Educational Material on Indian Accounting Standard (Ind AS) 18 Revenue (Revised 2017)

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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This Educational Material has been formulated in accordance with the Ind AS notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 and other amendments finalised and notified till March 2017.

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Foreword

ICAI is leading the way in embracing accounting standards of excellence and is committed to play a pivotal role to ensure effective and smooth implementation of IFRS converged Ind AS in India. Various initiatives are undertaken for training of accounting professionals, creating awareness and providing guidance on Ind AS. ICAI recognised challenges at an early stage and is making all efforts to take these in stride, such as constitution of Ind AS Implementation Committee, way back in the year 2011.

In accordance with its Terms of Reference, this Committee is actively engaged in formulation of Educational Materials on Ind AS to provide guidance to the members and other stakeholders so as to enable them to implement these Standards.

As a step in this direction, the Committee has revised its earlier issued Educational Material on Ind AS 18, Revenue, addressing relevant aspects envisaged in the Standard by way of brief summary of the Standard and Frequently Asked Questions (FAQs). This publication will provide guidance to the stakeholders in recognising Revenue which is a very significant element and needs to be accounted for appropriately to reflect the true and fair view of financial performance of an entity.

I would like to place on record my deep appreciation to CA. Dhinal Ashvinbhai Shah, Chairman, CA. Sanjay Vasudeva, Vice- Chairman, and other members of the Ind AS Implementation Committee for their untiring efforts in revising the publication and initiatives of the Committee.

I am confident that this revised Educational Material would be of great help for the entities in preparing and presenting its Financial Statements in accordance with Ind AS.

New Delhi
September 12, 2017

CA. Nilesh Shivji Vikamsey
President, ICAI

Preface

In the era of globalised economies, Ind AS is a business imperative for Indian companies today. Ind AS converged with IFRS have put India at the centre stage of high quality and transparent financial reporting whose benefits far outweigh the challenges. These standards which facilitate better comparability and understanding of financial statements across all companies around the world are the new benchmark of accounting excellence. In India, Ind AS has become a reality now as the era of Implementation of Ind AS has already begun in the country with Phase I companies which have published their financial statements prepared in accordance with Ind AS for financial year 2016-17. Phase II companies have published their Q1 results prepared in accordance with Ind AS.

The Institute of Chartered Accountants of India (ICAI) through its Ind AS Implementation Committee is making every possible effort to ensure that these Standards are implemented in the same spirit in which these have been formulated. For this purpose, the Committee is working to provide guidance to the members and other stakeholders by issuing Educational Materials on Ind AS, issuing timely clarifications on issues being faced by the members through Ind AS Transition Facilitation Group (ITFG) Clarification bulletins, addressing queries through Support-desk for implementation of Ind AS, conducting Certificate Course on Ind AS, developing e-learning modules on Ind AS, workshops, seminars, awareness programmes on Ind AS and series of webcasts on Ind AS etc.

As there are amendments in Ind AS 18 notified in 2016 compared to the Ind AS notified in 2011, the Committee during the Council Year 2017-18, decided to revise its earlier issued Educational Material on Ind AS 18. Working in this direction, the Committee has brought this revised Educational Material on Ind AS 18, Revenue.

Revenue is a very significant element which needs to be accounted for appropriately to reflect true and fair view of financial performance of an entity. This Standard prescribes the recognition and measurement principles for revenue arising from certain types of transactions and events. Since revenue is an element which can influence the decisions of the users of the financial statements, the principles prescribed in the Standard need to be applied very carefully. Moreover, with regard to certain provisions need of practical guidance has been felt. Accordingly, efforts have been made to deal with such implementation issues in this Educational Material.

I may mention that the views expressed in this publication are the views of the Ind AS Implementation Committee and are not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard with the help of examples. However, while applying Ind AS in a practical situation, reference should be made to the full text of the Standards. The new standard on revenue recognition, i.e., Ind AS 115, Revenue from Contract with Customers, is yet to be notified which specify the core principle for revenue recognition. As per Ind AS 115, revenue is recognised when performance obligation is satisfied by transferring a promised good/service. However, as per Ind AS 18, revenue is recognised when all the conditions specified in the Standard, such as transfer of significant risks and rewards of ownership of the goods to the buyers are satisfied. I am sure that this educational material would prove to be useful in implementing Ind AS 18 till the time the new standard is notified.

I would like to take this opportunity to convey my sincere thanks to our Hon'ble President CA. Nilesh Shivji Vikamsey and Vice-President CA. Naveen N D Gupta for providing me this opportunity of bringing out implementation guidance on Ind AS in the form of Educational Materials. I am also thankful to CA. Sanjay Vasudeva, Vice-Chairman, Ind AS Implementation Committee for his efforts in all the endeavours of the Committee. I am grateful to CA. S.B. Zaware, Convenor, CA. Paul Alvares, Co-convenor, CA. Anand Banka, CA. Archana Bhutani, CA. Shiraz Vastani and CA. Amit Borkar for preparing the draft of this Educational Material. I would also like to thank all members, co-opted members, special invitees of the Ind AS Implementation Committee for their valuable suggestions and contributions for finalising this publication.

I sincerely appreciate CA. Geetanshu Bansal, Secretary, Ind AS Implementation Committee, CA. Prachi Jain, Executive Officer and CA. Geetu Arora, Project Associate for their technical and administrative support in bringing out this publication. I would also like to thank CA. Vidhyadhar Kulkarni, Technical Consultant, ICAI, for his guidance.

I am of the firm belief that this Educational Material will be of great help in understanding the provisions of Ind AS 18 and in the practical implementation of the same.

New Delhi
September 12, 2017

CA. Dhinal Ashvinbhai Shah
Chairman
Ind AS Implementation Committee

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Introduction

The *Framework for Preparation and Presentation of Financial Statements* issued by the Institute of Chartered Accountants of India defines Income as increases in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains.

Further, paragraph 7 of Ind AS 18 defines revenue as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when these inflows result in increase in equity, other than increases relating to contributions from equity participants.

Revenue is a subset of Income. Revenue includes only economic benefits arising in the course of ordinary activities of an entity, whereas Income includes such benefits that arise from all activities, whether ordinary or otherwise. Income encompasses both revenue and gains. Gains are items that are income, but may not arise in the course of entity's ordinary activities.

Objective

The two most important aspects which are dealt with in this Standard are the timing of recognition of revenue i.e. when to recognise revenue also known as recognition criteria and secondly at what value to recognise revenue i.e. the measurement criteria. The Standard prescribes criteria that are to be met for recognition of revenue and also provides practical guidance on applying these criteria.

Scope

This Standard shall be applied in accounting for revenue arising from the following transactions and events:

(a) the sale of goods;

(b) the rendering of services; and

(c) the use by others of entity assets yielding interest and royalties.

Recognition of interest is dealt in this standard whereas measurement of interest charges for the use of cash or cash equivalents or amounts due to the entity is dealt in accordance with Ind AS 109, *Financial Instruments.*

Recognition and measurement of dividend is dealt in accordance with Ind AS 109, *Financial Instruments.*

This Standard does not deal with revenue arising from:

(a) lease agreements (see Ind AS 17, *Leases*);

(b) dividends arising from investments which are accounted for under the equity method (see Ind AS 28, *Investments in Associates and Joint Ventures*);

(c) insurance contracts within the scope of Ind AS 104, *Insurance Contracts*;

(d) changes in the fair value of financial assets and financial liabilities or their disposal (see Ind AS 109, *Financial Instruments*);

(e) changes in the value of other current assets;

(f) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see Ind AS 41, *Agriculture*);

(g) initial recognition of agricultural produce (see Ind AS 41, *Agriculture*); and

(h) the extraction of mineral ores.

