

 BB VIRTUALS

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 *Make My Delivery*



Financial Reporting
DIGEST

VOLUME-2

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IND AS 115

REVENUE FROM CONTRACTS WITH CUSTOMERS

1. SCOPE

- ☛ This Standard applies to all contracts with customers, **EXCEPT** the following:
 - a. Lease contracts within the scope of Ind AS 116;
 - b. Insurance contracts (Ind AS 104)
 - c. Financial instruments and other contractual rights or obligations within the scope of Ind AS 109, Ind AS 110, Ind AS 111, Ind AS 27 & Ind AS 28; and
 - d. Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

(For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.)

- ☛ This standard is **applicable ONLY** to contracts with **CUSTOMER**.

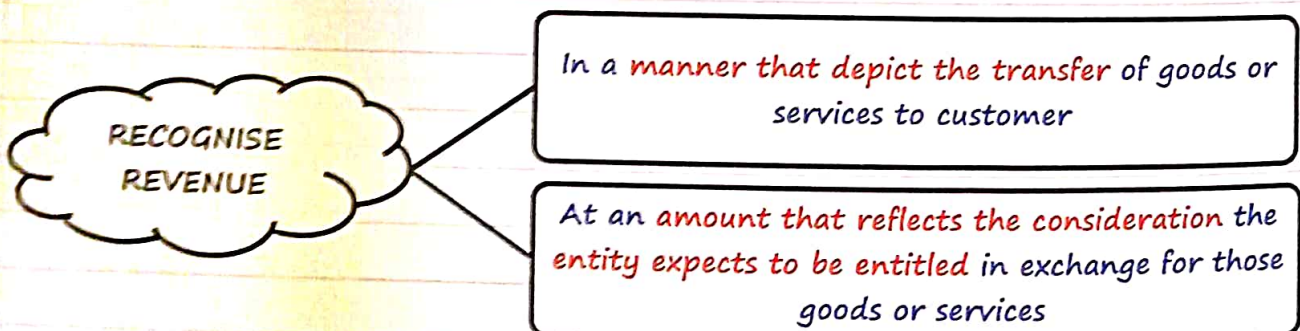
❖ CUSTOMER

A customer is a party that has contracted to obtain goods or services that are an output of entity's ordinary activities in exchange for consideration.

A counterparty would not be a customer if it has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits rather than to obtain the output of the entity's ordinary activities.

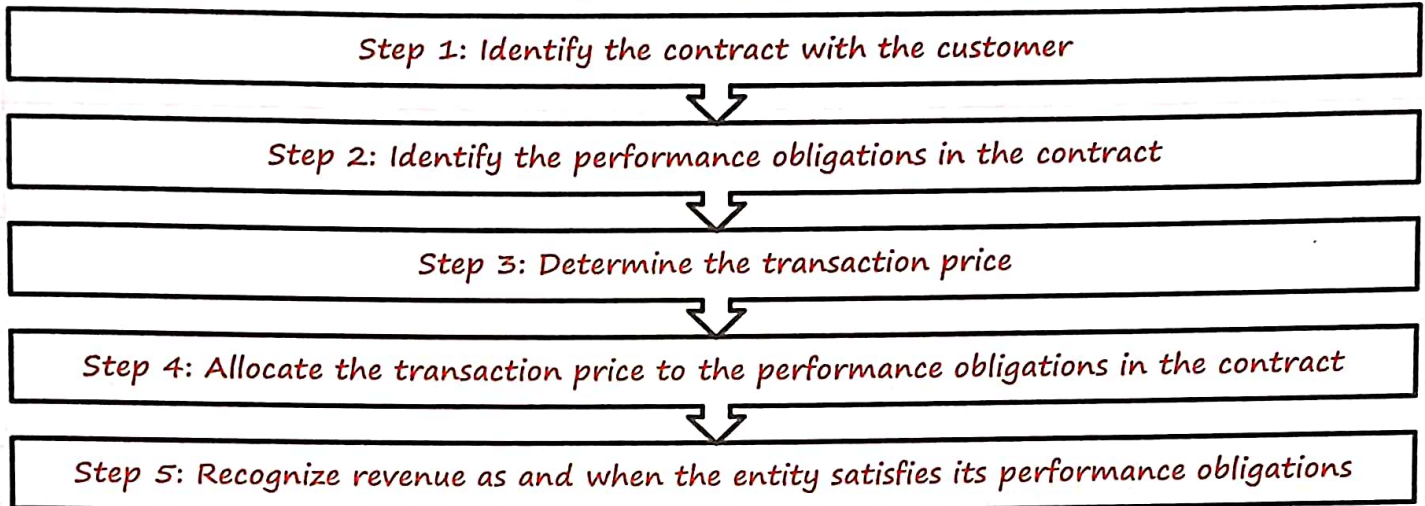
(For Example, Developing an asset in a collaboration arrangement)

