E.g.

At Contract Inception (20th March)

Consideration on sell of Goods = 50000 Shares

Fair value = ₹ 60/share

∴ Transaction Price = 30,00,000

Control on G/s transferred (15th July)

50000 shares received

Fair value / share = ₹ 75

		Dr.	
Inv in Shares (50000 x 75)	Dr.	3750000	
To Revenue (50000 x 60)			3000000
To FVTPL / FVTOCI			750000

Another Example

At Contract Inception

Consideration = 50000 Shares

Performance Bonus = 8000 shares (variable)

Fair Value = 60/share

Entity expects Performance Bonus will not be achieved.

∴ Transaction Price = 30,00,000
(50000 x 60)

Subsequently

Fair Value = 75/sh

Entity expects Performance Bonus will now be received

∴ Revised Transaction Price

(50000 + 8000) sh x ~~75~~ 60

= 34,80,000

Control of G/s tfd.

Fair Value = 70/sh.

Performance Bonus Achieved.

Journal

Inv in Shares	Dr	4060000	
To Revenue			3480000
To FVTPL / FVTOCI			580000

4. Consideration payable to a Customer

Consideration Payable to a Customer includes Cash Amount that entity pays or expects to pay to the Customer (or to other Parties who purchase entity's goods or service from Customer.)

It includes Coupon or Voucher that can be applied against amounts owed to the entity.

A. Consideration payable to customer is a payment not for distinct goods or services — such consideration payable is reduced from transaction price.

B. Consideration payable for distinct G/s (+) Consideration not exceed fair value of G/s entity received = Account in same way that entity accounts for other purchases from suppliers

**
C. Consideration payable for distinct G/s (+) Consideration exceeded fair value of G/s entity received = Such excess reduced from transaction price.

E.g. Pratik Jagati sold goods to DK for consideration of ₹ 100000

Also, DK sold goods to Pratik Jagati for consideration of ₹ 40000 but fair value of goods entity receives is ₹ 25000.

∴ Excess ₹ 15000 (40000 − 25000) reduced from transaction price

∴ Transaction Price = 100000 − 15000 = 85000

Some common example of consideration paid to customer are given below :-

1. Slotting fees – Fees to customer for displaying goods on store shelves are reduced from transaction price.

2. Co-operative Advertising Arrangement – Reimbursement of cost incurred by reseller to advertise vendor's products. {reduced from transaction price}

3. Price Protection – Reimbursement of shortfall in the sales price received by retailer for the vendor's products over a specified period of time. {reduced from transaction price}

STEP 4 - Allocating Transaction Price to Performance obligation

An Entity Shall Allocate transaction Price to each P.O. on a **Relative Stand-Alone price** basis except for –(i) allocating discount, and
(ii) allocating Variable Consideration. } Disproportionate Amount

Use **OBSERVABLE** Price, If observable Stand Alone Price available otherwise Entity should **Estimate Stand Alone Price** using Suitable Methods.

Suitable methods for estimating stand Alone Selling price of a good or service include

a) Adjusted Market Assessment Approach {E.g. Coaching class}

Evaluate Market in which entity sells goods & Services and Estimate Price that a Customer in that market would be willing to Pay.

Also include referring entity's Competitors prices and adjusting those prices to reflect entity's costs and margin

b) Expected Cost Plus margin approach

Forecast its expected cost of satisfying P.O. And then Add Appropriate Margin

Sometimes this method is not appropriate when :

a) Cost not a significant input in setting prices.
b) Direct Fulfillment cost not easily identifiable.

c) Residual Approach.

Total Transaction Price Less Sum of observable Stand Alone Price of other goods or services.

Note : Entity shall allocate discount before using Residual Approach.

Residual Approach is used only if :-

a) Entity sells Good or service to different customer for a broad range of amounts {i.e. selling price is Highly variable.}

b) Not yet established price and not previously sold on stand alone basis.