Revenue arising from contracts for rendering services related to construction contracts is dealt with in Ind AS 11, *Construction Contracts*. Therefore, this Standard does not deal with revenue arising from such contracts.

For real estate developers, revenue shall be accounted for in accordance with the Guidance Note on Accounting for Real Estate Transactions (for entities to whom Ind AS is applicable), issued in 2016 by ICAI.

Key Requirements of Ind AS 18

Measurement of Revenue

Measurement of revenue means the value at which revenue should be recognised. This Standard prescribes that revenue shall be measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either the prevailing rate for a similar instrument of an issuer with a similar credit rating; or a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue using effective interest method as set out in Ind AS 109.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Exchange or Swap of Goods or Services

Exchange or Swap of Goods and Services for Similar Nature and Value

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue.

Exchange or Swap of Goods and Services for Dissimilar Goods and Services

When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue.

The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Identification of the Transaction

The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

Sale of Goods

Goods include goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale.

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. However, if an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognised.

Revenue and expenses that relate to the same transaction or other event are recognised simultaneously; this process is commonly referred to as the matching of revenues and expenses. Expenses, including warranties and other costs to be incurred after the shipment of the goods can normally be measured reliably when the other conditions for the recognition of revenue have been satisfied. However, revenue cannot be recognised when the expenses cannot be measured reliably; in such circumstances, any consideration already received for the sale of the goods is recognised as a liability.

Rendering of Services

Rendering of services typically involves performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the **stage of completion** of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the transaction will flow to the entity;

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Under percentage completion method, revenue is recognised in the accounting periods in which the services are rendered. The stage of completion of a transaction may be determined by a variety of methods. The method used by the entity should reliably measure the services performed. These methods may include:

(a) surveys of work performed;

(b) services performed to date as a percentage of total services to be performed; or

(c) the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Costs incurred to date = Costs that reflect services performed to date

Estimated Total Cost = Total cost that reflect services performed or to be performed.

Progress payments and advances received from customers often do not reflect the services performed.

When services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable. When it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognised in accordance with paragraph 20 of Ind AS 18.

Interest and Royalties

Revenue arising from the use by others of entity assets yielding interest and royalties shall be recognised when:

(a) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(b) the amount of the revenue can be measured reliably.

Revenue shall be recognised on the following bases:

(a) interest shall be recognised using the effective interest method as set out in Ind AS 109; and

(b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.

Royalties accrue in accordance with the terms of the relevant agreement and are usually recognised on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognise revenue on some other systematic and rational basis.

Disclosure

An entity should disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) the amount of each significant category of revenue recognised during the period, including revenue arising from:

(i) the sale of goods;

(ii) the rendering of services; and

(iii) royalties

(c) the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Revenue — Barter Transactions Involving Advertising Services

An entity (Seller) may enter into a barter transaction to provide advertising services in exchange for receiving advertising services from its customer (Customer). In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged. The issue is under what circumstances a Seller can reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a Seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions that:

(a) involve advertising similar to the advertising in the barter transaction;

(b) occur frequently;

(c) represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction;

(d) involve cash and/or another form of consideration (eg marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and

(e) do not involve the same counterparty as in the barter transaction.

Customer Loyalty Programmes

Customer loyalty programmes are used by entities to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the entity grants the customer award credits (often described as 'points'). The customer can redeem the award credits for awards such as free or discounted goods or services.

This Standard provides guidance on accounting by the entity that grants award credits to its customers.

An entity shall apply paragraph 13 of Ind AS 18 and account for award credits as a separately identifiable component of the sales transaction(s) in which they are granted (the 'initial sale'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits (by reference to their fair value) and the other components of the sale.

If the entity supplies the awards itself, it shall recognise the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligations to supply awards. The amount of revenue recognised shall be based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

If a third party supplies the awards, the entity shall assess whether it is collecting the consideration allocated to the award credits on its own account (ie as the principal in the transaction) or on behalf of the third party (ie as an agent for the third party).

(a) If the entity is collecting the consideration on behalf of the third party, it shall:

   (i) measure its revenue as the net amount retained on its own account, ie the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards; and

   (ii) recognise this net amount as revenue when the third party becomes obliged to supply the awards and entitled to receive consideration for doing so. These events may occur as soon as the award credits are granted. Alternatively, if the customer can choose to claim awards from either the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party.

(b) If the entity is collecting the consideration on its own account, it shall measure its revenue as the gross consideration allocated to the award credits and recognise the revenue when it fulfills its obligations in respect of the awards.

Transfers of Assets from Customers

An entity may receive from its customers items of property, plant and equipment that must be used to connect those customers to a network and provide them with ongoing access to a supply of commodities such as electricity, gas or water. Alternatively, an entity may receive cash from customers for the acquisition or construction of such items of property, plant and equipment. Typically, customers are required to pay additional amounts for the purchase of goods or services based on usage.

This Standard includes an Appendix, *Transfers of Assets from Customers*, which applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers.

Is the definition of an asset met?

When an entity receives from a customer a transfer of an item of property, plant and equipment, it shall assess whether the transferred item meets the definition of an asset set out in the *Framework for the Preparation and Presentation of Financial Statements*, issued by the Institute of Chartered Accountants of India. In most circumstances, the entity obtains the right of ownership of the transferred item of property, plant and equipment. However, in determining whether an asset exists, the right of ownership is not essential. Therefore, if the customer continues to control the transferred item, the asset definition would not be met despite a transfer of ownership.

If the entity concludes that the definition of an asset is met, it shall recognise the transferred asset as an item of property, plant and equipment in accordance with paragraph 7 of Ind AS 16 and measure its cost on initial recognition at its fair value in accordance with paragraph 24 of that Standard.

According to the terms of the agreements within the scope of this Appendix, a transfer of an item of property, plant and equipment would be an exchange for dissimilar goods or services. Consequently, the entity shall recognise revenue in accordance with Ind AS 18.

Identifying the separately identifiable services

An entity may agree to deliver one or more services in exchange for the transferred item of property, plant and equipment, such as connecting the customer to a network, providing the customer with ongoing access to a supply of goods or services, or both. In accordance with paragraph 13 of Ind AS 18, the entity shall identify the separately identifiable services included in the agreement.

If only one service is identified, the entity shall recognise revenue when the service is performed in accordance with paragraph 20 of Ind AS 18.

If more than one separately identifiable service is identified, paragraph 13 of Ind AS 18 requires the fair value of the total consideration received or receivable for the agreement to be allocated to each service and the recognition criteria of Ind AS 18 are then applied to each service.

If an ongoing service is identified as part of the agreement, the period over which revenue shall be recognised for that service is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue shall be recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

How should the entity account for a transfer of cash from its customer?

When an entity receives a transfer of cash from a customer, it shall assess whether the agreement is within the scope of this Appendix in accordance with paragraph 6. If it is, the entity shall assess whether the constructed or acquired item of property, plant and equipment meets the definition of an asset in accordance with paragraphs 9 and 10. If the definition of an asset is met, the entity shall recognise the item of property, plant and equipment at its cost in accordance with Ind AS 16 and shall recognise revenue in accordance with paragraphs 13–20 at the amount of cash received from the customer.

II Frequently Asked Questions

Question 1

How is Revenue different from Income? What is the distinction between Income and Equity?

