PwC Reporting*InBrief*

Companies (Indian Accounting Standards) Amendment Rules, 2018

In brief

The Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) Amendment Rules, 2018 (the 'Rules') on 28 March 2018. The Rules notify the new revenue standard Ind AS 115, *Revenue from Contracts with Customers* and also bring in amendments to existing Ind AS. The Rules shall be effective from reporting periods beginning on or after 1 April 2018 and cannot be early adopted.

This *InBrief* provides an overview of the key amendments to Ind AS notified by the Rules and our insights on these amendments.

Let's talk

The Rules have brought in the following key amendments to Ind AS:

- New revenue standard Ind AS 115 has been notified which supersedes Ind AS 11, *Construction Contracts* and Ind AS 18, *Revenue*. Ind AS 115 is largely converged with IFRS 15, *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB).
- Appendix B, *Foreign Currency Transactions and Advance Consideration* to Ind AS 21, *The Effects of Changes in Foreign Exchange Rates* has been notified. The appendix clarifies that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the asset, expense or income, should be the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration.
- Amendment to Ind AS 40, *Investment Property* clarifying when assets are transferred to, or from, investment properties. The amendment clarifies that to transfer to, or from, investment properties there must be a change in use supported by evidence. A change in intention, in isolation is not enough to support a transfer.
- Amendments to Ind AS 12, *Income Taxes* clarifying the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. These amendments only clarify the existence guidance of Ind AS 12 and do not change the underlying principles for recognition of deferred tax asset.
- Amendment to Ind AS 28, *Investments in Associates and Joint Ventures* and Ind AS 112, *Disclosure of Interests in Other Entities* clarifying that:
  - Disclosures requirement of Ind AS 112 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of Ind AS 112).
  - The option available with venture capital organisations, mutual funds, unit trusts and similar entities to measure their investments in associates or joint ventures at fair value through profit or loss (FVTPL) is available for each investment in an associate or joint venture.
- Consequential amendments to other Ind AS due to notification of Ind AS 115 and other amendments discussed above.

In detail

1. **Ind AS 115**

MCA notified the new revenue standard Ind AS 115 and omitted Ind AS 11 and Ind AS 18. Ind AS 115 is largely converged with IFRS 15 issued by IASB. Appendix D to Ind AS 115 provides guidance on accounting of service concession arrangements.

The new standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognised. The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard could significantly change how many entities recognise revenue. The standard will also result in a significant increase in the volume of disclosures related to revenue recognition.

Under Ind AS 115, revenue is recognised based on the satisfaction of performance obligations. In applying Ind AS 115, entities are required to adopt the following five-step process:

1. Identify the contract with a customer.
2. Identify the separate performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the separate performance obligations.
5. Recognise revenue when (or as) each performance obligation is satisfied.

1. **Identify the contract with a customer**

The model starts with identifying the contract with the customer and whether an entity should combine, for accounting purposes, two or more contracts, to properly reflect the economics of the underlying transaction. An entity will need to conclude that it is 'probable', at the inception of the contract, that the entity will collect the consideration to which it will ultimately be entitled in exchange for the goods or services that are transferred to the customer in order for a contract to be in the scope of the revenue standard. Under Ind AS, the term 'probable' means more likely than not- that is, greater than 50% likelihood).

Two or more contracts (including contracts with related parties of the customers) should be combined if the contracts are entered into at or near the same time and the contracts are negotiated with a single commercial objective, the amount of consideration in one contract depends on the other contract, or the goods or services in the contracts are interrelated. A contract modification is treated as a separate contract only if it results in the addition of a separate performance obligation and the price reflects the stand-alone selling price (i.e. the price at which such good or service would be sold, if sold on a stand-alone basis) of the additional performance obligation. The modification is otherwise accounted for as an adjustment to the original contract either through a cumulative catch-up adjustment to revenue or a prospective adjustment to revenue when future performance obligations are satisfied, depending on whether the remaining goods and services are distinct. Careful consideration will be needed to ensure the model is applied to the appropriate unit of account.