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E.g. Transaction Price = ₹ 10000

		Allocation of Transaction Price	
Product A = 5000	{Directly observable}	$10000 \times \frac{5000}{15000}$	= 3333
Product B = 2500	{Adjusted Market Assessment}	$10000 \times \frac{2500}{15000}$	= 1667
Product C = 7500	{cost plus margin}	$10000 \times \frac{7500}{15000}$	= 5000
15000			

911 55

E.g. Transaction Price = 100000

		Allocation of Transaction Price	
Product X = 50000		50000	= 50000
Product Y = 25000	Combined sold for ₹ 50000	$50000 \times \frac{25000}{70000}$	= 17857
Product Z = 45000		$50000 \times \frac{45000}{70000}$	= 32143
120000			100000

Alternative Scenario

All Info same except → Transaction Price = ₹ 130000

Product Alpha included Alongwith X, Y, Z which is highly variable {Broad Range ₹ 15000 – ₹ 45000}

∴ Transaction Price Allocated to Alpha {Residual Approach} = 130000 − 100000 = 30000

Variable consideration not allocated Proportionately

E.g. Stand Alone Price of Const^n of Building = 50,00,000

" " " " Maintenance of Building = 10,00,000

Transaction Price = 4000000 (Fixed) + 500000 {If Const^n completed on time}

Allocation

To Building = $4000000 \times \frac{5000000}{6000000}$ + 500000 = 38,33,333

To Maintenance = $4000000 \times \frac{5000000}{6000000}$ + 0 = 6,66,667

4500000

Change in transaction price

Subsequently if there is a change in transaction Price, it will be re-allocated on the basis of inception date stand alone Price of goods or services.

Eg. Contraction inception Date

Transaction Price = ₹ 150000 (Fixed) + ₹ 50000 (Performance Bonus) — Variable

At inception, Entity expects Performance Bonus will not be achieved

P.O.		Stand Alone	Allocation
Software	–	90000	$150000 \times \frac{90000}{180000} = 75000$
Installation	–	30000	$150000 \times \frac{30000}{180000} = 25000$
technical Support	–	60000	$150000 \times \frac{60000}{180000} = 50000$

Next year (Contract still in progress)

Now, Entity believes that Performance Bonus will be achieved. (Revised T.P. = 200000)

P.O.	Stand Alone (Inception)	Stand Alone (Current)	Allocation
Software	90000 ✅	95000 ❌	$200000 \times \frac{90000}{180000} = 100000$
Installation	30000 ✅	35000 ❌	$200000 \times \frac{30000}{180000} = 33333$
tech-support	60000 ✅	50000 ❌	$200000 \times \frac{60000}{180000} = 66667$

STEP 5 - Satisfying Performance obligation

Entity recognises revenue when it satisfies P.O. by transferring goods or services (an asset) to a customer.

An Asset is transferred when customer obtains CONTROL of asset.

↓

Control of an asset refers to :-

a) Ability to direct the use of, and obtain substantially all remaining benefits from the asset.

b) Ability to Prevent others from directing the use and obtaining substantial benefits

Other Indicators to be Consider for transfer of control

1. Entity has present right to payment
2. Customer has legal title to asset.
3. Entity hd. physical possession of asset.
4. Customer has significant risk & reward of ownership of asset.
5. Customer has accepted the asset.

At contract inception, Entity must determine whether control transferred over a period of time or at a point in time.

An Entity transfers control over time if any below criteria are met :-

1. Customer simultaneously receives and consumes benefits as the entity performs. ⟨E.g. security Guard service, Payroll service⟩

2. Asset that the customer controls is created or enhanced as the entity performs {E.g. constⁿ in customer land}

→ Due to contractual limitation or practical limitation.

3. Asset do not have alternative use to the entity, AND, Entity has enforceable right to payment for performance completed to date.
{E.g. Building a specialised/customised asset that only customer can use or building asset according to customer specifications.
→ Cost incurred plus reasonable margin.

If any of the above criteria do not met, control is transferred at a point in time.

If control trfd. over a period of time → Revenue recognised over a period of time.
" " " at a point in time → " " at a point in time.

Methods of measuring progress of P.O. satisfied over time (Revenue over period of time)

A. Output methods (Result)

Revenue recognised based on measurement value of goods or services transferred till date. {E.g. Surveys of performance completed to date, appraisals of results achieved.}

Practical Expedient

If company has right to consideration at amount billed to the customer of entity's performance completed to date, then company may recognise such billed amount as revenue.

