



# Financial Accounting for Management

Indian Accounting Standards -*Explained*



# Ind AS 2

1. Inventories are assets that are
  - Held for sale
  - In process of production for such sale
  - Material or supplies to be consumed
2. Measured at lower of Cost or Net Realisable Value
  - Exclusions- Abnormal wastages, storage costs (unless not necessary in production), Admin costs
  - Allocation of joint products based on relative sales value, by-products measured at NRV
3. Disclosures
  1. Accounting policies, carrying amount, valuation technique used,

# Ind AS 7 – Statement of Cash Flows

- ◆ Statement of Cash Flow is a periodical statement that conveys **sources** and **applications** of cash by an entity
- ◆ **Ind AS 7** codifies and standardizes the manner in which an entity shall prepare its Statement of Cash Flows
- ◆ The Standard also outlines the Statement into 3 heads viz. Operating, Investing and Financing Activities
- ◆ **Operating Activities** – The principal revenue producing activities of the entity arising from the core business
- ◆ **Investing Activities** – Activities that involve the acquisition and disposal of assets and investments not included in cash equivalents
- ◆ **Financing Activities** – Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity
- ◆ The Standard also prescribes the method of reporting of cash flow viz. Direct Method and Indirect Method
- ◆ As per the Standard, an entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.
- ◆ Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the exchange rate at the date of the cash flow.
- ◆ Finally, as per Ind AS 7 interest paid and interest/dividend received shall be classified as item of financing activity and investing activity respectively

# IND AS 8

## CHANGE IN ACCOUNTING ESTIMATE

### ACCOUNTING POLICIES

Prescribes criteria for selection and change in accounting policy retrospectively unless impracticable

Ex – Depreciation method – WDV to SLM

Inventory Valuation – FIFO from LIFO

Prospectively adjusting carrying amount of an asset or liability (from new information, not mistake)

Ex – Bad debts, warranty obligations

### PRIOR PERIOD ERRORS

Deals with errors in previous periods due to

- Mistake in applying acc policy
- Misinformation
- Misinterpretation of facts

rectified in subsequent period retrospectively

## ***Ind AS 10:***

- ***Events after the reporting period*** are those events, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Two types of events can be identified

- Adjusting Events    Non Adjusting Events
- Entity shall adjust its FS to **reflect adjusting events** after the reporting period
- **Non - Adjusting Events: Shall not be reflected** but if material, then it is mandatory to give its disclosure.
  - dividends to equity shareholders after the reporting period

# Ind AS- 11 Construction Contracts

Guidelines -Book keeping and Financial statements of contractor - Construction Contracts

Key terms used:  
Construction contract,  
Contract revenue,  
Contract Cost

Contractor must disclose- Revenue, methods to determine the revenue, explanation- different stage of completion

Used for Estimation and contingency involved in Long Term contracts

## Income Taxes

Objective- The objective of this Standard is to prescribe the accounting treatment for income taxes

- ❖ Recognition of current tax liabilities and current tax assets
- ❖ Recognition of deferred tax liabilities and deferred tax assets
- ❖ Measurement
- ❖ Recognition of current and deferred tax

# Ind AS 16

prescribes the accounting treatment for Property and P&E (Plant, and Equipment)- use for production, service or any other administrative purpose for more than one year

The principal issues covered in the standard includes:

## Recognition:

- *future economic benefits related to such asset would flow to the business; and*
- *Cost of such asset could be reliably measured.*

## Determining the carrying amounts of the assets:

- *the amount at which an asset is recognized*
- *after deducting any accumulated depreciation and*
- *accumulated impairment losses.*

## Measurement:

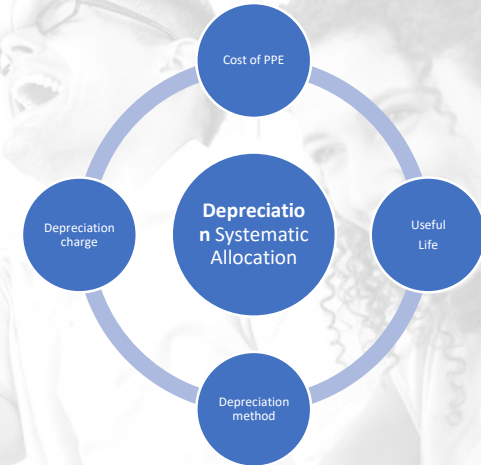
### Cost Model:

- *Cost - Accumulated depreciation – impairment losses*

### Revaluation Model:

- *Reliably fair value measure shall be carried at a revalued amount*
- *Fair value- Accumulated depreciation – impairment losses*

## Depreciation to be recognized in the financial statements



## Derecognition:

- *The carrying amount of an item of property, plant and equipment shall be derecognized:*
  - (a) *on disposal; or*
  - (b) *when no future economic benefits are expected from its use or disposal.*



# IND AS 116

- Ind AS 116 defines a **lease as a contract**, or part of a contract, that conveys the right to use the underlying asset for a period of time in exchange for consideration.
- In **P&L statement**, interest expense on lease liability and depreciation on the right-of-use asset, rather than Operating expense as before.
- In **cash flow statement**, cash payments for principal and related interest of lease liability are shown as financing activities and therefore, Operating cash flows will be higher compared to before.
- IND AS 116 removes the distinction between operating and finance leases and requires recognition of an asset (the right-of-use a leased item) and a financial liability to pay rentals for all lease contracts.

# IND AS 18 - Revenue Recognition

This standard sets the guidelines as to when to recognize the revenue arising from certain types of transactions and the accounting treatment of the same. It should be applied in accounting for revenue arising from the following transactions:

<b>Sale of Goods</b>	<b>Rendering of Services</b>	<b>Use of entity assets yielding Interest, Royalties or Dividends</b>
<ul style="list-style-type: none"><li>• Transfer of significant risks and rewards of ownership</li><li>• Probable future economic benefits</li><li>• Reliable measurement of revenue and costs</li></ul>	<ul style="list-style-type: none"><li>• Recognise revenue by reference to stage of completion</li><li>• Recognise revenue only to extent of expenses recognized that are recoverable</li></ul>	<ul style="list-style-type: none"><li>• Probable future economic benefits</li><li>• Reliable measurement of revenue e.g. through effective interest method in case of interest as a source of income</li></ul>

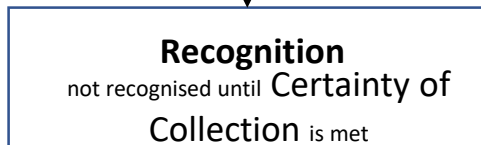
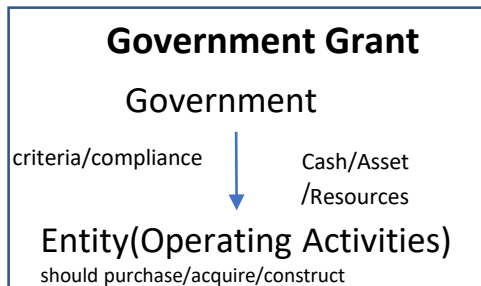
(Revenue is recognized under the respective three heads when all above conditions are met)

# IND AS 19- Accounting Treatment of Employee Benefits

E.B. has to be recognized either as a **Liability** or an **Expense** -

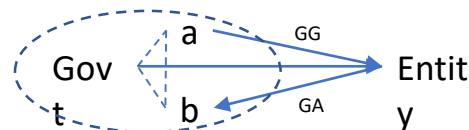
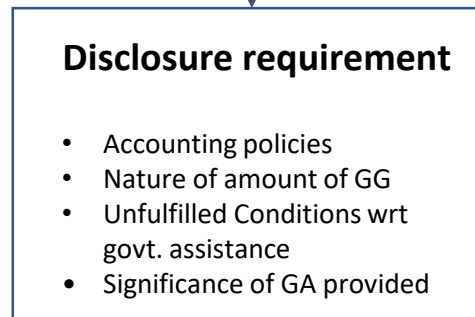
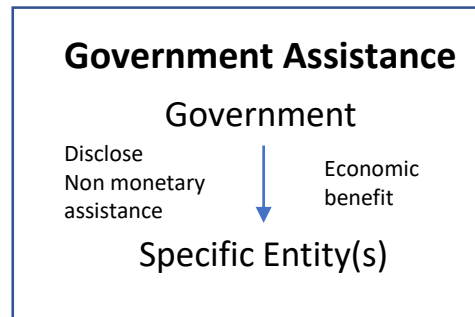
- **Short-term employee benefits** – Expected to be fully paid before 12 months after the end of the accounting period (paid leaves)
- **Other long-term employee benefits** – Not expected to be fully paid within 12 months after the end of the accounting period. (gratuity)
- **Termination benefits** Paid to an employee who is terminated from service due to the employer's decision. (leaving bonus)
- **Post Employment benefits** – Paid after the completion of employment. (pension, insurance)