2. Identify the separate performance obligations in the contract

An entity will be required to identify all performance obligations in a contract. Performance obligations are promises to transfer goods or services to a customer and are similar to what we know today as 'elements' or 'deliverables'. Performance obligations might be explicitly stated in the contract but might also arise in other ways. Legal or statutory requirements to deliver a good or perform a service might create performance obligations even though such obligations are not explicit in the contract. A performance obligation may also be created through customary business practices, such as an entity's practice of providing customer support, or by published policies or specific company statements. This could result in an increased number of performance obligations within an arrangement, possibly changing the timing of revenue recognition.

An entity accounts for each promised good or service as a separate performance obligation if the good or service is distinct. Such a good or service is distinct if both of the following criteria are met:

a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct); and
b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the good or service is distinct within the context of the contract).

3. Determine the transaction price

Once an entity identifies the performance obligations in a contract, the obligations will be measured by reference to the transaction price. The transaction price reflects the amount of consideration that an entity expects to be entitled to in exchange for goods or services transferred. The amount of expected consideration captures: (1) variable consideration if it is 'highly probable' that the amount will not result in a significant revenue reversal if estimates change, (2) an assessment of time value of money (as a practical expedient, an entity need not make this assessment when the period between payment and the transfer of goods or services is less than one year), (3) non-cash consideration, generally at fair value, and (4) less any consideration paid to customers.

Variable consideration is measured using either a probability weighted or most likely amount approach; whichever is most predictive of the final outcome. Inclusion of variable consideration in the initial measurement of the transaction price might result in a significant change in the timing of revenue recognition. Such consideration is recognised as the entity satisfies its related performance obligations, provided (1) the entity has relevant experience with similar performance obligations (or other valid evidence) that allows it to estimate the cumulative amount of revenue for a satisfied performance obligation, and (2) based on that experience, the entity does not expect a significant reversal in future periods in the cumulative amount of revenue recognised for that performance obligation. Revenue may, therefore, be recognised earlier than under Ind AS 11 / Ind AS 18 if an entity meets the conditions to include variable consideration in the transaction price. Judgement will be needed to assess whether the entity has predictive experience about the outcome of a contract. The following indicators might suggest the entity's experience is not predictive of the outcome of a contract: (1) the amount of consideration is highly susceptible to factors outside the influence of the entity, (2) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time, (3) the entity's experience with similar types of contracts is limited, and (4) the contract has a large number and broad range of possible consideration amounts.

4. Allocate the transaction price to the separate performance obligations

For contracts with multiple performance obligations (deliverables), the performance obligations should be separately accounted for to the extent that the pattern of transfer of goods and services is different. Once an entity identifies and determines whether to separately account for all the performance obligations in a contract, the transaction price is allocated to these separate performance obligations based on relative stand-alone selling prices.

The best evidence of stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately. The selling price is estimated if a stand-alone selling price is not available. Some possible estimation methods include (1) cost plus a reasonable margin or (2) evaluation of stand-alone sales prices of the same or similar products, if available. If the stand-alone selling price is highly variable or uncertain, entities may use a residual approach to aid in estimating the stand-alone selling price (that is, total transaction price less the standalone selling prices of other goods or services in the contract). An entity may also allocate discounts and variable amounts entirely to one (or more) performance obligations if certain conditions are met.

5. **Recognise revenue when each performance obligation is satisfied**

Revenue should be recognised when a promised good or service is transferred to the customer. This occurs when the customer obtains control of that good or service. Control can transfer at a point in time or continuously over time. Determining when control transfers will require significant judgement. An entity satisfies a performance obligation over time if: (1) the customer is receiving and consuming the benefits of the entity's performance as the entity performs (that is, another entity would not need to substantially re-perform the work completed to date); (2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (3) the entity's performance does not create an asset with an alternative use to the entity, the entity has a right to payment for performance completed to date that includes compensation for a reasonable profit margin, and it expects to fulfil the contract. A good or service not satisfied over time is satisfied at a point in time.

Indicators to consider in determining when the customer obtains control of a promised asset include: (1) the customer has an unconditional obligation to pay, (2) the customer has legal title, (3) the customer has physical possession, (4) the customer has the risks and rewards of ownership of the good, and (5) the customer has accepted the asset. These indicators are not a checklist, nor are they all-inclusive. All relevant factors should be considered to determine whether the customer has obtained control of a good.

