Speaker : Sandeep Shah

Mumbai, March 25, 2021

Ind AS - General Purpose Financial Statements - Practical Insights

Ind AS 115 Revenue from Contracts with Customers

Ind AS 36 Impairment of Assets

Ind AS 16 Property, Plant and Equipment

Ind AS 38 Intangible Assets

Ind AS 40 Investment Property

Ind AS 105 Non current Assets Held for Sale & Discontinued Operations

“What is inside is reflected outside too”

Ind AS 115: Revenue from Contracts with Customers

Matters	Observations based on technical review / FRRB Observations
Goods are sold to customer on ex-factory terms before year end but goods are not physically dispatched considering customer's request. Since the control is not transferred to customer, revenue recognition is postponed.	This arrangement is a kind of bill-and-hold arrangement under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future which is expressly based on customer's request. If the entity is able to establish that it has substantially completed its performance obligation, revenue recognition need not be postponed. Source / reference: Para B79-B82 of Ind AS 115
The entity sells products with standard warranty of 2 years where defective parts will be replaced. In addition, it also provides additional warranty of 2 years on payment of additional consideration. The entity records entire amount as revenue from sale of products including extended warranty. Warranty related expenses are accounted as and when they are incurred.	• The entity needs establish whether the warranty given to customers is assurance type warranty or service type warranty. • In the given case, standard warranty is in nature of assurance type warranty. Sale of product alongwith standard warranty will be single performance obligation. Provision for expected warranty costs will be made in accordance with Ind AS 37. • Additional warranty is in nature of service type warranty and will be a separate performance obligation. Source / reference: Para B28-B33 of Ind AS 115

Ind AS 115: Revenue from Contracts with Customers (contd…)

Matters	Observations based on technical review / FRRB Observations
Schedule for revenue does not separate revenue from sale of products and sale of services – sale of separate performance obligation of sale of product and performance obligation of extended warranty (service) is clubbed and disclosed as sale of product	Separate disclosure in note is required to be given for revenue earned from sale of products, sale of services and other operating revenues Source / reference: Schedule III (Division II) – sr. no. 3 of General instructions for preparation of Statement of Profit and Loss]
Disclosures is not made for warranties and related obligations.	Disclosure in regards to types of warranties and related obligations is required Source / reference: Para 119 (e) of Ind AS 115
Extended warranty and other adjustments not disclosed in the reconciliation with contract revenue.	Reconciliation between the revenue recognised in showing separately each of the adjustments made to the contract price (for example discounts, rebates, refunds, credits, etc.). Source / reference: Para 126AA of Ind AS 115 Refer next slide for practical insight

Changes in contract assets are as follows:

	31 st March 202x	31 st March 202x
Balance at beginning of year		
Revenue recognized during the year		
Invoices raised during the year		
Translation exchange difference		
Balance at end of year		

Changes in unearned and deferred revenue:

Revenue recognized out of opening balance		
Invoice raised (excluding recognized as revenue during the year)		
Translation exchange difference		
Balance at end of year		

Reconciliation of revenue recognized with contracted price

Contracted price		
Reductions towards variable consideration component (volume discount, service level credits etc)		

Ind AS 115: Revenue from Contracts with Customers (contd…)

Matters	Observations based on technical review / FRRB Observations
Entity provides AMC services to its customers. The contract is usually for 3-4 years. In respect of a contract with a customer where contract period was from FY 2017-18 to FY 2020-21, due to ongoing Covid-19 pandemic, the contract is modified at the commencement of FY 2020-21 by way of reduction in consideration and also extended for another term of 4 years with reduced consideration. The entity has not evaluated the impact due to modification of the contract.	The entity should evaluate whether the modification results in a separate contract or not and account for revenue based on the aforesaid evaluation. Source / reference: Para 18-21 of Ind AS 115 Refer next slide for the practical insight.

Ind AS 115: Revenue from Contracts with Customers – contract modification (separate contract)

(contd…)

- Company XYZ provides AMC services to its customers for the air conditioners sold by OEM.

- Company XYZ entered into 4 year contract with a customer Company PQR for Rs.4 lakhs (Rs.1 lakh per annum).

- At the beginning of 4th year, both the parties agree to modify the contract as under:
  - – service fees for 4^{th} year is reduced to Rs.0.80 lakh
  - – existing contract is extended for another period of 4 years for Rs.3 lakhs (Rs.0.75 lakh per annum)

- Company XYZ determines that accounting for contract modification as aforesaid will be carried out as if it is a separate contract.

