Ind As 115 - Revenue from Contract with Customers

Steps

1) Identify Contract 2) Identify P.O. 3) Determine Transaction Price

4) Allocate T.P. to P.O. 5) Recognise revenue when P.O. satisfies.

I Identify Contract

→ Agreement betn two or more parties that creates enforceable rights and obligation. Contract exist if all below criteria satisfies :-

i) All parties approved ii) Identify each parties rights regarding g/s iii) identify Payment terms iv) Commercial substance v) Prob. that entity will collect subs. all consideration
⇓
check intention and ability.

If Contract do not exist, entity can recognise revenue if

i) G/s tfd. and no remaining obligation, consideration received and non refundable.

ii) Contract terminated and no further obligation, consideration received is non refundable.

II Identifying Performance obligation

If multiple G/s promised in single contract, identify whether more than one P.O. ⇒ if G/s are distinct

G/s are distinct if → i) Customer can benefit from G/s on its own or together with other readily available resources.

↳ G/s sold separately or customer already obtained from entity or in other means.

ii) Separately identifiable from other Promises in the Contract

i) Significant Integration service not provided ii) One G/s do not significantly modify or customise other G/s iii) Not highly interdependent or interrelated.

Additional Points

1) Customer option for Add. G/s {loyalty Points, Rewards} → Treat as separate P.O. and allocate Trans. Price in the ratio of stand alone Price.

2) Consignment Arrangement → Indicators to evaluate whether consignment arrangement or not

(i) Product controlled by Entity until sale or specified period expires (ii) Entity able to require return or transfer to another dealer iii) No unconditional obligation for dealer to pay.

Revenue not recognised for consignment arrangement because control not yet transferred.

3) Principal v/s Agent Consideration

If P.O. is to Provide G/S itself (Principal) → Revenue recog. is the Expected Gross Amount.

" " " " arrange another Party to Provide G/S (Agent) → Revenue recog. is the Net Amount

Fees or commission

Indicators that entity is Principal

i) Entity is Primarily responsible for fulfilling contract ii) Entity has inventory risk

iii) Entity has discretion in establishing prices for G/S.

4) Non Refundable upfront fees. {E.g. club membership joining fees}

If fees received relates to specific G/S tbd. → Revenue Recognised for Amount received.

if fees received do not relate to G/S → Account as Advance payment for future G/S

III Determining Transaction Price

Consider Effects of :- (i) Variable consideration (ii) Significant Financing component

(iii) Non cash consideration (iv) Consideration Payable to customer.

(i) Variable consideration → include in T.P. if entity expects to achieve Performance Criteria.

methods → i) Expected value method → large no. of contracts with similar characteristics.

ii) most likely Amount → only two possible outcomes {either Achieve performance Bonus or not}

At each R.P. End, Entity reassess V.C. and update Estimated T.P. {Refer 911 32}

Additional Points

i) Refund liabilities → Recognise if expects to refund some Amount of consideration received.

It is updated at each R.P. End on Cumulative Catch up Basis.

ii) Sale with a right to return → Substance is of consignment sale – Consignment Arrangement.

In other Cases, Recognise Revenue excl. products returnable, refund liability and Assets.

iii) Restocking fee for goods returnable included in T.P. and recog. Revenue when Control transfers

↳ Repackaging, Shipping or Reselling fees.

iv) Warranties

Assurance type → Not separate P.O. → Recognise Full Revenue and make Provision as per Ind AS 37

Service type → Account as separate P.O. and allocate portion of T.P. to that P.O.

ii) Significant Financing Component

Customer Pays before entity {Customer loan} or after entity {Entity loan} performs its obligation. The objective is to recognise revenue at cash Price Equivalent. {i.e. Consideration received or receivable is adjusted using market interest rates}

Financing component recognised separately as Int. Exp. or Int. Income using EIR.

Overriding provision specifies that Contract would not have S.F.C. if ÷

(i) Customer at discretion paid in Advance. (ii) Sales based royalty. (iii) Financing Comp. arises for reason other than Finance {i.e. to protect entity or Customer}

(iii) Non Cash Consideration {Shares, Equipment etc.}

To determine T.P. measure N.C.C. at its Fair value, if not determinable then measure T.P. w.r.t. stand alone selling price of G/S transferred.

Subsequently, if Fair Value of N.C.C. varies because of its form → Do not Adjust T.P.

If Customer Provided G/S and Control tfd. to Entity → include in T.P. at Fair value of N.C.C.

iv) Consideration Payable to customer by Entity {E.g. Slotting fees, Price Protection, Co-op. Advt. Agency}

Payment by Entity not for any distinct G/S - reduced from T.P.

Payment by Entity for distinct G/S & Consideration exceeds Fair Value of G/S received, such Excess reduced from T.P. {if Cons. do not exceed Fair value, then Not reduced from T.P.}

V Allocating Transaction Price to P.O.

↳ on a relative stand Alone Price Basis except for allocating discount & V.C. ⇒ Disproportionate Basis

Use observable Price if available, otherwise estimate using suitable methods

(i) Adjusted market assessment → Price Customer willing to Pay {referring Competitor Price and Adjust}

(ii) Expected Cost plus margin → Cost of satisfying P.O. & Add margin

(iii) Residual Approach → used only if selling Price highly variable, Price not yet established & Previously not sold on StandAlone Basis. Residual Approach inappropriate if Allocated T.P. to

G/S is outside Broad range of Estimates

Subsequently, if change in T.P. then it will be reallocated to P.O. on the basis of Inception date stand alone Price of G/S.

