfront fees.

↳ Admin fees.
↳ Sim. reg. fee.
↳ Advance fees.

Can be identified separately.

Cannot be identified separately.

↳ Recognise after P.O. is satisfied.



AC = P01
 Inv. = P02
 (multiple P.O)

Installation can be done by another entity.

each P.O. should be recognised separately.

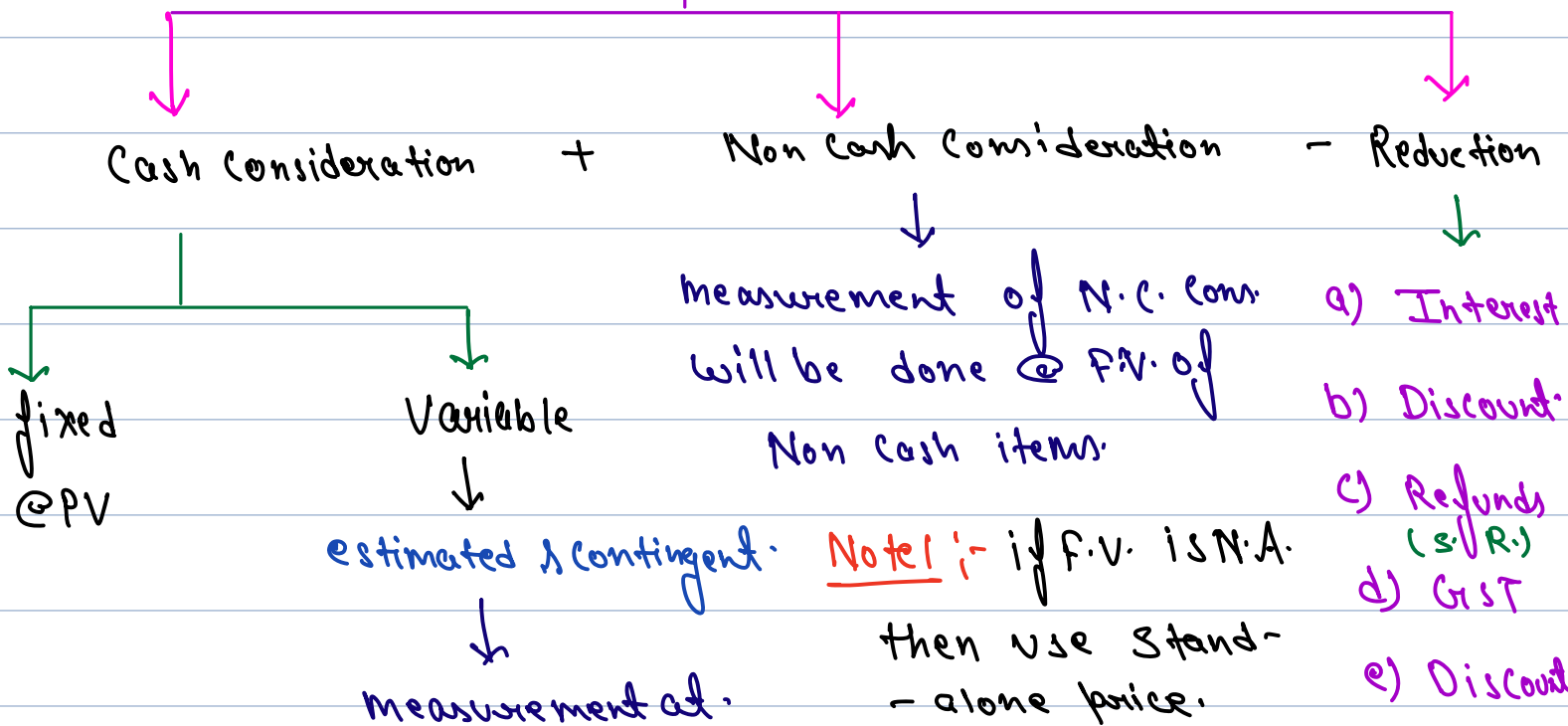
Teaching + material } → P01
 (single P.O)

Installation cannot be done by another entity.

All P.O. should be recognised as one P.O.

Step 3 Transaction price.

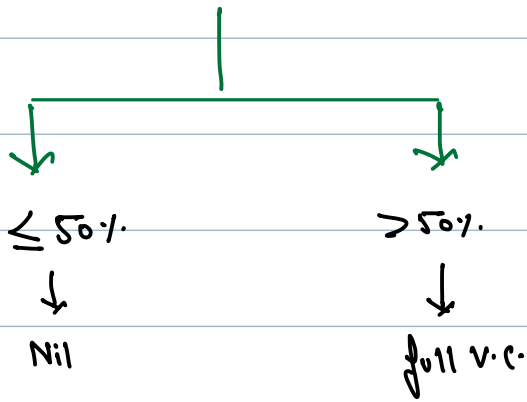
Overview





MLM

Most likely method



EVM
Expected Value method

probability weighted amount.

$(\text{amt.} \times \text{prob. factor})$

↓
Mgmt will decide it.

↓
Chances of inflating profits??

↓
Yes.

↓
as it will be based on past trends so we can easily check whether estimation of mgmt. is correct / No it.

Note 2:- Any changes in f.v. will not be considered unless P.O. changes.



Vouchers
* * *
Cash paid to customer.

*** Discount Voucher.



Sold goods for ₹ 1000

Discount voucher of ₹ 200 is expected.