Ind AS 115: Revenue from Contracts with Customers – contract modification (separate contract)

(contd…)

Question: What will be the amount of revenue which will be accounted in 4th year in the Statement of Profit & Loss?

Rs.0.80 lakh	**Rs.0.76 lakh**

Response:

Rs.0.76 lakh

Ind AS 115: Revenue from Contracts with Customers (contd…)

Matters	Observations based on technical review / FRRB Observations
While selling the products, the entity gives an unconditional right of return to its customers that they can return the products if they are found to be defective at the time of receipt. Based on past experience, the entity makes provision for margin in respect of products expected to be returned.	The practice followed by the entity is correct under the IGAAP. Under Ind AS, the sales amount needs to be adjusted with the sales amount of expected returns with a corresponding credit to refund liability in balance sheet. The cost of goods sold as well as year end inventory also needs to be adjusted. Source / reference: Para B20-B27 of Ind AS 115 Refer next slide for the practical insight.

Ind AS 115: Revenue from Contracts with Customers – sale with a right of return

(contd…)

- Company XYZ sells specialized spare part of a machinery.
- Terms and conditions of sales include unconditional right of return if the spare part is found to have manufacturing defect which will be certified by the technical experts of Company XYZ. Full amount is refunded to the customers if it is certified by the technical experts.
- Company XYZ sells the spare part at standard price of Rs.5,000 per unit. Gross margin per unit is Rs.2,000.
- Company XYZ expects to receive back in next year 5% of the units sold during the year. Total units sold during the year is 1000. Returned products have to be sold as scrap at Rs.100 per unit.

Ind AS 115: Revenue from Contracts with Customers – sale with a right of return

(contd…)

Question: What will be the amount of revenue which will be recognised in the Statement of Profit & Loss for the year?

Rs.50.00 lakhs	Rs.47.50 lakhs

Response:

Rs.47.50 lakhs

Question: What will be the amount of adjustment to cost of goods sold / inventory as at year end for units expected to be received back from customers?

Rs.1.50 lakhs	Rs.0.05 lakh

Response:

Rs.0.05 lakh

Ind AS 115: Revenue from Contracts with Customers (contd…)

Matters	Observations based on technical review / FRRB Observations
Disclosure is not made for significant judgements applied in application of Ind AS 115.	Disclosure is required for judgments and changes in judgements made in applying Ind AS 115 that significantly affect the determination of the amount and timing of revenue from contracts with customers. Source / reference: Para 123 of Ind AS 115 A typical disclosure in accounting policy would be as under: Contracts with customer and significant judgement in applying the standard • The Company's contracts with customers mainly include promises to transfer products and services to a customer. The Company assesses the products / services promised in a contract and identifies distinct performance obligations in the contract, if any. • Judgement is required to determine the transaction price for the contract. The transaction price could be either a fixed amount of consideration or variable consideration with elements such as volume discounts and incentives. The estimated amount of variable consideration is adjusted in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and is reassessed at the end of each reporting period.

Ind AS 115: Revenue from Contracts with Customers (contd…)

Matters	Observations based on technical review / FRRB Observations
Inadequate disclosures in regards to disaggregation of revenue.	Requirement to disaggregate the revenue into categories that depict the • Nature, amount • Timing and uncertainty of revenue • Economic factors affecting cash flows Source / reference: Para 114 of Ind AS 115 Refer next slide for practical insight

Ind AS 115: Revenue from Contracts with Customers (contd…)

NOTE 22B: REVENUE FROM CONTRACTS WITH CUSTOMERS

(₹ in Crores)

	Year 2019-20	Year 2018-19
A. REVENUE FROM CONTRACTS WITH CUSTOMERS DISAGGREGATED BASED ON NATURE OF PRODUCTS OR SERVICES		
Revenue from sale of products		
Paints and allied products	**16,810.51**	15,995.78
Bath Fittings and allied products	**214.75**	201.09
Revenue from sale of services		
Revenue from home solutions operations	**-**	12.48
Others	**0.35**	0.09
Other operating revenues		
Processing and service income	**32.99**	34.47
Scrap sales	**18.84**	14.46
Other Income (Refer note 23(c)(ii))		
Royalty received		
From subsidiaries and associate	**59.88**	55.48
From others	**0.01**	0.02
Total	**17,137.33**	**16,313.87**

NOTE 22B: REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTD.)