Response

Paragraph 7 of Ind AS 18 defines revenue as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Income is defined in the *Framework for the Preparation and Presentation of Financial Statements* issued by the Institute of Chartered Accountants of India, as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Thus, '*Income*' is a wider term as '*Revenue*' is income that arises in the course of ordinary activities of an entity, whereas Income encompasses both revenue as well as gains which may not arise in the ordinary course of business.

Example: In case of a manufacturer of cement, the income from sale of cement is revenue. However, if the same entity sells its surplus land, the profit on sale of land is a gain and not revenue. However, its total income would comprise both revenue from sale of cement as well as gain on sale of land.

It may be noted that changes in equity that relate to contributions from or distributions to owners are excluded from the definition of income and expenses. Paragraph 109 of Ind AS 1 *Presentation of Financial Statements*, provides that "Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period."

Accordingly, changes in total equity arises due to the following two reasons:

(i) transactions with owners (like equity contributions, dividends, etc); and

(ii) income/ expense generated by the entity.

Question 2

As per Ind AS, how should real estate developers account for revenue?

Response

As per the footnote to Ind AS 18, "For real estate developers, revenue shall be accounted for in accordance with the Guidance Note on the subject being issued by the Institute of Chartered Accountants of India." In this regard, the ICAI has issued the Guidance Note on Accounting for Real Estate Transactions (for entities to whom Ind AS is applicable).

Hence, for real estate developers the Guidance Note on Accounting for Real Estate Transactions (for entities to whom Ind AS is applicable), issued in 2016 by ICAI would be applicable. Paragraph 1.2 of the said Guidance Note, *inter alia*, states that it covers all forms of transactions in real estate and also provides an illustrative list of transactions which are covered by the said Guidance Note. Even though accounting for real estate transactions are covered by the Guidance Note, paragraph 1.3 further clarifies that in respect of transactions of real estate which are in substance similar to delivery of goods, the principles enunciated in Ind AS 18 are applied.

Question 3

A car manufacturer sells a car at Rs. 1,00,000 which includes excise duty of Rs. 10,000 and VAT of Rs. 5,000. What is the amount to be recognised as revenue?

Response

Paragraph 8 of Ind AS 18, *inter alia*, provides that revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue.

Further, paragraph 9.1.3 of the '*Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013*', issued by the Institute of Chartered Accountants of India states that, "indirect taxes such as Sales tax, Service tax, etc. are generally collected from the customer on behalf of the government in majority of the cases. However, this may not hold true in all cases and it is possible that a company may be acting as principal rather than as an agent in collecting these taxes. Whether revenue should be presented gross or net of taxes should depend on whether the company is acting as a principal and hence, is responsible for paying tax on its own account or, whether it is acting as an agent i.e. simply collecting and paying tax on behalf of government authorities. If the entity is the principal, then revenue should also be grossed up for the tax billed to the customer and the tax payable should be shown as an expense. However, in cases, where a company collects such taxes only as an agent, revenue should be presented net of taxes."

As per paragraph 9.1.4 of the above-mentioned Guidance Note, recovery of excise duty is an inflow that the entity receives on its own account. For the manufacturer it is a part of the cost of production, irrespective of whether the goods are sold or not. The manufacturer acts as a principal in collecting excise duty and therefore, revenue should be grossed up to include excise duty. Excise duty paid should be presented as a separate line item under the 'Expenses' head on the face of Statement of Profit and Loss.

Recovery of excise duty flows to the entity on its own account because it is a liability of the manufacturer which forms part of the cost of production, irrespective of whether the goods are sold or not. Since, the recovery of excise duty flows to the entity on its own account, revenue includes excise duty.

VAT is collected on value added to the commodity by the seller on behalf of the Government, and therefore, it is excluded from revenue.

Accordingly, in the present case, the revenue should be recognised at Rs. 95,000.

Question 4

Post the introduction of Goods and Services Tax Act, 2017 (GST), how should revenue be measured in the above example, assuming the sale price of the car of Rs. 128,000 includes IGST of Rs. 28,000?

Response

Section 9(1) of the Central Goods and Services Tax Act, 2017 provides that, *"Subject to the provisions of sub-section (2), there shall be levied a tax called the central goods and services tax (CGST) on all intra-state supplies of goods or services or both, except on the supply of alcoholic liquor for human consumption, on the value determined …… and collected in such manner as* *may be prescribed and shall be paid by the taxable person".* Similar provisions are also included for State Goods and Services Tax Act (SGST), Integrated Goods and Services Tax Act (IGST) and Union Territory Goods and Services Tax Act (UGST).

In accordance with the above, the incidence of GST (i.e. CGST/SGST/IGST/ UGST) is on supply of goods or services and it is recovered from the customer.

Paragraph 8 of Ind AS 18, *inter alia*, provides that revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue.

As per paragraph 9.1.3 of the 'Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013', indirect taxes such as Sales tax, Service tax, etc. are generally collected from the customer on behalf of the government in majority of the cases. However, this may not hold true in all cases and it is possible that a company may be acting as principal rather than as an agent in collecting these taxes. Whether revenue should be presented gross or net of taxes should depend on whether the company is acting as a principal and hence, is responsible for paying tax on its own account or, whether it is acting as an agent i.e. simply collecting and paying tax on behalf of government authorities. If the entity is the principal, then revenue should also be grossed up for the tax billed to the customer and the tax payable should be shown as an expense. However, in cases, where a company collects such taxes only as an agent, revenue should be presented net of taxes.

Further, as per paragraph 9.1.6 of the said Guidance Note, under the GST regime, the collection of GST by an entity would not be an inflow on the entity's own account but it shall be made on behalf of the government authorities. Accordingly, the revenue should be presented net of GST.

Therefore, in the given case, revenue should be recognised at Rs. 1,00,000.

Question 5

How should revenue be presented in the statement of profit and loss? Should it be including GST or excluding GST?

Response

Paragraph 35(b) of Ind AS 18 provides that, an entity should disclose the amount of each significant category of revenue recognised during the period, including revenue arising from the sale of goods, the rendering of services and royalties.

In accordance with the above, since revenue would be measured exclusive of GST (as mentioned in response to Question 4 above), revenue disclosed will also be exclusive of GST.

Question 6

The GST is applicable from July 1, 2017. The amount recognised as revenue for the period from April 01, 2017 till June 30, 2017 will include excise duty and for the period from July 1, 2017 onwards will exclude GST.

How should revenue be presented in financial statements for the year ended March 31, 2018?

Response

Excise duty and GST are different in nature, since the incidence of excise duty was on production of goods but that of GST is on supply of goods and services. Further, they are chargeable to tax under separate laws and regulations. Consequently, as explained in Question 3 and 4 above, excise duty is included in measurement of revenue whereas GST is not included in revenue.

Accordingly, revenue for the period prior to the applicability of GST should be shown as gross of excise duty and that post GST becoming applicable should be shown as net of GST.

To ensure the comparability with pre GST numbers, an entity may, however, disclose the amount of revenue excluding excise duty by way of notes to the financial statements and also explain the difference by way of explanatory notes.

Question 7

A TV manufacturer sells TV sets to its dealers at the list price of Rs. 10,000 per TV. If a dealer takes more than 8,000 sets during the contract period, then it is eligible for a discount of 5% on the list price. The contract period starts in June and ends in May of each year. On the reporting date, i.e., March 31, 2017, a particular dealer has purchased 5,000 sets. Based on the past trends, it is expected that the total purchases to be made by dealer during the contract period up to May 2017 will be more than 8,000 sets. Should revenue be adjusted for the discount expected to be availed by such a dealer?

