


# Ind AS 115 – Revenue from Contracts with Customers






# Identifying Performance Obligations

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Ind AS 115 – Revenue from Contracts with Customers

- 1. Distinct Performance Obligations – Each is One Performance Obligation**
  - a) Customer can benefit from good/service on its own
  - b) Customer can use good/service with other readily available resources
  - c) Not integrated, highly dependent, highly inter-related, significantly modifies/customizes other goods/services of contract
  
- 2. Series of Distinct Goods / Services - Same Pattern of Transfer – One Performance Obligation**
  - a) Each distinct obligation - satisfied over time
  - b) Each distinct obligation - same method of progress measure
  
- 3. Customer Option for Additional Goods/Services – Separate Performance Obligation**
  - a) Material right by entering into contract
  - b) Payment done but separate performance obligation – contract liability
  
- 4. Principal (Gross Revenue) vs Agent (Net Revenue)**
  - a) Primary responsibility of fulfilling contract
  - b) Carry inventory risk before transfer to customer
  - c) Discretion in establishing prices



# Satisfying Performance Obligations - Revenue Recognition

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Ind AS 115 – Revenue from  
Contracts with Customers

## 1. Transfer of Control

- a) Customer has ability to direct the use of and obtain the remaining benefits for an asset.
- b) Customer has present right to:
  - i. Deploy asset – own use, other entity use, prevent other use
  - ii. Obtain cash flows – use / consumption / sale / pledge / hold

## 2. Transfer - Over a Period of Time (Else Point in Time)

- a) Simultaneous receipt and consumption of benefits or,
- b) Customer controls asset as created or,
- c) No alternative use of asset to transferor, right to payment for work done till date

## 3. Measuring Progress - Period of Time

- a) Output method - surveys / milestones / time / unit
- b) Input method - cost incurred / total estimated cost
  - i. Except when revenue to the extent of cost / cost does not indicate progress

## 4. Allocation of Transaction Price to Multiple Performance Obligations

- a) Based on standalone selling prices, else
- b) Market rate
- c) Cost plus margin
- d) Residual approach



# Variable Consideration

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## 1. Meaning of Variable Consideration

- a) Performance bonus, Incentives, Concessions, Discounts, Rebates, Refund, Penalties, etc.

## 2. Estimated Value Determination

- a) Expected value (probability weighted)
- b) Most likely amount (single amount)
- c) Reassessment in every reporting period

## 3. Constraint in Recognizing Variable Revenue

- a) Highly probable that significant revenue reversal will not subsequently occur

## 4. Sale with Right of Return


- a) Expectation of sale return
- b) Refund liability
- c) Asset (Stock value)

## 5. Warranty

- a) Deferred revenue concept

## 6. Disclosure

- a) Reconciliation of contract price with recognized revenue



# Other Aspects of Transaction Price

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## 1. Significant Financing Component


- a) Difference between agreed contract consideration and cash selling price
- b) Time period between delivery and payment (more than 1 year)
- c) Prevailing interest rates
- d) Interest income / expense over contract period
- e) Not financing if terms indicate other factors

## 2. Non-cash consideration

- a) Measure at fair value else,
- b) Standalone selling price

## 3. Consideration payable to a customer

- a) Not payment for distinct good / service – reduce from transaction price
- b) Payment for distinct good / service – account as regular purchase



# Modifications in Revenue Contracts

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Ind AS 115 – Revenue from Contracts with Customers

## 1. Meaning of Contract Modification

- a) Change in scope, price or both


## 2. Accounting of Contract Modification

### a) Account as separate contract

- i. Distinct goods / services added to scope
- ii. Reflects standalone selling price
- iii. Separate performance obligation
- iv. Prospective application

### b) Cumulative catch-up adjustment

- i. Additional goods / services not distinct
- ii. Part of same performance obligation partially satisfied
- iii. Revenue adjusted with cumulative impact in modification period
- iv. Variable consideration of existing contract



