IND AS 115 – Revenue from Contracts with Customer (10-15 marks)

THEORY DOMINATED IND AS

This Standard applies to the accounting of revenue arising from contracts with customers for the provision of goods or services in the ordinary course of business.

In simpler words, whenever a business entity sells goods or provides services to its customers in the usual course of operations (for example, a retailer selling clothes, a software company providing maintenance service, or a builder constructing apartments for buyers), Ind AS 115 governs how and when the revenue from such contracts should be recognized.

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Scope of Ind AS 115

This standard does not apply to:

- Lease contracts (covered under Ind AS 116),
- Insurance contracts (covered under Ind AS 104),
- Financial instruments (covered under Ind AS 109/107),
- And non-monetary exchanges between entities in the same business (for example, exchange of advertising rights).

Core Principle of Ind AS 115

The core idea of this Standard is that **revenue should reflect the transfer of control of goods or services to the customer** — not merely the transfer of risk and rewards as was the case in older standards.

Hence, an entity should recognize revenue:

1. In a manner that depicts the transfer of goods or services to the customer, and (one time (or) over period)
2. At an amount that reflects the consideration (price) the entity expects to receive in exchange for those goods or services. (How much!)

> 🧠 **Simplified understanding:** Revenue is not recognized when goods are produced or billed, but when the customer obtains control over those goods or services — meaning, the customer can direct their use and enjoy their benefits.

Example: Transfer of Control

A car manufacturer sells a car to a dealer. Revenue is recognized only when the dealer takes control (i.e., when the car is delivered and the dealer can sell it).

Merely signing a sales contract or receiving an advance does not mean revenue recognition.

Basic Idea of entire Standard 115

Case ①

Jio → Broadband 12000 (Day ①) → Internet (1 yr) / Router (free)

	SSP
Internet (1 yr)	18000
Router (free)	6000
	24000

↓

115 says allocate 12000 in ratio of SSP

↓

$12000 \times \frac{18000}{24000}$ → 9000 to Internet

$12000 \times \frac{6000}{24000}$ → 3000 to Router

Day ①

Bank A/c Dr 12000
To Revenue 3000
To Advance revenue (AR) 9000

1st Month end

AR 750
To Revenue 750 $\left(\frac{9000}{12}\right)$

↓

Same entries will repeat till year end.

Note : Without examples | cases, you will not understand this Standard (or) It will be very difficult to understand

Five-Step Model for Revenue Recognition

Ind AS 115 lays down a **5-step model** for recognizing revenue systematically and consistently. These steps form the backbone of the standard and ensure revenue recognition truly represents the economic substance of transactions.

01

Identify the Contract with a Customer

02 (Promises)

Identify the Performance Obligations in the Contract

03 ★

Determine the Transaction Price

04

Allocate the Transaction Price to the Performance Obligations

05

Recognize Revenue as and when the Entity Satisfies each Performance Obligation

💡 **Mnemonic to remember:** 👉 **CPTAR** – Contract, Performance, Transaction, Allocation, Recognition.

> "Your level of success is determined by your level of discipline & perseverance."

Step 1: Identifying the Contract with a Customer

A contract is an agreement between two or more parties that creates enforceable rights and obligations.

However, for a contract to qualify as a **"contract with a customer"** under Ind AS 115, it must satisfy all five conditions given below.

a) Approval and Commitment

Both the parties — the entity and the customer — must have approved the contract (in writing, orally, or through customary business practices) and be committed to perform their respective obligations.

b) Identifiable Rights

The rights of each party regarding goods or services to be transferred must be clearly identifiable. The customer must know what they will receive, and the entity must know what it must deliver.

c) Identifiable Payment Terms

The payment terms — such as price, timing, and mode of payment — must be explicitly mentioned and identifiable.

d) Commercial Substance

The contract should have commercial substance, meaning that the transaction should change the entity's future cash flows in a meaningful way.

e) Probability of Collection ★

It must be probable that the entity will collect substantially all of the consideration to which it is entitled. The customer should have the ability and intent to pay.

Examples of Contract Conditions

🔹 Example: Approval and Commitment

If a software company and its client have signed an agreement for website development, both must be legally bound — i.e., the developer agrees to build, and the client agrees to pay.

🔹 Example: Identifiable Rights

The contract specifies that the company will deliver 1,000 customized T-shirts with the client's logo. The rights (to receive/deliver) are well-defined.

🔹 Example: Identifiable Payment Terms

"50% advance and 50% on delivery" — clear payment term. But if it says, "Payment to be made whenever possible," — it's not identifiable.

🔹 Example: Commercial Substance

A sale to a related party where no cash is expected does not have commercial substance. But a sale to a customer where future cash inflows are expected definitely has.

Example: Probability of Collection

🔹 **Example:** If the customer has a poor credit rating and is unlikely to pay, then even if other conditions are met, it is not a valid contract under Ind AS 115.

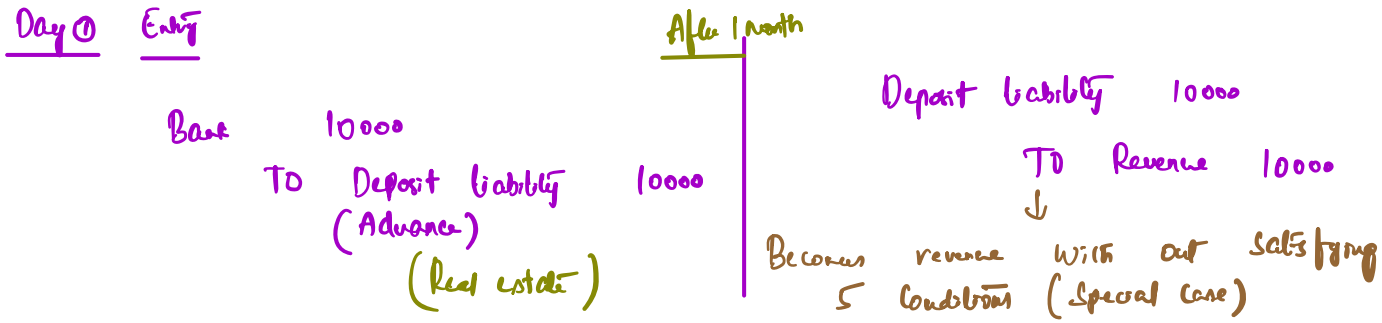
Special Case — When Step 1 Fails but Money is Received

Sometimes, a contract may not meet the Step 1 conditions, but the entity may still transfer goods or services and receive non-refundable consideration (say, a deposit).

In that case:

- The amount received is not revenue yet, but a liability, called a **Deposit Liability**.
- It can be recognized as revenue only when:
  a. The entity has transferred all promised goods or services, and the full consideration is received and is non-refundable, or
  b. The contract is terminated and the consideration received is non-refundable.

🔹 **Example:** A customer pays ₹10,000 as a booking advance for a service, but later cancels it before the contract is finalized. Since the contract didn't meet all conditions, ₹10,000 is a deposit liability, not revenue. If the amount is non-refundable, it becomes revenue only when the entity keeps the money because the service cannot be availed anymore.



Contract Term

The contract term (or duration) refers to the period over which the parties have enforceable rights and obligations.

It is not necessarily the period written in the agreement — rather, it's the period during which both parties are bound by enforceable promises.

🔹 **Example:** A gymnasium enters into a contract with a new member to provide gym access for 12 months at ₹4,500 per month. However, the member has the right to cancel without penalty after 3 months. Here, the **contract term is only 3 months**, because after that, neither party has an enforceable right (the customer can cancel).

Combining Contracts

Sometimes, two or more contracts signed with the same customer (or related customers) around the same time must be treated as a single combined contract. This avoids revenue manipulation through artificial separation of contracts.

Combine the contracts if any one of the following conditions exists:

1. The contracts are negotiated as a single package with a common commercial objective.
2. The consideration in one contract depends on the price or performance of the other contract.
3. The goods or services promised in the contracts are a single performance obligation.

🔹 **Example:** A company sells machinery and also provides training on how to operate it. If both are negotiated together, and training is essential for using the machine, they should be treated as a single contract.

Contract Modification V. Imp

A contract modification (also called a "change order") happens when the parties agree to change the scope, price, or both of an existing contract.

↓
Additional goods / services added

For a modification to exist:

- a) There is a change in scope, price, or both.
- b) The change is approved by both the entity and the customer.
- c) The change is legally enforceable.

Once identified, the next question is: Should the modification be treated as a separate contract or part of the existing one?

Modification that Constitutes a Separate Contract

A modification will be treated as a **separate contract** if both of the following are satisfied:

1. The modification adds new goods or services that are distinct, and
2. The increase in contract price reflects the standalone selling price (SSP) of those new goods or services.

If both are true → Treat it as a Separate Contract.

🔹 **Example:** A builder agrees to construct 10 houses for ₹10 crore. Later, the buyer requests 2 additional houses at ₹2 crore (the normal standalone price). → This is a separate contract because new goods (houses) are distinct, and price reflects the SSP.

Eg

P Ltd (Service provider) — office repair & painting, 50 days @ 1800/day — St Ltd (Customer)

Total amt (Transaction price) = 1800 × 50 = 90000

After 30 days

1 more Contract b/w 2 parties

Factory repair & painting = 70 days @ 1800/d

New service (Distinct)

No discount @ SSP

So treat it as Separate Contract.

Modification that Does NOT Constitute a Separate Contract

If the above conditions are not met, then the modification is treated as an adjustment to the existing contract, and revenue is accounted differently depending on whether remaining goods/services are distinct or not.

(A)	New goods or services are distinct, but price does not reflect SSP (New Service + discount)	→ Terminate the old contract and create a new one. The remaining revenue is adjusted prospectively (future basis).
(B)	Remaining goods or services are not distinct (part of a single combined performance obligation) (No new service)	→ Treat as part of the existing contract. Adjust revenue on a cumulative catch-up basis (i.e., retrospectively).

🔹 **Example:** If a company modifies a software development contract to add a few extra modules that are integral to the original software, these are not distinct, so it's treated as part of the existing contract, with a retrospective adjustment.

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Eg (A)

Pk Ltd (Service provider) —— office repair & painting: 50 days @ 1800/day ——→ Sk Ltd (Customer)

Total amt (Transaction price) = 1800 × 50 = 90000

After 30 days — 1 wise Contract b/n 2 parties

Factory repair & painting = 70 days @ 1500/day

New service (Distinct) — discount — NO SSP

* Recognise revenue up to 30 days (of existing Contract) ⇒ 30 × 1800 = 54000

* Pending / Remaining part of old Contract ⇒ 1800 × 20 days = 36000
(+) New Contract ⇒ 1500 × 70 days = 105000
90 days | 141000

* Revenue/day to be recognised = 141000 / 90 days = 1566/day.

↓ Prospective accounting

Eg (B)

Pk Ltd (Service provider) —— office repair & painting: 40 days @ 1500/day ——→ Sk Ltd (Customer)

Total amt (Transaction price) = 1500 × 40 = 60000

After 25 days — Sk Ltd asks for additional 10 days for existing Contract @ 1200/day (No new service, same work)

* If Pk Ltd knew about this delay on Day 1 itself then Revenue recognition/day = (1500×40) + (1200×10) / 50 days = 72000 / 50 days = 1440/day.

* Revenue already recognised till date (till 25 days) = 1500 × 25 = 37500

Revenue that should have been recognised = 1440 × 25 = 36000

Adj in revenue 1500

(Revenue to be reversed on modification date)

From 26th day revenue to be recognised = 1440 / day.

Step 2: Identifying Performance Obligations

A **Performance Obligation (P.O.)** is a promise in a contract to transfer: (How many promises made?)

- A distinct good or service, or
- A series of goods or services that are substantially the same and have the same pattern of transfer to the customer.