Response

Paragraph 10 of Ind AS 18 states that, "the amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity."

In accordance with the above, the amount of revenue will be determined on the basis of terms of the agreement between the manufacturer and the dealer. If in the instant case, based on past trends and other available evidence, it is probable that 5% discount will be given to the dealer, revenue should be adjusted for the probable discount, as the economic benefits to that extent are not expected to flow to the entity. While estimating the amount of discount expected to be allowed, events occurring between the end of the reporting period and the date when the financial statements are approved for issuance should also be considered in accordance with the requirements of Ind AS 10, *Events after the Reporting Period*.

Question 8

Can the amount of revenue recognised for a particular transaction in the financial statements be different from the amount of sales for the purposes of GST?

Response

As per paragraph 9 of Ind AS 18 revenue should be measured in the financial statements based on the fair value of consideration received or receivable. The value of a taxable supply is based on the principles as given in the relevant GST Act. For example, Section 15 of the Maharashtra Goods & Services Tax Act, 2017, provides what should be included or not included in the value of taxable supply.

In certain situations, it may be possible that the value determined for the purpose of GST is equal to the value determined for the purposes of financial reporting, but it is not necessary that these two values would always be same. For example, if there is a sale made with deferred consideration over five years for a value of say Rs. 100,000, the sale value for the purposes of

GST would be Rs. 100,000 but the revenue for the purposes of financial reporting would be the fair value after excluding the financing element for the deferred consideration.

Another example could be of barter transactions, where in accordance with paragraph 12 of Ind AS 18, the goods are exchanged for goods which are of similar nature and value, the exchange is not regarded as a transaction which generates revenue in the financial statements, but it may be considered as revenue under GST laws.

Question 9

An entity sells goods worth Rs. 100,000 to customer A. The terms of the transaction provide for extended credit period whereby A is required to make the payment at the end of two years. The present value of Rs. 100,000 payable after two years is Rs. 80,000. Should revenue be measured at Rs. 100,000 or at Rs. 80,000?

Response

Paragraph 9 of Ind AS 18 states that, "Revenue shall be measured at the fair value of the consideration received or receivable." Further, paragraph 7 of Ind AS 18, *inter alia*, states that, "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Paragraph 11 of Ind AS 18, *inter alia*, states that, "When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or

(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of goods or services."

In the instant case, since the sale is at deferred payment terms, revenue should be recognised at the present value of the consideration and the balance would be recognised as interest income over the period based on effective interest rate. Accordingly, in this case, revenue from sale of goods should be recognised at Rs.80,000.

Question 10

A seller provides sales incentives to a customer when entering into a contract. Examples of such customer incentives include:

- Cash incentives
- Non-cash incentives in the three scenarios as described below:
  - Scenario 1: Loyalty points to purchase goods from the seller at a lower price;
  - Scenario 2: A coupon redeemable for free products from a third party
  - Scenario 3: Free goods or services that the seller normally sells or provides as part of its business (e.g., On purchase of 2 products, 3rd product is free)

How should an entity account for cash and non-cash based sales incentives when entering into a contract for supply of goods or services?

Response

Cash Incentives

Paragraph 10 of Ind AS 18 states that, "The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity."

Therefore, cash incentives (payments given to the customer) are rebates in accordance with paragraph 10 of Ind AS 18 and would be included in the measurement of revenue when the goods are delivered. Revenue would be recognised at a reduced amount taking into account such a rebate.

Non-Cash Incentives

When an entity has to account for non-cash incentives, the issue is whether the incentives provided represent separate deliverables. Appendix B, *Customer Loyalty Programmes* of Ind AS 18, applies to scenarios 1 and 2, i.e., when an entity grants loyalty points or non-cash assets that are subject to fulfilling any further qualifying conditions before the customer can redeem those incentives.

As per paragraph 5 of Appendix B of Ind AS 18, an entity shall account for award credit as a separately identifiable component of the sales transactions in which they are granted ('the initial sale'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

Scenario 1: Paragraph 7 of Appendix B of Ind AS 18 clarifies that, "If the entity supplies the awards itself, it shall recognise the consideration allocated to award credits as revenue when award credits are redeemed and it fulfils its obligations to supply awards. The amount of revenue recognised shall be based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed."

Accordingly, in the given scenario, since the discount or free item is provided by the entity itself, for such non-cash incentives, the portion of the total consideration allocated to the incentive is reduced from the revenue of initial sale. These incentives are recognised as revenue when the incentive is redeemed and the entity has fulfilled its obligations to supply the incentive.

Scenario 2: As per paragraph 8 of Appendix B, "If a third party supplies the awards, the entity shall assess whether it is collecting the consideration allocated to the award credits on its own account (i.e. as the principal in the transaction) or on behalf of the third party (i.e. as an agent for the third party).

(a) If the entity is collecting the consideration on behalf of the third party, it shall:

  i. measure its revenue as the net amount retained on its own account, ie the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards; and

  ii. recognise this net amount as revenue when the third party becomes obliged to supply the awards and entitled to receive consideration for doing so. These events may occur as soon as the award credits are granted. Alternatively, if the customer can choose to claim awards from either the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party.

(b) If the entity is collecting the consideration on its own account, it shall measure its revenue as the gross consideration allocated to the award credits and recognise the revenue when it fulfils its obligation in respect of the awards."

Accordingly, in the given scenario, as the discount or free item is provided by a third-party, for such non-cash incentives, the portion of the total consideration receivable is to be allocated to the incentive. Further, an entity shall assess whether it is acting as a principal or agent, to determine the 'deliverable' within the arrangement and the amount to allocate to that item.

Acting as a principal: If the entity has collected the consideration allocated to the points on its own account,(i.e., as the principal in the transaction), the accounting treatment is the same as in scenario 1 above, that is, the entity allocates the consideration to all the elements of the transaction, including the free good or services it provides as an incentive to its customers and recognises revenue when those free goods or services are delivered/ provided.

Acting as an agent: If the entity is collecting the consideration on behalf of the third party (i.e., as an agent for the third party), the entity measures revenue at the net amount it retains on its own account (the consideration allocated to the incentive less the amount paid to the third party supplying the incentive). The entity recognises the net revenue when it provides the incentive to the customer.

Scenario 3: Paragraph 13 of Ind AS 18, *inter alia*, states that, "the recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed."

Accordingly, in the given scenario, an entity grants free goods to a customer as part of the sale transaction, which it sells separately as part of its operations, the transaction price is allocated to each separate component.

In the current transaction, the total consideration received will be allocated to all elements in the sale, including the free goods.

Question 11

A Ltd. owns 20 resorts across India. Every customer who stays in any of the resorts owned by A Ltd. is entitled to get points on the basis of total amount paid by him. Under this scheme, 1 point is granted for every Rs. 100. Points can be redeemed only in multiples of 100 points and the customers are allowed Rs. 500 discount for every 100 points for stay in any of the resorts owned by A Ltd. What is the accounting treatment for the points granted by A Ltd.?

Response

Appendix B, *Customer Loyalty Programmes* of Ind AS 18 deals with customer loyalty programmes that are used by entities to provide customers with incentives to buy their goods or services. If a customer buys goods or avail services, the entity grants the customer award credits (often described as 'points'). The customer can redeem the award credits for awards such as free or discounted goods or services. In the instant case, A Ltd. allows award credits for staying in its resorts and customer are allowed to redeem the award credits on fulfilment of certain conditions. Accordingly, the instant case is a customer loyalty programme.

