Indian Accounting Standard (Ind AS) 1 : Presentation of Financial Statements

**Objective**

Ind AS 1 prescribes the basis for presentation of general purpose financial statements to ensure comparability with the entity's financial statements of previous periods.

Ind AS 1 sets out overall requirements, guidelines, and minimum requirements.

**Scope**

**Applicability**

Ind AS 1 is applied in preparing and presenting general purpose financial statements in accordance with Ind AS and with the financial statements of other entities.

**Non-applicability**

Ind AS 1 does not apply to the structure and content of condensed interim financial statements prepared in accordance with Ind AS 34 (except paras 15-35).

**To all entities**

Presenting consolidated financial statements in accordance with Ind AS 110.

Presenting separate financial statements in accordance with Ind AS 27.

**Entities whose share capital is not equity may need to adapt the financial statement presentation of members’ interests.**

**For the presentation of financial statements**

Ind AS 1 uses terminology suitable for profit-oriented entities including public sector business entities.

Therefore, entities with not-for-profit activities may apply this Standard, by amending the descriptions used for financial statements themselves.
General features

Presentation of True and Fair View and compliance with Ind ASs

Going concern
Accrual basis of accounting
Materiality and aggregation
Offsetting
Frequency of reporting

Consistency of presentation
Comparative information

Change in accounting policy, retrospective restatement or reclassification
Additional comparative information
Minimum comparative information

Presentation of a true and fair view requires an entity

To select and apply accounting policies as per Ind AS 8.
To present information, in a manner that provides relevant, reliable, comparable and understandable information.
To provide additional disclosures, if required, to enable users to understand the impact of particular item.

Note: The above general features have been summarised below.

1. An entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income (OCI) presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.
2. Reports and statements presented outside financial statements are outside the scope of Ind AS.
3. An entity is not required to present the related notes to the opening balance sheet as at the beginning of the preceding period.
### Going concern

An entity shall prepare financial statements on a going concern basis unless management (a) intends to liquidate the entity or (b) to cease trading, or (c) has no realistic alternative but to do so.

Management’s conclusion that the financial statements present a true and fair view.

When management has significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose (a) the basis on which it prepared the financial statements and (b) the reason why the entity is not regarded as a going concern.

To assess going concern basis, management may need to consider a wide range of factors like: current and expected profitability, potential sources of replacement financing.

### Accrual basis of accounting

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses.

### Materiality and aggregation

- Present separately each material class of similar items.
- Present separately items of a dissimilar nature or function only if it is material or required by law (even if it is immaterial).
- If a line item is not individually material, it is aggregated with other items either in those statements or in the notes.
- Do not reduce the understandability of its financial statements by: (a) obscuring material information with immaterial information; or (b) aggregating material items that have different natures or functions.

### Offsetting

Offsetting of assets and liabilities or income and expenses is not allowed unless required or permitted by an Ind AS or except when offsetting reflects the substance of the transaction or other event.

### Frequency of reporting

An entity shall present a complete set of financial statements (including comparative information) at least annually.

### Comparative information

Refer chart 3 of Ind AS 1 for minimum and additional comparative information.

### Change in accounting policy, retrospective restatement or reclassification

When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):

- (a) the nature of the reclassification;
- (b) the amount of each item or class of items that is reclassified; and
- (c) the reason for the reclassification.

When it is impracticable to reclassify comparative amounts, an entity shall disclose:

- (a) the reason for not reclassifying the amounts, and
- (b) the nature of the adjustments that would have been made if the amounts had been reclassified.

### Consistency of presentation

An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

- (a) presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Ind AS 8; or
- (b) an Ind AS requires a change in presentation.

### STRUCTURE AND CONTENT

<table>
<thead>
<tr>
<th>Identification of the financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>An entity shall clearly identify each financial statement and the notes. It shall display prominently:</td>
</tr>
<tr>
<td>(a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;</td>
</tr>
<tr>
<td>(b) whether the financial statements are of an individual entity or a group of entities;</td>
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<tr>
<td>(c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;</td>
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<tr>
<td>(d) the presentation currency; and</td>
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<tr>
<td>(e) the level of rounding used in presenting amounts in the financial statements. The rounding off is acceptable as long as the entity discloses it and does not omit material information.</td>
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</tbody>
</table>