# Ind AS 20 – Accounting for Government Grants and Disclosure for Government Assistance



## Accounting Approach & Repayment

- Credit to P/L Statement systematically (intended costs and not capital) in the period in which it becomes receivable
- Assets should be presented in the Balance Sheet as deferred income
- Repayment of asset is recognised by reducing deferred income balance by amount payable



# IND AS - 21

## THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES

This Standard shall be applied:

- (a) in accounting for transactions and balances in foreign currencies.
- (b) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation or the equity method.
- (c) in translating an entity's results and financial position into a functional currency.

# Ind AS 23

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## *Borrowing costs:*

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset
- Other borrowing costs are expenses in P/L statement
- Borrowing costs eligible for capitalization
  - Include Cost of property, plant and equipment
  - Commencement
  - Suspension
  - Cessation
- The amount of borrowing costs capitalized during the period shall be disclosed

## Ind AS 24

- The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to ensure transparency in the accounting of the business.
- This standard is applicable for identifying related parties, commitment to them, transactions between related parties and required disclosures regarding related party.
- Usually joint ventures, subsidiaries and entities with significance influence on it are called related party.
- Compensation to Key Management Personnel: The same should be given in total and for each of the following categories - Short term employee benefits, Post employment benefits, Other long term benefits, Termination benefits, Share based payments.

# IND AS 27 :Separate Financial Statements

## KEY POINTS :

- This Standard prescribes accounting and disclosure requirement for investments in subsidiaries, joint ventures and associates in separate financial statements (SFS) of the parent/investor.
- Separate financial statements are those presented by a parent (i.e. an investor with control of the subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with Ind- AS 109 Financial Instruments.
- IAS 27 allows the entities to use the equity method to account for investment in subsidiaries, jointly controlled entities and associates in their SFS. Such option is not given in IND AS 27, as equity method is not a measurement basis like cost and fair value but is a manner of consolidation and therefore would lead to inconsistent accounting conceptually.
- An entity shall recognize a dividend from a subsidiary, a joint venture or an associate in profit or loss in its separate financial statements when its right to receive the dividend is established.



## IND AS 28- Accounting for Investments in Associates

- This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.
- Equity accounting is usually applied where an investor entity holds 20–50% of the voting stock of the associate company
- The investor records such investments as an asset on its balance sheet. The investor's proportional share of the associate company's net income increases the investment (and a net loss decreases the investment), and proportional payments of dividends decrease it
- For the associate, Investment is initially recognized at cost and adjusted thereafter for the post acquisition change in the investors share of the investee's assets
- An entity can discontinue use of equity method if the investment becomes subsidiary and continue in accordance with Ind AS 103

### Balance Sheet Math under the Equity Method =

Beginning Investment (on investor's balance sheet)

