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REVISION NOTES
Financial Reporting

Part - VIII

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Ind AS 1 – PRESENTATION OF FINANCIAL STATEMENTS

1) **Objective -** Prescribes the basis for presentation of GPFS to ensure comparability with the entity's financial statements of previous periods & with the financial statements of other entities
2) **General Purpose Financial Statements(GFRS) –** B/s, P&L, Cash Flow Statement, Statement of Changes in Equity, Notes to Accounts
3) An entity whose financial statements comply with Ind AS shall make an explicit and unreserved statement of such compliance in the notes
4) An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material
5) When an entity departs from a requirement of an Ind AS, it shall disclose:
   (a) That management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;
   (b) That it has complied with applicable Ind AS, except that it has departed from a particular requirement to present a true and fair view;
   (c) the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and
   (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement
6) **Going Concern -** Financial statements prepared under Ind AS should be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. If management has significant doubt of the entity's ability to continue as a going concern, the uncertainties should be disclosed. In case the financial statements are not prepared on a going concern basis, the entity should disclose the basis of preparation of financial statements and also the reason why the entity is not regarded as a going concern
7) **Accrual Basis of Accounting -**
8) An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting
9) Materiality is to be followed in preparing & presenting financial statements. An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS
10) **Minimum Comparative Information –** 2 B/S, 2 P&L, 2 CFS, 2 Statement of Changes in Equity, Notes to Accounts
11) **Change in Accounting Policies -** When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three balance sheets, two of each of the other statements, and related notes. When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable
12) **Consistency -** An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless change is required to comply with some Ind AS or for better preparation & presentation of financial statements

13) **Structure & Content -** An entity shall display the following information prominently :- the name of the reporting entity, whether the financial statements are of an individual entity or a group of entities, Reporting date or the reporting period, the presentation currency, the level of rounding used in presenting amounts in the financial statements

14) **Current/Non-Current -** An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity

15) **Operating Cycle -** The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period

16) When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, the entity does not classify the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach

17) **Accounting Policy –** Accounting Principle + Method. An entity should disclose all significant accounting policies followed in the notes to accounts

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Ind AS 101 – FIRST-TIME ADOPTION OF IND AS

1) Ind AS 101 lays down various transition requirements when a company adopts Ind AS for the first time, i.e., a move from Accounting Standards (Indian GAAP) to Ind AS. Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS. However, Ind AS 101 has given certain exemptions from retrospective application of Ind AS(some of which are mandatory & others are voluntary). Ind AS 101 does not provide any exemption from the disclosure requirements in other Ind AS

2) **Opening Ind AS Balance Sheet -** An entity's balance sheet at the date of transition to Ind AS. The beginning of the earliest period for which an entity presents full comparative information under Ind AS in first Ind AS Financial statements is considered as the date of transition to Ind AS

3) **Deemed Cost -** An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost

4) An entity shall prepare and present an opening Ind AS balance sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS.

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Ind AS 113 – FAIR VALUE MEASUREMENT

1) Ind AS 113 Fair Value Measurement applies to all Ind AS(except Ind AS 102, Ind AS 17, Ind AS 2 & Ind AS 36) that require or permit fair value measurements or disclosures and provides a single framework for measuring fair value and requires disclosures about fair value measurement. It defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

2) **Fair Value -** 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

3) **Active Price -** A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis

4) **Exit Price -** The price that would be received to sell an asset or paid to transfer a liability

5) **Fair Value Hierarchy –** Level 1, 2, 3 Inputs

6) **Level 1 Inputs -** Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date

7) **Level 2 Inputs -** Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Examples :- quoted prices for similar assets or liabilities in active markets OR quoted prices for identical or similar assets or liabilities in markets that are not active OR inputs that are derived principally from or corroborated by observable market data by correlation or other means

8) **Level 3 Inputs -** Unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available

9) **Valuation Techniques -** An entity uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants and the measurement date under current market conditions. Market Approach, Cost Approach & Income Approach are the 3 widely used valuation techniques

10) **Market Approach -** uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)

11) **Cost Approach -** reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost)

12) **Income Approach -** converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts

Ind AS 115 – REVENUE FROM CONTRACTS WITH CUSTOMERS

1) **Scope –** Applies to all contracts with customers to provide goods or services that are outputs of the entity's ordinary course of business in exchange for consideration except those which are specifically covered by other IND AS. Further, it applies only if the counterparty to the contract is a customer. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

2) **Definitions**

a. **Contract –** An agreement between two or more parties that creates enforceable rights & obligations.

b. **Contract Asset –** An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time. E.g.:- entity's future performance.

c. **Contract Liability –** An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

d. **Income –** Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.

e. **Performance Obligation –** A promise in a contract with a customer to transfer to the customer either:

(a) A good or service (or a bundle of goods or services) that is distinct; Or

(b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

f. **Stand-alone selling price –** The price at which an entity would sell a promised good or service separately to a customer.

g. **Transaction Price –** The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

3) **Ind AS 115 is based on a core principle that requires an entity to recognise revenue:**

(a) In a manner that depicts the transfer of goods or services to customers.