i.e.
5:1



Old

Cash Dr 1000
To Sales 1000

future

brings
Coupon & purchase
of goods of
₹ 200

Cash Dr 1800
To Sales 1800

Does not
bring coupon

X

New

ClB Dr 1000
To Sales 833
To Dis. Coup. 167

future

bring
coupon

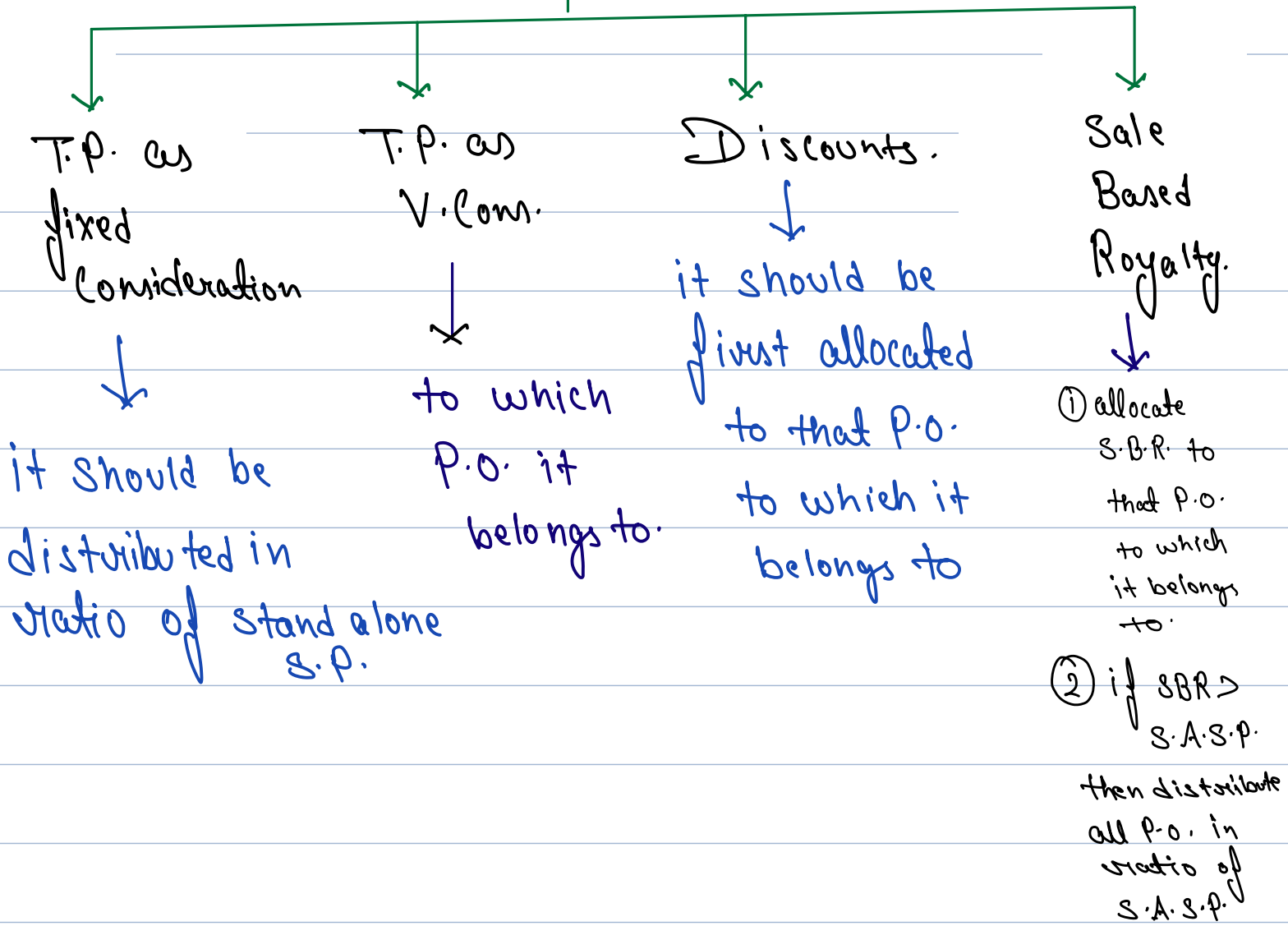
Cash Dr 1800
D.C. Dr 200
To Sales 2000

(being coupon of ₹ 200 utilised)

Step 4 Allocating T.P.

↓

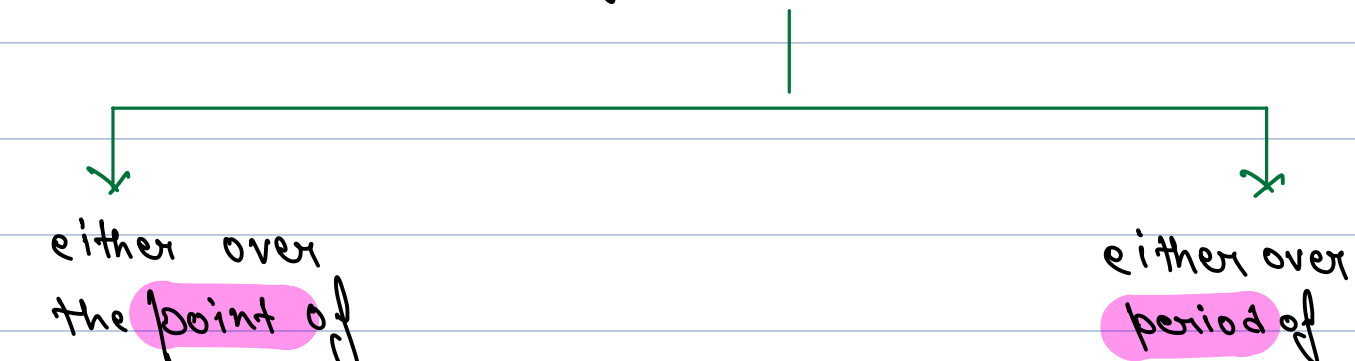
(to different P.O. in case of more than 1 P.O.)



Step 5 Recognise Revenue.

↓
when P.O. is satisfied.

↓
when control of goods are transferred.





time



Revenue Recognition



In this 100% of Revenue is recognised at once at point of time when P.O. is satisfied.

time.



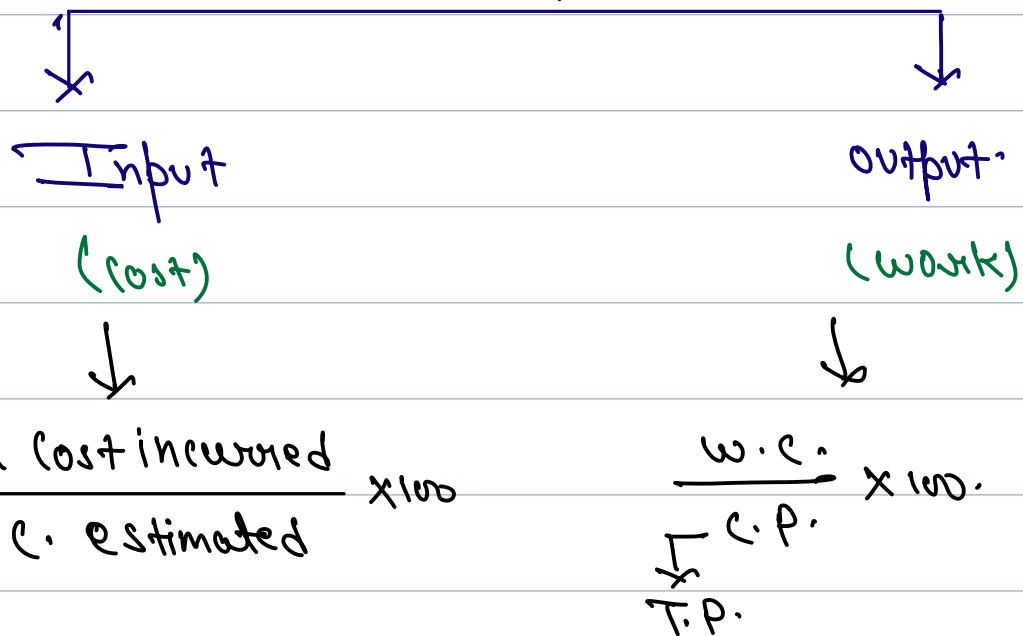
under mentioned principle.



In this case proportionate revenue is recognised on D.O.C. every year.

note :- Degree of Completion method.

i) D.O.C. can be calculated in 2 ways.





- ii) Rev. Rec. = Doc % \times e.p.
- iii) Cost Recog = Doc % \times estimated cost.
- iv) profit = R.R. - Cost Rec.
- v) W.I.P. = Actual cost - Cost Recognise.
- vi) Bal. of cost. = R.R. - payment received.

Question# 8

ILL- 23 OF SM , SIMILAR TO NOV 22 & MAY 24

An entity enters into a contract for the sale of Product A for ₹1,000. As part of the contract, the entity gives the customer a 40% discount voucher for any future purchases up to ₹1,000 in the next 30 days. The entity intends to offer a 10% discount on all sales during the next 30 days as part of a seasonal promotion. The 10% discount cannot be used in addition to the 40% discount voucher.

The entity believes there is 80% likelihood that a customer will redeem the voucher and on an average, a customer will purchase ₹500 of additional products.

Determine how many performance obligations does the entity have and their stand-alone selling price and allocated transaction price?

Solⁿ:- Expected discount = ₹500 \times 80% \times 30%^{*}
= ₹120

* [(40% - 10%) = 30%]

- There will be 2 p.o., entity has to fulfill
- i) 10% seasonal discount on all sales during next 30 days.
 - ii) additional 30% discount which has 80% chances of occurrence.

Standalone S.P. of product A. = ₹1000
 with Discount voucher = ₹120

Allocation of T.P. (₹1000) in ratio of
 S.A.S.P. (1000:120)

Goods	1000	} <u>1000:120</u>	893
D.V.	120		107
Total	T.P.		<u>1000</u>

J.F.	CIB	Dr 1000	
		To sales	893
		To D.V.	107

Question# 9

ILL- 29 OF SM , SIMILAR TO SEPT 25 & MAY 23

XYZ Limited enters into a contract with a customer to build a sophisticated machinery. The promise to transfer the asset is a performance obligation that is satisfied over time. The promised consideration is ₹2.5 crores, but that amount will be reduced or increased depending on the timing of completion of the asset. Specifically, for each day after 31 March 20X1 that the asset is incomplete, the promised consideration is reduced by ₹ 1 lakh. For each day before 31 March 20X1 that the asset is complete, the promised consideration increases by ₹1 lakh. In addition, upon completion of the asset, a third party will inspect the asset and assign a rating based on metrics that are defined in the contract. If the asset receives a specified rating, the entity will be entitled to an incentive bonus of ₹15 lakhs.

CASE - 1 - Entity expects that it will complete the contract 8 days ahead of schedule and will earn rating bonus

CASE - 2 - Entity expects that it will complete the contract 6 days beyond schedule and there are 60% chances of earning earn rating bonus.

Determine the transaction price.