In simpler words — performance obligations are the deliverables under a contract.

🔹 **Example:** In a contract to sell and install an air conditioner, there are two promises:

1. To deliver the air conditioner (good), and
2. To install it (service).

Each may be a separate performance obligation if they can be sold separately.

Distinct Good or Service: The Two-Step Test

Once we've identified that a contract exists, the next step is to determine what the entity has promised to deliver — in other words, what are the **performance obligations**.

To determine whether a good or service is **distinct**, Ind AS 115 prescribes a **two-step test**.

1 2

Step 1: Can the customer benefit from the good or service?

A good or service is capable of being **distinct** if the **customer can benefit from it**:

- **On its own** (i.e., it's useful by itself), or
- **Together with other readily available resources** (something the customer already has or can easily get from other suppliers).

⊕

Step 2: Is the good or service separately identifiable?

Even if a good/service is capable of being distinct (Step 1 satisfied), it must also be **distinct within the context of the contract**.

It is **not distinct** if: (It is distinct if NOT)

- It is **integrated** with other goods or services, NOT
- It is **highly interdependent** or **interrelated** with other items, or NOT
- It **significantly modifies or customizes** other promised goods/services. NOT

Examples: Distinct vs. Single Performance Obligations

Example 1: Distinct Performance Obligations

An entity enters into a contract with a customer to provide a **water purifier** and **one year of maintenance service**.

- The customer could buy the purifier from one vendor and maintenance from another.
- Both items can be sold separately in the market.
- ✅Therefore, there are **two separate performance obligations**:
  a. Sale of water purifier
  b. Maintenance service

Hence, revenue will be allocated and recognized separately for each.

Example 2: Single Performance Obligation

An entity contracts to provide **designing and construction** of a shopping centre.

- Both designing and construction **can be provided by different vendors**, technically.
- But, the **customer continuously alters the design**, affecting construction.

Because the designing and construction activities are **highly interrelated** — design changes directly affect how construction proceeds —

❌they are **not distinct**.

Therefore, the entity treats both as a **single performance obligation** (since design and construction are integrated activities toward one deliverable).

Examples: Step 1

Example 1:

A company sells a **mobile phone** and also offers a **repair service plan**.

A customer can benefit from the phone on its own, and can buy repairs elsewhere.

✅Both are **distinct**.

Example 2:

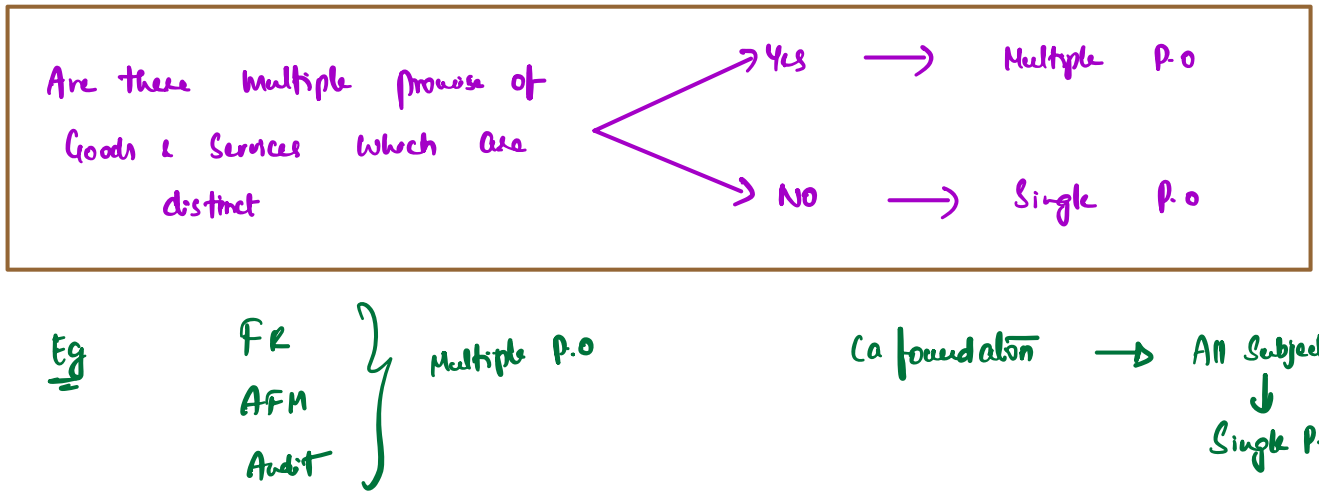
A builder provides **construction materials** as part of a **contract to build a bridge**.

The materials on their own are of **no use** unless they form part of the bridge construction.

❌Not distinct.

Note It is possible that there are multiple goods / services Still it may be single P.O Since there are interrelated (or) dependant on each other.

Eg - laptop + charger + carry bag (Intention to sell together) P.O



Series of Goods or Services

Sometimes, instead of one product, an entity provides a **series of similar goods or services** repeatedly over a period of time — all of which follow the **same pattern** of delivery and transfer of control.

Ind AS 115 says that such series should be treated as **one single performance obligation**.

This avoids unnecessary splitting of identical deliverables and simplifies accounting.

Examples:

- Cleaning services provided daily for a year
- Security or housekeeping contracts
- Monthly cable TV or internet subscriptions
- Continuous supply of electricity
- Delivery of daily newspapers or magazines

In all these cases, each day's or month's service is similar and transferred in the same pattern → one performance obligation.

Step 3: Determining the Transaction Price ***

Once performance obligations are identified, the next task is to determine **how much revenue** (consideration) the entity expects to receive for fulfilling those obligations.

Definition

The **transaction price** is the **amount of consideration** (payment) that an entity **expects** to be **entitled to receive** in exchange for transferring promised goods or services to the customer.

It **excludes** any amounts collected **on behalf of third parties**, such as **GST**, **sales tax**, or **excise duty** — because those don't belong to the entity.

Example: If an invoice of ₹1,18,000 includes ₹18,000 GST, the transaction price is only ₹1,00,000.

Types of Consideration

The transaction price may consist of:

1️⃣ Fixed Consideration (Pakka)

This is the **fixed amount** mentioned in the contract — the customer's unconditional payment obligation.

It is always included in the transaction price because there's no uncertainty.

Example:

A consulting firm agrees to provide services for ₹10 lakh fixed fee.

→ Transaction price = ₹10 lakh.

2️⃣ Variable Consideration

This is the amount of consideration that depends on **future events** or performance outcomes.

It could **increase or decrease** based on certain conditions.

Examples include:

- **Performance bonuses** (e.g., incentive if a project is completed before deadline),
- **Penalties** (e.g., reduction in fee if the work is delayed),
- **Discounts, rebates, or refunds** (dependent on sales volume).

The entity must estimate how much variable consideration it expects to receive.

Example: Variable Consideration

A construction firm will receive ₹1 crore fixed, plus ₹10 lakh bonus if it completes work within 6 months.

If based on experience, the company expects a 60% chance of achieving this, it estimates variable consideration accordingly (we'll discuss the estimation methods next).

Logic: Revenue recognition should reflect realistic expectations — not the maximum possible amount.

Methods for Estimating Variable Consideration

Ind AS 115 allows two methods to estimate variable consideration — the **Expected Value Method** and the **Most Likely Amount Method**.

1️⃣ Expected Value Method

- Used when there are **multiple possible outcomes** (more than two).
- The entity estimates a **probability-weighted average** of all possible consideration amounts.

Example: A software developer could receive:

- ₹5 lakh if project passes all tests (probability 50%),
- ₹3 lakh if passes some tests (probability 30%),
- ₹0 if fails (probability 20%).

Expected value = (5×0.5) + (3×0.3) + (0×0.2) = ₹3.4 lakh.

2️⃣ Most Likely Amount Method

- Used when there are **only two possible outcomes**, such as receiving a bonus or not.
- The entity chooses the **single most likely outcome** (whichever has the higher probability).

Example: If a company will either receive ₹1 lakh bonus (70% chance) or nothing (30%),

→ Transaction price includes ₹1 lakh (since that's the most likely outcome).

Eg

PK Limited enters into a contract with SK Limited for supply of a product in six months' time. The fixed consideration is ₹6,00,000.

A bonus is also payable for early delivery of the product. The amount of bonus and probability percentages are as follows:

- ₹1,00,000 if delivered within three months – probability 30%
- ₹75,000 if delivered between three to four months – probability 25%
- ₹60,000 if delivered between four to five months – probability 20%
- ₹40,000 if delivered between five to six months – probability 15%
- Nil if delivered after six months – probability 10%

Variable consideration is calculated by multiplying each possible bonus amount by its probability and summing the results:

Variable consideration
= (₹1,00,000 × 30%)
+ (₹75,000 × 25%)
+ (₹60,000 × 20%)
+ (₹40,000 × 15%)
+ (₹0 × 10%)

= ₹30,000 + ₹18,750 + ₹12,000 + ₹6,000 + ₹0
= **₹66,750**

Transaction Price:

Transaction price
= Fixed consideration + Variable consideration
= ₹6,00,000 + ₹66,750
= ₹6,66,750

Eg

Amt of Bonus	Prob (%)
200000 (<6M)	75%
0 (>6M)	25%

& Fixed Consideration = 600000

a) T.P = F.C + V.C
= 600000 + 200000
= 800000

Limiting Recognition of Uncertain Variable Consideration

(very imp) i.e. Variable Consideration not Considered (Imp)

Even after estimation, variable consideration should be included in the transaction price **only when it is highly probable** that there will be **no significant reversal** of revenue later. | low probability of significant reversal

That means — don't recognize revenue that might later have to be reversed due to uncertainty.

Indicators of Possible Future Reversal:

- a) The amount of consideration depends on factors **outside the entity's control**, e.g., incentive based on **stock market returns** or **weather conditions**. Eg
- b) The uncertainty will not be resolved for a **long period of time**, e.g., a 5-year-long performance-based bonus clause. Eg
- c) The entity has a **history of changing terms** offering price concessions or revising payment terms for similar contracts in similar circumstances. Eg

Logic:

Recognize only that part of variable consideration which is **reasonably assured** — to prevent overstating revenue.

Reassessment of Variable Consideration

At the **end of each reporting period**, the entity must **reassess** the transaction price based on the latest estimates.

If the estimate changes, adjust the revenue **on a cumulative catch-up basis** — i.e., correct total revenue to date, not just for future.

Adjustment Formula: (Coz estimates are always re-assessed)

Revenue that should have been recognized till date	xxx
Less: Revenue already recognized till date	(xxx)
Adjustment in revenue (increase/decrease)	**xxx**

Example:

If earlier revenue recognized was ₹10 lakh but revised estimate shows it should be ₹11 lakh, → Recognize additional ₹1 lakh in current period.

Significant Financing Component (very Imp for problem)

If there is a **significant time gap** between when:

- the customer pays (or is paid), and
- the entity delivers goods/services,

then the contract effectively includes a **financing element** — either the entity is **providing financing to the customer**, or **receiving financing from the customer**.

Therefore, the entity must **adjust the transaction price** for the **time value of money** — i.e., discount or accrue interest to reflect the real value.

Reasoning:

The goal is to recognize only the fair value of goods/services as revenue.

Any extra (or lesser) amount due to delayed payment should be recognized separately as **interest income or expense**, not revenue.

Example:

If a customer agrees to pay ₹1,10,000 one year after delivery for goods worth ₹1,00,000, the extra ₹10,000 is interest income over time.

Customer pays late → Entity gives financing (or) Customer pays early → Customer gives financing.

Eg late

PK Limited sold a laptop to SK Limited. The cash price of the laptop is ₹80,000. Payment is to be made after 1 year.

The deferred payment price is ₹80,000 plus 10%, i.e. ₹88,000.