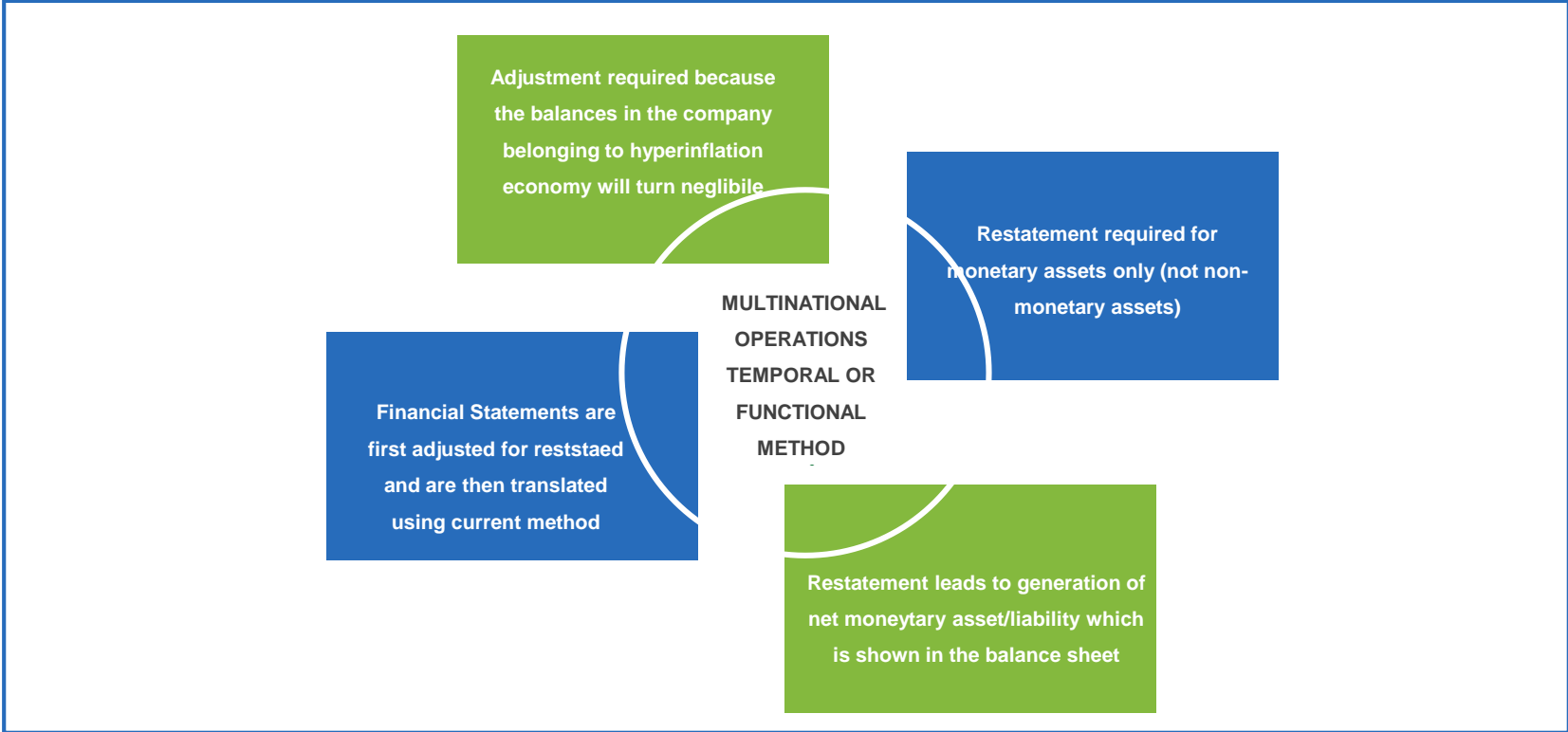
+ or - Share of Investee's Net Income/Loss

Less Dividends received from Investee

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= Ending Investment (on investor's balance sheet)

# Ind AS 29: Financial Reporting in Hyperinflationary Economies (1)



(1) Inflation across 3 years = 100%

# Ind-AS 31 Interests in Joint Ventures

- Sets out for the accounting for an entity's interest in various forms of Joint Ventures.
- Forms of Joint Ventures – Joint Operations, Joint Assets and Joint Entities.
- Procedures for reporting of joint venture assets, liabilities, income and expenses in financial statements of Venturers and Investors.
- Parent Company / Venturers should disclose its share of financials in its separate and Consolidated financial statements
- Treatments of accounting – Proportionate consolidation and Equity method of accounting
- Exceptions – Venture Capital organisation, mutual funds etc

## Venturer should Recognise

- Assets it control
  - Liabilities it incur
  - Expenses and Income from sales of goods and services
- Joint Operations
- Share of the Jointly Controlled assets
  - Share of the liabilities it has incurred jointly
  - Sale from the use of its output
  - Expenses incurred in respect of its interest in Joint Venture
- Joint Assets

# **Ind-AS 32 PRESENTATION OF FINANCIAL INSTRUMENTS**

**FINANCIAL INSTRUMENTS** : *It is any contract that give rise to* **FINANCIAL ASSET** *of one entity and* **FINANCIAL LIABILITIES** *or* **EQUITY INSTRUMENTS** *of another entity.*

E.g. : **JK** Ltd issues debentures to **JM** who buys it.