# Contract Costs as Contract Assets

- Acquisition
- Fulfilment

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- 1. Contract acquisition costs – when capitalized**
  - a) Incremental costs
  - b) Contract assets to be amortized as revenue accrues
- 2. Contract fulfilment costs – when capitalized**
  - a) Not covered under Ind AS 2 & Ind AS 16
  - b) Costs relate to contract
  - c) Explicitly chargeable to customer
  - d) Satisfy performance obligation in future
  - e) Recover the cost through sales
  - f) Amortized as revenue accrues




# Service Concession Arrangements

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- 1. Meaning of Service Concession Arrangement**
  - a) Private sector entity builds, operates and maintains public service infrastructure and then transfers.
  
- 2. Accounting as per Nature of Consideration**
  - a) Financial asset
    - i. Unconditional contractual right to receive cash (eg: annuity)
    - ii. Revenue recognized by creating financial asset at discounted future cash flows - against costs incurred
    - iii. Interest income accrued over contract period
    - iv. Ind AS 109 on financial assets
  
  - b) Intangible asset
    - i. Right to charge users of public service (eg: toll collection)
    - ii. Revenue recognized by creating intangible asset at fair value - against costs incurred
    - iii. Intangible asset amortized as per revenue pattern
    - iv. Ind AS 38 on intangible assets
  
- 3. Complete Shift as against Treatment under AS**
  - a) Ind AS - Revenue is mapped to the cost
  - b) AS - Cost is mapped to the revenue





# Presentation & Disclosure Requirements

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Ind AS 115 – Revenue from Contracts with Customers

## 1. Presentation

- a) Contract liability - advance from customers (performance obligation not satisfied)
- b) Contract asset - performance obligation satisfied but right to consideration depends on a factor other than passage of time
- c) Trade receivable - performance obligation satisfied and right to consideration is unconditional i.e, depends only on passage of time.

## 2. Audit Report Consideration

- a) Key Audit Matter in Audit Report (if required)

# Ind AS 116 – Leases





# Lease Meaning

# Lease Components

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Ind AS 116 – Leases

## 1. Definition

- a) Identified asset
  - i. No substantive right to substitute with supplier
    - a. Practical ability during use
    - b. Economic benefit
- b) Right to control
  - i. Substantially all economic benefits
  - ii. Right to direct use and purpose during use
- c) Period of time
- d) Consideration

## 2. Separation of Lease Components - Use of Multiple Assets

- a) Separate lease for each asset (else single lease)
  - i. Benefit from asset either on its own or together with readily available resources
  - ii. Not highly dependent / inter-related with other assets

## 3. Separation of Lease and Non-Lease Components

- a) Service / maintenance contracts as per Ind AS 115
- b) Transaction price allocation as per Ind AS 115
- c) Practical expedient – Lessee can opt for single lease component by class of underlying asset



# Key Concepts

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Ind AS 116 – Leases

## 1. Lease Term

- a) Rent free period
- b) Non-cancellable period
- c) Renewal options (lessee reasonably certain to extend)
- d) Terminal option (lessee reasonably certain not to terminate early)
- e) Do not include period where both parties have termination option without other's consent and insignificant penalty

## 2. Lease Payments


- a) Fixed lease payments (incl. in substance fixed) less lease incentive
- b) Variable lease payments – dependent on index or rate
- c) Purchase price – reasonably certain to be exercised
- d) Residual value guarantees

## 3. Initial Direct Costs

- a) Incremental costs of obtaining the lease

## 4. Discount Rate

- a) Interest rate implicit in the lease
- b) Lessee's incremental borrowing rate



# Accounting by Lessee - Complete Shift from AS Framework

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Ind AS 116 – Leases

## 1. Initial Recognition & Measurement

- a) Lease liability - discounted present value of lease payments
- b) Right of use asset
  - i. PV of lease liability
  - ii. Initial Direct Cost
  - iii. Less lease incentives
- c) Forex impact of year end considered – monetary liability