Solⁿ :- Calcⁿ of T.P. as per IIND AS 115

(₹ in lac)

	Case 1		Case 2.	
	MLM	EVM	MLM	EVM
a) Fixed Cost.	250	250	250	250
b) Variable Cost.	8	8	(6)	(6)
c) Bonus.	15	15	15	9
			(60% × 15)	(60% × 15)
<u>T.P.</u>	273	273	259	253

Question# 10

ILL 30 ICAI SM

AST Limited enters into a contract with a customer to build a manufacturing facility. The entity determines that the contract contains one performance obligation satisfied over time. Construction is scheduled to be completed by the end of the 36th month for an agreed-upon price of ₹ 25 crores.

The entity has the opportunity to earn a performance bonus for early completion as follows:

- 15 percent bonus of the contract price if completed by the 30th month (25% likelihood)
- 10 percent bonus if completed by the 32nd month (40% likelihood)
- 5 percent bonus if completed by the 34th month (15% likelihood)

In addition to the potential performance bonus for early completion, AST Limited is entitled to a quality bonus of ₹ 2 crores if a health and safety inspector assigns the facility a gold star rating as defined by the agency in the terms of the contract. AST Limited concludes that it is 60% likely that it will receive the quality bonus.

Determine the transaction price?

Soln:- Calⁿ of T.P. as per IND AS 115
(₹ in crores)

	MLM	EVM
Fixed Consideration	25	25
Variable Consideration		

$$15\% \times 25 \times 25\% = 0.9375$$



$$10\% \times 25 \times 40\% = 1$$

$$5\% \times 25 \times 15\% = 0.1875$$

+ Bonus

$$2.125$$

$$2$$

$$1.2$$

$$(2 \times 60\%)$$

T.P.

$$29.125$$

$$28.325$$

Question# 11

ILL 31 ICAI SM

HT Limited enters into a contract with a customer on 1 April 20X1 to sell Product X for ₹ 1,000 per unit. If the customer purchases more than 100 units of Product A in a financial year, the contract specifies that the price per unit is retrospectively reduced to ₹ 900 per unit. Consequently, the consideration in the contract is variable.

For the first quarter ended 30 June 20X1, the entity sells 10 units of Product A to the customer. The entity estimates that the customer's purchases will not exceed the 100 unit threshold required for the volume discount in the financial year. HT Limited determines that it has significant experience with this product and with the purchasing pattern of the customer. Thus, HT Limited concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 1,000 per unit) will not occur when the uncertainty is resolved (i.e. when the total amount of purchases is known).

Further, in May 20X1, the customer acquires another company and in the second quarter ended 30 September 20X1 the entity sells an additional 50 units of Product A to the customer.

Determine the amount of revenue to be recognise by HT Ltd. for the quarter ended 30 June 20X1 and 30 September 20X1

Solⁿ: Revenue to be recognised as & when units are sold and control is transferred i.e. P.O. is satisfied.

Determination of T.P.

	Ist quarter 30-6-01	2 nd Qu. 30-9-01
Fixed Com.	10000 (10 x 1000)	45000 (50 x 900)

Amount of Revenue to be adj.



-	(1000)
<u>10000</u>	<u>(10 x ₹100)</u>
↓	↓
Dues Dr 10K	Dues Dr 44K
Total. 10K	Total. 44K

Question# 12

ILL- 32 OF SM , SIMILAR TO DEC 21

An entity has a fixed fee contract for ₹ 1 million to develop a product that meets specified performance criteria. Estimated cost to complete the contract is ₹950,000. The entity will transfer control of the product over five years, and the entity uses the cost -to-cost input method to measure progress on the contract. An incentive award is available if the product meets the following weight criteria:

WEIGHTS (KGS)	AWARD OF FIXED FEE	INCENTIVE
951 or greater	0%	-
701-950	10% ✓	1,00,000 ✓
700 or less	25% ✓	2,50,000 ✓

The entity has extensive experience creating products that meet the specific performance criteria. Based on its experience, the entity has identified five engineering alternatives that will achieve the 10 percent incentive and two that will achieve the 25 percent incentive. In this case, the entity determined that it has 95 percent confidence that it will achieve the 10 percent incentive and 20 percent confidence that it will achieve the 25 percent incentive. Based on this analysis, the entity believes 10 percent to be the most likely amount when estimating the transaction price. Therefore, the entity includes only the 10 percent award in the transaction price when calculating revenue because the entity has concluded it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved due to its 95 percent confidence in achieving the 10 percent award.

The entity reassesses its production status quarterly to determine whether it is on track to meet the criteria for the incentive award. At the end of the year four, it becomes apparent that this contract will fully achieve the weight based criterion. Therefore, the entity revises its estimate of variable consideration to include the entire 25 percent incentive fee in the year four because, at this point, it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when including the entire variable consideration in the transaction price.

Evaluate the impact of changes in variable consideration when cost incurred is as follows:

YEARS	1 ✓	2 ✓	3 ✓	4 ✓	5 ✓
AMOUNT	50,000	1,75,000	4,00,000	2,75,000	50,000

Solⁿ:-



i) \therefore Control of product is transferred over 5 yrs
 \therefore Revenue will be recognised over 5 years.



ii) progress of contract means D.O.C. which is calculated using input method
 i.e. $\frac{\text{actual cost incurred}}{\text{total estim. cost}} \times 100$.

iii) chances of getting ₹ 1 lac. as incentive is 95% based on most likely method in years 1, 2, 3 and ₹ 2.5 lac. as incentive in year 4 & 5.

iv) Statement showing details of cost

	1	2	3	4	5
a) total estimated cost	95000	95000	95000	95000	95000
b) actual cost.	5000	17500	40000	27500	5000
c) D.O.C. = $(\frac{b}{a} \times 100)$	5.26%	18.42%	42.11%	28.95%	5.26%

v) Calcⁿ of variable consideration

	1	2	3	4	5
i) year 1 to year 3	5260	18420	42105	-	-
	(1L x 5.26%)	(1L x 18.42%)	(1L x 42.11%)		

ii) yr 4 to yr 5.



— — —

72368 13150

(2.5%
28.95%)

+ Extra addn
rev. in yr 4.
(WN-1)

— — —

28685 —

Total

5260

18420

42105

171053

13150

WN-1

Restatement of V. Consideration in yr. 3

$$\Rightarrow 5260 + 18420 + 42105$$

$\Rightarrow 65785$ is rev. abt. recognised.

\therefore Cumulative % of Rev.

$$\Rightarrow \frac{50000 + 175000 + 40000}{250000} \times 2.5\%$$

$$\Rightarrow 164474$$

$$\text{Diff} = 164474 - 65785$$
$$= 98685$$

↓

Revenue to be recognised.

v) fixed consideration

	1	2	3	4	5
F.C.	52600	184211	421053	289474	52632
(D.O.C. x ₹10L)					

vi) profit

	1	2	3	4	5
F.C. (Note v)	52600	184211	421053	289474	52632
+ V.C. (Note iv)	5260	18421	42105	171053	1388
- Actual cost	<u>(50000)</u>	<u>(175000)</u>	<u>(400000)</u>	<u>(275000)</u>	<u>(50000)</u>
Profit	<u>7860</u>	<u>27632</u>	<u>63158</u>	<u>185527</u>	<u>15790</u>

Question# 14

ILL- 38 OF SM, SIMILAR TO NOV 22

NKT Limited sells a product to a customer for ₹ 121,000 that is payable 24 months after delivery. The customer obtains control of the product at contract inception. The contract permits the customer to return the product within 90 days. The product is new and the entity has no relevant historical evidence of product returns or other available market evidence. The entity's cost of the product is ₹ 80,000. The contract includes an implicit interest rate of 10 per cent (i.e. the interest rate that over 24 months discounts the promised consideration of ₹ 121,000 to the cash selling price of ₹ 100,000).

Analyse the above transaction with respect to its financing component.

Solⁿ :-

Day 0

F.A. (Dr) Dr 100000
To Sales 100000

100000

Year end

F.A. (Dr) Dr 10000
To P/L (int) 10000

10000

Year 2 end

F.A. (Dr) Dr 11000



Journal end CIB

To P12 (int)

11000

Dr 121000

To F.A. (Dr)

121000

Refer Q.16 to Q.19 of text book

Question# 20

ILL 54 ICAI SM

An entity enters into a contract with a customer to sell Products A, B and C in exchange for ₹ 10,000. The entity will satisfy the performance obligations for each of the products at different points in time. The entity regularly sells Product A separately and therefore the stand-alone selling price is directly observable. The stand-alone selling prices of Products B and C are not directly observable. Because the stand-alone selling prices for Products B and C are not directly observable, the entity must estimate them. To estimate the stand-alone selling prices, the entity uses the adjusted market assessment approach for Product B and the expected cost plus a margin approach for Product C. In making those estimates, the entity maximises the use of observable inputs.