- Issuer should classify appropriately
- Interest, Dividends, losses, gains - P&L statement
- Distribution to holders of equity instruments should be recognized by the entity directly in equity.
- Followed by Ind-AS 39 and Ind-AS 107.

# Indian Accounting Standard 33 – Earnings per Share

Earnings per share is a method used to review the performance of an entity. As the term itself denotes it simply means determining the profit attributable to each share.

The standard prescribes two methods for measurement of earnings per share:

- **Basic earnings per share**

Basic earnings per share will be calculated by dividing the profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding for the period.

- **Diluted earnings per share**

The diluted earnings per share are computed by adjusting the profit or loss and ordinary shares for the effects of all dilutive potential ordinary share.

# IND AS 34

## Interim Financial Reporting

### Objective:

- To prescribe minimum content of interim financial report
- Improves ability of stakeholders in understanding entity's financial conditions and liquidity

### Contents of Interim Report:

- Complete or condensed set of financial statements
- Balance sheet, profit and loss statement, cashflow statement, self-explanatory notes, EPS
- Explanation of significant events and transactions
- Same accounting policies as annual report

### Scope:

- Doesn't mandate which entities should prepare reports and how often entities should prepare them.
- Report has to comply with all the guidelines of Ind AS



# Ind-As 36: Impairment of Assets



## Measuring Recoverable Amount in Impairment –

The recoverable amount is the higher of its fair value less costs of disposal and its value in use.



## Recognizing and Measuring an impairment Loss –

If recoverable amount is less than carrying amount, carrying amount of the asset shall be reduced to its recoverable amount.



## Goodwill

Annual impairment test for cash generating unit to which goodwill is allocated is performed at any time during an annual period.



## Reversing an impairment Loss -

Check if the impairment loss is reduced in current accounting period except goodwill. Then that will be added.

# Ind AS 37

## Provisions, Contingent Liabilities and Contingent Assets

- To ensure appropriate recognition criteria and measurement bases for
- Provisions (Warranties)
  - Contingent Liabilities (Legal loss)
  - Contingent Assets (Verdict in favor)

### Exceptions

Financial Instruments that are carried out at fair value (IAS 109)

Onerous Executory contracts

Insurance entities from contracts with policyholders (IAS 104)

Covered by another Standard



# Ind-AS-38: Intangible Assets

## Objective

- 1) Accounting treatment for intangible assets not dealt in another Ind AS
- 2) Recognize an entity as intangible asset if and only if specified criteria are met

## Definition

**Intangible Assets:** (i) Identifiable (ii) Non-monetary asset (iii) Without physical Substance  
**Identifiability:** (i) Either asset is separable (ii) Arises from contractual or other legal rights

## Recognition Criteria

**Recognize an Intangible assets only when:** a) Future economic benefits  
b) Cost of it can be measured reliably

## Measurement of intangible assets

- 1) At initial recognition ( Acquisition cost , fair value of the asset etc.)
- 2) After the recognition – a) Cost model b) Revaluation model

## Useful Life

- 1) Finite Life
  - 2) Indefinite life
- Amortization and impairment concept

# Ind-AS 40 Investment Property(IP)

(Part of) Land and/or building with owner or lessee under FL used for : Earning rentals and/or Capital Appreciation. How it is different from OOP? .