Journal Entry on Day 1 (on transfer of control):

- Trade Receivable A/c Dr ₹80,000
- To Sales / Revenue ₹80,000

Journal Entry at the end of Year 1 (unwinding of financing component):

- Trade Receivable A/c Dr ₹8,000
- To Interest Income ₹8,000

(Interest income is recognised in Profit & Loss Account)

Journal Entry on receipt of payment:

- Bank A/c Dr ₹88,000
- To Trade Receivable A/c ₹88,000

Presentation in Profit & Loss Account:

Revenue	Other Income (Interest Income)
₹80,000	₹8,000

Case 1: Payment by Customer After the Entity Performs Its Obligations (late)

Concept

This situation arises when an entity **delivers goods or renders services first**, and the **customer pays later** — meaning the entity has effectively **granted credit or financing** to the customer.

In essence: It's as if the entity has given a *loan* to the customer, because payment comes *after* performance.

Accounting Treatment

In such cases, revenue is recognized at the **normal (cash) selling price**, i.e., the amount that would have been charged if the customer had paid immediately.

Any **extra amount received later** (due to delayed payment) is treated as **interest income** and recognized over time.

Journal Entries: Case 1

1️⃣ When the Entity Satisfies the Performance Obligation:

Trade Receivables / Debtors A/c Dr.
  To Sales (Revenue) A/c

At this stage, the entity has transferred control of goods or services. Hence, revenue is recognized at the **present value (cash selling price)**, and a receivable is created for the total amount due from the customer.

2️⃣ At Each Balance Sheet Date (for Unwinding of Discount)

This step reflects the **interest income** earned on the credit given to the customer — i.e., the passage of time increases the receivable amount.

a) To record interest income accrued (unwinding of discount):
Trade Receivables / Debtors A/c Dr.
 To Interest / Finance Income A/c
(Calculated as Opening Balance of Debtor × Discounting Rate)

b) To transfer interest income to P&L:
Interest / Finance Income A/c Dr.
 To Profit & Loss A/c

3️⃣ When Payment is Received from the Customer:

Bank A/c Dr.
To Trade Receivables / Debtors A/c

Explanation: When the customer pays, the receivable balance is settled in full (principal + interest).

Normal (Cash) Selling Price

This is the **present value (PV)** of the promised future cash inflows, discounted using the **appropriate discount rate**.

It may also be calculated as **Cost of goods/services + normal profit margin**.

Discounting Rate

The **discounting rate** used to compute the PV is usually:

- The **market interest rate** applicable to a similar financing transaction, or
- The **rate explicitly stated** in the contract (if reasonable). (means it should not be tainted)

Example for Case 1

Suppose an entity sells machinery for ₹1,10,000, payable after one year. The cash selling price is ₹1,00,000 and the implicit interest rate is 10%.

At the time of sale:

Revenue = ₹1,00,000

Interest income = ₹10,000 spread over the year.

Entries would be as described above — ₹1,00,000 recognized as revenue immediately, and ₹10,000 as interest income over time.

Case 2: Payment by Customer in Advance but Entity Performs Its Obligations Later

Concept

In this case, the **customer pays first**, but the **entity delivers goods or services later** meaning the customer is effectively **financing the entity**.

In essence: It's as if the customer has given the entity a *loan* or advance payment.

Accounting Treatment

When payment is received in advance, the entity records it as **Unearned Income** or **Contract Liability**, because the performance obligation has not yet been satisfied.

Revenue is recognized **only when** the entity transfers control of goods/services to the customer.

Meanwhile, an **interest expense** is recognized on the financing component (since the customer's money is being used over time).

Journal Entries: Case 2

1️⃣ When Entity Receives Advance from Customer:

Cash / Bank A/c Dr.
    To Unearned Income (Contract Liability) A/c

Advance payment is a liability, as the entity owes goods/services to the customer.

2️⃣ At Each Balance Sheet Date (Unwinding of Discount / Interest Expense):

a) To record interest expense accrued:
Interest Expense / Finance Cost A/c Dr.
    To Contract Liability A/c
(Interest = Opening Balance of Contract Liability × Discount Rate)

b) To transfer interest expense to P&L:
Profit & Loss A/c Dr.
    To Interest Expense / Finance Cost A/c

Since the entity has enjoyed the benefit of using customer's money before performing, it recognizes interest expense for that period.

Example

3️⃣ When the Entity Satisfies the Performance Obligation:

Contract Liability A/c Dr.
To Sales (Revenue) A/c

When goods/services are delivered, the liability converts into revenue.

Example for Case 2

A customer pays ₹1,00,000 in advance for a machine to be delivered next year. If the normal selling price next year is ₹1,05,000, the ₹5,000 difference represents **interest expense** to the entity (customer gave implicit financing).

Eg = Advance

PK Limited sold a customised product to SK Limited. The delivery date is after 1 year. The delivery-date selling price of the product is ₹3,45,000.

The customer makes an advance payment on Day 1 of ₹3,00,000.

Journal Entry on Day 1 (receipt of advance):

- Bank A/c Dr ₹3,00,000
- To Advance Income / Contract Liability ₹3,00,000

Journal Entry at the end of Year 1 (unwinding of financing component):

- Interest Expenditure A/c Dr ₹45,000
- To Contract Liability ₹45,000

Journal Entry on Delivery Date (transfer of control):

- Contract Liability A/c Dr ₹3,45,000
- To Sales / Revenue ₹3,45,000

This clearly demonstrates a significant financing component where payment is received in advance, and the interest expense is recognised over the period till delivery, exactly as required under Ind AS 115.

Cases: Financing Component is Not Significant

Ind AS 115 states that **not every time gap** requires adjustment for financing. If the effect of time value of money is **insignificant**, entities need not complicate the accounting.

Scenarios Where No Adjustment is Needed:

- **Customer pays in advance, but timing of transfer is at their discretion**

  Example: Prepaid mobile cards or DTH recharge the customer decides when to use the service. Since the entity has no control over the timing, no financing element is recognized.

- **Substantial part of consideration depends on future events**

  Example: Sales-based royalties payment depends on customer's future sales. Here, the uncertainty overshadows any timing difference, so no financing adjustment.

- **Difference arises for other reasons (not financing)**

  Example: Customer pays advance as a safeguard against non-payment risk, or a portion of payment is withheld for quality inspection. These are *commercial reasons*, not financing arrangements.

- **Time gap is one year or less**

  Simplification option: The standard permits entities to ignore financing effects if payment and performance occur within **12 months**.

i.e Diff b/n Promised Consideration & Cash Selling Price

Non-Cash Consideration

Meaning

Sometimes, the customer pays **not in cash**, but by giving something else of value — like shares, property, services, or advertising.

Example:

- A company receives **shares** from a customer instead of cash.
- A customer promotes the company's brand as part of payment.

These are all forms of **non-cash consideration**.

Transaction Price in Such Cases

To measure the transaction price, use the following hierarchy:

01

First Preference

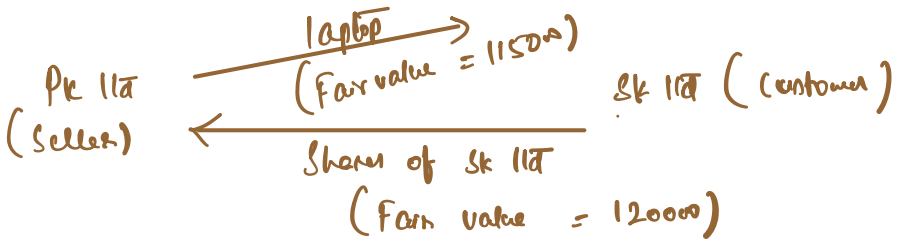
Use the **fair value of non-cash consideration received** from the customer. *Example:* If a customer gives 1,000 shares worth ₹5,00,000, record transaction price as ₹5,00,000.

02

Second Preference

If fair value of non-cash consideration cannot be reliably measured, use the **standalone selling price (SSP)** of the goods or services given. *Example:* If shares' value is uncertain, but the goods normally sell for ₹4,80,000, use ₹4,80,000 as transaction price.

Eg



Pk Ltd

Revenue to be recognised ⇒ 1st pref = Fair value of shares recd
= 120000

⇒ 2nd pref = Fair value of goods / Stand alone S.P
= 115000

Revision

Ind AS 16, 38, 40 ⇒ Pref ① F.V of asset given up
Pref ② F.V of asset acquired
Pref ③ C.A of asset given up

Ind AS 102, 115 ⇒ Pref ① Fv of Non cash Consideration recd
Pref ② Fv of given up.

Customer-Provided Goods or Services

Concept

Sometimes, customers themselves contribute **materials, equipment, or labour** to help the entity fulfill the contract.

Example:

A government gives a construction company land or steel to build a bridge under a public project.

Now the question is — should these customer-provided goods or services be included in the **transaction price**?

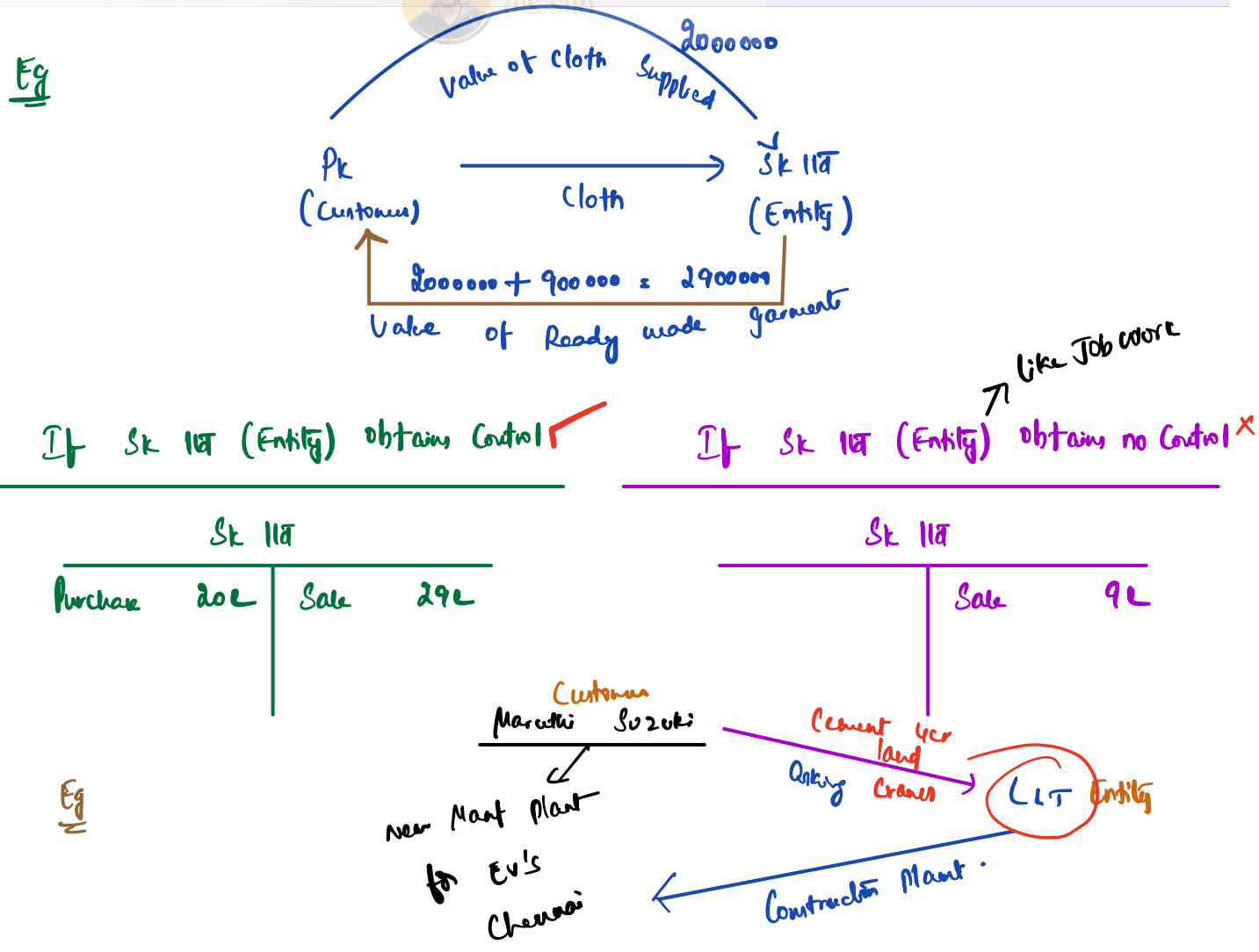
That depends on whether the **entity obtains control** of them.