(₹ in Crores)

	Year 2019-20	Year 2018-19
B. REVENUE FROM CONTRACTS WITH CUSTOMERS DISAGGREGATED BASED ON GEOGRAPHY		
Home market	**17,008.83**	16,191.80
Exports	**128.50**	122.07
Total	**17,137.33**	**16,313.87**

Ind AS 115: Revenue from Contracts with Customers (contd…)

Matters	Observations based on technical review / FRRB Observations
The entity sells products with different credit terms which includes credit term of beyond 1 year. Accounting policy states that no element of financing is deemed present as the sales are made with a credit term which is consistent with market practice.	For determining the transaction price, an entity is required to adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. Hence, existence of element of financing is determined as per Ind AS 115 and not by comparing the market practices. Source / reference: FRRB, para 60-65 of Ind AS 115 Refer next slide for the practical insight

Ind AS 115: Revenue from Contracts with Customers – financing component

(contd…)

- Company XYZ enters into contract with customers to sell machinery

- Credit term policy followed by Company XYZ & consideration amount charged (other terms & conditions remaining same) is as under:
  – Payment on delivery : consideration charged Rs.4 lakhs
  – Credit term of 2 years : consideration charged Rs.5 lakhs

Question: If a machinery is sold by Company XYZ with credit term policy of 2 years, what amount should be credited to sales account based on facts given?

Rs.4 lakhs

Rs.5 lakhs

Response:

Rs.4 lakhs

Ind AS 115: Revenue from Contracts with Customers (contd…)

Matters	Observations based on technical review / FRRB Observations
The entity (power distribution) accounted for contribution received from consumers towards service lines as capital reserve under other equity. This view was based on an expert opinion received that said capital contribution are not refundable to the consumers, even after they cease to be consumers and the underlying assets there against are under ownership of the entity.	When a contract with a customer does not meet the criteria for determining contract with a customer in accordance with para 9 of Ind AS 115 and the entity receives consideration from the customer, the entity is required to recognise the consideration received as revenue only when either of following events have occurred: • Entity has no remaining obligations, substantially entire consideration is received and is non-refundable or • Contract is terminated and consideration received is non-refundable. Hence, contribution received from consumers should be recognised as revenue and not as capital reserve / other equity. Source / reference: FRRB, para 15 of Ind AS 115
Revenue (interest income) is accrued in current year as well as previous year. Entire receivable is written off in current year as no longer receivable.	One of the criteria under Ind AS 115 for determination of a contract with a customer is to establish the probability that the entity will be able to collect the consideration to which it is entitled. Measurement principle is guided by Ind AS 109. Hence, when the recoverability of interest income was not certain, the recognition of the same should not have been done. Source / reference: FRRB, para 9(e) of Ind AS 115, para 5.4.1 of Ind AS 109

Ind AS 115: Revenue from Contracts with Customers (contd…)

Matters	Observations based on technical review / FRRB Observations
Entity is in the business of power generation & distribution. While preparing P&L, amount of purchase of power has been netted off from revenue from traded power.	The entity carried out these transactions as a principal, rather as an agent. Hence, transaction of purchase and sale of power cannot be netted off. Source / reference: FRRB, para B36 of Ind AS 115 and GN on Division II – Ind AS Schedule III to the Companies Act 2013

Update relating to IFRS 15 / IAS 38

(contd..)

Player Transfer Payments - revenue applying IFRS 15 Revenue from Contracts with Customers or, the gain or loss arising from the derecognition of the intangible asset applying IAS 38.

Player Transfer Payments (IAS 38 Intangible Assets)—Agenda Paper 5

The Committee received a request about the recognition of player transfer payments received. In the fact pattern described in the request:

a) a football club (entity) transfers a player to another club (receiving club). When the entity recruited the player, the entity registered the player in an electronic transfer system. Registration means the player is prohibited from playing for another club, and requires the registering club to have an employment contract with the player that prevents the player from leaving the club without mutual agreement. Together the employment contract and registration in the electronic transfer system are referred to as a 'registration right'.

b) the entity had recognised costs incurred to obtain the registration right as an intangible asset applying IAS 38. As part of its ordinary activities, the entity uses and develops the player through participation in matches, and then potentially transfers the player to another club.

c) the entity and the receiving club enter into a transfer agreement under which the entity receives a transfer payment from the receiving club. The transfer payment compensates the entity for releasing the player from the employment contract before the contract ends. The registration in the electronic transfer system is not transferred to the receiving club but, legally, is extinguished when the receiving club registers the player and obtains a new right.

Update relating to IFRS 15 / IAS 38

(contd..)

d) the entity derecognises its intangible asset upon the receiving club registering the player in the electronic transfer system.