B. Input methods (efforts)

Revenue recognised based on entity's efforts on inputs. {E.g. Resources consumed, labour hours expended, machine hours used, costs incurred}

If entity's efforts or inputs expended evenly throughout performance period, recognise revenue on a straight line basis.

Input methods

When Cost Based Input method is used, Followings Adjustments are required.

1. Cost of wasted Material, Labour or other resources are ignored while measuring work in Progress

2. When Cost incurred is not Proportionate to entity's Progress, then recognise revenue to the extent of cost incurred. Revenue recognition of such cost is appropriate if all below condition exists. :-

a) Goods do not represent distinct Performance obligation
b) Customer obtains control of goods.
c) Cost of such good significant relative to total cost.
d) Entity procures goods from third parties and does not significantly involve in manufacturing | designing.

Repurchase Agreements

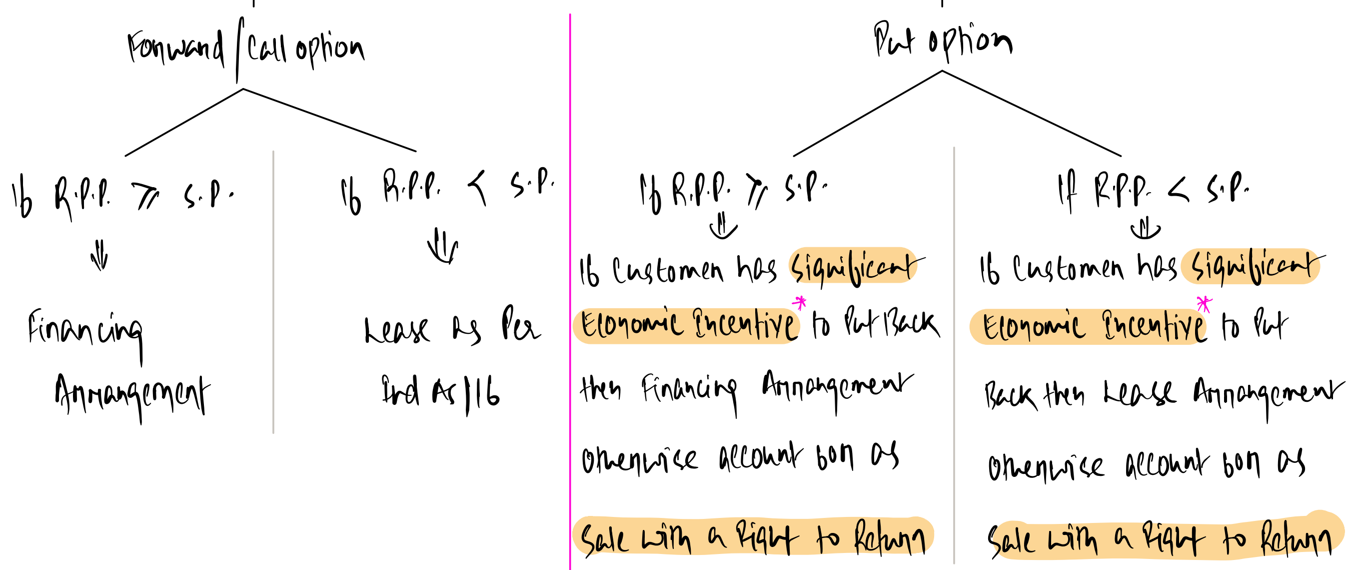
Entity sells Assets (+) Also promises or option to repurchase the asset.

Three forms of Repurchase Agreements :-

1) Forward Contract	2) Call option	3) Put option
Entity's obligation to Repurchase Asset	Entity's right to Repurchase Asset	Entity's obligation to Repurchase at Customer request

Forward Contract / Call option

Here, Customer do not obtain Control of the Asset because do not have Ability to direct the use and obtain substantially all economic benefits.



* Customer has Significant Economic Incentive to exercise Put option if R.P.P. > Expected Market Price.

Eg. R.P.P. = 56000, E.M.P. = 52000 <Here Probable that Customer will exercise Put option>

Forward / Call option

A. Financing Arrangement

If Repurchase Price more than or equal to original selling price.