V. Satisfying P.O.

Entity recognises revenue when it satisfies P.O. by transferring G/S (An Asset) to customer. An Asset is transferred when Customer obtains Control of Asset.

At Contract Inception, Entity must determine whether Control tfd. over a period of time or at a point in time. An Entity transfers Control over time if ÷

(i) Customer simultaneously receives benefit as entity Performs (ii) Asset which Customer Control is created or enhanced as entity performs (iii) Asset do not have alternative use and Entity has right to payment for Performance completed to date. {cost + margin}

if Control tfd. over time, Revenue recognised Proportionately over a period of time.

" " " at a point in time, Revenue recognised at a Point when 100% Control tfd.

Methods of measuring Progress when P.O. satisfies over time.

Output method → Based on measurement value {i.e. Fair value} of G/S tfd. till date

Input method → Based on Entity's efforts on Inputs $\left\{ \text{i.e. } \frac{\text{Expense incurred}}{\text{Total cost}} \times 100 \right\}$

↳ Wasted material, labour and other Resources ignored

When Cost incurred not proportionate to Entity's progress, recognise revenue to the extent of cost incurred if ÷ (i) Goods do not represent distinct P.O., (ii) Customer obtain control of goods (iii) Cost of goods significant relative to total cost. (iv) Entity procures goods from third Parties.

Other Points

(i) Bill and Hold → Entity bills customer for a Product but retains physical possession due to Customer request. In such case, Control is tfd. if all below Criteria is met ÷

(i) Reason for Bill & Hold Substantive (ii) Product identified separately as belonging to Customer. (iii) Product ready for Physical transfer. iv) No Ability to use product or direct to other Customers.

if Control is transferred, Entity recognises revenue for goods. However custodial service provided to customer is identified as separate P.O. and T.P. allocated to Goods etd. & custodial service.

if Control not transferred — Revenue recognition is deferred until control transferred.

Contract Cost

Contract Acquisition Cost	Contract Fulfillment cost
Incremental cost to obtain a contract which is not incurred if contract not obtained.	Cost incurred in fulfilling contract
{E.g. fees, Commission upon signing of contract}	{E.g. Equipment, Software, Designing cost, other G/s}
⇓	Equipment ⇓ PPE (Ind As 16); Software ⇓ Intangible Asset (Ind As 38); Designing cost, other G/s ⇓ Contract Asset as per Ind As 115 ⇓ Amortise over contract term
Such cost capitalised and Amortised over contract term.	

Legal fees for drafting Arrangement terms, Travel Exp. or salaries for pitching or working on new clients etc. are incurred even if contract not obtained and charged as Exp. in P/L.

Repurchase Agreements {Sells Assets + Promises/option to Repurchase}

Forward / Call option

If R.P.P. ≥ S.P., then Financing Arrangement		If R.P.P. < S.P., Leases as per Ind As 116.	
1) Bank A/c To Loan	2) Interest Exp. To Loan	1) Bank A/c To Security Deposit To Adv. lease rent	2) Advance lease rent To Rental Income
3) loan To Bank ⇓ Repurchase	or 3) loan To Revenue ⇓ option lapses.	3) Security Deposit To Bank ⇓ Repurchase	or Security Deposit To Revenue. ⇓ option lapses.

option lapses

Put option {Customer has right to put back Asset}

If significant Economic Incentive for customer to Put Back	If No significant Economic Incentive to Put back
R.P.P. ≥ S.P. → Financing Arrangement	Apply A/cing for sale with a right to return
R.P.P. < S.P. → Leases as per Ind As 116	

Customer has significant Economic Incentive if Put back Price (R.P.P. for Entity) more than Expected market value

Service Concession Arrangement {Roads, Bridges, Tunnels, Hospitals, Airports}

Consider given by Grantor (Govt.) to an operator (Entity) may be rights to :-

A Financial Asset {Determinable / Fixed Amount}

Contractual right to receive cash or another FA

Journal

1) Financial Asset
 To Constⁿ Revenue

2) Cost of Constⁿ
 To Bank

3) Financial Asset
 To Finance Income

4) Financial Asset
 To Revenue
 (operation phase)

5) Bank
 To Financial Asset

An Intangible Asset {No Fixed or Determinable Amt.}

Licence to charge user of public service

Journal

1) Intangible Asset
 To Revenue

2) Cost of Constⁿ
 To Bank

3) Amortisation Exp.
 To Intangible Asset

4) Bank
 To Revenue

In both cases, consideration received or receivable recognised initially at Fair Value

Contract Modification {Partially terminating, Extending contract term, Adding G/s, Reducing price}

i) Separate Contract :- Adding new distinct G/s and increase in price reflects stand alone S.P.

ii) Not a separate contract :-

If Remaining G/s distinct from G/s tfd. before modification
↓
Allocate remaining T.P. to outstanding performance obligation {Prospectively}

If Remaining G/s not distinct and forms part of single P.O.
↓
Cumulative Catch up Basis

Combining Contracts :- Two or more contracts accounted as single P.O. if any conditions met

(i) Negotiated as a package (ii) Consideration paid in one contract depends on price or performance of other contract (iii) G/s promised in a contract are single P.O.

Contract term - Contractual period where parties have present enforceable rights & obligations