### Note:

1. An entity shall make an explicit and unreserved statement of compliance of ALL Ind ASs in the notes.
2. An entity shall not describe financial statements as complying with Ind ASs unless they comply with ALL the requirements of Ind ASs.
3. An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.
<table>
<thead>
<tr>
<th>Information to be presented in the balance sheet</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>The balance sheet shall present line items and additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals.</td>
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<tr>
<td></td>
<td>Presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet.</td>
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<td></td>
<td>It shall not classify deferred tax assets (liabilities) as current assets (liabilities).</td>
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<tr>
<td>Exception</td>
<td>An entity may present all assets and liabilities in order of liquidity but shall disclose the amount expected to be recovered or settled:</td>
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<tr>
<td></td>
<td>(a) no more than twelve months after the reporting period; and</td>
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<td></td>
<td>(b) more than twelve months after the reporting period.</td>
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<tr>
<td></td>
<td>An entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant.</td>
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<table>
<thead>
<tr>
<th>Current assets</th>
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<tbody>
<tr>
<td></td>
<td>Classify an asset as current when:</td>
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<tr>
<td></td>
<td>(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;</td>
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<tr>
<td></td>
<td>(b) it holds the asset primarily for the purpose of trading;</td>
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<tr>
<td></td>
<td>(c) it expects to realise the asset within twelve months after the reporting period; or</td>
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<tr>
<td></td>
<td>(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.</td>
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<td></td>
<td>Classify all other assets as non-current.</td>
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<tr>
<td>Note</td>
<td>The term 'non-current' includes tangible, intangible and financial assets of a long-term nature.</td>
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<table>
<thead>
<tr>
<th>Operating cycle</th>
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<tr>
<td></td>
<td>It is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.</td>
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<tr>
<td></td>
<td>When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.</td>
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<tr>
<td></td>
<td>The same normal operating cycle applies to the classification of an entity's assets and liabilities.</td>
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<table>
<thead>
<tr>
<th>Current liabilities</th>
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<tbody>
<tr>
<td></td>
<td>An entity shall classify a liability as current when:</td>
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<tr>
<td></td>
<td>(a) it expects to settle the liability in its normal operating cycle;</td>
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<tr>
<td></td>
<td>(b) it holds the liability primarily for the purpose of trading;</td>
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<tr>
<td></td>
<td>(c) the liability is due to be settled within twelve months after the reporting period; or</td>
</tr>
<tr>
<td></td>
<td>(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.</td>
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<tr>
<td></td>
<td>An entity shall classify all other liabilities as non-current.</td>
</tr>
<tr>
<td></td>
<td>An entity classifies some operating items like trade payables and some accruals for employee and other operating costs (part of the working capital) as current liabilities even if they are due to be settled more than twelve months after the reporting period.</td>
</tr>
</tbody>
</table>

| Information to be presented in the other comprehensive income (OCI) section |  |
|  | Present line items for the amounts for the period of: |
|  | (a) items of OCI classified by nature and grouped into those that: |
|  | (i) will not be reclassified subsequently to profit or loss; and |
|  | (ii) will be reclassified subsequently to profit or loss when specific conditions are met. |
|  | (b) the share of OCI of associates and joint ventures accounted for using the equity method, separated into the share of items that: |
|  | (i) will not be reclassified subsequently to profit or loss; and |
|  | (ii) will be reclassified subsequently to profit or loss when specific conditions are met. |
|  | An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method. |
|  | An entity shall present additional line items, headings and subtotals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance. |

| Information to be presented either in the balance sheet or in the notes |  |
|  | Disclose sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. |

| Statement of Profit and Loss |  |
|  | The statement of profit and loss shall present, in addition to the profit or loss and other comprehensive income sections: |
|  | (a) profit or loss; |
|  | (b) total other comprehensive income; |
|  | (c) comprehensive income for the period, being the total of profit or loss and other comprehensive income. |
|  | An entity shall not present any items of income or expense as extraordinary items. |
|  | An entity shall present an analysis of income or expense as extraordinary items. |

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|  | Present line items for the amounts for the period of: |
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|  | (ii) will be reclassified subsequently to profit or loss when specific conditions are met. |
|  | (b) the share of OCI of associates and joint ventures accounted for using the equity method, separated into the share of items that: |
|  | (i) will not be reclassified subsequently to profit or loss; and |
|  | (ii) will be reclassified subsequently to profit or loss when specific conditions are met. |
|  | An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method. |
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|  | Disclose sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. |

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|  | (a) profit or loss; |
|  | (b) total other comprehensive income; |
|  | (c) comprehensive income for the period, being the total of profit or loss and other comprehensive income. |
|  | An entity shall not present any items of income or expense as extraordinary items. |
|  | An entity shall present an analysis of income or expense as extraordinary items. |
| Reclassification adjustment | ► When amounts previously recognised in other comprehensive income are reclassified to profit or loss they are referred as reclassification adjustments.  
► It is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss.  
► These amounts may have been recognised in OCI as unrealised gains in the current or previous periods.  
► Those unrealised gains must be deducted from OCI in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.  
► An entity may present reclassification adjustments in the statement of profit and loss or in the notes.  
► An entity presenting reclassification adjustments in the notes presents the items of OCI after any related reclassification adjustments.  
► Reclassification adjustments do not arise on changes in revaluation surplus or on remeasurements of defined benefit plans since they are recognised in OCI and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised.  
► Reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities. |
| Information to be presented in the statement of changes in equity (SOCE) | ► SOCE includes the following information:  
(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;  
(b) for each component of equity, the effects of retrospective application or retrospective restatement;  
(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:  
(i) profit or loss;  
(ii) other comprehensive income;  
(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and  
(iv) any item recognised directly in equity such as amount recognised directly in equity as capital reserve.  
► Present, either in SOCE or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.  
► 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.  
► Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an Ind AS requires retrospective adjustment of another component of equity.  
► Standard requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors.  
► These adjustments are disclosed for each prior period and the beginning of the period. |
| Notes - Structure | ► The notes shall:  
(a) present information about the basis of preparation of the financial statements and the specific accounting policies;  
(b) disclose the information required by Ind ASs that is not presented elsewhere in the financial statements; and  
(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.  
► Present notes in a systematic manner  
Cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes. |
| Notes - Disclosure of accounting policies | ► An entity shall disclose its significant accounting policies comprising:  
(a) the measurement basis (or bases) used in preparing the financial statements; and  
(b) the other accounting policies used that are relevant to an understanding of the financial statements.  
► Additionally, it shall disclose, the judgements, apart from those involving estimations, that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.  
► Disclosure of an accounting policy may be significant because of the nature of the entity’s operations even if amounts for current and prior periods are not material. |
| Notes - Sources of estimation uncertainty | ► An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:  
(a) their nature, and  
(b) their carrying amount as at the end of the reporting period. |
Components of other comprehensive income (OCI)