If control is transferred continuously over time, an entity may use output methods (for example, units delivered) or input methods (for example, costs incurred or passage of time) to measure the amount of revenue to be recognised. The method that best depicts the transfer of goods or services to the customer should be applied consistently throughout the contract and to similar contracts with customers.

Contract costs - Costs to obtain or fulfil a contract

Entities often incur costs to fulfil their obligations under a contract once it is obtained, but before transferring goods or services to the customer. Some costs could also be incurred in anticipation of winning a contract. Costs relating to satisfied performance obligations and costs related to inefficiencies should be expensed as incurred. Incremental costs of obtaining a contract (for example, a sales commission) should be recognised as an asset if they are expected to be recovered. An entity can expense the cost of obtaining a contract if the amortisation period would be less than one year. Entities should evaluate whether direct costs incurred in fulfilling a contract are in the scope of other standards (for example, inventory, intangibles, or property, plant and equipment). If so, the entity should account for such costs in accordance with those standards. If not, the entity should capitalise those costs only if the costs relate directly to a contract, relate to future performance, and are expected to be recovered under a contract. An example of such costs may be certain mobilisation, design, etc. These costs would then be amortised as control of the goods or services to which the asset relates is transferred to the customer. The amortisation period may extend beyond the length of the contract when the economic benefit will be received over a longer period.

Principal versus agent considerations

When an arrangement involves two or more unrelated parties that contribute to providing a specified good or service to a customer, management will need to determine whether the entity has promised to provide the specified good or service itself (as a principal) or to arrange for those specified goods or services to be provided by another party (as an agent). Determining whether an entity is the principal or an agent is not a policy choice. Ind AS 115 includes indicators that an entity controls a specified good or service before it is transferred to the customer to help entities apply the concept of control to the principal versus agent assessment. The assessment should be made separately for each specified good or service. An entity could be the principal for some goods or services and an agent for others in contracts with multiple distinct goods or services. An entity no longer considers the form of consideration and credit risk as indicators in principal / agent assessments under Ind AS 115.

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The above commentary is not all-inclusive. The effect of Ind AS 115 is extensive, and all industries may be affected. Some entities will see pervasive changes as the new model will replace the existing revenue recognition guidance in Ind AS 11 and Ind AS 18. Since Ind AS 115 is effective for accounting periods beginning on or after 1 April, 2018, the financial results for the quarter ending 30 June 2018 under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 would have to be prepared considering the requirements of Ind AS 115.

Given the short time on hand, entities to quickly start evaluating the impact the new standard might have on their financial statements.

Ind AS 115 provides the following transition approaches:

1. **Retrospective approach**

   Entities are permitted to adopt the revenue standard by restating all prior periods (that is, full retrospective adoption) following Ind AS 8. Entities electing retrospective application are permitted to use any combination of the following practical expedients:

   a. for completed contracts, an entity need not restate contracts that:
      i. begin and end within the same annual reporting period; or
      ii. are completed contracts at the beginning of the earliest period presented.

   b. for completed contracts that have variable consideration, an entity can use the transaction price at the date that the contract was completed, rather than estimating variable consideration amounts in the comparative reporting periods.

   c. for contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications in accordance with the revenue standard. Instead, an entity should reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
      i. identifying the satisfied and unsatisfied performance obligations;
      ii. determining the transaction price; and
      iii. allocating the transaction price to the satisfied and unsatisfied performance obligations.

   d. for all reporting periods presented before the date of initial application (that is, in the year of adoption), an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

2. **Modified retrospective approach**

   Entities can elect to use a modified retrospective approach for transition. Entities electing this approach will recognise the cumulative effect of initially applying Ind AS 115 as an adjustment to the opening balance of retained earnings (or other appropriate component of equity) in the period of initial application. Comparative prior year periods would not be adjusted. March year-end entities, for example, would recognise the cumulative effect adjustment of applying the revenue standard in the opening balance of retained earnings as at 1 April 2018.

   The modified retrospective transition approach allows an entity to avoid restating comparative years. Entities that choose to use this approach should provide the following additional disclosures in the reporting period that includes the date of initial application:

- the amount by which each financial statement line item is affected in the current year i.e. March 31, 2019 as a result of applying the revenue standard (as compared to the previous revenue guidance); and
- a qualitative explanation of the significant changes between the reported results under the revenue standard and the previous revenue guidance.