The entity estimates the stand-alone selling prices as follows:

Product	Stand-alone selling price	Method
Product A	5,000	Directly Observable ✓
Product B	2,500	Adjusted market assessment
Product C	7,500	Expected cost plus margin
Total	15,000	

Determine the transaction price allocated to each product.

Soln:-

Products.

	A	B	C
a) Standalone S.P.	5000	2500	7500
b) fixed Consider. in ratio of S.A.S.P.	3333	1667	5000

(10000 in 2:1:3)

Question# 21

ILL 55 SM , SIMILAR TO JULY 22

An entity regularly sells Products X, Y and Z individually, thereby establishing the following SSP

Product	Stand-alone selling price
Product - X	50,000
Product - Y	25,000
Product - Z	45,000
Total	1,20,000

In addition, the entity regularly sells Products Y and Z together for ₹ 50,000. ✓✓

Case A — The entity enters into a contract with a customer to sell Products X, Y and Z in exchange for ₹ 100,000. The entity will satisfy the performance obligations for each of the products at different points in time; or Product Y and Z at same point of time. Determine the allocation of transaction price to Product Y and Z.

Case B — The entity enters into a contract with a customer to sell Products X, Y and Z as described in Case A. The contract also includes a promise to transfer Product Alpha. Total consideration in the contract is ₹ 130,000. The stand-alone selling price for Product Alpha is highly variable because the entity sells Product Alpha to different customers for a broad range of amounts (₹ 15,000 – ₹ 45,000).

Case C-Residual approach is inappropriate

The same facts as in Case B apply to Case C except the transaction price is ₹ 1,05,000 instead of ₹ 130,000.

Determine the stand-alone selling price of Products X, Y, Z and Alpha using the residual approach

Solⁿ Case A.

	X	Y	Z
i) S.A.S.P.	50000	25000	45000
ii) S.A.S.P. of Y & Z	-	↳ 50000 ←	
iii) fixed consideration of ₹ 100,000			
(in violation of S.A.S.P.)			
↳ allocated to X	50000	-	-



→ allo. to Y & Z
in (25:45)
T.P.

—	17857	32143
<u>50000</u>	<u>17857</u>	<u>32143</u>

note:- if product Y & Z are sold at same point of time then division of ₹ 50000 is not required.

Case B

	X	Y & Z	Alpha.
i) S. A. S.P.	50000	50000	—
ii) T.P. = 130000 allocate in ASP. & Residual value to Alpha.	50000	50000	30000

Case C.

	X	Y & Z	Alpha
i) S. A. S.P.	50000	50000	—
ii) T.P. = 105000 allocate in ASP. & Residual value to Alpha.	50000	50000	5000

An entity enters into a contract with a customer for two intellectual property licences (Licences A and B), which the entity determines to represent two performance obligations each satisfied at a point in time. The stand-alone selling prices of Licences A and B are ₹ 1,600,000 and ₹ 2,000,000, respectively. The entity transfers Licence B at inception of the contract and transfers Licence A one month later.

Case A —

The price stated in the contract for Licence A is a fixed amount of ₹ 1,600,000 and for Licence B the consideration is three per cent of the customer's future sales of products that use Licence B. For purposes of allocation, the entity estimates its sales-based royalties (ie the variable consideration) to be ₹ 2,000,000. Allocate the transaction price.

Case B —

The price stated in the contract for Licence A is a fixed amount of ₹ 600,000 and for Licence B the consideration is five per cent of the customer's future sales of products that use Licence B. The entity's estimate of the sales-based royalties (ie the variable consideration) is ₹ 3,000,000.

Allocate the transaction price and determine the revenue to be recognised for each licence and the contract liability, if any At the end of first month the royalty due for customer is ₹ 4,00,000

Solⁿ :- Statement showing allocation of T.P. @ 1st month end.

Particulars	Total	POA	POB
SASP		1600000	2000000
Case A.			
fixed Consideration	1600000	1600000	-
Variable Consideration	2000000	-	2000000
(∵ total S.B.R. represents) SASP of Licence B. or Po B.	<u>3600000</u>	<u>1600000</u>	<u>2000000</u>

Case B.

→ Fixed Consideration	600000	266667	333333
-----------------------	--------	--------	--------



of ₹ 600000 to be recognised immediately for B s 1 month later for A. but in the ratio of SASP in 16:20. since 6 lacs does not represent A's SASP.

→ Variable Consideration. 4000000 177778 222222

of ₹ 400000 to be recog. after 1 month for both A & B in SASP

∴ total SBR is

expected to be ₹ 30 L > Po

1000000

444445

555555

Question# 23

ILL 57 ICAI SM

On 1 April 20X0, a consultant enters into an arrangement to provide due diligence, valuation, and software implementation services to a customer for ₹ 2 crores. The consultant can earn ₹ 20 lakhs bonus if it completes the software implementation by 30 September 20X0 or ₹ 10 lakhs bonus if it completes the software implementation by 31 December 20X0.

The due diligence, valuation, and software implementation services are distinct and therefore are accounted for as separate performance obligations. The consultant allocates the transaction price, disregarding the potential bonus, on a relative stand-alone selling price basis as follows:

- Due diligence – ₹ 80 lakhs ✓
- Valuation – ₹ 20 lakhs ✓
- Software implementation – ₹ 1 crore

At contract inception, the consultant believes it will complete the software implementation by 30 January 20X1. After considering the factors in Ind AS 115, the consultant cannot conclude that a significant reversal in the cumulative amount of revenue recognized would not occur when the uncertainty is resolved since the consultant lacks experience in completing similar projects. As a result, the consultant does not include the amount of the early completion bonus in its estimated transaction price at contract inception.

On 1 July 20X0, the consultant notes that the project has progressed better than expected and believes that implementation will be completed by 30 September 20X0 based on a revised forecast. As a result, the consultant updates its estimated transaction price to reflect a bonus of ₹ 20 lakhs.

After reviewing its progress as of 1 July 20X0, the consultant determines that it is 100 percent complete in satisfying its performance obligations for due diligence and valuation and 60 percent complete in satisfying its performance obligation for software implementation.

Determine the transaction price

Solⁿ: Statement showing allocation of T.P.

Particulars	Total	PO 00	PO val.	PO SI
S.A.S.P.		8000000	2000000	1000000
Fixed Consideration - in the ratio of S.A.S.P.	20000000	8000000	2000000	1000000
Variable Consider.	2000000	—	—	2000000

∴ Prob ⇒ 60% > 50%

∴ ON MLM

220 Lac.	80L	20L	120L.
----------	-----	-----	-------

Question# 24

ILL 65 SM , SIMILAR TO MAY 19, 23

On 01 January 20X1, an entity contracts to renovate a building including the installation of new elevators. The entity estimates the following with respect to the contract

PARTICULARS	AMOUNT
Transaction price	50,00,000 ✓
Expected costs :	
Elevators	15,00,000
Other costs	25,00,000 ✓
Total	40,00,000

The entity purchases the elevators and they are delivered to the site six months before they will be installed. The entity uses an input method based on cost to measure progress towards completion. The entity has incurred actual other costs of 500,000 by March 31, 20 X1.

How will the Company recognize revenue, if performance obligation is met over a period of time

Soln :-



1) \because entity job is renovation of building & not supply of elevators.

\therefore we can say cost of elevators = Revenue from elevators.



2) Actual cost incurred = 5 lac
estimated cost = 25 lac.

$$\therefore D.O.C. (input) = \frac{5 \text{ lac}}{25 \text{ lac}} \times 100$$
$$= 20\%$$

3) Contract price = ₹ 5000000
— Revenue from elevators = 1500000
estimated Revenue from Renovation 3500000

4) Amount of Rev. Recog.
elevators. 1500000
Renovation (35L x 20%) 700000
2200000

HD gift.



5) Cost recognised.

Elevators	1500000
Renovation (25L x 20%)	<u>500000</u>
	<u>2000000</u>



6) profit/loss.

	Po. Reno.	Po. Elev.
R.R.	₹	15
C.R.	<u>5</u>	<u>15</u>
	<u>2L.</u>	<u>0</u>

profit.