If Entity Obtains Control	If Entity Does Not Obtain Control
Add the fair value of such goods/services to the transaction price.	Do not include in transaction price.

Example:

If a customer supplies raw materials that become part of the finished product (entity controls and uses them), include their fair value in transaction price.

But if the customer only allows the use of their factory temporarily (control remains with customer), exclude it.



Consideration Payable to a Customer (very difficult & Imp)

Meaning

Sometimes, entities pay or promise to pay something **back to customers** — like cash rebates, coupons, vouchers, or discounts — either directly or indirectly. Such payments are called **"consideration payable to a customer."**

These payments may be:

- Cash amounts,
- Credits or coupons applied against amounts the customer owes, or
- Future discounts for additional purchases.

Treatment Logic

The main question is: Is the payment related to a distinct good or service received from the customer?

Situation	Accounting Treatment
It relates to a distinct good or service received from the customer, and consideration < fair value of that good/service.	Recognize purchase of good/service and record sale to customer separately.
It relates to a distinct good or service, but consideration > fair value.	The excess amount is treated as reduction from transaction price.
It does not relate to any distinct goods or services (e.g., cashback, coupons, slotting fees).	Reduce this amount from the transaction price.

Simplified reasoning:

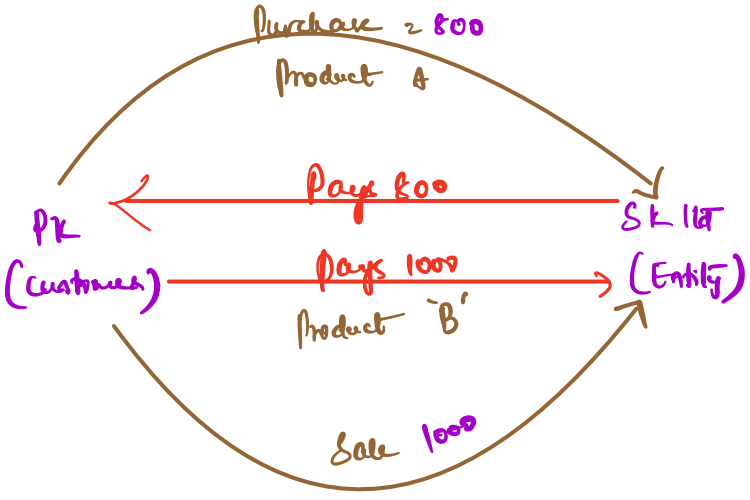
If the customer genuinely provides something of value (like advertising space or logistics help), you can record it as an expense.

Otherwise, if it's just a marketing or pricing adjustment, it's **not an expense**, but a **reduction in revenue**.

Eg

Relates to Distinct Good or Service received from Customer

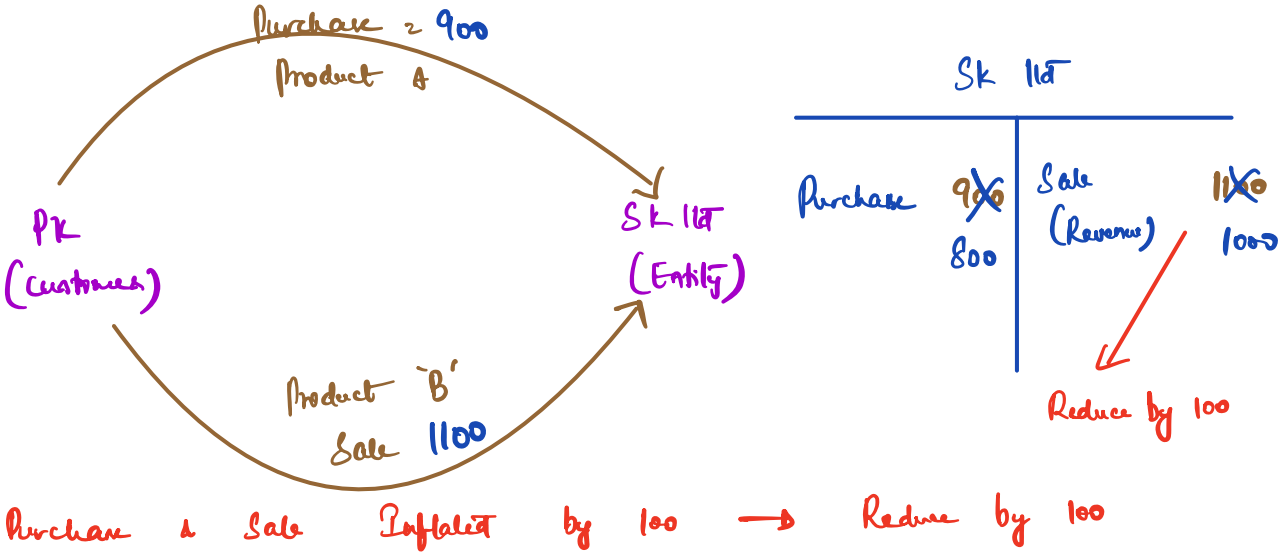
Case (a)



SK Ltd

Purchase	800	Sale (Revenue)	1000

Case 6



Common Examples of Consideration Paid/Payable to a Customer

Entities often make various payments or incentives to their customers to promote sales or build relationships.

Type of Payment	Explanation	Accounting Treatment
Slotting Fees	Payments made by manufacturers (especially in consumer goods) to retailers to have their products displayed prominently on store shelves.	Treated as reduction from the transaction price, since it's not for any distinct service received from the retailer.
Price Protection	Vendors reimburse retailers up to a specified amount if the retailer has to reduce the selling price of the vendor's products (to meet market competition, etc.).	Treated as reduction from the transaction price, as it effectively lowers the selling price.
Co-operative Advertising Arrangements	Vendor reimburses reseller/retailer for part of the cost incurred in advertising the vendor's products (e.g., joint marketing campaign).	Treatment depends on facts: if advertising benefits the vendor (distinct service), record as expense; otherwise, treat as reduction from transaction price.

Logic: Consideration Payable to Customer

If payment is purely to promote the entity's products (without receiving distinct services), it reduces revenue.

If the customer truly provides a *separate service* (like advertising work), then it can be shown as an *expense* instead.

Examples of Consideration payable to Customer

1. Promotions
2. Slotting fee
3. Cash back
4. Coupon
5. Adv Reimbursement

Question ? Does the payment to Customer relate to Distinct good / Service ?

Yes

Treat it as Purchase Cost
Do not reduce T.P (Revenue)

No

Reduce from T.P (Revenue)

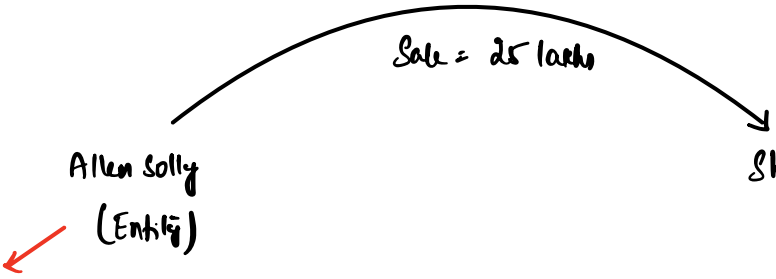
Eg Colgate Sells toothpaste to Big Bazaar
↳ pays 20 lakhs to place toothpaste on particular shelf
↓
Slotting fee → No Distinct Service → Reduce T.P by 20 lakhs
only to promote Colgate sales

Eg Samsung sells Tvs to Relvance digital @ 200000 each
In the Contract, Clause ⇒ If S.P ↓ by 50000 with in 60 days, then Samsung shall refund 50000
↓
Price protection ⇒ No Distinct Service ⇒ Reduce T.P

Eg Nestle pays 10 lakh to D mart to run Maggi add in led panels inside D Mart
↓
Co-operative adv → Distinct Service ⇒ Purchase Cost
T.P untouched.

CA PRASANNA KUMAR
(PK SIR)

Eg Slotting fees



Revenue = 2500000 - Slotting fee 100000

Transaction Price = 2400000

Charges Entity (Brand Co) to Choosing Shelves to ensure Products receive prominent placement