  The additional disclosures effectively require an entity to apply both Ind AS 115 and the previous revenue guidance (Ind AS 11 and Ind AS 18) in the year of initial application.

  Entities applying the modified retrospective approach can elect to apply the revenue standard only to contracts that are not completed as at the date of initial application (that is, they would ignore the effects of applying the revenue standard to contracts that were completed prior to the adoption date). March year-end entities, for example, can elect to apply the new guidance only to contracts that are not completed as at 1 April 2018. Entities applying the modified retrospective approach can also elect the practical expedient for contract modifications described in 1 (c) above.

For the purpose of transition requirements, a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with Ind AS 11 and Ind AS 18. Transition options allow an entity to apply Ind AS 115 from different dates and therefore, to different population of contracts. Transition options can significantly impact the revenue reported in the financial statements. Entities need to carefully consider the potential effects of the transition options on their financial statements considering the needs of investors and users of financial statements.

2. Appendix B to Ind AS 21

The appendix applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used for initial recognition of the related asset, expense or income. Ind AS 21 requires an entity to use the exchange rate at the 'date of the transaction', which is defined as the date when the transaction first qualifies for initial recognition. The question therefore is whether the date of the transaction is the date when the asset, expense or income is initially recognised, or an earlier date on which the advance consideration is paid or received, resulting in recognition of a prepayment or deferred income. The appendix provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

- **Single payment/receipt**
  The appendix states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, should be the date on which an entity initially recognises the non-monetary asset or liability arising from an advance consideration paid/received.

- **Multiple receipts/payments**
  The appendix states that, if there are multiple payments or receipts in advance of recognising the related asset, income or expense, the entity should determine the date of the transaction for each payment or receipt.

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Example – Revenue recognised at a single point in time with multiple payments
Supplier enters into a contract with a customer on 1 January 20x1 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31 March 20x1. USD 30 million is received on 1 April 20x1 in full and final settlement of the purchase consideration.

Appendix B to Ind AS 21 requires that:
- Supplier will recognise a non-monetary contract liability, translating USD 20 million at the exchange rate on 1 January 20x1.
- Supplier will recognise revenue at 31 March 20x1 (that is, the date on which it transfers the goods to the customer).
- On 31 March 20x1, supplier will:
  - ✓ derecognise the non-monetary contract liability of USD 20 million and recognise USD 20 million of revenue using the exchange rate as at 1 January 20x1; and
  - ✓ recognise revenue and a receivable for the remaining USD 30 million, using the exchange rate on 31 March 20x1.
- The receivable of USD 30 million is a monetary item, so it should be translated using the closing rate until the receivable is settled.

Entities can choose to apply the appendix:
- retrospectively for each period presented applying Ind AS 8;
- prospectively to items in scope of the appendix that are initially recognised on or after the beginning of the reporting period in which the appendix is first applied (i.e. 1 April 2018 for entities with March year-end); or
- prospectively from the beginning of a prior reporting period presented as comparative information (i.e. 1 April 2017 for entities with March year-end).

3. Amendment to Ind AS 40 regarding transfers of investment property

The amendment clarify that to transfer to, or from, investment properties there must be a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A change in intention, in isolation, is not enough to support a transfer. The amendment has also re-characterised the list of evidence of change in use as a non-exhaustive list of examples and scope of these examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Examples of evidence of a change in use include:

a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;
b) commencement of development with a view to sale, for a transfer from investment property to inventories;
c) end of owner-occupation, for a transfer from owner-occupied property to investment property;
d) inception of an operating lease to another party, for a transfer from inventories to investment property.

The amendment provides two transition options. Entities can choose to apply the amendment:
- Retrospectively without the use of hindsight; or

- Prospectively to changes in use that occur on or after date of initial application (i.e. 1 April 2018 for entities with March year-end). At that date, an entity shall reassess the classification of properties held at that date and, if applicable, reclassify properties to reflect the conditions that exist as at that date.