## WHAT IS IP?

## RECOGNITION

Recognized as an Asset when:

- Flow of FEB into entity
- Reliable measurement of cost

Initial measurement at cost.  
Standard allows

- 1)Fair Value Method
- 2)Cost Value Method

## MEASUREMENT

## DERECOGNITION

At disposal or permanent withdrawal or no FEB  
Gains/Loss recognized in P&L

Suggested Reads: Operating and Financial Lease, Criteria for an IP

# Ind-AS 41

## Scope

- ❑ Agricultural produces from agricultural produce harvested from biological assets at point of harvest

## To be recognized as a biological asset only when

- ❑ The entity controls the asset as a result of past events
- ❑ It is probable that future economic benefits associated with asset will flow to the entity
- ❑ The fair value or cost of the asset can be measured reliably

## Disclosures

- ❑ Gain or Loss during the period
- ❑ Description of Assets
- ❑ Disclosure of fair value measurement
- ❑ Government Grants

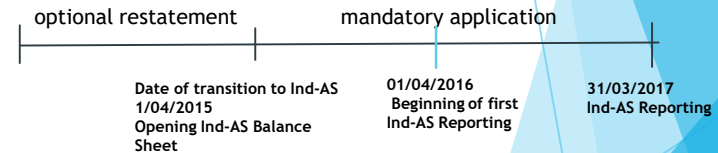
## Example

Biological Assets	Covered in Ind-AS 41	Not Covered in Ind-AS 41
Rubber Tree	Harvested Latex	Rubber Products
Sheep	Wool	Yarn, Carpet
Dairy Cattle	Milk	Cheese, Butter

# Ind-AS 101

## First Time Adoption of Indian Accounting Standards

- First time Entity Transition to Ind-As
- Selection of Accounting Policies
- Opening Ind-AS Balance sheet, Applicability interim financial reporting.
- Financial Accounting include BS, PLS, CFS, SOCE and Notes under Ind-AS
- Prohibition on Retrospective, Exemptions
- Presentation and disclosure
- Use of fair value as deemed cost
- investments in subsidiaries, jointly controlled entities and associates



Choose accounting policies and recognise all the assets and liabilities whose recognition is required by Ind-AS

Derecognise all assets or liabilities whose recognition is not allowed under Ind-AS & reclassify as necessary required

Using Ind-AS for measuring all recognised assets and liabilities by considering mandatory and optional exemptions.

# Ind-As-102, Shared-Based Payments



## ESOPs

An agreement between the Business entity and the employee that entitles the employee to receive cash or assets for the amount based on the value of the equity instrument.

Ind As specifies financial reporting by an entity when it undergoes shared based payments. The P&L account will reflect the transactions.

The grant of this equity instrument may be sometimes conditional where the employee may have to serve the company for a particular duration before exercising the stock options.

# Ind AS 103-Business Combinations:

## Objective

Improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

As per the standard, a business combination is a transaction in which an entity obtains control of one or more businesses

Mere asset acquisition is not called Business combination. IND AS-103 provides recognition, measurement and accountability in business combination

It also sets out method of recognizing goodwill & its accountability and expenditure incurred on acquisitions



# Indian Accounting Standard 117

- Ind AS 117 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The objective of Ind AS 117 is to ensure that an entity provides relevant information that faithfully represents those contracts.

## General Model

- Default model
- If the net cash flow results in no contractual service margin, loss is recognized immediately.
- Based on contractual service margin representing unearned profit from the contract

## Premium Allocation Model

- Optional simplified model for insurance contract
- Many non life insurance products would fall under this category
- Applicable for contracts where measurement of liability under Premium Allocation Approach will not differ materially from measurement under general model or applicable for model with coverage period one year or less

## Variable Fee Model

- Applicable to direct participating contract
- The changes in fulfillment cash flow arising from time value of money and financial risk is considered as part of variable fee for future services and recognized through contractual service margin
- No interest assertion is required since the CSM is remeasured for changes in financial risk

- Components in the contract are separated and valued given certain conditions are fulfilled
- Contracts are grouped into annual profitable and non profitable onerous contracts for valuation
- Profit is recognized insurance coverage is provided and the entity is released from risk
- Insurance revenues, Insurance expenses and financial expenses are presented separately
- A higher level of disclosure to enable user to understand and compare insurance companies in a better way

# IND AS 105

## **NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

Ind AS 105 gives detailed guidance on treatment of non current assets or disposal groups, which are classified as “held for sale” or “held for distribution to owners”

- ❖ Assets that meet the criteria to be classified as held for sale are to be presented separately. They are to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease
- ❖ As per Ind AS 105, a discontinued operation is a component of an entity that represents 1) a separate major line of business or geographical area 2) or is a subsidiary acquired exclusively with an intention of resale
- ❖ The discontinued operations are to be presented separately in the statement of profit and loss account
- ❖ Ind AS 105 requires that the disposal of the assets should get completed within one year, subject to limited exceptions.



