IND AS 115

J P Chawla & Co. LLP

Chartered Accountants

Taxation | Audit | Outsourcing | Regulatory | Transaction Advisory | Consultancy Services

FOREWORD

The Ind AS are converged IFRS standards, which have been introduced to standardize the way Indian companies report their financial information to various stake holders.

Reliable, consistent and uniform financial reporting is important part of good corporate governance practices worldwide in order to enhance the credibility of the businesses in the eyes of investors to take informed investment decisions. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Thirty-nine Indian Accounting Standards converged with International Financial Reporting Standards are (henceforth called IND AS) are currently notified by the Ministry. These are: IND ASs 1, 2, 7, 8, 10, 12, 16, 19, 20, 21, 23, 24, 27, 28, 29, 32, 33, 34, 36, 37, 38, 40,41, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110,111,112,113,114,115, 116.

Companies follow Ind AS either Voluntarily or Mandatorily. Once a company follows Indian AS, either mandatorily or voluntarily, it cannot revert to old method of Accounting.The Mandatory Applicability from Accounting Period beginning on or after 1 April 2017 is for :

- Every Listed Company or company in process of being listed.
- Unlisted Companies with Net worth greater than or equal to Rs. 250 crore (2.5 billion)

The Ministry of Corporate Affairs has implemented the IFRS converged Indian Accounting Standards in a phased manner after various issues including tax related issues have been resolved with the concerned departments.

We have prepared a simple analysis for below mentioned Ind AS for your ready reference which can act as ready-reckoner for your day to day use.

Hope you enjoy reading our Analysis.

Happy reading!!

Team J P Chawla & Co. LLP

Rajat Chawla

He is a Fellow member of the Institute of Chartered Accountants of India. He is also a C.P.A; Certified Public Accountant from The American Institute of Certified Public Accountants, United States of America. He is also a commerce honours graduate from Delhi University, Delhi, India. He is also a Certified Information System Auditor (C.I.S.A) and a member of Information system Audit and Control Association, United States of America.

His area of expertise includes Audit and Assurance, International Taxation ,Transfer Pricing, International business advisory, Valuations, FEMA/ RBI advisory, Goods & Service tax (GST), Merger and Acquisitions, Management consultancy, Due Diligence, Information system audit and development, reporting under US GAAP and IFRS, Accounting process improvement, Business process outsourcing, Knowledge process outsourcing and Business process off shoring.

He has been a regular speaker at various forums on various topics related to Tax, finance and commerce. He has also contributed in various tax publications as author / co-author. He has also co-authored two books on transfer pricing, published by Lexis – Nexis and Taxmann respectively.

Mohit Dixit

He is a member of the Institute of Chartered Accountants of India and he is also a commerce honours graduate from Delhi University.

He is having 5 + years of experience in the area of statutory audits, internal audits, assurance & Transaction Advisory related engagements in industries such as manufacturing, retail, infrastructure, information technology, e-commerce, banking, telecommunication, health and aviation sectors.

His area of expertise includes Indian GAAP and IND AS Advisory, Management accounting, outsourcing, audit & assurance, financial reporting and valuation.

Ind AS-115 Revenue from Contracts with Customers

There are some most significant questions that when and how revenue is to be recognized? Especially in case of long-term construction contracts with customer or in critical transactions such as continuous supply of goods or rendering of services.

Why Ind AS 115?

This Standard prescribes the principles and criteria for revenue recognition i.e. when and how revenue is recognized in Financial Statement. Further this standard also prescribes the presentation and disclosures requirements as well.

Applicability of Ind AS-115

Ind AS 115 applicable on revenue and cash flows arising from a contract with a customer only. If counterparty in the contract is not a customer, then this standard is not applicable.

Non-Applicability of Ind AS-115

This standard is not applicable on the following

- Lease contracts within the scope of Ind AS 17, Leases
- Insurance contracts within the scope of Ind AS 104, Insurance Contracts
- Financial instruments and other contractual rights or obligations within the scope of Ind AS 109, Ind AS 110, Ind AS 111, Ind AS 27, and Ind AS 28
- Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

Recognition

Step 1: Identify the Contract

An entity shall account for a contract with a customer that is within the scope of this Standard only when all the following criteria are met:

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations
- The entity can identify each party’s rights regarding the goods or services to be transferred
- The entity can identify the payment terms for the goods or services to be transferred
- The contract has commercial substance (i.e. the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract) and
- It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to thecustomer.