- changes in revaluation surplus
- remeasurements of defined benefit plans
- gains and losses arising from translating the financial statements of a foreign
gains and losses from investments in equity instruments designated at fair value through OCI
- gains and losses on financial assets measured at fair value through OCI
- the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through OCI
- for particular liabilities designated as at FVTPL, the amount of the change in fair value that is attributable to changes in the liability’s credit risk
- changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value
- changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument

Indian Accounting Standard (Ind AS) : 34

Minimum components of an interim financial report

- a condensed balance sheet
- a condensed statement of profit and loss
- a condensed statement of changes in equity
- a condensed statement of cash flows
- selected explanatory notes

Important points to remember

1. The interim financial report is intended to provide an update on the latest complete set of annual financial statements.
2. It focuses on new activities, events, and circumstances and does not duplicate information previously reported.
3. Ind AS 34 does not prohibit or discourage an entity from publishing a complete set of financial statements (as described in Ind AS 1) in its interim financial report.
4. Ind AS 34 does not prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes.
5. Ind AS 34 requires to include all the disclosures required by this Standard as well as those required by other Ind AS.

Form and content of interim financial statements

- If in its interim financial report, an entity publishes
  - A complete set of financial statements
    - Its form and content shall conform to the requirements of Ind AS 1 for a complete set of financial statements.
  - A set of condensed financial statements
    - It shall include, at a minimum,
      - Each of the headings and subtotals that were included in its most recent annual financial statements.
      - The selected explanatory notes as required by this Standard.
      - Additional line items or notes to avoid any misleading of report.
  - A statement presenting components of profit or loss
    - Entity shall present basic and diluted earnings per share for that period.
Significant events and transactions

Include in interim financial report

- An explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

Do not include in interim financial report

- Insignificant updates to the information that was reported in the notes in the most recent annual financial report because the user will have access to the most recent annual financial report carrying such information.

List of events and transactions for which disclosures would be required if they are significant:

(a) the write-down of inventories to net realisable value and the reversal of such a write-down;
(b) recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
(c) the reversal of any provisions for the costs of restructuring;
(d) acquisitions and disposals of items of property, plant and equipment;
(e) commitments for the purchase of property, plant and equipment;
(f) litigation settlements;
(g) corrections of prior period errors;
(h) changes in the business or economic circumstances that affect the fair value of the entity’s financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost;
(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
(j) related party transactions;
(k) transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
(l) changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and
(m) changes in contingent liabilities or contingent assets.

Note: The list is not exhaustive.

Other Disclosures

Shall be given (Refer the list in para 16A of Ind AS 34)

Either

- In the interim financial statements

Or

- Incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report)

Statements should be available to users of the financial statements on the same terms as the interim financial statements and at the same time otherwise the interim financial statements shall be considered as incomplete.

The information shall normally be reported on a financial year-to-date basis.
**Periods for which interim financial statements are required to be presented**

Interim reports shall include interim financial statements (condensed or complete) i.e.

- **Balance sheet**
  - as of the end of the current interim period.
  - a comparative balance sheet as of the end of the immediately preceding financial year.

- **Statements of profit and loss**
  - for the current interim period.
  - cumulative for the current financial year to date.
  - comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.

- **Statement of changes in equity**
  - cumulative for the current financial year to date.
  - comparative statement for the comparable year-to-date period of the immediately preceding financial year.

- **Statement of cash flows**
  - cumulative for the current financial year to date.
  - a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

**Note:** For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period may be useful.

**Points to remember**

<table>
<thead>
<tr>
<th>Disclosure of compliance with Ind AS</th>
<th>If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed.</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>An interim financial report shall be described as complying with Ind ASs when it complies with all of the requirements of Ind ASs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Materiality</th>
<th>In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>It shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disclosure in annual financial statements</th>
<th>If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the annual financial statements for that financial year.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>An entity is not required to include additional interim period financial information in its annual financial statements.</td>
</tr>
</tbody>
</table>

**Recognition and Measurement**

- **Same accounting policies as annual**
  - Apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.
  - Measurements for interim reporting purposes shall be made on a year-to-date basis.
  - The amounts reported in prior interim periods are not retrospectively adjusted. However, that the nature and amount of any significant changes in estimates be disclosed.

- **Revenues received seasonally, cyclically, or occasionally**
  - Such revenues shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity’s financial year.
  - Some entities consistently earn more revenues in certain interim periods of a financial year than in other interim periods. Such revenues are recognised when they occur.

- **Costs incurred unevenly during the financial year**
  - Such costs shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

- **Use of estimates**
  - Preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

- **Restatement of previously reported interim periods**
  - A change in accounting policy, shall be reflected:
    (a) by retrospective application, with restatement of prior period financial data as far back as is practicable; or
    (b) if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under Ind AS 8 the new policy is applied prospectively from the earliest date practicable.