(b) At an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

4) **5 step model for Revenue Recognition**

a. Identify contract with customer
b. Identify performance obligations in the contract
c. Determine transaction price
d. Allocate transaction price to performance obligations
e. Recognise revenue when (or as) a performance obligation is satisfied

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5) STEP 1 – IDENTIFYING THE CONTRACT WITH CUSTOMER

An accounting contract exists only when an arrangement with a customer meets each of the following five criteria:

(a) The parties have approved (in writing, orally or in accordance with other customary business practices) the contract and are committed to perform their contractual obligations

(b) The entity can identify each party's rights regarding the goods or services to be transferred

(c) The entity can identify the payment terms for the goods or services to be transferred

(d) The contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract) , and

(e) It is probable that the entity will collect substantially all of the consideration to which it expects to be entitled.

6) Further, Ind AS 115 applies only to the contractual period over which the parties to the contract have present enforceable rights and obligations. If in any transaction only the customer has the ability to terminate the contract without penalty then in those situations, the contract term for accounting purposes may be shorter than the stated contract term. Two or more contracts may need to be combined & accounted for as a single contract if they are entered into at or near the same time with the same customer (or with related parties), and if one of the following conditions exists:

(a) The contracts are negotiated as a package with a single commercial objective;

(b) The amount of consideration paid in one contract depends on the price or performance in the other contract; or

(c) The goods or services promised in the contract are a single performance obligation.

7) Modifications in a contract – A contract modification exists if three conditions are met:

a. There is a change in the scope, price, or both in a contract

b. That change is approved by both the entity and the customer

c. The change is enforceable

Eg : partially terminating the contract; extending the contract term with a corresponding increase in price; adding new goods and/or services to the contract, with or without a corresponding change in price; reducing the contract price without a change in goods or services promised etc

8) Once an entity determines that a contract with a customer has been modified, it needs to determine whether the modification should be accounted for as a separate contract. An entity accounts for a contract modification as a separate contract if the modification both (1) increases the scope of the work promised under the original contract by adding new promised goods or services that are considered distinct, and (2) the increase in the contract price reflects the stand-alone selling price of the additional goods or services.

9) If the modification is NOT accounted for as a separate contract, it will be accounted for in one of the following three ways:

(a) As a termination of the old contract and the creation of a new contract

(b) By making a cumulative catch-up adjustment to the original contract

(c) A combination of the two

10) STEP 2 – IDENTIFYING PERFORMANCE OBLIGATIONS

A performance obligation is a promise in a contract with a customer to transfer either

a) good or service(or a bundle of goods or services) that are distinct OR

b) A series of distinct goods or services that are substantially the same & have the same pattern of transfer to the customer (eg:- cleaning service)

11) A good or service maybe distinct & thus a separate performance obligation if the following 2 conditions are met:-

a) The customer can benefit from the good or service either on its own or together with other resources that are readily available AND

b) If it is separately identifiable from other promises in the contract

12) A readily available resource is a good or service that is sold separately (by the entity or by another entity) or that the customer has already obtained from the entity or from other transactions or events

13) A performance obligation is separately identifiable from other promises in the contract if the good or service is not dependent on or interrelated with other items in the contract

14) Identifying performance obligation is a key step in revenue recognition under Ind AS 115 as the transaction price is allocated to each of the separate performance obligation(Step 4) & revenue is recognised as each of the identified performance obligation in the contract is satisfied(Step 5)

15) STEP 3 – DETERMINING THE TRANSACTION PRICE

When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price that is allocated to that performance obligation

16) Transaction price is the amount of consideration an entity expects to be entitled in exchange for transferring promised goods or services to a customer. It may include fixed amounts, variable amounts or both. An entity needs to consider the terms of the contract & its customary business practices to determine the transaction price

17) Factors to be considered in determining transaction price are as follows :-

a. **Variable Consideration –** If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. Amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses etc.

b. **Existence of significant financing component –** If an entity provides significant financing benefit to the customer, it should adjust the transaction price for the effects of time value of money. However, an entity need not adjust the promised amount of consideration if period of significant financing does not exceed 1 year.

c. **Non-Cash Consideration –** When the customer promises to pay consideration other than cash, the non-cash consideration should be measured at fair value.

d. **Consideration payable to customer –** Any consideration payable to a customer is required to be reduced from the transaction price & therefore revenue from sale of goods/services should be recorded net of such consideration payable to the customer.