Eg. Original selling Price = ₹ 50000
Repurchase Price Agreed = ₹ 56000

} R.P.P. ≥ S.P ⇒ Financing Arrangement

Journal

Contract Inception	→ Bank A/c Dr 50000		
	To Loan (FL)		50000
Recognize over Repurchase term	→ Interest Exp. 6000 → diff interest cost		
	To Loan		6000
At the time of Repurchase or option lapses.	Loan 56000	OR	Loan 56000 (If option Lapses)
	To Bank 56000		To Revenue 56000

B. Leases As Per Ind AS 116

If Repurchase Price less than original Selling price

E.g. Original selling Price = ₹ 50000

Repurchase Price Agreed = ₹ 35000

Difference betn Original selling Price and Repurchase Price shall be recognised As lease Income

∴ Lease Income = ₹ 15000 {50000 − 35000}

Remaining, ₹ 35000 will be recognized as Revenue if option lapses.

Journal

Bank A/c 50000

To Security Deposit (FL) 35000 {At Present Value}

To Unearned Lease Income 15000 {Remaining Amount}

Unearned lease Income 15000

To Lease Rent Income (P/L) 15000

{₹ 15000 recognised over the lease term i.e. time between sale and Repurchase}

Security Deposit 35000

To Bank 35000

↓

if Repurchased

OR

Security Deposit 35000

To Revenue 35000

↓

If option to Repurchase lapses.

Put option – Customer has the right to Put Back Asset

A. FINANCING ARRANGEMENT

If Repurchase Price Equals or greater than original selling Price, AND Repurchase Price more than Expected market value

Eg. Original selling Price = 50000

Repurchase Price = 56000

Expected market value at the time of Repurchase = 52000

} Significant Economic Incentive for Customer

Account as per Financing arrangement (only if S.I.E. for Customer

B. SALE WITH A RIGHT TO RETURN

If Repurchase Price Equals or greater than original selling Price, AND Repurchase Price Less than Expected market value

Eg.

Original selling Price = 50000

Repurchase Price = 56000

Expected market value at the time of Repurchase = 60000

} No Significant Economic Incentive for Customer

Account as per Sale with a Right to return

C. If Repurchase Price less than original selling Price, AND Repurchase Price more than Expected market value

Therefore, Customer has significant economic incentive to put Back.

Apply Ind AS 116.

If Customer has no Significant Economic incentive to put Back – Apply Accounting of Sale with a Right to Return.

Bill and hold

Contract under which entity bills a customer for a product but retains physical possession due to customer's request.
In such case entity should check whether control is transferred or not.

To establish transfer of control, all below criteria should met

1) Reason for Bill-Hold substantive {e.g. customer request}
2) Product identified separately as belonging to customer.
3) Product currently ready for physical transfer to customer.
4) Entity cannot have ability to use product or direct it to another customer.

i) If entity establishes that control is transferred, entity recognises revenue for the goods.
However, since entity provides custodial services to customer, it should be identified as separate performance obligations and transaction price should be allocated to goods transferred and custodial service.
{Refer 911-68}

ii) If entity establishes that control is not transferred, revenue recognition is deferred until control is transferred.

Contract cost

Contract Cost

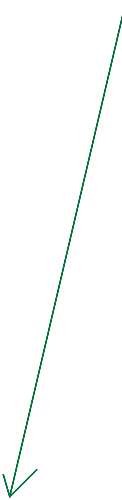
Contract Acquisition Cost

Incremental cost to obtain a contract which would not have been incurred if contract not obtained.

{E.g. : Sales Commission on Fees payable only upon successful signing of contract}

↓

Such Costs are **Capitalised** and amortized over the Contract term.



Contract fulfillment Cost

↓

Costs incurred in fulfilling a contract with a customer

{E.g. Equipments, Software, Designing cost, other Goods and services}

Cost incurred covered by other Ind AS {PPE, Inventory etc.}

Apply such respective Ind AS.

If not covered by other Ind AS

Recognise as an **Asset** and amortise over Contract term

Note: **Legal Fees** for drafting terms of arrangement for parties to approve and sign, **Travel Expenses** for pitching new client contract, **Salaries for people working on obtaining new clients** — These costs would have incurred even if contract not obtained and therefore will not form part of Contract Acquisition cost and should be **Expensed off in P/L**.