- **Interim Financial Reporting and Impairment**
  - An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.
Indian Accounting Standard (Ind AS) 7: Statement of Cash Flows

Objectives of Ind AS 7

To assess
- the ability of the entity to generate cash and cash equivalents.
- the needs of the entity to utilise those cash flows.
- the timing and certainty of generation of cash flows.

To require
- the provision of information about the historical changes in cash and cash equivalents of an entity.

Presentation of a statement of cash flows

Report cash flows (inflows and outflows) during the period as

Operating activities
- These are the principal revenue-producing activities of the entity other than investing or financing activities.

Investing activities
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Cash and cash equivalents
- Cash: It comprises cash on hand & demand deposits.
- Cash equivalents: Are short-term, highly liquid investments.
- Are readily convertible to known amounts of cash.
- Are subject to an insignificant risk of changes in value.
- Are not for investment purposes.
- Exception: Equity investments are excluded from cash equivalents.

Entities are encouraged to follow the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method.
Cash flows arising from operating activities

Key indicator of the extent to which the operations of the entity have generated sufficient cash flows to
- repay loans
- maintain the operating capability of the entity
- pay dividends
- make new investments without recourse to external sources of financing

Examples

(a) Cash receipts from the sale of goods and the rendering of services.
(b) Cash receipts from royalties, fees, commissions and other revenue.
(c) Cash payments to suppliers for goods and services.
(d) Cash payments to and on behalf of employees.
(e) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits.
(f) Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities.
(g) Cash receipts and payments from contracts held for dealing or trading purposes.
(h) Cash flows arising from the purchase and sale of dealing or trading securities.
(i) Cash advances and loans made by financial institutions since they relate to their main revenue-producing activity.

Primarily derived from the principal revenue-producing activities of the entity.

Generally, result from the transactions and other events that enter into the determination of profit or loss.

Cash flows arising from investing activities

Represent the extent to which expenditures have been made for resources intended to generate future income and cash flows.

Examples

(a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
(b) Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
(e) Cash advances and loans made to other parties (other than advances and loans made by a financial institution);
(f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
(g) Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
(h) Cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

Only expenditures that result in a recognised asset in the balance sheet are eligible for classification as investing activities.

Note: When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Cash flows arising from financing activities

Useful in predicting claims on future cash flows by providers of capital to the entity.

Examples

(a) Cash proceeds from issuing shares or other equity instruments;
(b) Cash payments to owners to acquire or redeem the entity’s shares;
(c) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
(d) Cash repayments of amounts borrowed; and
(e) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Note: When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.
Reporting cash flows on a net basis

Other than financial institutions

Cash flows arising from operating, investing or financing activities may be reported on a net basis

Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity

Examples of cash receipts and payments referred to in paragraph 22(a) are:
(a) The acceptance and repayment of demand deposits of a bank;
(b) Funds held for customers by an investment entity; and
(c) Rents collected on behalf of, and paid over to, the owners of properties.

Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short

Examples of cash receipts and payments referred to in paragraph 22(b) are advances made for, and the repayment of:
(a) Principal amounts relating to credit card customers;
(b) The purchase and sale of investments; and
(c) Other short-term borrowings, for example, those which have a maturity period of three months or less.

Financial institutions

Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:
(a) Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
(b) The placement of deposits with and withdrawal of deposits from other financial institutions; and
(c) Cash advances and loans made to customers and the repayment of those advances and loans.

Foreign currency cash flows

Arising from transactions in a foreign currency

Recorded in an entity’s functional currency

Foreign currency amount

Exchange rate between the functional currency and the foreign currency at the date of the cash flow

Of a foreign subsidiary

Exchange rates between the functional currency and the foreign currency at the dates of the cash flows

Cash flows of a foreign subsidiary

Note:
1. Cash flows denominated in a foreign currency are reported in a manner consistent with Ind AS 21.
2. A weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary.
3. Ind AS 21 does not permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary.

Important Points

1. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows.
2. The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period.

Cash flows arising from taxes on income

When it is impracticable to identify

Shall be separately disclosed

When it is practicable to identify

When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in subsidiaries, associates and joint ventures

When accounted for by use of the equity or cost method

Invests in an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

Includes in its statement of cash flows:
- the cash flows in respect of its investments in the associate or joint venture, and
- distributions and other payments or receipts between it and the associate or joint venture.
Important points/disclosures

Investing and financing transactions that do not require the use of cash or cash equivalents
- Shall be excluded from a statement of cash flows.
- Disclosed elsewhere in the financial statements.

Components of cash and cash equivalents
- Disclose the components of cash and cash equivalents.
- Shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.
- Disclose the policy which entity adopts in determining the composition of cash and cash equivalents.

Other Disclosures
- Disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held and are not available for use by the group.