## 2. Subsequent Measurement

- a) Lease liability
  - i. Financial liability at amortized cost - Ind AS 109
  - ii. Interest expense and repayments
  - iii. Remeasure in case of changes
- b) Right of use asset
  - i. Cost model as per Ind AS 16 – PPE
  - ii. Depreciation
  - iii. Remeasure in case of changes to lease liability
- c) Impairment requirements applicable to ROU Asset
- d) Forex impact not considered – non-monetary asset

## 3. Modification to Lease

- a) Change in lease term and consideration - remeasure lease liability & make corresponding adjustment to ROU asset
- b) Change in scope
  - i. Consideration as per standalone selling price - new lease
  - ii. If not - remeasure lease liability & make adjustment to ROU asset



# Accounting by Lessor

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Ind AS 116 – Leases

## 1. Initial Recognition & Measurement

- a) Finance lease
  - i. Derecognize asset
  - ii. Recognize finance lease receivable
  - iii. Recognize profit / loss on transfer
- b) Operating lease
  - i. Asset at carrying value + initial direct costs

## 2. Subsequent Measurement

- a) Finance lease
  - i. Recognize interest income
  - ii. Reduce lease payments from receivable
- b) Operating lease
  - i. Depreciate asset
  - ii. Recognize lease income (straight line or other systematic basis)
  - iii. Amortize initial direct costs against income
  - iv. Remeasure in case of changes to lease liability

## 3. Modification to Lease

- a) Finance lease - Change in scope
  - i. Consideration as per standalone selling price - new lease
  - ii. If not – Ind AS 109
  - iii. Changed to operating lease – finance lease receivable = asset value



# Optional Lease Recognition Exemptions

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Ind AS 116 – Leases

## 1. Short term lease

- a) Lease term of less than 12 months
- b) No option to purchase
- c) Exemption for entire class of underlying asset

## 2. Low value assets

- a) Lessee can benefit from underlying asset on its own / together with other resources readily available.
- b) Asset not highly dependent/interrelated with other assets
- c) Exemption on lease-by-lease basis
- d) Generally, for items high in volume and low in value
- e) Standard silent on threshold
- f) Materiality to lessee not considered
- g) Head lease is not low value asset if the low value assets are subleased

## 3. Accounting treatment

- a) Expense on straight line basis / other systematic basis



# Sub Lease

# Sale and Leaseback

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Ind AS 116 – Leases

## 1. Sub lease (angle of lessor)

- a) Finance lease as per ROU asset life
  - i. Derecognize ROU asset of Head Lease
  - ii. Recognize finance lease receivable of sub lease
  - iii. Recognize profit / loss on transfer
  - iv. Retain lease liability of head lease
  - v. Book finance income on sub lease
  - vi. Book finance expense on head lease
- b) Operating lease
  - i. Recognize lease income

## 2. Sale and leaseback (angle of lessee)


- a) Transfer of asset is a sale (as per Ind AS 115)
  - i. Derecognize existing asset by sale
  - ii. ROU accounting for leaseback
- b) Transfer of asset is not a sale (as per Ind AS 115)
  - i. Continue to recognize asset
  - ii. Financing transaction as per Ind AS 109





# Ind AS 101 - First Time Adoption of Ind AS

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# The Companies (Indian Accounting Standards) Rules, 2015

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Ind AS 101 - First Time Adoption of  
Ind AS

## 1. Voluntary adoption of Ind AS


- a) Any company can adopt Ind AS on a voluntary basis.

## 2. Mandatory adoption

- a) Unlisted companies with net worth based on Standalone FS of Company > 250 crores
- b) Listed companies or companies in the process of listing
- c) Holding, subsidiary, joint venture or associate companies of above point a, b above.

3. **Not applicable** to **SME listing space** where mandatory criteria not met.

4. **Once** Ind AS is **applicable** to a company, it **continues to apply** even if criteria not met subsequently.