2. CORE PRINCIPLE OF IND AS 115



3. FIVE STEP MODEL FOR REVENUE RECOGNITION

To achieve the core principle, an entity should apply the following 5 step model:



4. STEP 1: IDENTIFYING THE CONTRACT

4.1 CRITERIA FOR RECOGNIZING A CONTRACT

An accounting contract exists only when an arrangement with a customer meets **ALL** of the following five criteria:

- a) Parties have approved the contract and are committed to perform their contractual obligations;
- b) The entity can identify each party's rights regarding the goods or services to be transferred;
- c) The entity can identify the payment terms for the goods or services to be transferred;
- d) The contract has commercial substance;
- e) It is probable that the entity will collect substantially all of the consideration to which it expects to be entitled.

A contract may **NOT** pass all the 5 conditions of Step 1, but entity may still transfer goods or services to the customer and receive non-refundable consideration. In that circumstance, the entity cannot recognise revenue for the non-refundable consideration received i.e. the

entity will recognise consideration received as a liability until either:

- Step 1 criteria are subsequently met, OR
- The contract has been terminated / or there are no remaining obligations, and consideration received from the customer is non-refundable.

4.3 CONTRACT TERM

☞ An entity shall apply this Standard to the duration of the contract (i.e. the contractual period) in which the parties have enforceable rights and obligations.

❖ TERMINATION PROVISIONS

☞ Some contracts can be terminated by either party or it may only be terminated by one party. An accounting contract DOES NOT exist if each party to a contract has the unilateral enforceable right to terminate a wholly unperformed contract without paying a substantive termination penalty.

4.4 COMBINING CONTRACTS

☞ Two or more contracts may need to be accounted for as a single contract if they are entered at or near same time, with the same customer and if ANY ONE of the following conditions exists:

a) The contracts are negotiated as a single package; OR

b) The amount of consideration paid in one contract depends on price or performance of other contract; OR

c) The goods or services promised in the contract are a single performance obligation.

4.5 CONTRACT MODIFICATIONS

A. IDENTIFYING A MODIFICATION

☞ A contract modification exists if three conditions are met:

- i) There is a change in the scope, price, or both in a contract.
- ii) That change is approved by both the entity and the customer.
- iii) The change is enforceable.

B. ACCOUNTING FOR THE MODIFICATION

ACCOUNTING FOR MODIFICATION

MODIFICATIONS THAT CONSTITUTE SEPARATE CONTRACTS

It is treated as a separate contract if BOTH the conditions are satisfied:

a) Increases the scope by adding new goods or services that are distinct;

AND

b) Increase in the contract price reflects the stand-alone selling price of the additional goods or services.

MODIFICATIONS THAT DO NOT CONSTITUTE SEPARATE CONTRACTS

If New Goods or Service are distinct from Goods or service in Original Contract BUT Price is NOT Standalone S.P

Account for the Modification Prospectively (i.e. Termination of the old contract and the creation of a new contract)

Remaining goods or services are NOT distinct and part of a single PO that is partially satisfied

Account for modification on a cumulative catch-up basis (i.e. Retrospectively)

5. STEP 2: IDENTIFYING PERFORMANCE OBLIGATIONS

☞ Performance obligation is a *promise to transfer* to the customer either:

- A good or service (or a bundle of goods or services) that is distinct; OR
- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer.

☞ At contract inception, an entity shall assess

- The goods or services promised in a contract AND
- Shall identify performance obligation under each promise.