4. Amendments to Ind AS 12 regarding recognition of deferred tax assets on unrealised losses

The amendments clarify the existing guidance in Ind AS 12. They do not change the underlying principles of recognition of deferred tax asset. The amendments clarify that:

- Existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value in the books of the holder for which the tax base remains at cost gives rise to a deductible temporary difference. This is regardless of whether the holder expects to collect all the contractual cash flows of the debt instrument.

- Determining the existence and amount of temporary differences and estimating future taxable profit against which deferred tax assets can be utilised are two separate steps. Recovering assets for more than their carrying amounts is inherent in an expectation of taxable profits and should therefore be included in estimated taxable profit if there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. For example, an entity should assume that a debt investment measured at fair value will be recovered for more than its carrying value when that outcome is probable even if carrying value is below its tax base (original investment cost).

- Recoverability of deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply (for example where capital losses can be set off against capital gains), deferred tax assets are assessed in combination only with other deferred tax assets of the same type.

- When comparing deductible temporary differences against future taxable profits, the determination of future taxable profits shall exclude tax deductions resulting from reversal of these deductible temporary differences. This is to avoid double counting.

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Entity A invests INR 100 million in a debt instrument having a tenure of one year as at 1 March X8. The debt instrument is measured at fair value. Due to change in market interest rate, fair value of the debt instrument as at the reporting date i.e. 31 March X8 has declined to INR 80 million. Entity A expects to collect all the contractual cash flows of the debt instrument. The tax base of the debt instrument remains at cost. Accordingly, there exists a deductible temporary difference of INR 20 million. Entity A's expected tax loss for the next year is INR 5 million. There are no other taxable temporary differences or deductible temporary difference, including no set-off related tax restrictions. How should future taxable profits be determined for recognising deferred tax asset on deductible temporary difference of INR 20 million?

Response: Future taxable profits for recognition of deferred tax asset is INR 15 million i.e. INR (5) million (expected tax loss for year 31 March X9) + INR 20 million (reversal of deductible temporary difference in year 31 March X9). The utilisation of deductible temporary differences is not, however, assessed against probable future taxable profit (loss) for a period on which income taxes are payable (recoverable) (see para 5 of Ind AS 12). Instead, the utilisation of deductible temporary differences is assessed against probable future taxable profit that excludes tax deductions resulting from the reversal of deductible temporary differences (see para 29(a) of Ind AS 12). Assessing the utilisation of deductible temporary differences against probable future taxable profits without excluding those deductions would lead to double counting the deductible temporary differences in that assessment.

An entity shall apply the amendments to Ind AS 12 retrospectively in accordance with Ind AS 8. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity.

5. Annual improvements to Ind AS - Amendment to Ind AS 112 and Ind 28

The Rules have notified amendments to Ind AS 112 and Ind AS 28. The amendments clarify that the disclosures requirement of Ind AS 112 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of Ind AS 112). Previously, it was unclear whether all other disclosure requirements of Ind AS 112 were applicable for such interests.

Ind AS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at FVTPL. The amendment now clarifies that this election shall be made separately for each associate or joint venture at initial recognition i.e. on an investment by investment basis.

It is to be noted that Ind AS 27 para 11 states that if an entity elects, in accordance with paragraph 18 of Ind AS 28, to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with Ind AS 109, it shall also account for those investments in the same way in its separate financial statements.

These amendments should be applied retrospectively in accordance with Ind AS 8 for annual periods beginning on or after 1 April 2018.

6. Consequential amendments to Ind AS on notification of Ind AS 115 and other amendments discussed above

The notification of Ind AS 115 and other amendments discussed above, have necessitated certain consequential amendments to other Ind AS. We discuss below some of the key consequential amendments:

(i) Ind AS 101, *First-time Adoption of Indian Accounting Standards*:

The Rules introduce two additional exemptions in Ind AS 101 related to Ind AS 115 and Appendix B to Ind AS 21. These are:

- Ind AS 115: A first-time adopter can apply the transition provisions in paragraphs C5 and C6 of Ind AS 115 (related to practical expedients when applying Ind AS 115 retrospectively) at the date of transition to Ind AS. Further, a first-time adopter is not required to restate contracts that were completed before the earliest period presented. A completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with previous GAAP.
- Appendix B to Ind AS 21: A first-time adopter need not apply Appendix B to Ind AS 21 to assets, expenses and income in the scope of the appendix initially recognised before the date of transition to Ind AS.
- The exemption related to Ind AS 18 (transfers of assets from customers) has been deleted since Ind AS 18 has been omitted by the Rules.