# Periods to be Presented in First Ind AS Financial Statements

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Ind AS 101 - First Time Adoption of Ind AS

1. **If criteria is met in FY 2023-24, Ind AS would be applicable from FY 2024-25.** First Ind AS financial statements would include:
  - a) **3 Ind AS Balance Sheets**
    - i. Previous Year Opening as on 01.04.2023 (Transition Date)
    - ii. Previous Year as on 31.03.2024
    - iii. Current Year as on 31.03.2025
  - b) **2 Statements of Profit & Loss**
    - i. Previous Year 2023-24
    - ii. Current Year 2024-25
  
2. **Consistent application of latest version of Ind AS**
  - a) Ind AS effective in FY 2024-25 to be applied to all periods
  - b) Use same accounting policies across all periods
  - c) **Retrospective application of all Ind AS** to prepare Previous Year's Opening Balance Sheet as on 01.04.2023 **unless exception is provided / exempted is allowed.**




# General Principle

## – Application of all Ind AS to all Periods Presented

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Ind AS 101 - First Time Adoption of Ind AS

- 1. Recognize items requiring recognition in Ind AS which are not already recognized in AS**
  - Recognize financial guarantee contract for comfort letter given by parent for subsidiary's loan.
- 2. Derecognize items not requiring recognition in Ind AS which are already recognized in AS**
  - Proposed dividends recognized as per AS on board approval, recognized as per Ind AS on shareholder approval.
- 3. Reclassification of items as per Ind AS groupings**
  - Cumulative redeemable preference shares to be regrouped from equity under previous GAAP to loan payable (financial liability).
- 4. Measure all recognized items as per Ind AS**
  - Measure investments in equity shares at fair value as against cost as per previous GAAP.




# Mandatory Exceptions from Retrospective Application in Opening Balance Sheet

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Ind AS 101 - First Time Adoption of  
Ind AS

- 1. Accounting estimates not be revisited unless there is error / inconsistency with Ind AS:**
  - Actuarial report to be taken as per Ind AS (Liability would not vary unless error in assumptions/data).
- 2. Impairment of financial assets**
  - Provision for doubtful debt would remain the same unless it is unreasonable / unjustified.
- 3. Derecognition of financial assets / liabilities**
  - Already derecognized financial asset like a loan receivable transferred would not again be recognized as per Ind AS.
- 4. Government loans**
  - Prospective application of Ind AS 109 to government loans received at discounted interest rates.
- 5. Non-controlling Interest**
  - Can have deficit balance as per Ind AS. Transition date NCI to be carried at value as per previous GAAP (except for other Ind AS adjustments).



# Optional Exemptions from Retrospective Application in Opening Balance Sheet

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Ind AS 101 - First Time Adoption of Ind AS

## 1. Business combination

- Previous acquisitions recorded at book value need not be recorded at fair value.
- Goodwill / capital reserve as per previous GAAP.
- Although, assets and liabilities of the acquiree to be recognized and measured as per Ind AS.

## 2. Share based payments


- Apply only to shares which have not vested as on transition date.

## 3. Deemed cost of property, plant & equipment

- Previous GAAP carrying amount can be considered as deemed cost.
- Revalued assets can also be treated similarly.

## 4. Long term foreign currency monetary items

- Exchange difference capitalized in PPE or deferred as per loan term can be continued to be accounted in that manner.
- Ind AS would have required a direct P&L charge unless capitalized as borrowing cost.



# Optional Exemptions from Retrospective Application in Opening Balance Sheet

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Ind AS 101 - First Time Adoption of Ind AS

## 5. Investment in subsidiaries

- Previous GAAP carrying amount can be considered as deemed cost.

## 6. Compound financial instruments

- No treatment if liability component has already been paid before transition date.
- Prior interest free loan which have been squared off need not bifurcated into loan and equity component.

## 7. Effective interest rate on financial liability

- If impracticable to apply the same, then fair value at transition date will be carrying amount.



Thank you!

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