Amt = 100000

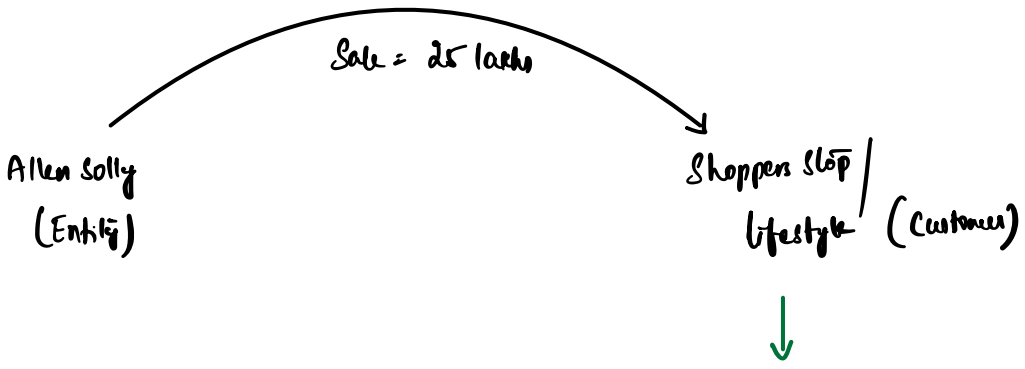
Eg Price protection

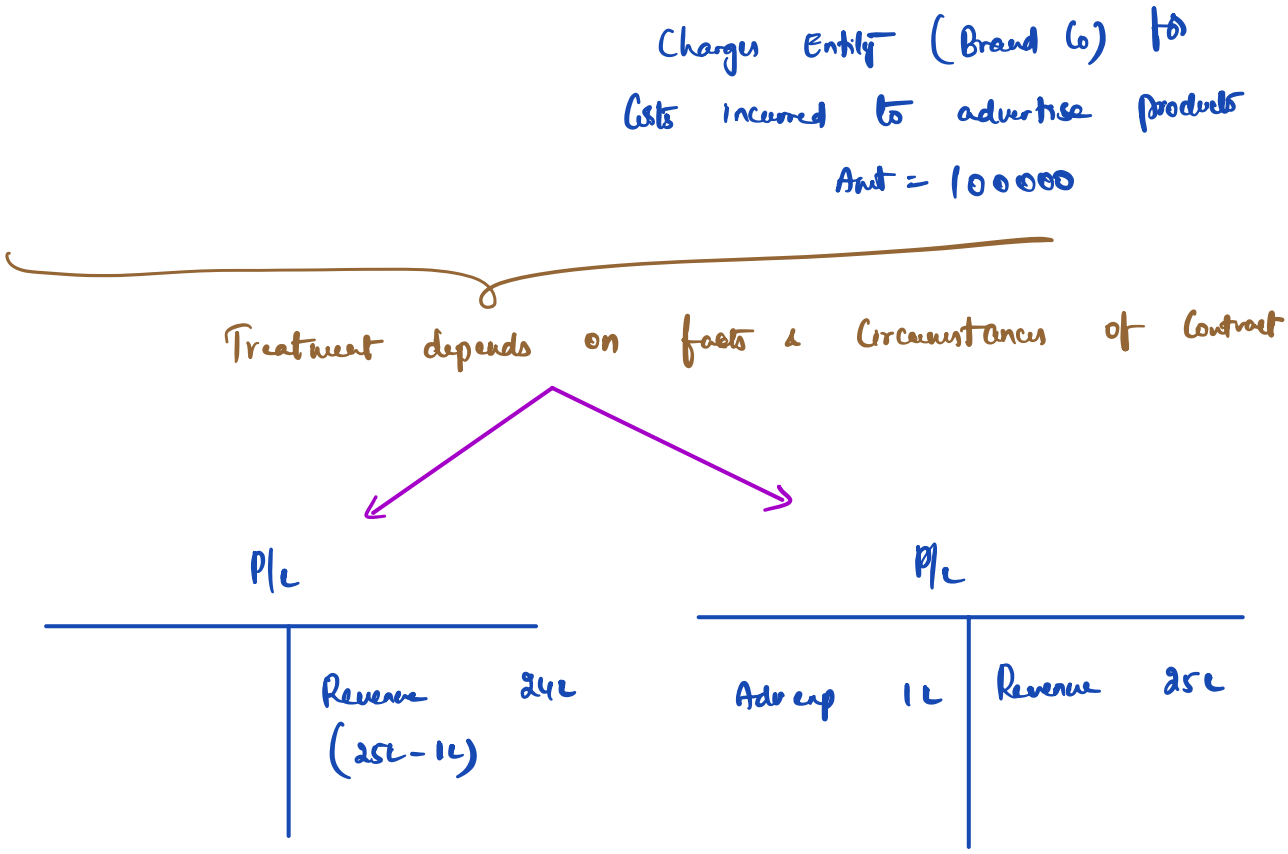
Pk promises to Sk that if price gets reduced in next 6m, then I will reimburse.

Revenue (T.P) = 15000 - 500 = 14500

↓ Price protection

Eg Co-operative advertising arrangement





Step 4: Allocating the Transaction Price to Performance Obligations

After determining the total **transaction price**, we need to allocate it among the various **performance obligations (P.O.)** identified in the contract.

Principle:

Allocate the transaction price to each P.O. in the ratio of its Standalone Selling Price (SSP) — i.e., the price at which the entity would sell each good or service separately.

This ensures that revenue is recognized in proportion to the value delivered to the customer.

Eg

An entity is selling three distinct products A, B, and C to a customer for a transaction price (TP) of $40,000.

The standalone selling prices (SSP) of the products are:

- Product A: $20,000
- Product B: $12,000
- Product C: $16,000

Total SSP = **$48,000**

Since the total SSP exceeds the transaction price, the discount is allocated in the ratio of SSP.

Allocation Table – Three Products

Product	SSP ($)	TP Allocation ($)	Discount ($)
A	20,000	40,000 × 20,000 / 48,000 = 16,667	20,000 − 16,667 = 3,333
B	12,000	40,000 × 12,000 / 48,000 = 10,000	12,000 − 10,000 = 2,000
C	16,000	40,000 × 16,000 / 48,000 = 13,333	16,000 − 13,333 = 2,667
Total	**48,000**	**40,000**	**8,000**

- Products A, B, and C are distinct performance obligations
- The transaction price is less than total SSP, indicating a discount
- As per Ind AS 115, the discount is allocated proportionately based on SSP
- Revenue for each product is recognised based on the allocated transaction price

Eg

An entity sells a combo of Product A and Product B for a transaction price (TP) of $24,000.

The standalone selling prices (SSP) are:

- Product A = $18,000
- Product B = $12,000

Total SSP = **$30,000**

Since the combo price is lower than the total SSP, a discount exists, which must be allocated in the ratio of SSP.

Allocation table

Product	SSP ($)	Discount ($)	TP Allocation ($)
A	18,000	18,000 − 14,400 = 3,600	24,000 × 18,000 / 30,000 = 14,400
B	12,000	12,000 − 9,600 = 2,400	24,000 × 12,000 / 30,000 = 9,600
Total	**30,000**	**6,000**	24,000

- Products A and B are distinct performance obligations
- The combo price of $24,000 is less than total SSP of $30,000, resulting in a discount
- As per Ind AS 115, when a discount is not specifically attributable to one performance obligation, it is allocated proportionately based on SSP
- Revenue for each product is recognised based on the allocated transaction price, not on SSP

Continuation example – Combo 2 (A + B + C) – Ind AS 115

Continuing from the previous example where:

- SSP of Product A = $18,000
- SSP of Product B = $12,000
- Combo price of A + B = $24,000
- Total SSP of A + B = $30,000
- Total discount = $6,000, allocated only to A and B

The entity sells a combo of Product A, B, and C for a transaction price (TP) of $44,000.

The standalone selling prices (SSP) are:

- Product A = $18,000
- Product B = $12,000
- Product C = $20,000

Total SSP = **$50,000**

Total discount
= $50,000 − $44,000
= **$6,000**

👉 This $6,000 discount is exactly the same as the discount given earlier on the smaller bundle (A + B).

Allocation table (same four columns)

Product	SSP ($)	Discount ($)	TP Allocation ($)
A	18,000	3,600	14,400
B	12,000	2,400	9,600
C	20,000	Nil	20,000
Total	**50,000**	**6,000**	44,000

- Products A, B, and C are distinct performance obligations
- The discount on the larger bundle (A + B + C) is exactly equal to the discount already observable on the smaller bundle (A + B)
- As per Ind AS 115, when:
  - A discount is entirely attributable to one or more specific performance obligations, and
  - Evidence exists from observable standalone bundles,

👉 The entire discount is allocated only to those specific performance obligations (A and B)

- Product C receives no discount and is allocated its full SSP
- Therefore:
  - Discount is allocated only to A and B
  - C is priced at SSP

> **Key Ind AS 115 principle applied:** When a discount on a larger bundle is the same as the discount on a smaller bundle, the entire discount is allocated only to the goods in the smaller bundle.

The **Standalone Selling Price (SSP)** is the price at which an entity would sell a promised good or service **separately** to a customer.

Why is SSP important?

It provides an objective basis for allocating the transaction price, ensuring that each performance obligation receives its fair share of the total consideration.

How to determine SSP:

Given in Qs

- The **best evidence** of SSP is the **observable price** of a good or service when the entity sells it separately in similar circumstances and to similar customers.
- If SSP is not directly observable, the entity must **estimate it** using appropriate methods that maximize the use of observable inputs.

1️⃣ Observable Price of the Good or Service

If the entity regularly sells that product/service separately, the price at which it sells in similar circumstances is used as its **SSP**.

Example:

A company sells washing machines individually for ₹20,000 and extended warranties for ₹2,000.

If both are bundled for ₹21,000, then SSPs are ₹20,000 and ₹2,000 respectively.

2️⃣ Estimated Price of the Good or Service

If the standalone selling price is **not directly observable**, the entity estimates it using one of the following methods:

a) Adjusted Market Assessment Approach: (look at Competitors prices & then adjust)

- Evaluate market prices for similar goods/services offered by competitors.
- Adjust for entity-specific factors such as brand, quality, or geographical advantage.

Example:

If competitors sell similar software for ₹5 lakh, and your product is more advanced, you might set your SSP at ₹5.5 lakh.

Eg

TCS Cloud HR Solution → SSP ✕

estimated SSP = 48 lakhs

TCS will observe the price of similar product with Competitors

Oracle = 45 lakh

SAP = 50 lakh

(b) Expected Cost Plus Margin Approach

Estimate total cost of providing the good/service and add an appropriate margin.

Example:

If it costs ₹8,000 to manufacture and you usually earn 25% margin, SSP = ₹10,000.

c) Residual Approach

- Use when SSPs of some goods/services in a bundle are known, but one isn't.
- Calculate SSP of the unknown item as:

Total bundle = ₹50,000; known SSPs of two items = ₹20,000 + ₹15,000.

→ Residual SSP for third item = ₹15,000.

Note: This method is used **only when** the selling price of one or more goods/services is *highly variable* or uncertain.

Allocation of Discount

Sometimes, the total contract price is **less than the sum** of individual SSPs — meaning, the customer is given a **bundle discount**.

By default, the discount should be allocated **proportionately to all performance obligations** based on their SSPs.

Exception: When Discount Applies Only to Some Performance Obligations

If evidence shows that the **discount relates only to certain specific items**, it should be allocated **only to those**.

This applies when:

1. The entity regularly sells a smaller bundle of those goods/services at a similar discount, and
2. The discount given here is substantially the same.

Example: Discount Allocation

An entity sells products A, B, and C. It usually sells A+B together at a 10% discount. If the current contract includes A, B, and C, and a 10% total discount is offered, it's reasonable to allocate it **only to A and B**.

Allocation of Variable Consideration (Eg)

Variable consideration (like performance bonuses or penalties) should be allocated **only to that performance obligation** to which it **specifically relates**, provided it faithfully represents the amount of consideration for that obligation.

A contractor builds a road and a bridge. Bonus is payable only if the bridge finishes early so the variable consideration (bonus) is allocated **only to the bridge**, not the road.

> **Note:** Even if the contract shows separate prices for different products, if those prices **do not represent their SSPs**, the entity must reallocate the total transaction price based on SSP ratios — whether consideration is fixed or variable.

Changes in Transaction Price

Sometimes, the transaction price changes **after contract inception**, due to adjustments, discounts, bonuses, etc.

Ind AS 115 requires:

1️⃣ If change is due to a **contract modification**, follow the **contract modification** rules (as discussed earlier).

2️⃣ If change is **not a modification**, reallocate the change to all performance obligations using the same principles as initial allocation.

Eg

An entity sells four distinct products A, B, C, and D for a total transaction price of $60,000. (Residual app)

The standalone selling prices (SSP) are available for A, B, and C, but not available for D.

Standalone selling prices and discounts

- Product A: SSP $18,000, Discount $900
- Product B: SSP $18,000, Discount $900
- Product C: SSP $12,000, Discount $600
- Product D: SSP not available

Allocation table (Residual Approach)

Product	SSP ($)	Discount ($)	Allocation ($)
A	18,000	900	17,100
B	18,000	900	17,100
C	12,000	600	11,400
D	Not available	—	14,400 B.F
Total	—	—	**60,000**

Computation for Product D (Residual figure)

Allocation to D
= Total Transaction Price
− Allocation to A
− Allocation to B
− Allocation to C

= 60,000 − 17,100 − 17,100 − 11,400
= 14,400

Residual Approach with SSP Range Constraint

Continuing from the previous example: Four distinct products: A, B, C, and D. SSP available for A, B, and C. SSP not directly observable for D. Total transaction price (TP) is known.

Given additional information

The observable SSP range for Product D is between $12,000 and $22,000.

Total allocation to A, B, C = **$45,600**

🔹 Case Scenario 1: Residual amount falls WITHIN the SSP range

Total Transaction Price = $60,000

Residual for Product D = 60,000 − 45,600 = **$14,400**

Check against SSP range for D:

- Allowed range: $12,000 – $22,000
- Residual amount: $14,400 ✅ (within range)

Conclusion – Case 1: Residual amount falls within observable SSP range. Residual approach is permitted. Allocation to Product D = $14,400

🔹 Case Scenario 2: Residual amount falls OUTSIDE the SSP range

Total Transaction Price = $70,000

Residual for Product D = 70,000 − 45,600 = **$24,400**

Check against SSP range for D:

- Allowed range: $12,000 – $22,000
- Residual amount: $24,400 ❌ (outside range)

Conclusion – Case 2: Residual amount exceeds the observable SSP range. As per Ind AS 115, residual approach cannot be applied blindly. Allocation to Product D must be restricted to its SSP range. Entity must reassess SSP estimation, or use another suitable method (adjusted market assessment / expected cost plus margin).