(ii) Ind AS 2, *Inventories*

Paragraph 8 of Ind AS 2 states that in case of a service provider, inventories include costs of the service, for which the entity has not yet recognised the related revenue. This has been deleted as part of the consequential amendments. Costs of services by a service provider that does not give rise to inventories will need to be accounted for as costs incurred to fulfil a contract with customer in accordance with Ind AS 115. Such costs can be capitalised under Ind AS 115 if they 1) relate directly to the contract, (2) enhance the resources of the entity to perform under the contract and relate to satisfying a future performance obligation, and (3) are expected to be recovered.

(iii) Ind AS 16, *Property, Plant and Equipment*, Ind AS 38, *Intangible Assets* and Ind AS 40, *Investment Property*

These standards have been amended to require use of principles of Ind AS 115 for recognition of a gain or loss on the transfer of non-financial assets i.e. property, plant and equipment, intangible asset and investment property, that are not an output of an entity's ordinary activities. Although a gain or loss on this type of sale generally does not meet the definition of revenue, an entity should apply the guidance in Ind AS 115 related to the transfer of control and measurement of the transaction price including the constraint on variable consideration, to evaluate the timing and amount of the gain or loss recognised. Further, since Ind AS 115 deals with accounting for contract assets, Ind AS 38 has been amended to add a scope exclusion for such contract assets.

(iv) Ind AS 37, *Provisions, Contingent Assets and Contingent Liabilities*

Ind AS 115 does not have any specific requirement to address the accounting of contracts with customers that are, or have become, onerous. Previously, depending upon type of contract, such onerous contracts were accounted under Ind AS 11 or Ind AS 37. With the omission of Ind AS 11, a consequential amendment has been made to Ind AS 37 to bring all onerous revenue contracts within the scope of the Ind AS 37. Ind AS 37 defines onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

(v) Ind AS 109, *Financial Instruments*

Amendments to Ind AS 109 are discussed below:

(i) The current Ind AS 109 states that an entity shall measure trade receivables at their transaction price. With notification of Ind AS 115, an entity is required to measure trade receivables at their transaction price if the trade receivables do not contain a significant financing component in accordance with Ind AS 115.

(ii) An entity shall have an accounting policy choice to measure loss allowance on trade receivables or contracts assets within the scope of Ind AS 115 containing a significant financing component at an amount equal to life time expected credit losses (simplified approach) or using the general model (3 stage).

(iii) Entities shall consider the principles of Ind AS 115 (instead of Ind AS 18) for subsequent measurement of financial guarantee and loan commitments.

The takeaway

Revenue is one of the most important financial statement measures for both preparers and users of financial statements. The effect of the revenue standard is extensive, and all industries may be affected. The new revenue standard will require entities to apply judgement and use estimates in a number of areas. Depending on the nature of the industry and past practices, the new revenue standard may impact identification of performance obligations to be delivered, accounting for contract costs, accounting for variable consideration, and evaluation of principal-agent relations. The new standard may have an impact on an entity's budgeting and reporting process, IT systems, internal control systems, employee KPIs and bonuses. It may also have tax implications in many circumstances. Accordingly, early evaluation of the implications of the new standard is vital.

Footnote 1 to Ind AS 18 stated that real estate developers shall account for revenue in accordance with Guidance Note on Accounting for Real Estate Transaction (the 'Guidance Note') issued by ICAI for entities to whom Ind AS is applicable. Since Ind AS 18 has been omitted by the Rules, real estate developers will need to apply Ind AS 115 from accounting periods beginning on or after 1 April 2018. Currently, the guidance note requires real estate developers to apply percentage of completion method. Under Ind AS 115, real estate developers will need to assess whether they satisfy the performance obligations over time or at a point in time. A performance obligation is satisfied over time when at least one of the following criteria is met:

• The customer receives and consumes the benefits of the entity's performance as the entity performs.
• The entity's performance creates or enhances a customer-controlled asset.
• The asset being created has no alternative use to the entity, but the entity has a right to payment for performance completed to date.