Note: The requirements shall be equally applicable to the entities in case of separate financial statements also.
Indian Accounting Standard (Ind AS) 8:
Accounting Policies, Changes in Accounting Estimates and Errors

**Objective and Scope**
The criteria for selecting and changing accounting policies

**Is to prescribe**
The accounting treatment and disclosure of

**Changes in accounting policies**
**Changes in accounting estimates**
**Corrections of errors**

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### Important Definitions

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<table>
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<tbody>
<tr>
<td>1. Accounting policies</td>
<td>Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.</td>
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<td>2. A change in accounting estimate</td>
<td>It is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset.</td>
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<td>Change in accounting estimates result from new information or new developments.</td>
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<td>It is not corrections of errors.</td>
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<td>Effect of such a change is given prospectively.</td>
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<td>3. Prior period errors</td>
<td>They are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information</td>
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<td>Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.</td>
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<td>4. Retrospective application</td>
<td>It is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied unless it is impracticable to do so.</td>
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<td>5. Retrospective restatement</td>
<td>It is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.</td>
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### Accounting Policies

**Selection and application of accounting policies**
When an Ind AS specifically applies to a transaction, other event or condition, the accounting policy(s) applied to the item shall be determined as per that Ind AS.

When no Ind AS specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy (Refer Note 1).

If the change is required by an Ind AS, the accounting policy(s) applied to the item shall be determined as per that Ind AS.

If the change results providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows, the change shall be applied retrospectively, if specific transitional provisions does not apply to that change. (Refer Note 4)

### Retrospective application of a change in accounting policy
Adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. Usually the adjustment is made to retained earnings.

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**Exception**
When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable.

If it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.
Changes in Accounting Estimates

Reasons for revision in accounting estimates
1. When a change occur in the circumstances on which the estimate was based.
2. When a change is as a result of new information or more experience.

Nature of change in accounting estimates
- A change in accounting estimates neither relates to prior periods nor is a correction of an error.
- When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

Treatment of a change in accounting estimates
- The effect of change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in:
  1. the period of the change, if the change affects that period only; or
  2. the period of the change and future periods, if the change affects both.
- To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Errors

Stage of occurrence of errors

Effects of errors
- Financial statements will not be considered as complied with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity’s financial position, financial performance or cash flows.

Nature of correction of errors
- Corrections of errors are distinguished from changes in accounting estimates.

Accounting treatment for correction of such errors

- Prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.
- An entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:
  1. restating the comparative amounts for the prior period(s) presented in which the error occurred; or
  2. if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered.

Exception
- When it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity restates the comparative information prospectively from the earliest date practicable.

Indian Accounting Standard (Ind AS) 10: Events after the Reporting Period

Objective
Ind AS 10 prescribes

When to adjust financial statements for events after the reporting period
Disclosures that an entity should give about

Not to prepare financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate

Date when the financial statements were approved for issue

Events after the reporting period

Notes:
1. For judgement, management may also first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices.
2. An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions.
3. The following are not changes in accounting policies:
   a. the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
   b. the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.
4. Early application of an Ind AS is not a voluntary change in accounting policy.
Events after the reporting period

- Both favourable and unfavourable that occur between the end of the reporting period and the date when the financial statements are approved
- Adjusting events
  - Those that provide evidence of conditions that existed at the end of the reporting period
  - Examples of adjusting events:
    (a) Adjust any previously recognised provision or recognises a new provision when the related court case is settled before the financial statements are approved as per Ind AS 37.
    (b) Account for the impairment (if any) on receipt of information after the reporting period like:
      (i) the bankruptcy of a customer that occurs after the reporting period; and
      (ii) the sale of inventories after the reporting period may give evidence about their NRV at the end of the reporting period.
    (c) the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.
    (d) the determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments.
    (e) the discovery of fraud or errors that show that the financial statements are incorrect.
- Non-adjusting events
  - Those that are indicative of conditions that arose after the reporting period
  - Example of a non-adjusting event
    A decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue.

Carve Out: Where there is a breach of a material 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 on the reporting date, the agreement by lender before the approval of the financial statements for issue, to not demand payment as a consequence of the breach, shall be considered as an adjusting event.

Recognition, Measurement and Disclosure

- Adjusting events after the reporting period:
  - Adjust the amounts recognised in the financial statements to reflect it
- Non-adjusting events after the reporting period:
  - Do not adjust the amounts recognised in the financial statements to reflect it

Examples of adjusting events:
(a) Adjust any previously recognised provision or recognises a new provision when the related court case is settled before the financial statements are approved as per Ind AS 37.
(b) Account for the impairment (if any) on receipt of information after the reporting period like:
   (i) the bankruptcy of a customer that occurs after the reporting period; and
   (ii) the sale of inventories after the reporting period may give evidence about their NRV at the end of the reporting period.
(c) the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.
(d) the determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments.
(e) the discovery of fraud or errors that show that the financial statements are incorrect.

Example of a non-adjusting event
- A decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue.