18) Estimating amount of variable consideration

An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

(a) **The expected value –** the expected value is the sum of probability -weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

(b) **The most likely amount –** the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

19) An entity shall apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled. An entity shall consider all the information that is reason ably available to the entity and shall identify a reasonable number of possible consideration amounts.

20) STEP 4 – ALLOCATION OF TRANSACTION PRICE TO SEPARATE PERFORMANCE OBLIGATION

This involves allocating transaction price to each of the separate performance obligation identified in STEP 2, based on relative standalone selling prices. The best evidence of stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances to similar customers. The 2 exceptions to the general allocation guidance are discounts & variable consideration

21) While allocating the transaction price, the objective of the entity should be to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

22) The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer. An entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices, to allocate the transaction price to each performance obligation on a relative stand -alone selling price basis. Evaluating the evidence related to estimating a stand -alone selling price may require significant judgment

23) Suitable methods for estimating the stand -alone selling price of a good or service include the following :-

(a) **Adjusted market assessment approach –** an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.

(b) **Expected cost plus a margin approach –** an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service. When determining which costs to include in the selling price analysis, an entity should develop and consistently apply a methodology that

considers direct and indirect costs, as well as other relevant costs considered in its normal pricing practices, such as research and development costs. Determining the margin to use when applying a cost – plus – a – margin approach requires significant judgment, particularly when the entity is not planning to separately sell a product or service. Furthermore, using an expected cost -plus-margin approach may not be appropriate in many circumstances, such as when direct fulfillment costs are not easily identifiable or when costs are not a significant input in setting the price for the goods or services.

(c) **Residual approach –** an entity may estimate the stand-alone selling price by reference to (1) The total transaction price, less (2) the sum of the observable stand -alone selling prices of other goods or services promised in the contract.

However, an entity may use a residual approach to estimate the stand -alone selling price of a good or service only if one of the following criteria is met:

(i) The entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts (i.e. the selling price is highly variable because a representative stand-alone selling price is not discernible from past transactions or other observable evidence); OR

(ii) The entity has not yet established a price for that good or service and the good or service has not previously been sold on a stand -alone basis (i.e. the selling price is uncertain).

24) **Allocation of a discount:-** A customer receives a discount for purchasing a bundle of goods or services if the sum of the stand – alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract. Unless an entity has observable evidence that the entire discount relates to only one or more, but not all, performance obligations in a contract, the entity shall allocate a discount proportionately to all performance obligations in the contract. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price to each performance obligation on the basis of the relative stand - alone selling prices of the underlying distinct goods or services

25) **Allocation of variable consideration –** Variable consideration may be attributable to (1) the entire contract or (2) a specific part of the contract, such as either of the following:

(a) One or more, but not all, performance obligations in the contract. For example, a contract may include two performance obligations: the construction of a building and the provision of services related to the on – going maintenance of the property after construction. But a bonus for early completion may relate entirely to the construction of the building; or

(b) One or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation (for example, the consideration promised for the second year of a two -year cleaning service contract will increase on the basis of movements in a specified inflation index).

26) An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation if both of the following criteria are met:

- The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service); and

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- Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective when considering all of the performance obligations and payment terms in the contract.

27) STEP 5 – REVENUE RECOGNITION WHEN(OR AS) A PERFORMANCE OBLIGATION IS SATISFIED

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Control of a good or service is said to be transferred over a period of time if the following conditions are met :

a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs OR

b) The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced OR

c) The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

In such a case revenue should also be recognised over a period of time by measuring progress towards complete satisfaction of that performance obligation. An entity should determine at contract inception whether it satisfies performance obligation over time or at a point in time. If an entity does not satisfy a performance obligation over time, then it is satisfied at a point in time.

28) There are 2 methods of measuring progress of a performance obligation satisfied over time :

a. Output Methods – Recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Output method is selected if it would faithfully depict the entity's performance towards complete satisfaction of the performance obligation

b. Input Methods – Recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation.

29) Repurchase Agreements – When a company determines the timing of transfer of control, it is important to take into consideration any repurchase agreements that may have been executed by the Company. A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the customer, an asset that is substantially the same as that asset, or another asset of which the asset that was originally sold is a component. Repurchase agreements generally come in the form of forward contract(an entity's obligation to re-purchase the asset), call option(an entity's right to re-purchase the asset) or put option(an entity's obligation to re-purchase the asset at the customer's request)

30) Service Concession Arrangements – It involves a private sector entity (an operator) constructing the infrastructure used to provide the public service or upgrading it (for example, by increasing its capacity) and operating and maintaining that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement. The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and arprangements for arbitrating dispute. It is often described as a 'build -operate-transfer', a 'rehabilitate-operate-transfer' or a 'public-to-private' service concession arrangement.