Paragraph 5 of Appendix B of Ind AS 18 states that, "an entity shall apply paragraph 13 of Ind AS 18 and account for award credits as a separately identifiable component of the sales transaction(s) in which they are granted (the 'initial sale'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of sale."

Paragraph AG1 of Application Guidance on Appendix B provides that, "the consideration allocated to the award credits shall be measured by reference to their fair value. If there is not a quoted market price for an identical award credit, fair value must be measured using another valuation technique. Accordingly, the award credits should be measured at the amount for which the award credits could be sold separately."

Further, paragraph 7 of Appendix B of Ind AS 18, *inter alia*, states that, "ìf the entity supplies the awards itself, it shall recognise the consideration allocated to award credits as revenue when award credits are redeemed and it fulfils its obligations to supply awards."

Assuming that a customer has stayed for 2 days in a resort of A Ltd. The total consideration is Rs. 10,000. Thus, the customer is entitled to get 100 points (1/100 x 10,000). The fair value of the 100 points is Rs. 500. In this case, A Ltd. should allocate the fair value of the consideration (i.e. Rs. 10,000) between the points and the other components of the sale (such allocation may be based on the relative fair values of the sale and award credits) i.e., at Rs. 500 and Rs. 9,500 respectively in the given case. Since A Ltd. supplies the awards itself, it should recognise Rs. 500 as revenue at that time when points would be redeemed.

Question 12

Company A sells a photocopier machine for Rs. 100,000 with a contractual understanding that it will also do maintenance for five years. In certain other transactions where the Company has sold photocopier machines without maintenance, the value is Rs. 80,000. If the maintenance contract is taken separately for 5 years, it's value is Rs. 30,000. How should the revenue be recognised in such a situation?

Response

Paragraph 13, *inter alia*, states that, "the recognition criteria in this standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction."

The contract, in this case, consists of two components one being sale of a photocopier machine and second being maintenance contract for five years. Hence, in accordance with paragraph 13 of Ind AS 18, these would be considered as separately identifiable transactions.

For recognition of revenue, relative fair values of the individual components may be taken and the consideration allocated in proportion of relative fair values i.e. 80,000:30,000. Hence, the sale of photocopier machine should be recognised at Rs.72,727 (Rs. 100,000 * 8/11) when the risks and rewards are transferred to the customer and the revenue from maintenance services of Rs. 27,273 (100,000 – 72,727) should be the service revenue recognised over a period of five years as per its stage of completion.

Question 13

Company A is an auto component supplier and supplies auto parts to Original Equipment Manufacturer's (OEM). It has received a contract to make a tooling for a total consideration of Rs. 500,000. This tooling requires a design to be created and approved from the customer and then the process of manufacture of the tooling will begin. This process is completed in a short period of time, i.e., around one month. When should revenue be recognised in such a situation?

Response

Paragraph 13 of Ind AS 18 states that, "the recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together."

In the given case, if the design activity and the tooling activity are linked, e.g. designing is complex and specialised such that the customer cannot derive any benefit from it independent of the tooling activity, the total revenue is recognised on a combined basis as and when performance of the assigned task is completed. However, if the design activity and the tooling activity are not linked e.g. the design activity is not complex and specialised, the company provides the designing services on a stand-alone basis and the customer can use the design to get the tooling manufactured by another vendor, the two can be treated as separated components and revenue recognised accordingly.

Question 14

A Ltd. is a manufacturer of garments and sells garments to certain retailers with a right to return in case the retailer is not satisfied with the quality of garments. Full amount is refunded to retailer provided that garments are undamaged. Based on past experience, at the end of the year, it is expected that 5% of goods sold during the year will be returned by the retailers in the next financial year. The margin on sale of garments is 10%. How revenue should be recognised by A Ltd?

Response

According to paragraph 14 of Ind AS 18, "revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably."

In the present case, on the basis of past experience, it is expected that 5% of goods sold will be returned for which A Ltd. will have to refund consideration to retailers. Therefore, though significant risks and rewards have been transferred to retailers but it is not probable that the economic benefits attributable to the possible returns will flow to the entity.

Therefore, revenue should be adjusted for gross amount of the expected returns for which consideration will have to be refunded and a corresponding current asset should be recognised representing the inventory that may be returned.

Question 15

A Ltd. is a manufacturer of automobile parts and it has entered into a contract with a customer to sell goods on Incoterms DAP (Delivery at Place) basis to be delivered to customer factory? As at March 31, 2017, Rs. 100,000 worth of goods were sold of which Rs. 60,000 had reached the customers factory by March 31, 2017 and Rs. 40,000 reached the customers factory by April 10, 2017. What is the amount of revenue that can be recognised by A limited as at year ended March 31, 2017?

Response

Paragraph 14 of Ind AS 18 states that, "revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably."

As per paragraph 14 (a) above revenue from sale of goods should be recognised when the significant risks and rewards of ownership of the goods has been transferred to the customer. The timing of the transfer of significant risks and rewards of ownership depends on particular facts and circumstances of the case, including the terms of the contract, express and/or implied, and the conduct of the parties. Various factors should be considered for ascertaining the timing of passing of significant risks and rewards of ownership. For example, factors like, who bears the risk of damage during transit, whether the goods produced are substantially complete, whether the company can sell the goods to another party or pledge the same after handing over of the goods to the carrier, etc., will have to be taken into account in determining the timing of transfer of significant risks and rewards of ownership.

Accordingly, revenue should be recognised when as the significant risks and rewards of ownership of goods have been transferred to the buyer and other conditions as stipulated in paragraph 14 of Ind AS 18 are met.

Accordingly, in the given case, assuming that other conditions of paragraph 14 of Ind AS 18 have been fulfilled revenue should be recognised only for Rs. 60,000 for the year ending March 31, 2017 and the balance revenue of Rs. 40, 000 should be recognised in April , 2017 when the goods reaches the customer's factory.

Question 16

Entity A enters into a contract with Customer B to manufacture and install a product. These products need significant amount of installation to make them operational and the installation will be done by the Entity A. Entity A despatches these goods to Customer B to be installed later and raises an invoice of Rs. 500,000 for these goods as at March 31, 2017. Assuming the installation is completed by June 2017, when should the revenue be recognised?

Response

Paragraph 14 of Ind AS 18 states that, "revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably."

Paragraph 14(a) above requires revenue from sale of goods to be recognised when the significant risks and rewards of ownership of the goods has been transferred to the customer. The timing of transfer of significant risks and rewards of ownership depends on particular facts and circumstances of the case, including the terms of the contract, express and/or implied and the conduct of the parties. Various factors should be considered for ascertaining the timing of passing of significant risks and rewards of ownership. For example, factors like, who bears the risk of damage during transit, whether the goods produced are substantially complete, whether the company can sell the goods to another party or pledge the same after handing over of the goods to the carrier, etc., will have to be taken into account in determining the timing of transfer of significant risks and rewards of ownership.

Also, as per paragraph 16(c), examples of situations in which the entity may retain the significant risks and rewards of ownership includes - when the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity.

From the above, it may be concluded that revenue is normally recognised when the buyer accepts delivery, and installation and inspection are complete. Mere delivery of goods to a particular customer/site, or raising of invoice in the name of customer, or delivery of goods at the customer's site, do not result in transfer of significant risks and rewards relating to ownership of goods. Revenue should be recognised only on the installation of goods, if it is a significant part of the contract.