7) WIP.

$$\begin{aligned}
 &= \text{Cost Rec.} - \text{Cost inc.} \\
 &= 5 - 5 \\
 &= 0
 \end{aligned}$$

8) Balance due/receivable from cust.

RR.	₹	15
- payment recd.	<u>1</u>	<u>1</u>
	<u>₹</u>	<u>15</u>

₹ 22 Lac is due



9) S.O.PIL (extract)

Revenue from op.
Cost on renov.

22 L.

20 L.

10) BIS (extract)

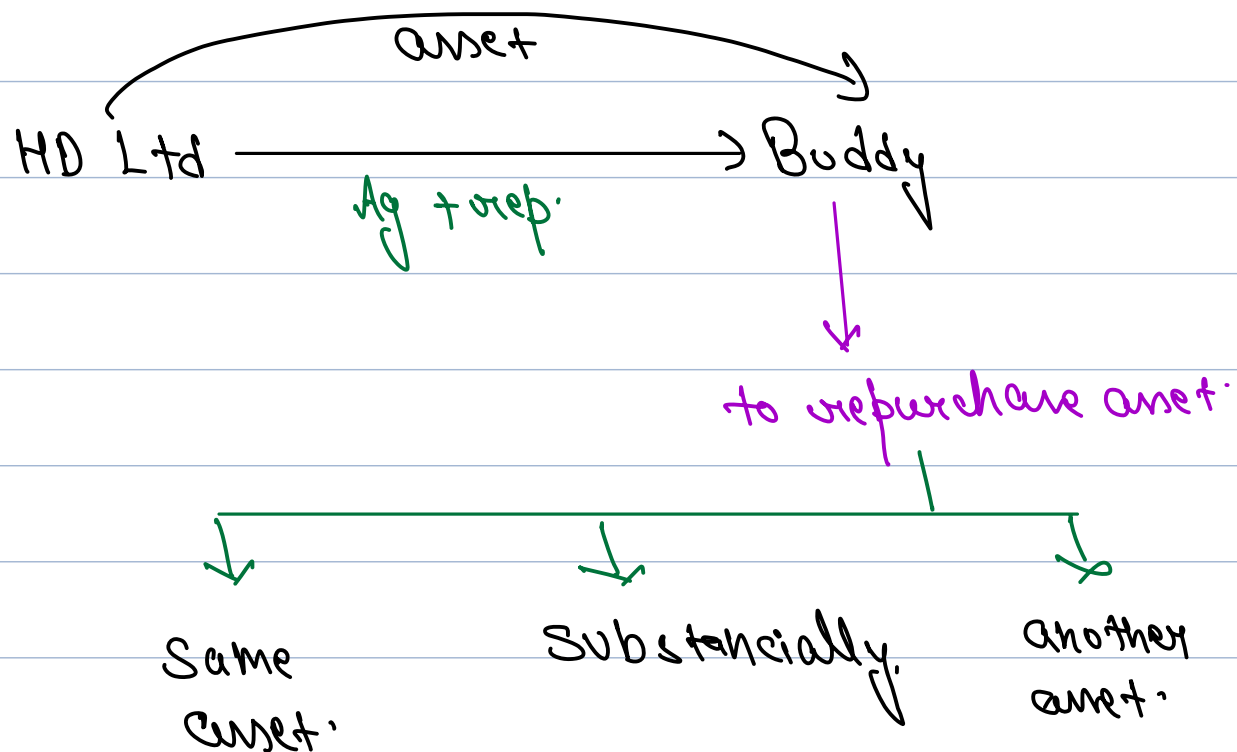
C.A.

TIR.

22 L.

#5 Special Issues

i) special issue 1 :- Repurchase agreement.



1) it is a contract where entity sells the asset and retains right to repurchase it.



2) it is generally in 3 forms



Forward

Call

Put

an entity's obligation to repurchase the asset.

an entity's right to repurchase the asset.

an entity's obligation to repurchase asset at the customer's request.

Compulsory arrangement (loan arrangement)

Option with Seller

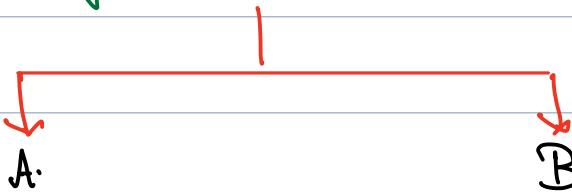
Option with buyer

A sold asset for ₹ 10 to B which is repurchased after 1 year for ₹ 11

in above chart HD has right to repurchase the asset.

Refer Q.25

Here HD Ltd has obligation to repurchase asset at request of Buddy.



i) Cash Dr 10
To F.L. 10

i) F.A. Dr 10
To CIB 10

ii) Ind. Dr 1
To FL 1

ii) FA Dr 1
To P/L 1

iii) F.L. Dr 11
To Cash 11

iii) CIB Dr 11
To F.A. 11

customer

↓
refer Q.26



Question# 25

ILL 66 ICAI SM

An entity enters into a contract with a customer for the sale of a tangible asset on 1 January 20X1 for ₹ 1 million. The contract includes a call option that gives the entity the right to repurchase the asset for ₹ 1.1 million on or before December 31, 20X1.

How would the entity account for this transaction?

Solⁿ

CIB Dr 10
To D.F.I. 10

P/L (int) Dr 1
To D.F.I. 1

if repurch.

DFI Dr 11
To CIB 11

if not rep.

DFI Dr 11
To sales 11

Question# 26

ILL 67 ICAI SM

An entity enters into a contract with a customer for the sale of a tangible asset on 1 January 20X1 for ₹ 1,000,000. The contract includes a put option that gives the customer the right to sell the asset for ₹ 900,000 on or before December 31, 20X1. The market price for such goods is expected to be ₹ 750,000.

How would the entity account for this transaction?

Solⁿ

Cash/bank Dr 10
To D.F.I. 10

DFI Dr 1



if repurch.

DFI Dr 9
To CIB Cr 9

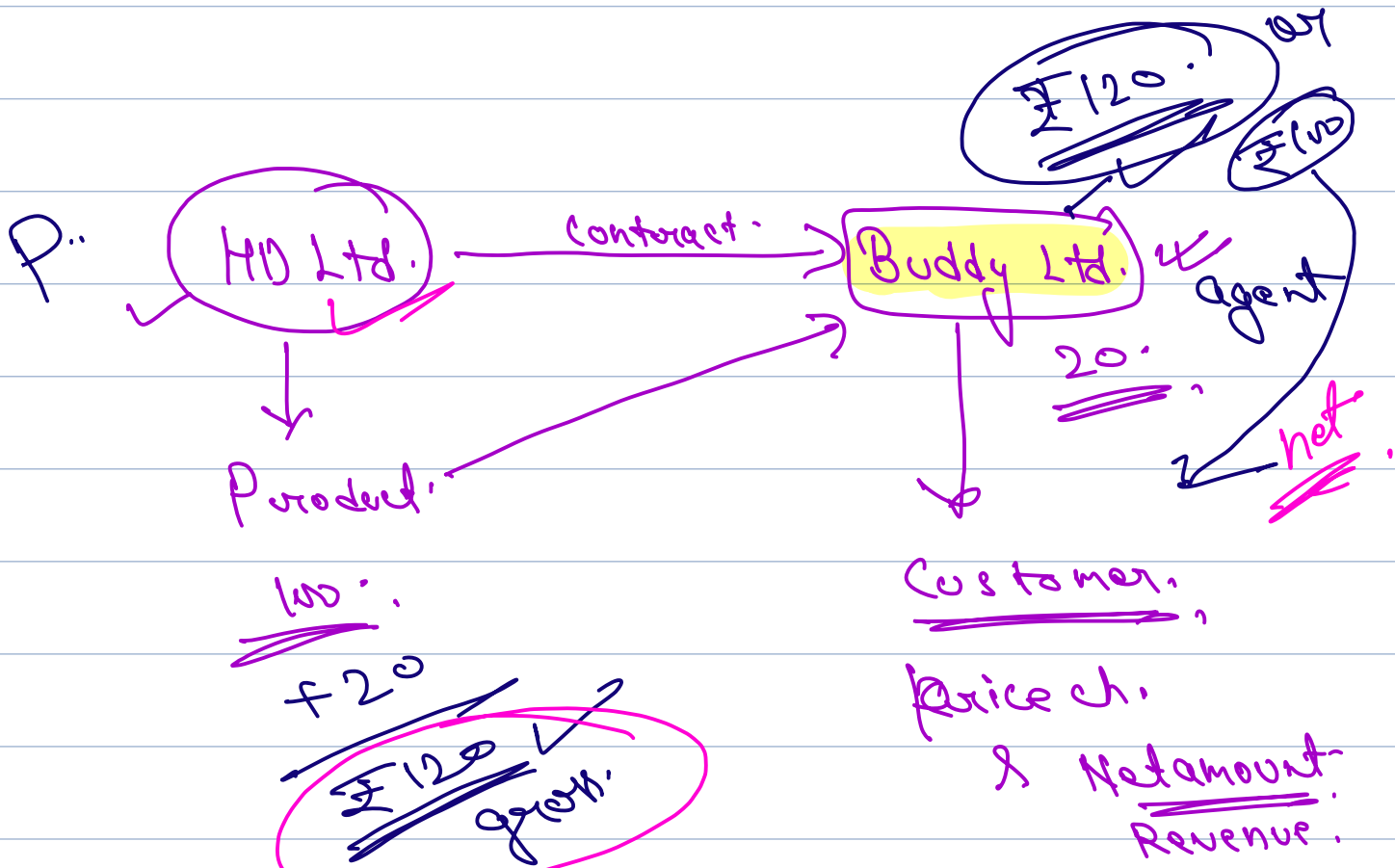
if not rep.