# IND-AS 106

## Exploration for and Evaluation of Mineral Resources

- The expenditure incurred by an entity in connection with the exploration for and evaluation of mineral resources.
- The exploration and evaluation is done after an entity gets legal rights to explore in the area.
- And also after the determination of technical feasibility and commercial viability of extracting the mineral resources.
- It goes as exploration and evaluation cost in income statement

# Ind AS 107

## Financial Instruments: Disclosures

### Purpose

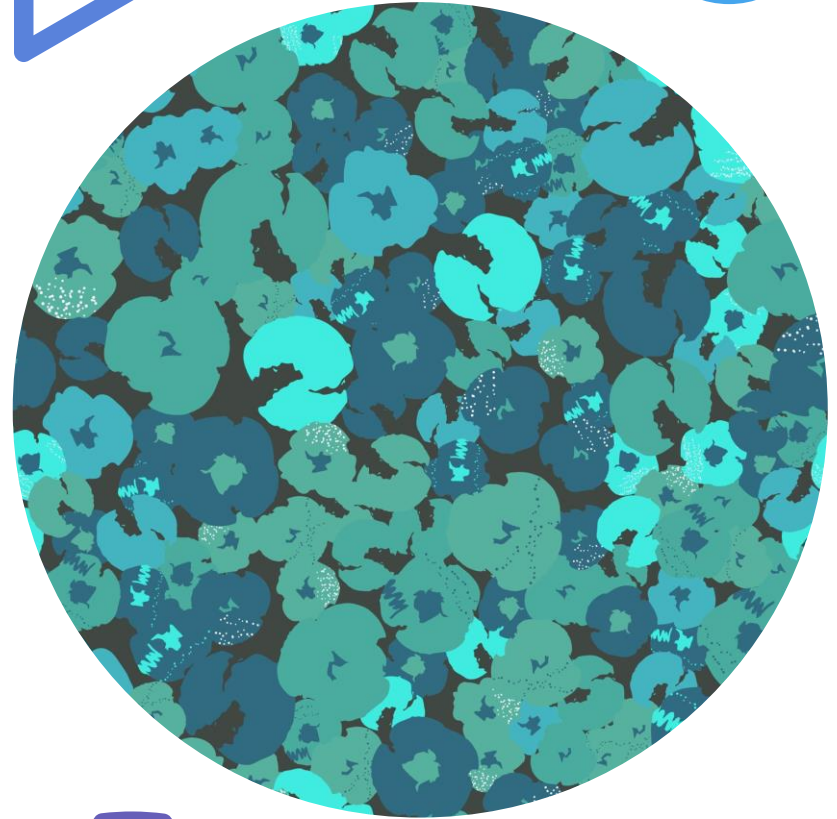
- Evaluation of financial position due to financial instruments
- Evaluation of risks arising through financial instruments

### Disclosures of amount in the following categories:

- Financial Assets and Liabilities at Fair Value Through Profit and Loss(FVTPL)
- Financial liabilities mentioned at amortised cost
- Investments held to maturity
- Loans and receivables
- Financial assets available for sale

# Ind AS 108- Operating Segment

- Component of an entity that engages in an business activity from which it may earn revenue and incur expenses
  - Operating decisions are regularly reviewed by the entity's Chief decision maker
- Discreet financial information is readily available



# Ind-AS 109

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An entity shall recognize a financial asset or a financial liability in its balance sheet when, and only when, the entity becomes party to the contractual provisions of the instrument.

A financial asset shall be classified and measured at amortized cost, fair value through OCI or fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets and
- The contractual cash flow characteristics of the financial asset.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- business model objective is to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.



**ACCOUNTING  
STANDARDS**

# Ind AS 110 Consolidated Financial Statements

1. Subsidiaries are defined on the basis of *control*. Meaning of the term *control* is different in the Companies Act, 2013 and Ind AS 110.

2. Control is determined applying three criteria –

(1) existence of power over the investee;

(2) exposure, or rights, to variable returns from its involvement with the investee; and

(3) the ability to use its power over the investee to affect the amount of the investor's returns.