Accordingly, in the given case, revenue should be recognised only on installation, i.e. in June 2017, if installation is significant part of the contract.

However, in situations, when the installation process is simple in nature, the revenue is recognised immediately upon the buyer's acceptance of delivery, for example, the installation of a factory tested television receiver which only requires unpacking and connection of power and antennae.

Question 17

Company A is a manufacturer of auto parts. It entered into a contract with an automobile Company B to make tooling. The tooling is for the part of a new model which Company B is launching. Company A estimated the cost of Rs. 52,000 for making the tooling and it quoted the price of Rs. 75,000 to Company B. The Company B has incurred a lot of losses and requests Company A to help him tide over the current situation.

As per the terms of agreement, Company B will pay Company A, Rs. 60,000 immediately and the balance Rs.15,000 will be paid only, if the model is successful and at least 2,000 units would be sold per month for a continuous period of six months. As at March 31, 2017, the Company A has made the tooling and sold to Company B. What is the amount of revenue that can be recognised by Company A as at the year ended March 31, 2017?

Response

Paragraph 14 of Ind AS 18 states that, "revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably."

Paragraph 14(c) of Ind AS 18 requires that revenue should be recognised when the amount of revenue can be reliably measured. So, in this case, the amount of revenue which can be reliably measured as at March 31, 2017 is only Rs. 60,000. Hence, revenue should be recognised to the extent of Rs. 60,000 when risks and rewards in the tooling are transferred to the Company B and all the conditions envisaged in paragraph 14 of Ind AS 18 are met. In this case, considering that the part is for a new model, the balance amount should be recognised when as per the contract after the completion of six months of continuous sale of 2000 units per month.

Question 18

XYZ Ltd., a knowledge management company, entered into an agreement with ABC, an educational institute, to formulate some study material on a particular subject for a total consideration of Rs. 10 lakhs. The contract terms stipulated that XYZ Ltd. has to complete the contract before March 31, 2017, and in the event of failure to complete the same within the stipulated time, it will be reimbursed only 75% of the cost incurred by it. XYZ Ltd. could complete only 85% of the assignment till March 31, 2017. Till that date XYZ Ltd. has incurred cost of Rs. 4 lakhs and has sought an extension of time but it is not sure whether the extension will be granted or not? How and when XYZ Ltd. should recognise revenue? Ignore the element of onerous contract.

Response

Paragraph 26 of Ind AS 18 states that, "when the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable."

In the present case, the outcome of the contract cannot be measured reliably, but 75% of the costs incurred are recoverable as per terms of the agreement. Accordingly, XYZ Ltd. can recognise revenue equal to 75% of the cost incurred, i.e., Rs. 3 lakhs (4 lakhs x 75/100).

Question 19

The price payable under certain metal concentrate purchase or sale contracts is determined by reference to prices quoted in an organised market (e.g., LME) as follows:

- The title to the commodity passes to the buyer on delivery. At this time, a provisional invoice is generated based on the market price at the date of sale (either spot or the average spot price over the previous 1–3 weeks). 90% of the provisional invoice will be settled within a short period.

- The remaining 10% (plus or minus any adjustment on 100% of the value of the sale for movements in price from the spot price at the date of sale and the final price at the end of the specified period, plus any minor volume adjustments resulting from the final assay) is settled 2-4 months after the date of the sale.
- The final invoice is based on the market price at the time of invoicing (this can be the spot price at the date of final invoicing, or an average spot price over a prescribed quotation period between the date of the delivery and the final invoice).

The commercial rationale behind this pricing mechanism is to cover the purchaser, e.g. a smelter, from exposure to price risk from the point the inventory is received by the smelter, to the date the smelter expects to ultimately sell the final product (which is typically around 2-4 months, being the time the smelter takes to treat and refine the concentrate). This is to enable the smelter to operate as nearly as possible, as a pure tolling/refining operation. Such contracts may be cancellable without penalty prior to delivery. Economically, the purchaser locks-in the price and transfers any price risk to the seller.

For purposes of this fact pattern, it is assumed that the non-financial contract is not within the scope of Ind AS 109, *Financial Instruments* and the price adjustment feature represents an embedded derivative within the scope of Ind AS 109.

Considering that the seller retains price risk on commodity contracts for a specified period after the sale has occurred (i.e. after delivery) whether he would be able to recognise revenue for the entire sale on the date of delivery?

(It may be noted that the response does not address aspect of embedded derivative, if any, in the transaction)

Response

Paragraph 14 of Ind AS 18 *Revenue* states that, "revenue from the sale of goods shall be recognised when **all** the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably."

In accordance with above, it is appropriate for the seller to recognise revenue on the delivery of the commodity because:

(i) title transfers to the buyer on delivery and the buyer is able to use the commodity in the refining process, which demonstrates that the significant risks and rewards of ownership have been transferred; and

(ii) total revenue can be reliably measured and assuming other conditions of paragraph 14 are met.

Question 20

An operator offers a subscriber a finite number of call minutes for a fixed amount per month with the option of rolling over any unused minutes to the following month. At the end of the month, the subscriber has some unused minutes to roll over to the next month. The subscriber can use the unused minutes for the following two months, after which they expire. The operator has a history of enforcing expiry dates. How does a telecommunications operator account for unused minutes that a subscriber holds?

Response

Paragraph 20 of Ind AS 18, *inter alia*, states that, "when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period."

Under the stage of completion method, revenue is recognised in the accounting period in which the services are rendered, which in this case when the contracted call minutes are provided (i.e., the allocation is to minutes and not periods).The operator recognises revenue when the minutes are used. The operator recognises any unused minutes at the end of each month as deferred revenue. When the validity period expires, the operator recognises any remaining balance of unused minutes as revenue immediately, since the obligation of the operator to provide the contractual call minutes is extinguished.

In some instances, the operator has reliable and robust evidence that shows that the customer will not use a portion of those minutes before the expiration of the validity period. In that case, the operator could consider an alternative revenue recognition policy that considers the probability of unused minutes at the end of the validity period into the computation of the revenue per minute used by the subscriber. This results in allocating a higher fixed amount of revenue per minute used.

When the validity period expires, the operator recognises any remaining balance of unused minutes as revenue immediately, since the obligation of the operator to provide the contractual call minutes is extinguished.

Question 21

Entity A has entered into contract with Entity B to provide it a commitment regarding a term loan, which may be availed during the period of five years. A specified fee as per the contract is received by Entity A to provide the loan commitment to Entity B. How should Entity A account for such fees received to provide a loan commitment?

Response

Paragraph 20 of Ind AS 18 states that, "when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the transaction will flow to the entity;

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably."

In accordance with the above, the accounting for such fees received to provide a loan commitment is based on the particular facts and circumstances.

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

(i) *Fees that are an integral part of the effective interest rate of a financial instrument.*

In case, it is probable that the Entity B will enter into a specific lending arrangement and the loan commitment is not within the scope of Ind AS 109, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs (as defined in Ind AS 109), is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry. Loan commitments that are within the scope of Ind AS 109 are accounted for as derivatives and measured at fair value.

(ii) *Fees earned as services are provided.*

If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of Ind AS 109, the commitment fee is recognised as revenue on a time proportion basis over the commitment period.

In cases, where a term loan is disbursed in tranches, to the extent there is evidence that it is probable that the undisbursed term loan will be drawn down in the future, the commitment fee is accounted for as a transaction cost under Ind AS 109, i.e., the fee is deferred and adjusted from the carrying value of the financial instrument when the draw down occurs and considered in the effective interest rate calculations.