DFI Dr 9
To sales Cr 9

ii) special issue 2 is Principal vs agent.

When control is lost (sales ✓)

entity i.e. company.





(Refer Q. 27 to 29 in textbook)



Special Issue:- 3, 4 & 5

Warranty Sales

Bills hold

Combining Contract

separately

Sale + warranty

if goods are sold but not delivered & held at buyers risk then

Treat it as one contract

CIB Dr

To warranty

CIB Dr

To sales

To warranty

(in ratio of ASP)

recognise Revenue at point of raising the bill.

(Reference study may 22)

2 inter related contract with same party / R.P. at same time

+ Any one condition satisfied

(Refer Q. 30 & 31 of textbook)





i) negotiated together with single commercial objective.

ii) price of 1 depends on price of another.

iii) goods ser. are promised under 1 p.o.

(Refer 6 case study from textbook)

Special issue:- 6 & 7

Sale with Right to Return



i) Dws. Dr

To sales (estimated sales)

To liability. (expected Return)

Sale Based Royalty



Recognise on actual basis

ii) Stock with customer Dr
To stock.

(Refer I11-34 & Ex.4 of ICAISM)



Q.32 of textbook



Question# 32

ILL 34 ICAI SM

An entity enters into 1,000 contracts with customers. Each contract includes the sale of one product for ₹ 50 (1,000 total products × ₹ 50 = ₹ 50,000 total consideration). Cash is received when control of a product transfers. The entity's customary business practice is to allow a customer to return any unused product within 30 days and receive a full refund. The entity's cost of each product is ₹ 30. Using the expected value method, the entity estimates that 970 products will not be returned.

The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

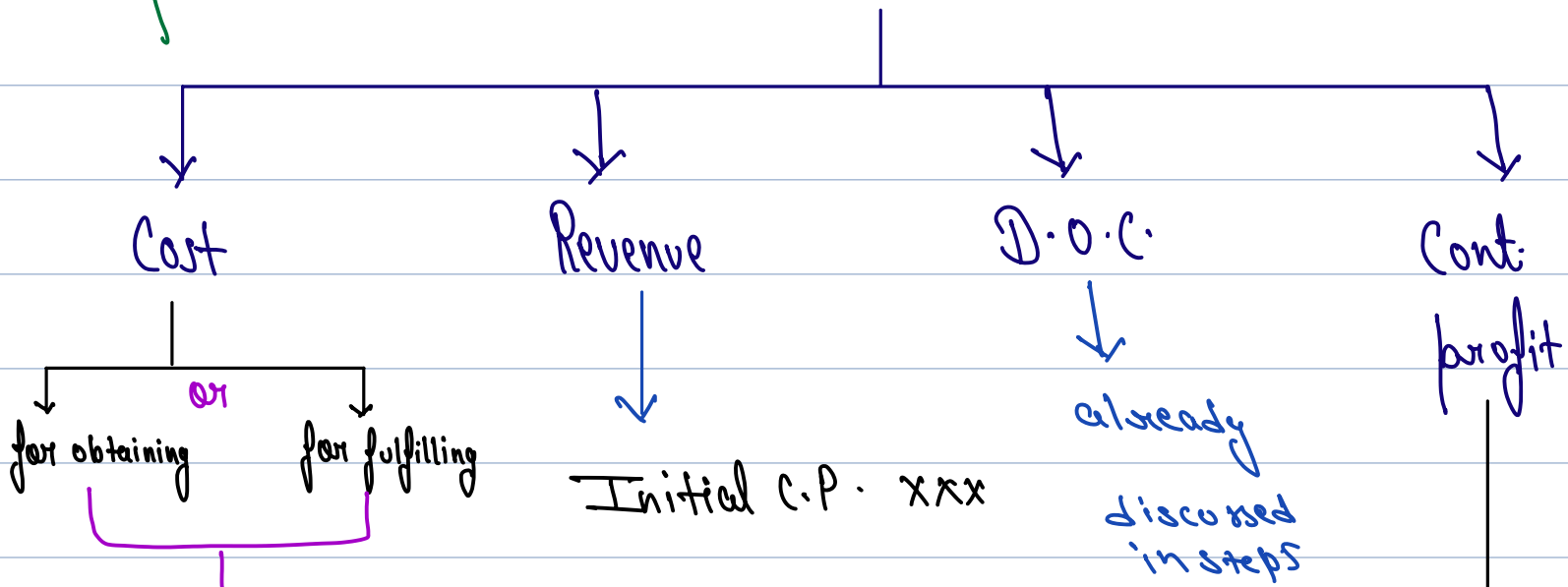
Determine the amount of revenue, refund liability and the asset to be recognised by the entity for the said contracts.

Solⁿ in

i)	Dr	Dr	₹ 50000	(1000 × ₹ 50)	
		To	Sales	48500	(970 × 50)
		To	liability,	1500	(30 × 50)

ii)	Stock with customer	Dr	₹ 300	(300 × ₹ 30)
	To customer		₹ 300	

Special issue - 8 Construction Contract



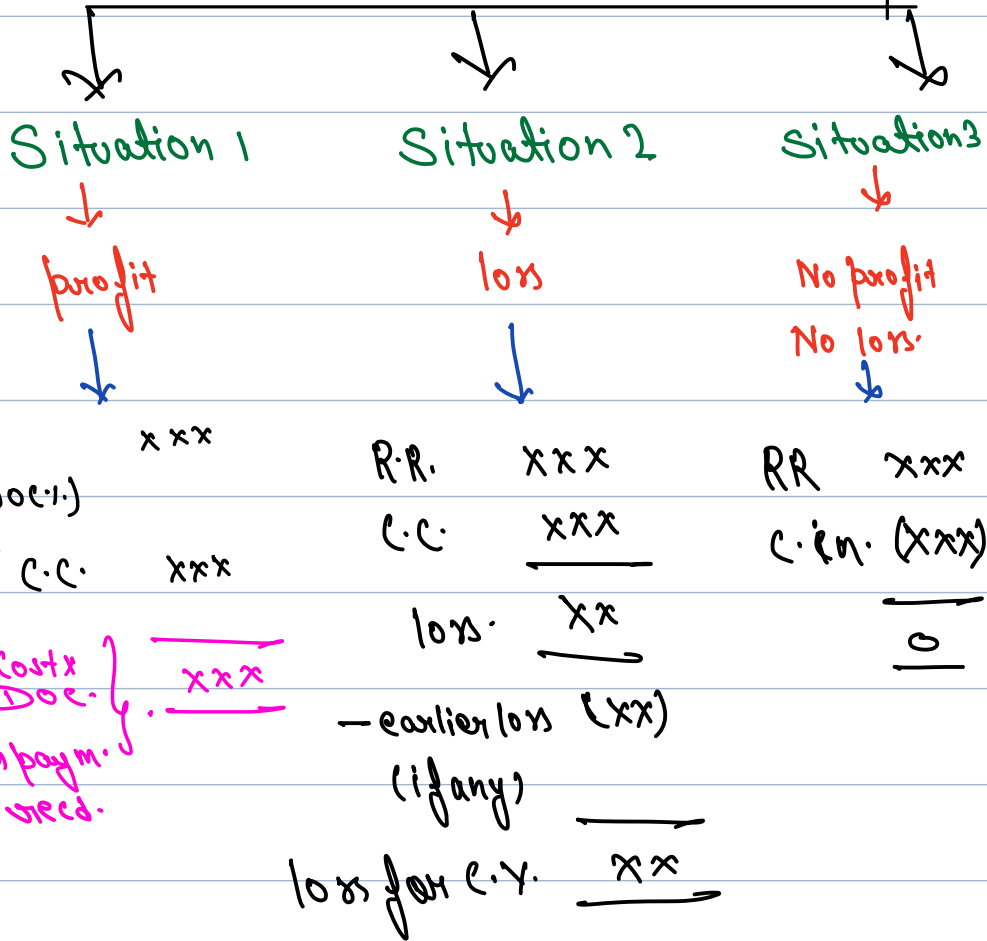


or
both

Should be Capitalised.
i.e. Charged to Revenue

→ Exp. incurred for obtaining a contract but contract may/may not be obtained.
Such exps are not capitalise.