If non-adjusting events after the reporting period are material, then disclose:
- the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.
## Important points to remember

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Item</th>
<th>Timing</th>
<th>Treatment</th>
<th>Reason</th>
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<tbody>
<tr>
<td>1</td>
<td>Dividends</td>
<td>Declared after the reporting period but before approval of financial statements</td>
<td>▶ Do not recognise it as a liability at the end of the reporting period.</td>
<td>No obligation exists at that time.</td>
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<td>▶ Disclosed in the notes.</td>
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<td>2</td>
<td>Going concern</td>
<td>If management determines after the reporting period either that it intends to liquidate the entity or to cease trading</td>
<td>▶ Do not prepare the financial statements on a going concern basis; or Make necessary disclosure of not following going concern basis or events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern.</td>
<td>The deterioration in operating results and financial position after the reporting period may be so pervasive that it may require a fundamental change in the basis of accounting.</td>
</tr>
<tr>
<td>3</td>
<td>Date of approval of financial statements for issue</td>
<td>Approved after the reporting period</td>
<td>Disclose the date when the financial statements were approved for issue and who gave that approval.</td>
<td>Important for users to know when the financial statements were approved for issue because the financial statements do not reflect events after this date.</td>
</tr>
<tr>
<td>4</td>
<td>Updating disclosure about conditions at the end of the reporting period</td>
<td>Received information after the reporting period</td>
<td>Update disclosures that relate to new information / conditions.</td>
<td>When the information does not affect the amounts that it recognises in its financial statements, disclosures are required.</td>
</tr>
</tbody>
</table>

### Distribution of Non-cash Assets to Owners as dividend by an entity

#### Timing of recognition of dividend payable by an entity
- When the dividend is appropriately authorised / approved by the relevant authority, eg the shareholders or the management as per the jurisdiction.

#### Measurement of a dividend payable by an entity
- Measure a liability at the fair value of the assets to be distributed.
- If an entity gives a choice of receiving either a non-cash asset or a cash alternative, estimate both the fair value of each alternative and the associated probability of owners selecting each alternative.
- Account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable on its settlement by recognising the difference, if any, in profit or loss.

#### Presentation
- The difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable is presented as a separate line item in profit or loss.

#### Disclosure
- An entity shall disclose:
  (a) the carrying amount of the dividend payable at the beginning and end of the period; and
  (b) the increase or decrease in the carrying amount recognised in the period as result of a change in the fair value of the assets to be distributed.
- If dividend is declared to distribute a non-cash asset (non-adjusting event), disclose with respect to the asset to be distributed:
  (a) its nature;
  (b) its carrying amount and fair value at the end of the reporting period; and
  (c) if carrying amount and fair value is different than the information about the method(s) used to measure that fair value.
Indian Accounting Standard (Ind AS) 115: Revenue from Contracts with Customers

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.

To achieve the core principle, an entity should apply the following five-step model:

1. **Identify the contract(s) with a customer**
   - Consider if the contract meets each of the five criteria to pass Step 1:
     - Have the parties approved the contract? (approval may be written, oral, or implied, as long as the parties intend to be bound by the terms and conditions of the contract)
     - Can the entity identify each party's rights regarding the goods/services to be transferred?
     - Can the entity identify the payment terms for the goods/services to be transferred?
     - Does the contract have commercial substance?
     - Is it probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods/services that will be transferred to the customer?
   - Proceed to Step 2 and only reassess the Step 1 criteria if there is an indication of a significant change in facts and circumstances.

2. **Identify the performance obligations**
3. **Determine the transaction price**
4. **Allocate the transaction price to the performance obligations**
5. **Recognise revenue when or as an entity satisfies performance obligations**

**Notes:**
1. If at the inception of an arrangement, an entity concludes that the criteria below are not met, it should not apply Steps 2 through 5 of the model until it determines that the Step 1 criteria are subsequently met.
2. When a contract meets the five criteria and ‘passes’ Step 1, the entity will not reassess the Step 1 criteria unless there is an indication of a significant change in facts and circumstances.
3. Two or more contracts may need to be 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.

**Combining contracts**
An entity is required to combine two or more contracts and account for them as a single contract if they are entered into at or near the same time and meet any one of the following criteria:

- Are the contracts negotiated as a package with a single commercial objective?
  - Yes
- Whether consideration in one contract depends on the price or performance of another contract?
  - Yes
- Whether goods or services promised in the contract are a single performance obligation?
  - Yes
  - Treat as single contract
- No
  - Treat as separate contracts
Step 2: Identifying performance obligations

A contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer. Therefore, performance obligations under a contract with the customer are not always explicit or clearly mentioned in the contract, but there can be implied promises or performance obligation under the contract as well.

Performance obligations has been defined as a promise in a contract with a customer to transfer to the customer either:
(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.

### Promise to transfer a series of distinct goods or services

This will be considered as single performance obligation, if the consumption of those services by the customers is symmetrical i.e. they meet both of the following criteria:
(a) each distinct good or service would meet the criteria to be a performance obligation satisfied over time; and
(b) In each transfer, same method is used to measure the entity's progress towards complete satisfaction of the performance obligation.

### Multiple Element Arrangements/ Goods and services that are not distinct

- If the goods or services are not considered as distinct, those goods or services are combined with other goods or services under the contract till the time the entity identifies a bundle of distinct goods or services.
- The combination would result in accounting of multiple goods or services in the contract as a single performance obligation.
- An entity may end up accounting for all the goods or services promised in a contract as a single performance obligation if the entire bundle of promised goods and services is the only distinct performance obligation identified.
## Step 3: Determining the transaction price

- The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.
- For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.
- The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.
- When determining the transaction price, an entity shall consider the effects of all of the following:

### When an entity grants a customer the option to acquire additional goods or services

- **Customer options for additional goods or services**
  - When an entity grants a customer the option to acquire additional goods or services, that option is only a separate performance obligation if it **provides a material right to the customer**. The right is material if it results in a discount that the customer would not receive without entering into the contract.
  - If the option provides a material right to the customer, the customer in effect pays the entity in advance for future goods or services and the entity recognises revenue when those future goods or services are transferred or when the option expires.
  - If the discounted price in the option reflects the stand-alone selling price (separate from any existing relationship or contract), the entity is deemed to have made a marketing offer rather than having granted a material right.
  - Account for only when the customer exercises the option to purchase the additional goods or services.
  - Allocate the transaction price to performance obligations on a relative stand-alone selling price basis.
  - If the stand-alone selling price for a customer’s option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the customer would obtain when exercising the option, adjusted for both of the following:
    - (a) any discount that the customer could receive without exercising the option; and
    - (b) the likelihood that the option will be exercised.