👉 Residual approach is NOT appropriate in this scenario

One-line exam takeaway: Residual approach can be used only if the resulting allocation lies within the observable SSP range of the performance obligation.

Eg Entity is selling 3 distinct products A, B, C @ 30000 to customer.

Product	SSP
A	15000
B	9000
C	12000

Also there is variable consideration of 800 on product 'C'.

a)

Product	SSP	Allocation (30000 in ratio of SSP)	
A	15000	12500	
B	9000	7500	
C	12000	10000 + 800 (V. Consideration)	= 10800
	36000		30800

Step 5: Recognition of Revenue

This is the **final step** — recognizing revenue in the **right period** and **right amount**.

Core Principle:

An entity recognizes revenue **as and when** it **satisfies** a performance obligation — i.e., when **control** of the goods or services is **transferred to the customer**.

Revenue recognition depends on **transfer of control**, not merely on transfer of risks/rewards or completion of billing.

Transfer of Control

Control can be transferred **over a period of time** or **at a point in time** depending on the nature of the contract.

Transfer of Control – Over a Period of Time

Recognize revenue gradually as the customer receives and consumes benefits simultaneously.

Criteria (any one):

- a) Customer simultaneously receives and consumes benefits (e.g., cleaning services, payroll processing, maintenance, cable TV, security).
- b) Customer controls the asset as it's created/enhanced (e.g., construction contracts).
- c) Asset created has **no alternative use** and entity has right to payment for work done (e.g., customized shipbuilding).

Input method
Output method
} Methods of measuring progress over time

to the Entity

Transfer of Control – At a Point in Time

Recognize revenue once the customer obtains control at a specific point.

If none of the above criteria apply, revenue is recognized **at a single point in time**, e.g., retail sales or delivery of finished goods.

Methods of Measuring Progress (if Control is Transferred Over Time)

When revenue is recognized over time, we must measure **progress** toward completion to determine how much revenue to record at each reporting date.

Ind AS 115 provides two main methods:

Holy TRINITY

Control is getting transferred → Then → PO is getting Satisfied → Then → Revenue is getting recognised

1 Output-Based Method (units delivered, Milestones achieved)

Measures progress based on **direct value delivered** to the customer.

$$Percentage of Progress = \frac{Fair\ Value\ of\ goods/services\ transferred}{Total\ Fair\ Value} \times 100$$

Example: Goods/services transfd to customer as of today relative to total goods/services promised

If surveyors confirm that 60% of a construction project is complete (based on work delivered), revenue recognized = 60% of total contract price.

2 Input-Based Method (Based on Resources Consumed)

Measures progress based on **inputs consumed** in fulfilling the contract (like costs or labor hours).

Percentage of Progress = $\frac{\text{Costs incurred till date}}{\text{Total Estimated Costs}} \times 100$ } only these costs are allowed which represent performance

If total estimated cost = ₹10 lakh and cost incurred till date = ₹4 lakh → progress = 40%.

Exclusions from Cost in Above Formula

Q65 ★, 78 H.W Same as 65

Certain costs are **excluded** from the calculation as they don't represent actual progress in performance:

- a) **Abnormal losses and wastages** e.g., damaged material, inefficient work, etc. These are not part of performance progress.
- b) **Cost of major components delivered but not yet installed** e.g., elevators purchased and delivered but not installed in a building project.

↳ will be removed from both numerator & Denominator & T. Price

For such items, revenue is recognized **only to the extent of cost incurred** (no profit), and for the rest, apply the regular formula.

Eg: Measuring progress if Control is trfd over a period of time

(i) Output based method

PK Ltd enters in to Contract to Construct a Customised Software System fo a Client over a period of 12 months fo total Contract price of 2000 000. PK Ltd determines that P.O is Satisfied over time & it Chooses to use output method to measure progress based on milestone achieved.

a) Output method: Milestone based revenue recognition

Milestone	Time	% Completion	Revenue Recognised
Design Phase	4M	40%	800 000 (20L × 40%)
Development phase	9M	35%	700 000 (20L × 35%)
Testing & Development	12M	25%	500 000 (20L × 25%)
		100%	2000 000

Eg Input based method

PK Ltd enters in to Contract for Construction of warehouse for customer. Contract price = 50 00 000. Total estimated Costs to complete = 45 00 000. Costs incurred at the end of yr ① = 18 00 000. PK Ltd uses Input method to measure progress based on Costs incurred. Compute revenue to be recognised for yr ①.

a) % of progress = $\frac{18L}{45L} \times 100 = 40\%$

Revenue to be recognised = 50L × 40% = 20L

(or)

$\frac{18L}{45L} \times 50L = 20L$

Notes

1️⃣ Calculation of Amount Due From/To Customer (Contract Asset or Liability)

After computing cumulative revenue, compare it with actual cash received to identify the position:

Computation	Meaning
Cumulative Revenue Recognized till date	xxx
Less: Payments Received from Customer till date	(xxx)
If positive: Due from Customer (Contract Asset / Debtor)	
If negative: Due to Customer (Contract Liability / Unearned Income)	

Example:

Revenue recognized ₹10 lakh; payment received ₹8 lakh → ₹2 lakh = Contract Asset (amount still to be received).

If reverse, it's Contract Liability.

2️⃣ Calculation of Work in Progress (WIP Asset)

Work-in-progress represents the **cost of work done** that hasn't yet been recognized as an expense (or where revenue is yet to be matched).

Computation	Meaning
Costs incurred till date	xxx
Less: Cumulative cost recognized in P&L till date	(xxx)
WIP Asset (Prepaid Expense)	xxx

Example:

If ₹5 lakh cost incurred but only ₹4 lakh expensed, ₹1 lakh will be shown as WIP asset.

Students doubt cleared

Type of Costs

Normal Construction / Service Cost

Abnormal loss

Major Component (Elevator, Turbines)

(High value, Distinct, Delivered early)

Treatment

Included in % of progress

Excluded Completely

Excluded from % of progress

Special Cases under Ind AS 115

1️⃣ Principal vs. Agent

This issue arises when goods or services are provided through an intermediary — and we need to determine **who actually controls** the goods or services before they reach the customer.

The key question is:

> *Is the entity acting as a "principal" (providing goods/services itself), or merely as an "agent" (arranging the supply on behalf of someone else)?*

Entity's Role	Revenue Recognition
Principal	Recognize revenue on gross basis — i.e., for the total amount charged to the customer.
Agent	Recognize revenue on net basis — i.e., only the commission or fee earned for arranging the sale.

Indicators That an Entity is a Principal

An entity is likely to be a **principal** if it shows the following characteristics:

a) Primary Responsibility:

It is primarily responsible for fulfilling the contract (ensuring goods/services are provided as promised).

b) Inventory Risk:

It bears inventory risk before goods/services are transferred — for example, risk of loss, damage, or obsolescence.

c) Pricing Discretion:

It has discretion in establishing prices for goods or services before sale to the end customer.

Example:

- **Principal:** A retailer buys stock from a manufacturer and resells to customers. It controls goods before sale → recognizes gross revenue.
- **Agent:** An online travel site that only earns commission from hotel bookings → recognizes only commission as revenue.

Eg

Airlines Company

Entity : Pk Ltd

* Purchase tickets from Airline Co at reduced rate & then sells to Customers
* Buys Specific no: of tickets & pay for those tickets even if not able to sell them.
* Entity determines price at which ticket will be sold to Customers.

Airline Co → Pk Ltd

Principal Principal

Pk Ltd (Travel Agency)

* Sells tickets on behalf of Airlines & receives Commission of 500 per ticket sold

S.P of Ticket = 10000

* Entity does not bear Inventory risk nor has discretion in Setting Prices.

Airline Co: Principal

Comm 500 | Revenue 10000

Pk Ltd : Agent

Revenue : Commission Income

2 Non-Refundable Upfront Fees

These are payments received at the **beginning of a contract** — for example, joining fees, activation charges, registration fees, etc.

They might or might not correspond to a separate performance obligation.

If the fee relates to goods/services the entity must still provide (i.e., Separate P.O.)

Recognize revenue when those promised goods/services are actually transferred.

If the fee does not relate to separate goods/services (or is not a Separate P.O.)

Treat as **advance payment**, recognize as **revenue over the contract period** as the performance obligation is satisfied.

Eg Customer joins Gym & it charges Joining fee (Non-refundable) = 4000 (One time fee)

(+) Membership fee = 12000 (for 12 months)

16000

Case ①

Gym kit provided with T Shirt, Bag, Bottle (4000 relate to Separate good / service)

4000 ⇒ Separate P.O → Recognise on Day ①

12000 ⇒ over the period of 12 M @ 1000/month

Case ②

Not Separate good / service i.e Not Separate P.O

Total Amt = 16000

Recognised over a period of 12 M @ 1332/month

Example: Non-Refundable Upfront Fees

A **health club** charges a ₹5,000 non-refundable joining fee plus ₹2,000 monthly membership.

- The joining fee does not transfer any separate service; it only gives the right to access the club.
- Hence, the ₹5,000 should not be recognized immediately. Instead, it is spread (amortized) over the membership period (say, 12 months).

Similarly, telecom companies charge **activation fees** — these are deferred and recognized as revenue over the customer relationship period.

3️⃣ Sale with Right of Return

Some contracts allow customers to **return goods** within a specified period.

Under Ind AS 115, the seller must account for **expected returns** and recognize revenue **only for goods not expected to be returned**.

Accordingly, at the time of sale, the entity recognizes:

1️⃣ **Revenue** for products expected *not* to be returned.

2️⃣ **Refund Liability** for products *expected to be returned.*

3️⃣ **Inventory Asset** (at cost) representing the right to recover goods from customers upon return.

Journal Entries: Sale with Right of Return

At the time of sale:

Bank A/c Dr. (Amount received)
  To Sales (Revenue) A/c (Units NOT expected to be returned × Selling price)
  To Refund Liability A/c (Units expected to be returned × Selling price)

To recognize inventory for expected returns:

Inventory A/c Dr. (Units expected to be returned × Cost per unit)
  To Cost of Sales / P&L A/c

Example:

Suppose 100 units sold @ ₹1,000 each, cost per unit ₹700. 10% are expected to be returned.

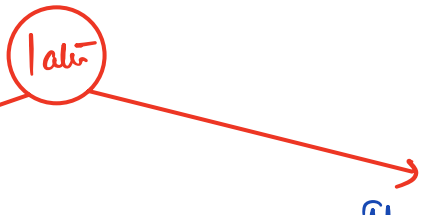
- Revenue recognized: 90 units × ₹1,000 = ₹90,000
- Refund liability: 10 units × ₹1,000 = ₹10,000
- Inventory (expected return): 10 units × ₹700 = ₹7,000

Note: If the entity charges a **restocking fee** on returned goods (for repackaging or shipping), that fee is recognized as **revenue** — since it's consideration for a separate service provided to the customer.

Eg Pk Ltd sold 500 units of Product A to Sk for 1000 each. Cost per unit = 800. 30 day return policy. Pk Ltd expects 30 to be returned.

a) Bank A/c Dr 500000 (500 × 1000)
  To Revenue 470000 (470 × 1000)
  To Refund liability 30000 (30 × 1000)

Inventory | Right to receive asset Dr 24000
  To Cost of Sales (P/L) 24000 (30 × 800)



If nothing is returned

① Refund liability 30000
To Revenue 30000

② Cost of Sales 24000
To Inventory 24000

If units returned

Refund liability 30000
To Bank 30000

* Physical Stock will increase

Eg **Restocking fee**

Continuing previous example, Sale price = 1000. Refund amt = 950 (1000 - 50)

Restocking | Repacking | Shipping fee

a) Bank A/c Dr 500000 (500 x 1000)
To Revenue 470000 (470 x 1000) + (30 x 50)
To Refund liability 30000 (30 x 1000) 30 x 950

Inventory | Right to receive asset Dr 24000
To Cost of Sales (P/L) 24000 (30 x 800)

4️⃣ Consignment Arrangement

Under a **consignment arrangement**, the **consignor** (manufacturer or wholesaler) sends goods to a **consignee** (agent/distributor) who will sell those goods to end customers.