Service concession arrangements

Important

Private sector Entity (An operator) constructing / upgrading the infrastructure used to provide public service and operating and maintaining that infrastructure for a specified period of time.

↓

Infrastructure – Roads, Bridges, Tunnels, Hospitals, Airports.

The Party that Grants the Service Arrangement (Grantor) is usually a Government or Public Sector Entity.

Accounting Principles

Infrastructure shall not be recognised as PPE of the operator because Service Arrangement does not convey right to use of infrastructure to operator.

The consideration given by Grantor may be rights to :-

(i) A Financial Asset, or (ii) An Intangible Asset

(i) ↓

Recognise Financial Asset to the extent operator have a contractual right to receive cash or another Financial Asset from Grantor

Cash - Determinable amount
⇓
Receivables (Debtors)
⇓
Financial Asset

(ii) ↓

Recognise Intangible Asset to the extent operator have a contractual right (a Licence) to charge users of Public service.

{Here, No unconditional right to receive cash because Amounts are contingent to the extent that Public uses the Service}

In both cases, the consideration received or receivable is recognised initially at FAIR VALUE

If the operator is paid partly by Financial Asset and partly by Intangible Asset, Account separately for each component of operator service.

Journal Entries

A Financial Asset

During Construction

Financial Asset (Debtors, Receivables) XXX
To Const^n Revenue XXX
{Consideration receivable recognised at Fair Value}

Cost of Construction XXX
To Bank XXX
{recognised as and when cost incurred}

Operation Phase

Financial Asset XXX
To Finance Income XXX
{Interest Income on Financial Asset using EIR at ACM / FVTOCI methods}

Financial Asset XXX
To Revenue XXX
{To recognise revenue relating to operating Phase}

An Intangible Asset

During Construction

Intangible Asset XXX
To Revenue (Const^n Rev) XXX
{Consideration receivable recognised at Fair Value}

Cost of Construction XXX
To Bank XXX
{recognised as and when cost incurred}

Operation Phase

Amortisation Exp (I/E) XXX
To Intangible Asset XXX
{Amortisation of I.A. as per Ind AS 38}

Bank A/c XXX
To Revenue (Lic. Rev) XXX
{To recognise revenue relating to operating Phase}

Bank A/c XXX
  To Financial Asset XXX
{When Amount received from Grantor}

Contract modification

Examples: Partially terminating the Contract, Extending contract term, Adding new goods/service with or without change in price, Reducing contract Price.

A contract modification exist if below 3 conditions met:

a) Change in Scope, Price or both.
b) Change approved by both Entity and Customer.
c) Change is enforceable.

Accounting for the Modification

A. Separate contract

i) Adding new distinct goods or services, and
ii) Increase in Price reflects Stand Alone selling price for Additional goods or services

Account for a Separate Contract.

Eg. Promise to sell 120 products @ ₹1000 each (120000) over six months. After Entity trfd. 60 distinct product, contract is now modified for additional 30 products at standalone selling price of ₹950 each.

Ans: New Additional Goods + Price reflect S.A.P. = SEPARATE CONTRACT

B. **Not a Separate Contract**

Are Remaining G/s distinct from G/s tfd. before contract modification	Are remaining G/s not distinct and form part of single P.O.	Are some of remaining G/s distinct and others not distinct.
↓	↓	↓
Allocate remaining Transaction Price not yet recognized to outstanding Performance obligation. {i.e. Prospective Basis}	Recognize effect of modification on a **Cumulative Catch up Basis**	For Distinct G/s – Prospective " Non-Distinct - Cumulative Catch up
Refer Illustration 8	Refer Illustration 9	(Not relevant for Exam)

Combining contracts (Ill 4, 5, 6)

Two or more contracts accounted as a single contract if they entered into at or near same time with same customer and if any below condition exist:-

(i) Contracts negotiated as a package with single commercial objectives (Ill 6)

(ii) Consideration paid in one contract depends on price or performance in other contract. (Ill 6)

(iii) Goods or service promised in contract are single P.O. (Ill 5)

Contract term

Contractual period over which parties have present enforceable rights and obligations.