Question 22

Company A has a customer which is undergoing restructuring due to issues related to liquidity. The Company A has decided not to do any further business with the Customer. The Customer has informed Company A that he will get Letter of Credit from a nationalised bank against which the Company

A can despatch goods. As at March 31, 2017 the Company A has manufactured the goods exclusively for the customer, but the Letter of Credit has not yet been arranged because it is in process. When should revenue be recognised?

Response

Paragraph 14 of Ind AS 18 states that, "revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably."

Paragraph 14(d) above, requires that for revenue to be recognised, it should be probable that the economic benefits associated with the transaction will flow to the entity.

In the given case, as the customer has liquidity issues, the collectability cannot be ensured. Accordingly, till the time the Letter of Credit is not arranged from a nationalised bank in favour of Company A, condition of paragraph 14(d) is not met. The revenue should be recognised only when Letter of Credit is received by Company A and assuming that all other conditions of paragraph 14 of Ind AS 18 are fulfilled.

Question 23

Does raising an invoice mean that significant risks and rewards of ownership have been transferred to the buyer?

Response

As per paragraph 14 and 15 of Ind AS 18:

"14. Revenue from sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably."

"15. ………. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession."

As per the above guidance, Ind AS 18 requires that revenue should be recognised only when the risks and rewards of ownership have been transferred (subject to other conditions being met) and is based on the economic substance of the transaction, rather than its legal form. In most cases, transfer of the significant risks and rewards of ownership will correspond to the transfer of legal title or physical delivery. However, in some cases, the transfer of risks and rewards of ownership could occur at a point different from the transfer of legal title or the passing of possession, or might be on a continuous basis rather than at a point in time. Raising an invoice is just a commercial arrangement and does not necessarily indicate that risks and rewards of ownership have been transferred.

One should carefully evaluate all the terms and conditions of the contract/ arrangement to determine whether the risks and rewards have been transferred from seller to customer.

For example, if the invoice is raised when the goods are despatched, this does not necessarily indicate that risks and rewards in the goods have been transferred. Whether all significant risks and rewards of ownership have been transferred to the buyer is a question of fact. For instance, retention of bill of lading merely to protect the collectability of amount due, where all other aspects of Cost, Insurance and Freight (CIF) contract have been fulfilled properly, would indicate that significant risks and rewards of ownership have been transferred to the buyer. Although, in a CIF contract, the buyer is in effect the insurer and the risk prima facie attaches to him as and after shipment of goods, yet it is subject to the condition to tender the shipping documents, including insurance policy, as contemplated by the contract or as per the terms of trade. There are many factors, e.g., intention of the parties for retaining the shipping documents, any explicit term in the contract signifying control over the goods etc., which should be considered before deciding whether there has been a transfer of significant risks and rewards of ownership in the goods. These factors may differ from case to case.

The rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The recognition of revenue based on percentage completion method provides useful information on the extent of service activity and performance during a period. Consider, for example, a designing and engineering contract as per which the invoices are raised based on milestone achieved. In such a case, recognition of revenue based on the invoices raised may not necessarily represent revenue earned. The earning of revenue is a function of performance of the revenue-generating activity. If that activity has been performed, revenue should be recognised (assuming the other usual conditions including measurability of amount of revenue and absence of any significant uncertainty as to collectability are satisfied) independent of the raising of invoice. Accordingly, raising of invoice is a mere administrative act and should not determine the timing of recognition of revenue.

Question 24

Does transfer of legal title mean that significant risks and rewards of ownership have been transferred?

Response

Paragraph 15 of Ind AS 18 states that, "the assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of risks and rewards of ownership coincides with the transfer of legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession."

Accordingly, in most cases, the transfer of risks and rewards of ownership coincides with the transfer of legal title or the passing of possession to the buyer. However, this is not necessary in all cases. In certain cases, contracts may contain terms in which the transfer of legal title may happen once the last instalment is paid. In such a case, if the significant risks and rewards of ownership have been transferred, then revenue can be recognised even if legal title is not transferred. The reverse can also be true. There can be situations where the legal title is transferred to help the customer take a loan, but with the understanding that the customer has been given an unrestricted right to return the goods within three months (such a right not being available to other customers). In a situation like this, the risks and rewards get transferred only after three months, even though the legal title has been transferred earlier.

Question 25

A Ltd. and B Ltd. both are engaged in manufacturing of bottles. A Ltd. operates in northern, eastern and central parts of India. B Ltd. operates in western and southern parts of India. A Ltd. fulfils the demands of its customers based on western and southern India by using the bottles manufactured by B Ltd. Similarly, B Ltd. fulfils the demands of customer based on northern, eastern and central parts of India by delivering bottles manufactured by A Ltd. The bottles exchanged are similar in nature and are of equal value. How A Ltd. and B Ltd. should recognise the revenue?

Response

Paragraph 12 of Ind AS 18, *inter alia*, states that when goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. Based on the above principle, since in the given case, the bottles exchanged are similar in nature and are of equal value, A Ltd. and B Ltd. should not recognise any revenue on account of exchange of goods. The revenue will be recognised only to the extent of amounts charged from the respective customers.

Question 26

A Ltd., a telecommunication company, entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that A Ltd. will provide 1,00,000 minutes of talk time free to employees of B Ltd. in exchange for getting free power equivalent to 20,000 units. A Ltd. normally charges Re. 0.50 per minute and B Ltd. charges Rs. 3

per unit. How to measure revenue in this case?

Response

Paragraph 12 of Ind AS 18, *inter alia*, provides that, "when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred."

On the basis of the above, revenue will be recognised in the books of A Ltd. at fair value of power units received, i.e., Rs. 60,000 (20,000 units x Rs. 3) and in the books of B Ltd. the same will be recognised at fair value of talk time received, i.e., Rs. 50,000 (1,00,000 minutes x Re. 0.50).

In this case, if A Ltd. is not able to determine the fair value of units received, the revenue will be recognised at Rs. 50,000 being the fair value of talk time given up. Similarly, if B Ltd. is not able to determine the fair value of talk time received, the revenue will be recognised at Rs. 60,000 being the fair value of power units given up.

Question 27

Q TV released an advertisement in Deshabandhu, a vernacular daily. Instead of paying for the same, Q TV allowed Deshabandhu a free advertisement spot, which was duly utilised by Deshabandu. How revenue for these barter transactions in the area of advertising will be recognised and measured?

Response

As per paragraph 12 of Ind AS 18, revenue for exchange of goods or services will be recognised where goods or services exchanged are of dissimilar nature. In the instant case, revenue will be recognised, as the exchange of advertising services between Q TV and Deshabandhu is exchange of dissimilar services because both of the entities deal in different mode of media, i.e., one is print media and another is electronic media. With regard to measurement of revenue from a barter transaction involving dissimilar advertising services, paragraph 5 of Appendix A to Ind AS 18 provides that revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions that:

(a) involve advertising similar to the advertising in the barter transaction;

(b) occur frequently;

(c) represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction;

(d) involve cash and/or another form of consideration (e.g., marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and

(e) do not involve the same counterparty as in the barter transaction.

In accordance with the above, Q TV and Deshabandhu will measure the revenue at the fair value of the advertising services provided by each of them. Fair value will be determined by reference to non-barter transactions as per the above-mentioned principles.