However, ownership/control remains with the **consignor** until the consignee actually sells the goods to end users.

Hence, the consignor recognizes **revenue only when control is transferred** — i.e., when the consignee sells to the ultimate customer.

Indicators When Control Is *Not* Transferred to Consignee

1️⃣ The **product remains under consignor's control** until sale to a customer.

2️⃣ The **consignor has the right** to demand return or redirect goods to another dealer.

3️⃣ The **consignee has no obligation to pay** for goods until they are sold to the end customer.

Example:

A fashion brand sends garments to a boutique on consignment.

Revenue is recognized **only when** the boutique sells the garments to customers, not when they receive them.

5️⃣ Warranties

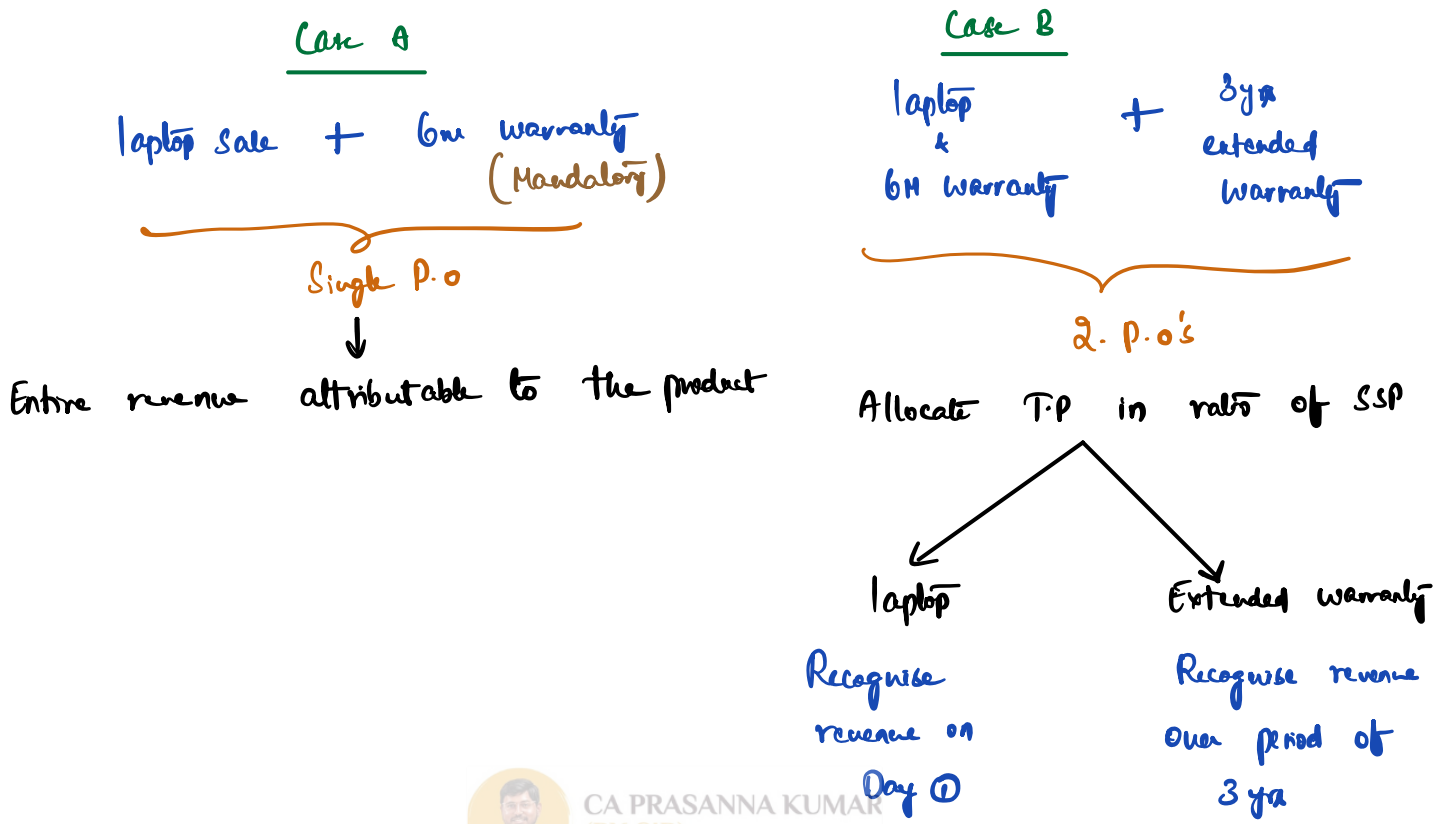
Products may be sold with warranties. These warranties can be of two types — and their accounting differs accordingly.

Customer has the option to purchase warranty separately (Service-type Warranty, e.g., Extended Warranty)	Customer does not have option to purchase separately (Assurance-type Warranty, e.g., Statutory Warranty)
Treat as a **separate performance obligation** and allocate part of transaction price to it.	Not a separate P.O. — it's part of the main product. Recognize provision under Ind AS 37 for expected warranty cost.
Example Entry: Recognize revenue over the warranty period.	Create provision for warranty expense: Warranty Expense A/c Dr. To Provision for Warranty A/c } Ind AS 37

Explanation:

- **Assurance-type** covers defects existing at delivery ensures quality. (E.g., 1-year manufacturer warranty)
- **Service-type** provides additional service beyond assurance (E.g., extended 3-year plan) → treated as separate P.O.

Eg Warranties



6️⃣ Bill and Hold Arrangement

A **Bill and Hold** contract is where an entity **bills the customer**, but **delivery is postponed** usually at the **customer's request**.

Revenue can be recognized **only when control has effectively transferred**, even if physical possession hasn't.

Conditions to Consider Control Transferred (All Must Be Met):

- a) **Customer requested** the arrangement (it's not for seller's convenience).
- b) The product is **identified separately** and **ready for physical transfer**.
- c) The entity **cannot use or redirect** the product for other customers.

If all three are satisfied, control is deemed transferred, and revenue can be recognized even before physical delivery.

Example:

A customer asks a manufacturer to hold finished goods in storage until their warehouse is ready.

If the goods are set aside, invoiced, and ready for delivery, the manufacturer can record revenue.

The entity must also assess whether it has **additional performance obligations**, such as **storage or custodial services**, and allocate transaction price accordingly.

Eg

PK Ltd (Entity) → Air Conditioners → SK (Customer)

Sale, Billing & payment on Day ①

(Will take delivery after 4 M)

Generally PK Ltd may Charge for Warehousing i.e Custodial Services

Total Transaction price = 90000

Delivery Delayed by Request

	Sale of AC	Custodial Services
SSP (Given)	85000	15000
Allocate in ratio of SSP	76500	13500

(90000 × 85000/100000)

↓ Recognised on Day ①

On presumption that above 3 Condition are Satisfied.

↓ Recognised over a period of time i.e 4 M

7️⃣ Sale and Repurchase Agreements

Sometimes, an entity sells goods but agrees (or has an option) to **repurchase** them later. Depending on the terms, these can be treated as **financing**, **lease**, or **sale with return rights.**

Types of Arrangements

Type	Description
Forward Agreement	Entity sells goods but promises to repurchase them later at a fixed price on a fixed date.
Call Option	Entity sells goods but retains the option (right) to repurchase them at a future date.
Put Option	Entity sells goods but grants the customer the option to resell them back to the entity at a fixed price on a fixed date.

Eg

Financing arrangement
Substance over form logic

Pk Ltd

Day ①

Bank A/c Dr 25 L
To Financial liability 25 L

Year end

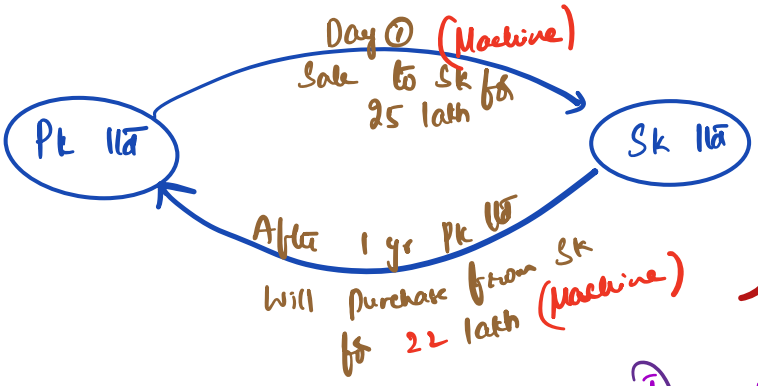
Int exp 5 L
To F. Liability 5 L

F.L 30 L
To Bank 30 L

Financing arrangement
with goods as mortgage
↓
← Ind AS 109 applies here

Repurchase price 30 L > Sale price 25 L

Eg



This is lease arrangement
Substance over form logic
↓
Sk Ltd used Pk Ltd's Machine for 1 year, so Pk Ltd charges rent from Sk Ltd i.e 3 lakhs.

Ind AS 116 applies

* Repurchase price 22 L < Selling price 25 L

Pk Ltd

Day ①

Bank A/c Dr 25 L
To Deposit liability 25 L

Year end

Deposit liability 3 L
To lease rental income 3 L
Deposit liability 22 L
To Bank 22 L

Accounting in Case of Forward Agreement and Call Option

Repurchase Price ⩾ Original Selling Price

Treat as a **Financing Arrangement** under Ind AS 109.

Recognize consideration received (original selling price) as a **financial liability**, not revenue.

The difference between repurchase price and original selling price = **finance cost** spread over the period.

Repurchase Price < Original Selling Price

Treat as a **Lease Agreement** under Ind AS 116.

Recognize consideration received as a **deposit liability** and the difference between original selling price and repurchase price as **lease income** over the period.

Explanation:

- If repurchase price ≥ selling price, the buyer has effectively lent money to the entity (financing).
- If repurchase price < selling price, the buyer is essentially leasing the asset to use it temporarily.

Accounting in Case of Put Option

If the **customer** holds the right to resell the goods to the entity (put option), treatment depends on whether they are likely to exercise it.

1️⃣ If **likely to exercise** → Same accounting as above (treat as **financing** or **lease** arrangement).

2️⃣ If **not likely to exercise** → Account as a **sale with right of return** (recognize refund liability, etc.).

> **Note:** If the **option lapses unexercised**, i.e., customer doesn't exercise the repurchase or return right,
>
> → The entity **derecognizes the liability** and **recognizes revenue** for the amount retained.

Example Summary:

Scenario	Nature of Arrangement	Recognition
Entity agrees to repurchase goods at or above selling price	Financing arrangement	Record financial liability; interest expense over term
Entity agrees to repurchase goods below selling price	Lease arrangement	Record deposit liability; lease income over term
Customer may resell to entity, but unlikely to do so	Sale with right of return	Record revenue + refund liability

Q 66, 67

8 Service Concession Arrangements

Explanation

A **Service Concession Arrangement (SCA)** is a contract where an **entity (the operator)** constructs or upgrades **infrastructure** that will be used to provide a **public service**, on behalf of a **grantor (typically the government)**.

Examples include:

- Building and operating **national highways**,
- Constructing **bridges, tunnels, airports**, or
- Managing **public transport or toll roads**.

The **operator** builds and operates the infrastructure for a specified time, and in return, receives either:

- A fixed payment from the government, or
- The right to charge the public (users).