+ Variation	xx	↓
+ incentive	xx	2 methods.
+ escalation	xx	i) input
+ claims	xx	ii) output
- penalty	(xx)	
	<u>xxx</u>	



Question# 34

ILL 73 ICAI SM

Customer outsources its information technology data Centre. Term = 5 years plus two 1-yr renewal options
Average customer relationship is 7 years
Entity spends ₹ 400,000 designing and building the technology platform needed to accommodate out-sourcing contract;

Design services	₹ 50,000
Hardware	₹ 140,000
Software	₹ 100,000
Migration and testing of data center	₹ 110,000
TOTAL	₹ 400,000

How such costs should be treated ?

Sol^M :-



Design service \Rightarrow ₹50000 will be amortise

over 7 years as per
IND AS 115.



Hardware \Rightarrow ₹140000 \Rightarrow PPE as per IND
AS 16.

Software \Rightarrow ₹100000 \Rightarrow I.T.A. as per
IND AS 38

migration & Testing = ₹110000 \Rightarrow amortise
over 7 years
as per IND AS
115.

Special Issue - 9 Service Concession Agreements.

OR

Toll Roads.



earlier GIN were given on it.

i) Recognise the Contract either as

F.A.

OR

I.T.A.



↓
operator has contractual
right to receive cash
from the grantor.

↓
Operator has
contractual
right to charge
users of public
services.

↓
Revenue in cash
from government
(F.A.)

↓
Revenue as toll
tax from public
(I.T.A.)

i) Cost of construction

PIL Dr
To CIB

PIL Dr
To CIB

ii) F.V. of Const.

F.A. Dr
To Rev.

I.T.A. Dr
To Rev.

iii) int on F.A. as per
A.C.M. (ind As log)

F.A. Dr
To Rev.

—

iv) increase in F.A.
{ cash prom. by govt. }
{ — C.A. of F.A. }

F.A. Dr
To Rev.

—

v) Cash recd. from govt.

CIB Dr
To F.A.

—



vii) Cash collected as toll tax

—

CIB Dr
To Rev.

vii) Amortise ITA

—

PIL Dr
To ITA

Only place in IND AS where ITA getting amortised over Revenue generation.

Question# 35

ILL 75 SM , SIMILAR TO NOV 22

A LTD is in the business of the infrastructure and has 2 division under the name (I) Toll Roads and (II) Wind Power. The brief details of these business and underlying project details are as follows:

1. Bhilwara-Jabalpur Toll Project - The Company has commenced the construction of the project in the current year and has incurred total expenses aggregating to ₹ 50 crores as on 31st December, 20X1. Under IGAAP, the Company has recorded such expenses as Intangible Assets in the books of account. The brief details of the Concession Agreement are as follows
 - a. Total estimated expenses to be incurred on the project - ₹ 100 crore
 - b. FV of construction - ₹ 110 crore
 - c. Total cash flow guaranteed by the government - ₹ 200 crores
 - d. Finance revenue over operational phase - ₹ 15 crore
 - e. Other income relates to the services provided during the operational phase
2. Kolhapur- Nagpur Expressway - The Company has also entered into another concession agreement with Government of Maharashtra in the current year. The construction cost for the said project will be ₹ 110 crores. The fair value of such construction cost is approximately ₹ 200 crores. The said concession agreement is Toll based project and the Company needs to collect the toll from the users of the expressway.

F.A.

ITA

Under IGAAP, UK Ltd has recorded the expenses incurred on the said project as an Intangible Asset.

Required

- i. What would be the classification of Bhilwara-Jabalpur Toll Project as per applicable Ind AS? Give brief reasoning for your choice.
- ii. What would be the classification of Kolhapur-Nagpur Expressway Toll Project as per applicable Ind AS? Give brief reasoning for your choice.
3. Also, suggest suitable accounting treatment for preparation of financial statements as per Ind AS for the above 2 project

Solⁿ :- i) ∴ in this given case operator i.e. ALTs has contractual right to receive cash from grantor i.e. by government.
∴ operator ALTs should recognise this project as financial Asset to extent it has contractual right to receive cash.

ii) ∴ in the given case operator i.e. ALTs has right to charge from users of public services.
∴ A Ltd shall recognise this project as I.T.A. to extent it receives (licence) to charge from users of public service.

iii) Bhilwara - Jabalpur project (Finan)



i) P/L Dr 100
To CIB 100

ii) F.A. Dr 110
To Revenue 110
—

iii) F.A. Dr 15
To Revenue 15

iv) F.A. Dr 75 (200 Cr - 110 - 15)
To Revenue. 75

v) CIB Dr 200
To F.A. 200

Kolhapur - Nagpur expressway

i) P/L Dr 110
To CIB 110

ii) I.T.A. Dr 200
To Rev. 200

Special issue to:- loyalty based points.



Step 1 is calculate value of points in ₹

Step 2 is calculate Ratio of Sales & Value of points



Step 3 is J.E.

CIB

Dr

To sales

To Liability for L.P. (#)

} in ratio of
Sales & V.O.P. }

Step 4 is Revenue Recognition of V.O.P. redeemed.

Liability for L.P. Dr

To P/L.

$$\frac{\text{Actual points redeemed till c.y.}}{\text{Total estimated points to be redeemed.}} \times \text{V.O.P.} - \text{Revenue Recognised earlier.}$$

in the last year, transfer bal. of liability under L.P. to P/L.

KK limited runs a departmental store which awards 10 points for every purchase of ₹ 500 which can be discounted by the customers for further shopping with the same merchant. Unutilised points will lapse on expiry of two years from the date of credit. Value of each point is 0.50. During the accounting period 2017-2018, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted. The management expects only 80% will be discounted in future. (to be redeemed till 31.3.2020)

The company has approached your firm with the following quarries and has asked you to suggest the accounting treatment (journal entries) under the applicable Ind AS for these awarded points:

a)	How should the recognition be done for the sale of goods worth <u>₹ 10,00,000</u> on a particular day ? ✓
b)	How should the redemption transaction be recorded in the year 2017- 2018? Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is ₹ 5000 lacs
c)	How much of the deferred revenue should be recognised at the yearend (2017-2018) because of the estimation that <u>only 80%</u> of the outstanding points will be redeemed?
d)	In the next year 2018-2019, <u>60%</u> of the <u>outstanding points</u> were <u>discounted</u> balance <u>40%</u> of the <u>outstanding points</u> of 2017-2018 <u>still remained outstanding</u> . How much of the <u>deferred revenue</u> should <u>merchant recognise in the year 2018-2019</u> and what will be the amount of <u>balance deferred revenue</u> ?
e)	How much revenue will the merchant recognise in the year 2019-2020, if 3,00,000 points are redeemed in the year 2019-2020 ?

Solⁿ :-

Step 1 value of points.

Sales	points	V.O.P.
500	10	10×0.5
		= ₹ 5

Step 2. Ratio of sales & V.O.P.

500	: 5
100	: 1

a)	CIB	Dr	1000000
		To Sales	

990099

To liability for L.P.

9901



b) 2017-18.