Question 28

Company A has an agreement to supply certain goods to Company B which has to be supplied by March 15, 2017. Company A manufactures the goods, but prior to its despatch on March 15, 2017, it receives intimation from Company B that the project has been slightly delayed and they will be able to pick up the goods only in June 2017. The terms of delivery of Company A are DDP to project destination of Company B. When should revenue be recognised by Company A?

Response

In the situations in which delivery is delayed at the buyer's request but the buyer takes title and accepts billing, the revenue is recognised when the buyer takes the title, provided:

(a) it is probable that delivery will be made.

(b) the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised.

(c) the buyer specifically acknowledges the deferred delivery instructions; and

(d) the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery. In the situation above, assuming that the above conditions are fulfilled, the Company A should recognise revenue as at March 31, 2017.

Question 29

X Ltd., a company engaged in research enters into an agreement with Y Ltd. for development of a drug for HIV. This research project is expected to take about 4 years. X Ltd. will have to periodically update Y Ltd. on the results of its work. Y Ltd. has an exclusive right over the development results. X Ltd. is entitled to upfront non-refundable fee of Rs. 20 lakhs for setting up the project and 4 equal instalments of Rs. 50 lakhs each on clearance of various testing phases, i.e., preclinical testing, Phase I testing, Phase II testing and Phase III testing. How should X Ltd. recognise revenue in its financial statements?

Response

The upfront fee has been received for setting up the project, where various facilities set up under the project will be used for the purpose of the research project over the project period. Therefore, upfront fee should be recognised appropriately over the project period.

With regard to recognition of revenue to be received on clearance of various test phases, paragraph 20 of Ind AS 18 may be noted which, *inter alia*, provides that, "when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period."

In the instant case, since the outcome of the transaction can be estimated reliably only on clearance of relevant testing phase, because flow of economic benefits associated with the transaction to the entity becomes probable only on clearance of the relevant testing phase, clearance of various testing phases should be considered various stages of the project. Accordingly, revenue related to each testing phase will be recognised on clearance of the relevant testing phase presuming that other conditions of estimating reliably the outcome of the transaction are fulfilled.

Question 30

A company is into a business of providing fibre connectivity to homes. It lays the fibre from the nearest point of connection of telecom companies to the housing societies where each house can obtain data connectivity. It charges an upfront charge of Rs. 300 per subscriber and a monthly charge of Rs. 1000 per subscriber. The upfront charges are one-time costs of laying the cable to home, charges of the agency which does the outsourced work, administrative set-up costs etc. How would the Company recognise the upfront charges?

Response

Paragraph 21 of Ind AS 18, *inter alia*, provides that, "the recognition of revenue by reference to the stage of completion of a transaction is often referred to as percentage of completion method. Under this method, revenue is recognised in the accounting period in which the services are rendered."

Installation fees are recognised as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product, in which case they are recognised when the goods are sold. The upfront charges are one-time charges and these charges are for services that go over the period of contract of the customer.

Assuming an average customer life of say 3 years (this would be an average, since the period would vary for each customer), the amount of Rs. 300 should be recognised as revenue over the period of three years.

Question 31

A Company is registered as an EOU and exports all its manufactured products. As per the Foreign Trade Policy in India, Merchandise Exports from India Scheme ("MEIS"), the Company is eligible to claim 2% of its FOB value of exports as export incentives in the form of scrips w.e.f 1st April 2015 which could be used for payment of custom duty against imports or could be sold in open market. Can the MEIS Incentive be treated as revenue?

Response

Paragraph 7 of Ind AS 18 defines revenue as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Normally, the export incentives are based on the primary condition of export of goods, even though other secondary conditions like collections etc. are also required to be fulfilled to avail the incentive. In the given case, since the primary condition for entitlement of the incentive is export of goods which is an ordinary activity of the entity, the incentive can be considered to be arising in the course of ordinary activity of the entity and should be disclosed in the Statement of Profit & Loss.

Schedule III (Division II) to the Companies Act, 2013, requires that revenue from operations is to be separately disclosed in the notes, showing revenue from Sale of products (including Excise Duty), Sale of services, and other operating revenues.

Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013, also provides that it is important to understand what is meant by the term “other operating revenues” and which items should be classified under this head vis-à-vis under the head “Other Income”. The term “other operating revenue” is not defined. This would include Revenue arising from a company’s operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes “other operating revenue” or “other income” is to be decided based on the facts of each case and detailed understanding of the company’s activities.

Accordingly, in the given case, as required by Schedule III (Division II) to the Companies Act, 2013, the export incentive should be disclosed as part of “other operating revenues” under “revenue from operations”.

Appendix 1

Note: The purpose of this Appendix is to bring out the major differences, if any between Indian Accounting Standard (Ind AS) 18, Revenue (2016) and AS 9, Revenue Recognition

Major differences between Ind AS 18, *Revenue* (2016) and AS 9, *Revenue Recognition*

(i) Definition of 'revenue' given in Ind AS 18 is broad as compared to the definition of 'revenue' given in AS 9 because it covers all economic benefits that arise in the ordinary course of activities of an entity which result in increases in equity, other than increases relating to contributions from equity participants. On the other hand, as per AS 9, revenue is gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

(ii) Measurement of revenue is briefly covered in the definition of revenue in AS 9, while Ind AS 18 deals separately in detail with measurement of revenue. As per AS 9, revenue is recognised at the nominal amount of consideration receivable. Ind AS 18 requires the revenue to be measured at fair value of the consideration received or receivable.

(iii) Ind AS 18 specifically deals with the exchange of goods and services with goods and services of similar and dissimilar nature. In this regard specific guidance is given regarding barter transactions involving advertising services. This aspect is not dealt with in AS 9.

(iv) Ind AS 18 provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. AS 9 does not specifically deal with the same.

(v) AS 9 requires the recognition of revenue from interest on time proportion basis. Ind AS 18 requires interest to be recognised using effective interest rate method as set out in Ind AS 109, *Financial Instruments*.

(vi) Ind AS 18 specifically provides guidance regarding revenue recognition in case the entity is under any obligation to provide free or discounted goods or services or award credits to its customers due to any customer loyalty programme. AS 9 does not deal with this aspect.

(vii) Disclosure requirements given in Ind AS 18 are more detailed as compared to AS 9.

Appendix 2

Note: The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (Ind AS) 18 and the corresponding International Accounting Standard (IAS) 18, Revenue, SIC 31, Revenue-Barter Transactions Involving Advertising Services, IFRIC 13, Customer Loyalty Programmes and IFRIC 18, Transfers of Assets from Customers.

Major differences between Ind AS 18, Revenue (2016) and IAS 18, *Revenue, SIC 31, IFRIC 13 and IFRIC 18*

1. On the basis of principles of the IAS 18, IFRIC 15 on *Agreement for Construction of Real Estate* prescribes that construction of real estate should be treated as sale of goods and revenue should be recognised when the entity has transferred significant risks and rewards of ownership and retained neither continuing managerial involvement nor effective control. IFRIC 15 has not been included in Ind AS 18. Instead, the Guidance Note on Real Estate Transactions issued by the Institute of Chartered Accountants of India shall be followed (as per footnote in Ind AS 18).

2. Recognition and measurement of interest and dividend is covered in IAS 18. Whereas recognition and measurement of dividend is covered under Ind AS 109 as against Ind AS 18. Similarly, recognition of interest is covered under Ind AS 18 and measurement is covered under Ind AS 109.

3. Impairment of any contractual right to receive cash or another financial asset is covered under IAS 18 whereas the same is dealt within Ind AS 109. (by virtue of paragraph 1B)

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