The request asked whether the entity recognises the transfer payment received as revenue applying IFRS 15 Revenue from Contracts with Customers or, instead, recognises the gain or loss arising from the derecognition of the intangible asset in profit or loss applying IAS 38.

Recognition of transfer payment received

In the fact pattern described in the request, the entity recognised the registration right as an intangible asset applying IAS 38. Accordingly, the entity applies the derecognition requirements in IAS 38 on derecognition of that right.

Paragraph 113 of IAS 38 states that 'the gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised … Gains shall not be classified as revenue'. Applying that paragraph, the entity recognises in profit or loss, but not as revenue, the difference between the net disposal proceeds and the carrying amount of the registration right.

Update relating to IFRS 15 / IAS 38 (contd..)

Does the transfer payment represent disposal proceeds?

The transfer payment arises from the transfer agreement, which requires the entity to release the player from the employment contract. The entity is therefore required to undertake some action for the right to be extinguished. Accordingly, the transfer payment compensates the entity for its action in disposing of the registration right and, thus, is part of the net disposal proceeds described in paragraph 113 of IAS 38.

The Committee concluded that, in the fact pattern described in the request, the entity recognises the transfer payment received as part of the gain or loss arising from the derecognition of the registration right applying paragraph 113 of IAS 38. In the fact pattern described in the request (in which the entity recognises the registration right as an intangible asset), the entity does not recognise the transfer payment received, or any gain arising, as revenue applying IFRS 15.

Source / Reference : https://www.ifrs.org/news-and-events/updates/ifric-updates/june-2020/#1

Ind AS 36 Impairment of Assets

<table>
<tr><th>Matters</th><th>Observations based on technical review / FRRB Observations</th></tr>
<tr><td>Recoverable amount is calculated to determine amount of impairment loss to be recognized. However, disclosures for discount rate applied for cash flow projections used for arriving recoverable amount is not given.</td><td>Ind AS 36 mandates certain disclosures which are important in understanding that how recoverable amount has been calculated. This includes disclosure of discount rate used in current and previous measurement.

Source / reference: Para 130 and 134 of Ind AS 36</td></tr>
<tr><td>Additional disclosures not given for intangible assets with indefinite useful lives. Further, the Company has considered cash flow projections of 10 years for calculating value in use, however, justification for considering such a longer period is not given.</td><td>Some of the additional disclosures include
• basis of determination of recoverable amount (i.e. value in use or fair value less costs of disposal)
• If recoverable amount is determined based on value in use then
    • Each key assumption on which management has based its cash flow projections for the period covered by most recent budget / forecasts
    • Description of management's approach to determining the value(s) assigned to each key assumption
    • Period over which management has projected cash flows and when a period is greater than 5 years, an explanation of why that longer period is justified
    • Growth rate used
    • Discount rate(s) applied

Source / reference: Para 33(b) and Para 134-137 of Ind AS 36</td></tr>
</table>

Ind AS 38 Intangible assets

Matters	Observations based on technical review / FRRB Observations
A website was developed by the in-house team and the costs incurred were eligible to be capitalized as an intangible asset. No disclosure was made in financial statements that it is internally generated.	Internally generated intangible assets should be separately disclosed along-with its useful life, amortization method, gross carrying value, accumulated amortization amount, etc. Source / reference: Para 118 of Ind AS 38
The Entity is in business of manufacturing of products. The entity has a dedicated R&D department for the purpose of adding new products to its existing portfolio. During the year, R&D team had incurred expenses towards research phase & development phase of few products. Entire amount incurred is capitalized as an intangible asset.	Ind AS 38 explicitly requires any expenditure on research phase to be recognised as an expense immediately. Further, any expenditure on development phase should be recognised as an intangible asset, if the recognition criteria are met. Source / reference: FRRB, Para 54 and 57 of Ind AS 38

Ind AS 38 Intangible assets

(contd..)

Tentative Agenda decision (March 2021)

"Customer's accounting for costs of configuring or customising the supplier's application software in a Software as a Service (SaaS) arrangement"

Fact pattern described in the request:

a) a customer enters into a SaaS arrangement with a supplier. The contract conveys to the customer the right to receive access to the supplier's application software over the contract term—that right to receive access does not provide the customer with a software asset at the contract commencement date. Therefore, the access to the software is a service that the customer receives over the contract term.

b) the customer incurs upfront costs of configuring or customising the supplier's application software to which the customer receives access. The request describes configuration and customisation as follows:

   i) configuration involves the setting of various 'flags' or 'switches' within the application software, or defining values or parameters, to set up the software's existing code to function in a specified way.

   ii) customisation involves modifying the software code in the application or writing additional code. Customisation generally changes, or creates additional, functionalities within the software.