> ⚠️ **Important:** The infrastructure under such arrangements is **not recognized as Property, Plant & Equipment (PPE)** by the operator, since it doesn't *control* the asset — the government (grantor) does.
>
> Instead, the operator recognizes either a **financial asset** or an **intangible asset**, depending on the nature of the right.

Example: Service Concession Arrangements

A company builds a highway for the National Highway Authority of India (NHAI) and agrees to operate it for 15 years.

During the period, the company either:

1. Receives **fixed payments** from the government, or
2. Has the **right to collect tolls** from users.

The accounting treatment differs for each case, as shown below.

Eg

Govt (Grantor) ⟶ (Construction of National Highway) ⟶ PK Ltd (Construction Co)

Entity : Operator / Contractor

Construction period = 3 yrs

Total cap estimated to be incurred = 200 Crores
Fair value of Construction Services = 220 Crores } 3 yrs

CA PRASANNA KUMAR
(PK SIR)

Revenue related to Services during operation phase = 60 crores (7 yrs) (yr 4 - yr 10)

Financial revenue (Interest for late payment) = 20 crores

Total Cash flow guaranteed by govt = 300 cr (After 10 yrs)

Books of PK Ltd (Operator)

During Construction Phase (First 3 yrs)

① Financial Asset Dr 220 cr
To Revenue (Construction) 220 cr

② Construction Cost 200 cr
To Bank 200 cr

} First 3 yrs

During operation Phase (Next 7 years)

③ Financial Asset 60 cr
To Revenue 60 cr

} Over 7 yrs

④ Financial Asset 20 cr
To Int Income 20 cr
(Finance revenue)

} Over 10 yrs

⑤ Bank A/c Dr 300 cr
To Financial Asset 300 cr

} After 10 yrs

If Entity Has Right to Receive Fixed Amount of Cash from Government

In this case, the operator's right is **contractually enforceable cash flows** from the grantor treated as a **financial asset** under *Ind AS 109*.

Hence, the operator recognizes **Finance Income** over the period.

During Construction Phase

1️⃣ Record revenue for construction services:

```
Financial Asset (Debtors) A/c Dr. (Fair value of construction service)
   To Sales (Revenue) A/c
```

2️⃣ Record cost incurred:

```
Construction Costs A/c (P&L) Dr. (Cost of construction)
   To Bank A/c
```


During Operation Phase

1️⃣ Record interest (unwinding of discount) on financial asset:

```
Financial Asset (Debtors) A/c Dr.
   To Finance Income A/c
```

2️⃣ Record revenue for operation services (like maintenance):

```
Financial Asset (Debtors) A/c Dr. (Fair value of operation service)
   To Sales (Revenue) A/c
```

3️⃣ Record cash received:

```
Bank A/c Dr.
   To Financial Asset (Debtors) A/c
```

> 💡 **Logic:** The operator is acting like a lender — building an asset and recovering the investment via fixed payments plus interest from the government.

Eg

Govt (Grantor) ⟶ (Construction of National Highway) ⟶ PK Ltd (Construction Co)

Entity : Operator / Contractor

Construction period = 3 yrs

Total exp estimated to be incurred = 200 crores
Fair value of Construction Services = 220 crores } 3 yrs

Company will collect toll from users of Highway = 300 crores (7 yrs)

Govt will not pay, but will give Construction Company right to operate toll for 7 yrs

↓

Then treat it as ITA instead of F. Asset.

Books of PK Ltd (Operator)

During Construction Phase (First 3 yrs)

① ITA Dr 220 cr
To Revenue (Construction) 220 cr } First 3 yrs

② Construction Cost 200 cr
To Bank 200cr

During operation Phase

③ Amortization → 220 cr (Now you are using the right which was created earlier.)
TO ITA 220cr } next 7 yrs

④ Bank A/c Dr 300 cr
To Toll Revenue 300cr

Students doubt ① Do not get confused that revenue is booked twice. ✗ Wrong

Student doubt ② Revenue booked for receiving ITA (Fair value of Construction) is getting reversed in later 7 yrs through Amortization. ✗ Wrong

Real Revenue is 300 cr (Collection of Toll)

* PK sir Clarification

* Ind AS 115 does not say revenue is recognised only when cash is recd.

↓

Therefore During Construction Phase

ITA Dr 220 cr

To Revenue 220 cr

↓

Meaning

I have completed Construction Services worth 220 cr to the govt & In exchange I have earned ITA.

2nd P.O Operating the road / Maintenance

Customer ⟶ Public / Road users

Service ⟶ Access to Highways / Roads

When P.o is Satisfied ⟶ at point of usage (each vehicle passage)

Consideration ⟶ Cash toll collected

Cash / Bank A/c Dr 300 cr

To Toll revenue 300 cr

↓

Meaning

CA PRASANNA KUMAR
(PK SIR)

Law now providing road usage Services & users are paying we for that Service. This revenue has nothing to do with Construction.

Q) Then why do we amortize ITA ?

A) Matching Principle → NOT REVENUE REVERSAL

Why amortization ?

The ITA is Consumed as the road is used. Each year that passes by, the right to Collect TOLL / ITA value is getting reduced.

If Entity Has Right to Charge Users of Public Service (Right to Collect Toll)

Here, the entity earns revenue directly from public users, not the government. This right is an intangible asset, as it gives the entity a right to collect cash from users. Hence, the operator recognizes it under Ind AS 38 – Intangible Assets.

During Construction Phase

1️⃣ Record revenue for construction service:

Intangible Asset A/c Dr. (Fair value of construction service)
  To Sales (Revenue) A/c

2️⃣ Record cost incurred:

Construction Costs A/c (P&L) Dr. (Cost of construction)
  To Bank A/c

During Operation Phase

1️⃣ Record amortization of intangible asset:

Amortization A/c Dr.
  To Intangible Asset A/c

2️⃣ Record toll collections:

Bank A/c Dr.
  To Sales (Revenue) A/c

Logic: The right to collect toll is like a license to earn — an intangible asset amortized over its useful (contract) life.

9 Licences of Intellectual Property (IP)

Explanation

These include licenses for:

- Software,
- Technology,
- Media and entertainment content (e.g., movies, music),
- Franchises,
- Patents, trademarks, and copyrights.

Licensing can grant either:

- A **right to access** IP over time, or
- A **right to use** IP at a point in time.

The revenue recognition pattern depends on which of these applies.

Right to Access Intellectual Property (Case ①)

If the license provides the **right to access** IP *as it exists and evolves over time*, then **revenue is recognized over the period** of access.

All Three Criteria Must Be Met:

- a) The entity is **required or expected** to perform activities that **significantly affect the IP** (e.g., updating or maintaining it).
- b) The license **exposes the customer** to the effects of those ongoing activities (e.g., receiving software updates).
- c) The entity's ongoing activities **are not separate performance obligations** i.e., they are part of the license's essence.

A software vendor grants a 2-year license for a cloud-based platform that is **continuously updated** with new features.

Revenue is recognized **over the license term**, since the customer accesses evolving IP.

Case ①

Case ① Music production co (ABC) grants license to streaming platform XYZ Co to use its music library for 2 yrs starting from 1/4/x1

ABC Co regularly updates its music library by adding songs throughout 2 yrs

* license provides access to dynamic content that Δ over time
* XYZ Co benefits from updates during license period.
* ABC Co has ongoing obligation to maintain & update

↓

Right to access I.P over time

Recognise revenue over time (2 yrs)

Case ② Music Co ABC Co licensed an existing album with no updates @ Δ during license period.

* Stream Co gets static copy of album
* No ongoing performance obligation by ABC Co

↓

Right to use IP (Point in time)

Recognise revenue @ Point in time.

Right to Use (Case ②)

If the license gives a **right to use the IP** as it exists **at a specific point in time**, with no ongoing updates or significant modifications,

→ Revenue is recognized **at a point in time** (when the customer first obtains control).

Example:

A movie studio sells a TV channel the right to broadcast an existing film for 3 months there's no ongoing involvement.

Revenue is recognized **immediately** when rights are transferred.

🔟 Customer Options for Additional Goods or Services

Explanation

Some contracts give customers **options** to purchase additional goods or services at a discount — such as:

- Coupons,
- Gift cards,
- Loyalty points or rewards.

These provide the customer with a **material right** (a significant benefit) that they wouldn't receive otherwise, so they are treated as **separate performance obligations (P.O.)**.

Promise → P.O

Treatment of Discount Voucher

If a customer receives a **discount voucher** for a future purchase:

Treat it as a **separate performance obligation** and allocate part of the transaction price to it.

Eg Pk Ltd (Cloth Retailer) Sold Blazer for 10000 & gives Customer a voucher for 1000 off on future purchase (valid for 3m)

Pk Ltd estimates that 70% probable that Customers will redeem the voucher.

Total T.P = 10000 (2 P.O's)

a)

	Sale of Blazer	Discount voucher.
SSP	10000	700 (1000 × 70%)
Allocation	9346 (10000 × 10000/10700)	654 (10000 × 700/10700)

Bank A/c Dr 10000
To Revenue 9346
To Contract liab 654
(Disc voucher)

Example:

A retailer sells goods for ₹1,000 and gives a voucher for 10% off the next purchase of ₹1,000, with 80% probability of use.

SSP of Voucher = $1,000 \times 10$

Thus:

- ₹920 is allocated to the product revenue,
- ₹80 is allocated to the voucher (contract liability).

Revenue Recognition:

1️⃣ Amount allocated to the product → recognized immediately.

2️⃣ Amount allocated to the voucher → recognized later when the customer uses the voucher or when it expires.

Treatment of Loyalty Points

Like vouchers, **loyalty points** are treated as **separate performance obligations** because they provide customers with a future right to discount or free goods.

Formula:

SSP of Loyalty Points = Sales Amount × Points per ₹1 × Value per Point

Example:

For every ₹100 purchase, a customer earns 5 points.

Each point = ₹1 value.

If total sales are ₹10,000:

SSP of Points = $10,000 \times 5$

Hence:

- ₹9,500 → product revenue,
- ₹500 → liability for loyalty points.

Revenue Recognition:

1️⃣ Recognize **product revenue** immediately.

2️⃣ Recognize **revenue from loyalty points** when the customer redeems them or upon expiry.

At year-end, re-estimate the proportion of unredeemed points and adjust liability accordingly.

PK Sir not

If todays Contract gives tomorrows benefit that others don't get, then part of todays price (T.P) belongs to tomorrow.

1️⃣1️⃣ Contract Costs (Relevance when Contract > 1year)

Contracts often involve costs that must be capitalized or expensed depending on their nature.

Ind AS 115 divides these into:

1️⃣ **Contract Acquisition Costs**, and

2️⃣ **Contract Fulfilment Costs**

Contract Acquisition Costs

These are costs incurred to **obtain a contract** with a customer.

Type of Cost	Treatment	Example
Costs incurred whether contract is obtained or not (sunk cost)	Expense immediately (charge to P&L).	Salesperson travel, bid preparation, etc.
Incremental costs incurred only because a contract is obtained	Capitalize as Contract Asset (WIP) and amortize over contract term.	Sales commission, signing bonus, success fee.

Logic: If cost wouldn't exist without securing the contract (incremental), capitalize. Otherwise, treat as normal expense.

Contract Fulfilment Costs

These are costs incurred **to fulfill a contract**, such as:

- Raw materials and labour for construction,
- Software and hardware setup for technology contracts, etc.

If covered by another Ind AS

Account as per relevant Ind AS (e.g., Ind AS 16 for PPE, Ind AS 38 for Intangible assets).

If not covered by another Ind AS

Recognize as **Contract Asset (WIP)** and amortize over contract period.

Note:

General administrative costs that are **not chargeable to the customer**, and **abnormal wastages** (e.g., inefficiency, damage) must be **expensed immediately** — they do not represent value creation for the contract.