In straight forward cases wherein by design of the investee , decision making right for the relevant activities is enjoyed on the basis of voting rights, the investor who holds the majority voting right enjoys the control.

In other cases , control is determined evaluating all other facts and circumstances like whether an investor enjoys the right to decide upon relevant activities , he has exposure to variable return and he has the ability to use the power over the investee to affect the return.

3. Control is determined taking into account potential voting right.

4. Non-controlling interest is recognized even if the value is negative.

# IND AS 111



01

## What is a Joint Agreement?

A joint arrangement is an arrangement of which two or more parties have joint control. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement; but, at least 2 of all the parties must have joint control.

02

## Scope

This Ind AS shall be applied by all entities that are a party to a joint arrangement. [whether or not it has joint control]

03

## Objectives

- Establish principles for financial reporting by entities that
- Requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved to account for those rights and obligations in accordance with that type of joint arrangement.

04

## Characteristics of Joint Arrangement

- (a) The parties are bound by a contractual arrangement.
- (b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

05

## Type of Joint Arrangement

- Financial statements of parties to a joint arrangement classified as Joint operations
- Financial statements of parties to a joint arrangement classified as Joint venture:
- Separate financial statements



## **Ind As 112 : Disclosure of Interests in Other Entities**



**Information about nature of, and risks associated with, interests in other entities**



**Subsidiaries, Joint ventures, Associates & Unconsolidated Structured Entities**



**Effects of interests on financial position, financial performance & cash flows**



**Does not apply to which Ind As 19, Ind As 27, Ind As 109 applies**

# IND AS 113 : Fair value management

## KEY POINTS :

- Fair Value is generally used for financial reporting purposes. This IND AS as single source of guidance on how to measure fair value of both financial and non-financial assets and liabilities. Objective of this IND AS is to define fair value, measure fair value and disclosure of fair value management.
- Fair Value is based on the exit price; the price that would be received to sell an asset or paid to transfer a liability, not the transaction price or entry price or the price that was actually paid for the asset or that was received to assume the liability.
- Fair Value emphasizes the concepts of a “principal market” and the “most advantageous market” with respect to the business/asset being valued. Ind AS 113, specifies that in the absence of a principal market, the most advantageous market should be considered.
- To promote consistency and comparability in fair value measurements, Ind AS 113 establishes a Fair Value hierarchy that categorises in Level 1, 2 and 3.
- In estimating the Fair Value of an asset/liability, valuation techniques are used that are appropriate under the circumstances and for which sufficient data is available to measure Fair Value.



## IND AS 114

# REGULATORY DEFERRAL ACCOUNTS

**“It provides financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation\*.”**

An entity is permitted to apply the requirements of this Standard in its first Ind AS financial statements, if and only if, it:

- Conducts rate-regulated activities; and
- Recognized amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP

*\*Rate regulation - regulation for setting an entity's prices (rates) in which there is a cause-and-effect relationship between the entity's specific costs and its revenues.*

## 5-Step Model to recognize Revenues

1

IDENTIFY THE  
CONTRACT WITH  
CUSTOMER

2

IDENTIFY THE  
PERFORMANCE  
OBLIGATIONS

3

DETERMINE THE  
TRANSACTION  
PRICE

4

ALLOCATE THE  
TRANSACTION  
PRICE

5

RECOGNIZE REVENUE  
WHEN PERFORMANCE  
OBLIGATIONS ARE  
MET

- New single five-step revenue recognition model - control based model
- Contains **extensive disclosure requirements** that includes -
  - Disaggregation of revenue
  - Contract balances
  - Performance obligations
  - Significant judgements
  - Cost to obtain or fulfill a contract
- **Profit and loss account** will henceforth be reflection of deliveries concluded by customers.
- **New Changes for Processing fee** - It will be amortized over the expected life of the loan based on the effective interest rate method in case of a loan.
- **Sectors likely to be affected significantly** - Service providing companies, Real estate, Telecommunication
- It will provide more transparent accounting for revenue but will impact companies involved in complex transactions



# THANK YOU!

Indian Accounting Standards -*Explained*