Ind AS 38 Intangible assets

(contd..)

Tentative Agenda decision (March 2021) [contd...]

In analysing the request, the Committee considered:

a) whether, applying IAS 38, the customer recognises an intangible asset in relation to configuration or customisation of the application software (Question I)?

b) if an intangible asset is not recognised, how the customer accounts for the configuration or customisation costs (Question II)?

Source / reference :https://cdn.ifrs.org/-/media/feature/meetings/2021/march/ifric/ap02-configuration-or-customisation-costs-cloud-computing-arrangement-ias-38.pdf

Ind AS 16 Property, Plant and Equipment (PPE)

Matters	Observations based on technical review / FRRB Observations
Specific reason for considering higher useful life as compared to Schedule II not given.	As per the requirement of Schedule II, justification duly supported by technical advice should be given for considering higher useful life as compared to useful life prescribed under Schedule II. General statement (without specific reason) that useful life adopted are as per management and technically assessed should not be made.
A self constructed asset is capitalized on 30th Aug 2020 since it is substantially ready for its intended use by management. The asset is actually put to use for manufacturing operations on 30th Sep 2020. For the purpose of capitalizing borrowing costs, bank interest incurred upto 30th Sep 2020 is considered.	Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized till the asset is ready for its intended use or sale. Hence, borrowing costs should be capitalized upto 30th Aug 2020. Source / reference: Para 22 of Ind AS 16, Para 22 of Ind AS 23
Accounting policy is silent on review of residual value, depreciation method and useful life. Further, no disclosure is given for component accounting, treatment of decommissioning liabilities.	Depreciation method and residual value should be reviewed every year along-with review of useful life. Further, accounting policy should include accounting for component, subsequent measurement and accounting for decommissioning liabilities. Source / reference: Para 43-47, 51 of Ind AS 16
Category-wise movement of fixed assets for previous year is not given. Further, movement under capital work-in-progress is not given for current year as well as previous year.	Category-wise movement of fixed assets and movement of capital work-in-progress is required to be given for current year as well as previous year. Source / reference: FRRB, Schedule III (Division II), Para 74(b) of Ind AS 16

Ind AS 40 Investment Property

Matters	Observations based on technical review / FRRB Observations
Fair value of investment properties not given.	Fair value of investment property should be disclosed, except in specified exceptional cases where practically it is not possible to measure fair value. In such cases, an explanation is required to be disclosed on why fair value cannot be measured. Source / reference: Para 79(e) of Ind AS 40
Depreciation not charged on assets classified under investment properties.	Depreciation should be charged on assets classified as 'investment properties' and should be debited to the Statement to Profit and Loss. Source / reference: FRRB, Para 5 and 30 of Ind AS 16

Recent amendments to Schedule III applicable to Division II companies in respect of PPE, intangible assets and investment property

- Reconciliation statement of gross and net carrying amounts of each class of assets at the beginning and end of the reporting period to include disclosure of amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of PPE and intangible assets).

- Disclosure to be given as to whether the fair value of investment property (as measured for disclosure purposes in the financial statements) is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.

- Where the Company has revalued its PPE (including Right-of-Use Assets) / intangible assets, the company shall disclose as to whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.

- Ageing shall be given for ‘Capital Work in Progress’ as well as ‘Intangible assets under development’ in prescribed format (separately for projects in-progress and projects temporarily suspended). Along-with this, schedule for projects whose completion is overdue or has exceeded its cost compared to its original plan shall also be given in the prescribed format.

Ind AS 105 Non current Assets Held for Sale & Discontinued Operations

- Company XYZ has a wholly owned subsidiary Company PQR.

- Company XYZ has entered into an agreement with the Company Prospector during FY 2020-21 to sell its shareholding in Company PQR, which is subject to NCLT's approval.

- The sale of shares will be by a way of merger of subsidiary with the Company Prospector.

- Though the NCLT approval was received before 31^{st} March 2021, entire regulatory process is completed subsequent to the year end.

- Prior to merger date, % holding by Company XYZ to be reduced so that on effective date, the number of shares held by the Company XYZ in Company Prospector will be less than 10%

Source / reference: Para 8A of Ind AS 105

Ind AS 105 Non current Assets Held for Sale & Discontinued Operations

Question: Whether the subsidiary is required to be shown as held for sale as on 31st March 2021 in the financial statements of Company XYZ?

Yes	No

Response:

Yes

Questions and Answers session

Thank You