The Rules shall be applicable for accounting periods beginning on or after 1 April 2018 and cannot be early adopted. The financial statements for the year ended 31 March 2018 should include relevant disclosures required by Ind AS 8 for new Ind AS/amendments issued but not yet effective. The required disclosures are summarised below:

(a) the title of the new Ind AS;
(b) the nature of the impending change or changes in accounting policy;
(c) the date by which application of the Ind AS is required;
(d) the date as at which it plans to apply the Ind AS initially; and
(e) either:
(i) a discussion of the impact that initial application of the Ind AS is expected to have on the entity's financial statements; or
(ii) if that impact is not known or reasonably estimable, a statement to that effect.

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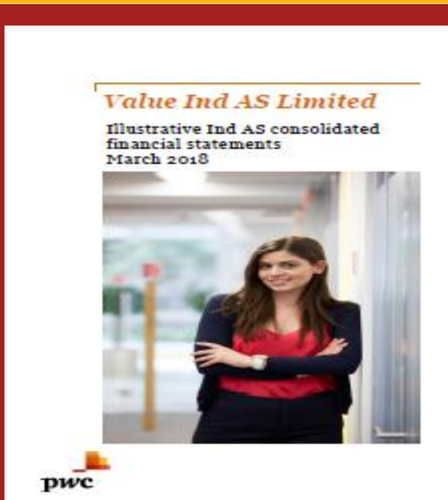

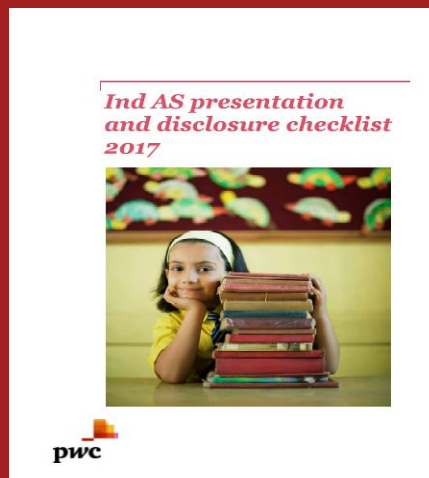

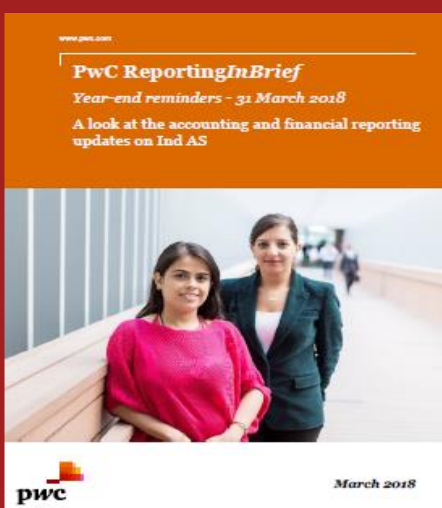

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Phone: [91] (44) 4228 5000

Hyderabad

Plot no. 77/A, 8-624/A/1
3rd Floor, Road no. 10
Banjara Hills
Hyderabad, Telangana 500 034
Phone: [91] (40) 4424 6000

Kolkata

Plot nos 56 & 57
Block DN-57, Sector V
Salt Lake Electronics Complex
Kolkata, West Bengal 700 091
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Mumbai

252 Veer Savarkar Marg
Next to Mayor's Bungalow
Shivaji Park, Dadar
Mumbai, Maharashtra 400 028
Phone: [91] (22) 6669 1000

Delhi NCR

Building 8, Tower B
DLF Cyber City
Gurgaon, Haryana 122 002
Phone: [91] (124) 462 0000

Pune

Tower A - Wing 1, 7th Floor
Business Bay
Airport Road, Yerawada
Pune, Maharashtra 411 006
Phone: [91] (20) 4100 4444

Jamshedpur

GDR Siddha, Level 2
N-Road, Opposite Saint Mary School,
Bistupur, Jamshedpur, Jharkhand 831 001
Phone: [91] (657) 2320 535 / 595

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