### Long term arrangements

- **Long term arrangements**
  - It may be appropriate to treat long term arrangements as separate one-year performance obligations, if the contract can be renewed or cancelled by either party at discrete points in time (that is, at the end of each service year).
  - Separately account for its rights and obligations for each period in which the contract cannot be cancelled by either party.
  - When the consideration is fixed, the accounting generally will not change regardless of whether a single performance obligation or multiple performance obligations are identified.

### Consignment Arrangements

- **Consignment Arrangements**
  - Revenue generally would not be recognised for consignment arrangements when the goods are delivered to the consignee because control has not yet transferred.
  - Revenue is recognised when the entity has transferred control of the goods to the consignor or the end consumer.

### Principal vs agent consideration

- **Principal vs agent consideration**
  - When the entity is the principal in the arrangement, the revenue recognised is the gross amount to which the entity expects to be entitled.
  - When the entity is acting as an agent, the revenue recognised is the net amount i.e. the amount, entity is entitled to retain in return for its services under the contract. The entity’s fee or commission may be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

Since the identification of the principal in a contract is not always clear, Ind AS 115 provides following indicators that a performance obligation involves an agency relationship:

- (a) the entity is primarily responsible for fulfilling the contract. This typically includes responsibility for the acceptability of the specified good or service;
- (b) the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return).
- (c) the entity has discretion in establishing prices for the goods or services.

### Non-refundable upfront fees

- **Non-refundable upfront fees**
  - It is an advance payment for future goods and services and, therefore, would be recognised as revenue when those future goods and services are provided, even though it relates to an activity undertaken at or near contract inception to fulfil the contract and the activity does not result in the transfer of a promised good or service to the customer.
**Variable consideration**

1. **Penalties**
   - Accounted for as per the substance of the contract.
   - Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration.

2. **Estimating the amount of variable consideration**
   Estimate an amount of variable consideration by using either of the following methods:
   - **(a) Expected value** -
     - It is the sum of probability-weighted amounts in a range of possible consideration amounts.
     - It will be appropriate if an entity has a large number of contracts with similar characteristics.
   - **(b) Most likely amount** -
     - It is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract).
     - It will be appropriate, if the contract has only two possible outcomes.
   - An entity shall apply one method consistently throughout the contract.

3. **Refund liabilities**
   - Recognise a refund liability if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer.
   - A refund liability is measured at the amount of consideration received / receivable for which the entity does not expect to be entitled (i.e. amounts not included in the transaction price).
   - The refund liability shall be updated at the end of each reporting period for changes in circumstances.

4. **Constraining estimates of variable consideration**
   Include in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

5. **Reassessment of variable consideration**
   At the end of each reporting period, account for changes in the transaction price, if any.

**Sale with a right of return**

- To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:
  - (a) revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);
  - (b) a refund liability; and
  - (c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.
- Promise to stand ready to accept a returned product during the return period shall not be accounted for as a performance obligation in addition to the obligation to provide a refund.
- For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognise revenue when it transfers products to customers but shall recognise those amounts received (or receivable) as a refund liability.
- Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in exchange for the transferred products and make a corresponding change to the transaction price and, therefore, in the amount of revenue recognised.
- An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognise corresponding adjustments as revenue (or reductions of revenue).
- An asset recognised for an entity’s right to recover products from a customer on settling a refund liability shall initially be measured by reference to the former carrying amount of the product less any expected costs to recover those products.
- An entity shall present the asset separately from the refund liability.
- Exchanges by customers of one product for another of the same type, quality, condition and price are not considered returns.
- Return of a defective product in exchange for a functioning product shall be evaluated as warranties.

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**Warranties**

- **Customer has option to purchase separately**
  - Distinct service, as the entity promises to provide service in addition to the product's described functionality
  - Account for the promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation

- **Customer does not have option to purchase separately**
  - Warranty provides an assurance that the product complies with agreed-upon specifications
  - Account for the warranty in accordance with Ind AS 37

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Adjust the promised amount of consideration for the effects of the time value of money.

In assessing whether a contract contains a financing component and whether that financing component is significant to the contract, consider both

(a) the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and

(b) the combined effect of both of the following:

(i) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services, and

(ii) the prevailing interest rates in the relevant market.

Use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.

After contract inception, an entity shall not update the discount rate for changes in interest rates or other circumstances.

If the combined effects for a portfolio of similar contracts were material to the entity as a whole, but if the effects of the financing component were not material to the individual contract, such financing component shall not be separately accounted for.

Exception

A contract with a customer would not have a significant financing component if any of the following factors exist:

(a) the customer paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the customer.