Step 2: Identifying performance obligations in the contract

At contract inception, an entity shall assess the goods or services promised in acontract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

A good or service (or a bundle of goods or services) that is distinct	A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer

Distinct goods or services

Depending on the contract, promised goods or services may include, but are not limited to, sale or resale of goods, rendering services, constructing assets, granting licenses etc.

If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods orservices promised in a contract as a single performance obligation.

Step 3: Determine the transaction price

An entity shall consider the terms of the contract and its customary business practices to determine the transaction price.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).

The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price. When determining the transaction price, an entity shall consider the effects of all the following:

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Non-cash consideration
- Consideration payable to a customer

Step 4: Allocate the transaction price to performance obligations

The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to been titled in exchange for transferring the promised goods or services to the customer.

Allocation based on stand-alone selling prices

To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, an entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

The stand-alone selling price is the price at which an entity would sell a promised good orservice separately to a customer.

If a stand-alone selling price is not directly observable, an entity shall estimate the standalone selling price at an amount that would result in the allocation of the transaction price meeting the allocation objective.

Step 5: Satisfaction of performance obligations (i.e. Recognise the Revenue)

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Performance obligations satisfied over time

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteriais met:

i. The customer simultaneously receives and consumes the benefits provided by theentity's performance as the entity performs
ii. The entity's performance creates or enhances an asset (for example, work inprogress) that the customer controls as the asset is created or enhanced or
iii. The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment forperformance completed to date.

If any one of the above is not satisfies, then it is considered as 'Performance obligations satisfied at a point in time'

Measuring progress towards complete satisfaction of a performance obligation

For each performance obligation satisfied over time, an entity shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e. the satisfaction of an entity's performance obligation).

Methods for measuring progress

Appropriate methods of measuring progress include output methods and input methods.

Output Methods	Input Methods
Output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, timeelapsed and units produced or units delivered.	Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hoursexpended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis.

In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the entity promised to transfer to the customer.

As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the outcome of the performance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

An entity shall apply a single method of measuring progress for each performance obligation satisfied over time and the entity shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time.

Reasonable measures of progress

An entity shall recognise revenue for a performance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a performance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

In some circumstances (for example, in the early stages of a contract), an entity may not be able to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred in satisfying the performance obligation. In those circumstances, the entity shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

Presentation

When either party to a contract has performed, an entity shall present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable.

Disclosure

An entity shall disclose qualitative and quantitative information about all of the following:

- Its contracts with customers
- The significant judgements, and changes in the judgements, made in applyingthis Standard to those contracts and
- Any assets recognised from the costs to obtain or fulfill a contract with a customer.

Contract Costs

Incremental costs of obtaining a contract

An entity shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs.

Costs to fulfill a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, Ind AS 2, "Inventories", Ind AS 16, "Property, Plant and Equipment" or Ind AS 38, "Intangible Assets"), an entity shall recognise an asset from the costs incurred to fulfill a contract only if those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved)
- the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

Amortisation and Impairment

An asset recognised in accordance with above mentioned criteria shall be amortised on a systematic basis that is consistent with the transfer to the customer of the goods orservices to which the asset relates. Such Amortisation or Impairment loss shall be charged to statement of profit and loss

Dear Valuable Client / Colleague,

In case you require any further detailed analysis on above mentioned content, please do get back to us and we shall be happy to provide you the same.

With Best Regards,

Team JPC

About JPC

JPC is a professional services firm based in Noida- National Capital Region and New Delhi, India. We were established in the year 1974 with the aim to create value for our clients by delivering quality, comprehensive, timely, practical and innovative services. We offer a comprehensive range of services, including taxation services, regulatory services, transaction advisory services, financial & management consultancy services, assurance & risk services, and outsourcing services. Over the past several decades, we have established significant competitive presence in the country. Our vast and diversified client base includes Multinational enterprises, domestic companies, high net worth individuals, government companies and institutions in all leading industry verticals. We are a team of distinguished Chartered Accountants, Management Accountants, Corporate Financial Advisors and Tax Consultants. Our team has the requisite skills and experience to provide complex business, financial, assurance, tax and regulatory services to our clients. Our strength lies in our timely performance-based, industry-tailored and technology-enabled services which are delivered by some of the most talented professionals in the country. For more information about JPC's service offerings, visit www.jpc.co.in

In this document, "JPC" refers to J P Chawla & Co. LLP Chartered Accountants (a limited liability partnership firm regulated by the Institute of Chartered Accountants of India, FRN : 001875N/ N500025).

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