CIB	Dr	5000 laes.	
	To Sales		4951
	To liability for L.P.		49

c) Liability for L.P. Dr 4211002
To P12. 4211002

$$\left\{ \frac{82555550}{82L + (18 \times 80\%)} \right\} \times 4951$$

d) Liability for L.P. Dr 554620
To P12. 554620

$$\left\{ \frac{82L + (182 \times 60\%)}{82L + (18 \times 80\%)} \times 4951 \text{ laes.} \right\} - 4211002$$

e) 2019-20

Liability for L.P. Dr 184873



(49511001 - 4211002 - 554620)

**Question# 37****{MAY - 2018}**

Royal silks, a textile chain operates a customer loyalty programme. It grants programme members loyalty points when they purchase textiles for a specified amount. Programme members can redeem the points for further purchase of textiles. The points have no expiry date. In one period, entity grants 10,000 points. Management estimates the fair value of textiles for which each loyalty point can be redeemed as ₹ 125. This amount takes into account an estimate of the discount that the management expects would otherwise be offered to customers who have not earned award credits from the initial sale. In addition, management expects only 8,000 of these points to be redeemed. At the end of the first year, 4000 of the points have been redeemed in exchange of textiles, i.e half of those expected to be redeemed. In the second year, management revises its expectations. It now expects 9,000 points to be redeemed altogether. During the second year 4,100 points are redeemed. In the third, a further 900 points are redeemed, i.e that no more points will be redeemed after the third year.

How would the Royal Silks account the customer silk programme ?

(H.W.)**Question# 38****5 MARKS {NOV - 2018}**

Deluxe bike manufactures by Zed limited is sold with an extended warranty of 2 years for ₹ 87,300 while an identical Deluxe bike without the extended warranty is sold in the market for ₹ 80,000 and equivalent warranty is given in the market for ₹ 10,000.

How should Zed limited recognise and measure revenue in the books on sale of bikes and warranty ?

Zed Ltd. has sold two products viz Deluxe bike and the extended warranty. Revenue earned on sale of each product should be recognised separately.

Calculation of Revenue attributable to both the components:

Total fair value of Deluxe bike and extended warranty (80,000+10,000)	₹ 90,000
Less: Sale price of the Deluxe bike with extended warranty	<u>(₹ 87,300)</u>
Discount	<u>₹ 2,700</u>

Discount and revenue attributable to each component of the transaction:

Proportionate discount attributable to sale of Deluxe bike (2,700 x 80,000 / 90,000)	₹ 2,400
Revenue from sale of Deluxe bike (80,000 - 2,400)	₹ 77,600
Proportionate discount attributable to extended warranty (2,700 x 10,000 / 90,000)	₹ 300

Nivaan Limited commenced work on two long-term contracts during the financial year ended on 31st March, 2019.

The first contract with A & Co. commences on 1st June, 2018 and had a total sales value of ₹ 40 lakh. It was envisaged that the contract would run for two years and that the total expected costs would be ₹ 32 lakh. On 31st March, 2019, Nivaan Limited revised its estimate of the total expected cost to ₹ 34 lakh on the basis of the additional rectification cost of ₹ 2 lakh incurred on the contract during the current financial year. An independent surveyor has estimated at 31st March, 2019 that the contract is 30% complete. Nivaan Limited has incurred costs up to 31st March, 2019 of ₹ 16 lakh and has received payments on account of ₹ 13 lakh.

The second contract with B & Co. commenced on 1st September, 2018 and was for 18 months. The total sales value of contract was ₹ 30 lakh and the total expected cost is ₹ 24 lakh. Payments on account already received were ₹ 9.50 lakh and total costs incurred to date were ₹ 8 lakh. Nivaan Limited has insisted on a large deposit from B & Co. because the companies had not traded together prior to the contract. The independent surveyor estimated that on 31st March, 2019 the contract was 20% complete.

The two contracts meet the requirement of Ind AS 115 'Revenue from Contracts with Customers' to recognize revenue over time as the performance obligations are satisfied over time.

The company also has several other contracts of between twelve and eighteen months in duration. Some of these contracts fall into two accounting periods and were not completed as at 31st March, 2019. In absence of any financial date relating to the other contracts, you are advised to ignore these other contracts while preparing the financial statements of the company for the year ended 31st March, 2019.

Prepare financial statement extracts for Nivaan Limited in respect of the two construction contracts for the year ending 31st March, 2019

Extracts of Balance Sheet of Nivaan Ltd. as on 31st March, 2019

	₹ in lakh
Current Assets	
Contract Assets- Work-in-progress (Refer W.N. 3)	9.0
Current Liabilities	—
Contract Liabilities (Advance from customers) (Refer W.N. 2)	4.5

Extracts of Statement of Profit and Loss of Nivaan Ltd. as on 31st March, 2019

	₹ in lakh
Revenue from contracts (Refer W.N. 1)	18
Cost of Revenue (Refer W.N. 1)	(15)
Net Profit on Contracts (Refer W.N. 1)	3

Working Notes:

1. Table showing calculation of total revenue, expenses and profit or loss on contract for the year ₹ in lakh

	A & Co.	B & Co.	Total
Revenue from contracts	$(40 \times 30\%) = 12$	$(30 \times 20\%) = 6$	18
Expenses due for the year	$(34^* \times 30\%) = 10.2$	$(24 \times 20\%) = 4.8$	15
Profit or loss on contract	1.8	1.2	3

***Note:** Additional rectification cost of ₹ 2 lakh has been treated as normal cost. Hence total expected cost has been considered as ₹ 34 lakh. **Alternatively**, in case this ₹ 2 lakh is treated as abnormal cost then expense due for the year would be ₹ 11.6 lakh (ie 30% of ₹ 32 lakh plus ₹ 2 lakh). Accordingly, with respect to A & Co., the profit for the year would be ₹ 0.4 lakh and work-in-progress recognised at the end of the year would be ₹ 4.4 lakh.

2. Calculation of amount due from / (to) customers ₹ in lakh

	A & Co.	B & Co.	Total
Billing based on revenue recognised in the books	12	6	18
Payments received from the customers	(13)	(9.5)	(22.5)
Advance received from the customers	1	3.5	4.5

3. Work in Progress recognised as part of contract asset at the end of the year

₹ in lakh

	A & Co.	B & Co.	Total
Total actual cost incurred during the year	16	8	24
Less: Cost recognised in the books for the year 31.3.2019	(10.2)	(4.8)	(15)
Work-in-progress recognised at the end of the year	5.8	3.2	9.0

Question# 40

RTD
SIMILAR TO ~~MAY 21~~ & NOV 22 {MAY - 2019}

Orange limited contracts to renovate a five star hotel including the installation of new elevators on 1.10.2017. Orange limited estimates the transaction price of ₹ 480 lacs. The expected cost of elevators is ₹ 144 lacs and expected other cost is 240 lac. Orange limited purchases elevators and they delivered to the site six months before they will be installed. Orange limited uses an input method based on cost to measure progress towards completion. The entity has incurred actual other cost of ₹ 48 lacs by 31.3.2018.

How much revenue will be recognised as per relevant Ind AS 115 for the year ended 31.3.2018, if PO is met over a period of time ?

Cost to be incurred comprises two major components – cost for elevators and cost of construction service.

- (a) The elevators are part of the overall construction project and are not a distinct performance obligation
- (b) The cost of elevators is substantial to the overall project and are incurred well in advance.
- (c) Upon delivery at site, customer acquires control of such elevators.
- (d) There is no modification done to the elevators, which the company only procures and delivers at site. Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such elevators also.

Therefore, applying the guidance on Input method –

- The measure of progress should be based on percentage of costs incurred relative to the total budgeted costs.
- The cost of elevators should be excluded when measuring such progress and revenue for such elevators should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	Amount (₹ in lakh)
Transaction price	<u>480</u>
Costs incurred:	
(a) Cost of elevators	144
(b) Other costs	48
Measure of progress	$48 / 240 = 20\%$

Revenue to be recognised:

(₹ in lakh)

(a) For costs incurred (other than elevators)	Total attributable revenue = $480 - 144 = 336$ % of work completed = 20% Revenue to be recognised = 67.20
(b) Revenue for elevators	(equal to costs incurred) 144
Total revenue to be recognised	$144 + 67.2 = 211.20$

Therefore, for the year ended 31st March, 2018, the company shall recognize revenue of ₹ 211.20 lakhs on the project.



Special Issue 11 :- License of intellectual property.



Refer HD textbook.

- Read all concepts from Handwritten notes
- Solve Volume I Q. by yourself.
- Audit Volume III Q. by just reviewing them.

NO ASIS
HD TIP.