(b) a substantial amount of the consideration promised by the customer is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the entity.

(c) the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference.

Non-cash consideration

 Measure the non-cash consideration (or promise of non-cash consideration) at fair value.

And, if it cannot reasonably estimate the fair value of the non-cash consideration, it shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

Subsequent measurement of non-cash consideration

If the fair value of the non-cash consideration varies after contract inception because of its form, the entity does not adjust the transaction price for any changes in the fair value of the consideration.

If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration, apply the guidance on variable consideration and the constraint when determining the transaction price.

Consideration payable to a customer

Is the consideration payable to a customer a payment for a distinct good or service from the customer?

Yes

Account for the consideration as a reduction of the transaction price.

No

Does the consideration exceed the fair value of the distinct goods or services that the entity receives from the customer?

Yes

Account for the excess as a reduction of the transaction price.

No

Account for the purchase of the good or service in the same way that the entity accounts for other purchases from suppliers.

Step 4: Allocating the transaction price to performance obligations

Allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis except for

allocating discounts, and

allocating variable consideration.

Determining stand-alone selling price

The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer.

The best evidence of a 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 and to similar customers.

Suitable methods for estimating the stand-alone selling price of a good or service include, but are not limited to, the following:

(a) Adjusted market assessment approach

(b) Expected cost plus a margin approach

(c) Residual approach

A combination of methods may need to be used to estimate the stand-alone selling prices of the goods or services promised in the contract if two or more of those goods or services have highly variable or uncertain stand-alone selling prices.
Allocation of a discount

Allocate a discount proportionately to all performance obligations in the contract on the basis of the relative stand-alone selling prices of the underlying distinct goods or services.

When to allocate discount to ‘less than all’ performance obligations?

Allocate a discount entirely to one or more, but not all, performance obligations in the contract if all of the following criteria are met:

(a) the entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a stand-alone basis;
(b) the entity also regularly sells on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and
(c) the discount attributable to each bundle of goods or services described in (b) above is substantially the same as the discount in the contract and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs.

Note: – As a first step, always allocate the discount entirely to one or more performance obligations in the contract (if applicable), and then as a second step, use the residual approach to estimate the stand-alone selling price of a good or service.

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.
(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.

How to allocate variable consideration?

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
- allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service when considering all of the performance obligations and payment terms in the contract.

STEP 5: Satisfying performance obligation

Transfer of control over a period of time

Does customer control the asset as it is created or enhanced?

- Yes
- No

Does asset have an alternative use to the entity?

- Yes
- No

Does customer receive and consume the benefits as the entity performs?

- Yes
- No

Does entity have the enforceable right to receive payment for work to date?

- Yes
- No

Control is transferred at a point in time

Transfer of control at a point in time

Where a company does not meet any of the criteria for recognising revenue over a period of time, then revenue shall be recognised at a point in time.
Repurchase agreements

**Forward:** An entity’s obligation to repurchase the asset.

**Call option:** An entity’s right to repurchase the asset.

**Put option:** An entity’s obligation to repurchase the asset at the customer’s request.

Service Concession Arrangements

Does the grantor control or regulate what services the operator must provide with the infrastructure, to whom it must provide them, and at what price?

**Yes**

OUTSIDE THE SCOPE OF APPENDEIX SEE INFORMATION NOTE 2

**No**

Does the grantor control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangements? Or is the infrastructure used in the arrangements for the entire useful life?

**Yes**

**No**

Is the infrastructure constructed or acquired by the operator from a third party for the purpose of the service arrangement?

**Yes**

**No**

**Is the infrastructure existing infrastructure of the grantor to which the operator is given access?**

**Yes**

**No**

WITHIN THE SCOPE OF APPENDEIX

Operator does not recognise infrastructure as property, plant and equipment or as a leased asset

Recognise as an asset the incremental costs to obtain a contract that are expected to be recovered.

Cost to fulfil (i.e. perform/deliver) a contract. Consider deferral under Ind AS 115.95 only if not covered in scope of another standard.

Recognise as an asset under this standard if costs:

- Directly relate to a contract (or anticipated contract), such as direct labour and materials, indirect costs of production, etc.
- Generate or enhance resources that will be used to satisfy performance obligations in the future, AND
- Expect to be recovered.

Operator recognises a financial asset to the extent that it has a contractual right to receive cash or another financial asset as described in paragraph 16 of Appendix.

Operator recognises an intangible asset to the extent that has a contractual right to charge users of the public services as described in paragraph 17 of Appendix.

Recognise as an asset the incremental costs to obtain a contract that are expected to be recovered.

Cost to fulfil (i.e. perform/deliver) a contract. Consider deferral under Ind AS 115.95 only if not covered in scope of another standard.

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**Contract Cost**

**Contract acquisition**

Incremental costs to obtain a contract that would not be incurred if contract not obtained. (E.g. Sales commission)

Recognise as an asset the incremental costs to obtain a contract that are expected to be recovered.

**Contract fulfilment**

Cost to fulfil (i.e. perform/deliver) a contract. Consider deferral under Ind AS 115.95 only if not covered in scope of another standard.

Recognise as an asset under this standard if costs:

- Directly relate to a contract (or anticipated contract), such as direct labour and materials, indirect costs of production, etc.
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