Date ______ 20__

Lecture # 104 :-

{ Past paper # 8, must do (11.3.5) }

IFRS-15

REVENUE FROM CONTRACT WITH CUSTOMERS

⇒ lessors & banks k business mn yeh IFRS-15 interfere nai kr rha.

⇒ Revenue means "income arising from entity's ordinary course of activities."

(10.1.1)

5 steps Model

Product	Units
A	100
B	10
C	150

260m

① Contract to sell

② business ki jo zimadari hy perform krny ki, wo performance obligation hoti, asal price kis cheez ki hy ? (good/service)

③ Total kam ki total price kia thi hoi

④ Is 260m k 3 tuky krna

⑤ Revenue recognize hoga jb product deliver hojae g, A, B or C aik sth b hoskty, alag alag b hoskty

Now read detail of all 5 from 10.1.1, 10.1.2 & 10.1.3.

- Jo business my bechny ka wada kia tha, jesy jesy wo wada pora hota jae ga, business revenue recognize krta jaega

Imp standard confirm Question from this

SCOPE

An entity shall apply this standard to all contracts with customers except the following:
(a) Lease contracts [IFRS 16]
(b) Insurance contracts [IFRS 17]
(c) Financial instruments
(d) Non-monetary exchange between entities in the same line of business to facilitate sales to customers or potential customers. (aik dukan waly ny dosry dukan waly sy cheezain ly k bechna shuru ki udhar, tu apas mn wo sales record ni krengy) cuz stock ni tha

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue
Income arising in the course of an entity's ordinary activities

Contract
An agreement between two or more parties that creates enforceable rights and obligations.

Customer
A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

RECOGNITION AND MEASUREMENT

Five Steps model

foundation of whole chap

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate transaction price
5. Recognize revenue when performance obligation is satisfied

1) Identify the contract(s) with customer

1. An entity shall account for a contract with a customer only when all of the following criteria are met:
   (a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
   (b) the entity can identify each party's rights regarding the goods or services to be transferred;
   (c) the entity can identify the payment terms for the goods or services to be transferred;
   (d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and ksi ko koi faida ho b rha ho
   (e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. (i.e. this assessment is based on customer's ability and intention to pay that amount of consideration when it is due). pta ho k paisay milyngy ya ni us transaction k...
   [if above criteria is not met, an entity shall continue to assess whether it is subsequently met]

2. A contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly underperformed contract without compensating the other party. parties are aware

Wholly underperformed contract
A contract is wholly underperformed if: o the entity has not yet transferred any promised goods or services to the customer; and o the entity has not yet received and is not yet entitled to receive any consideration.

3. If identification criteria as mentioned in point 1 above is not met, then any consideration received from the customer shall be recognized as revenue only when either of the following events has occurred:
   (a) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is nonrefundable; or
   (b) the contract has been terminated and the consideration received from the customer is non-refundable.

Combination of contracts

An entity shall combine two or more contracts entered into at or near the **same time** with the **same customer** (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single commercial objective;
(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
(c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

modification onwards chalti ha v change of estimate retrospectively chalna ha.

Contract modification

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract.

inc in scope & price is fair → separate performance obligation

Case 1 – Modification is a separate contract

An entity shall account for a contract modification as a separate contract if both of the following conditions are present:

or goods ya services mang rha or usky paisy b fairly dy rha

(a) the scope of the contract increases because of the addition of promised goods or services that are distinct; and
(b) the price of the contract increases by an amount of consideration that reflects the entity's *stand-alone selling prices* of the additional promised goods or services and appropriate adjustments to that price to reflect the circumstances of the particular contract.

ab aisy accounting krengy jesy aik naya contract hy (jitny paisy kam charge kiye cuz ya tu pehly zyada charge kr liye thy ya pichla kam b acha nai kr rae thy)

Case 2 – Modification is NOT a separate contract

scope inc hua then price fair ni ha (same product ho or different product ho) → termination of old contract & formation of new contract)

If the remaining goods or services are distinct from those already transferred: Price fair ni ha.	o An entity shall account for the modification as if it were a termination of existing contract and the creation of a new contracts. o Total amount of consideration to be allocated to remaining performance obligation(s) = consideration promised (including already received) by the customer that had not been recognized as revenue plus consideration promised for modification.
If the remaining goods or services are not distinct separate PO market units ni hyn. srf design change hoja.	o An entity shall account for the modification as if it were a part of the existing contract. o The effect of modification on transaction price and progress measurement is recognized as an adjustment to revenue at modification date. (i.e. cumulative catch-up basis) estimate change jesi accounting hogi

2) Identify the separate performance obligations

1. Performance obligation is a promise in a **contract** with a **customer** to transfer to the customer either: alehda sy pehchan ho/ bikti ho market mn
   (a) a good or service (or a bundle of goods or services) that is distinct; or   A k 100 units
   (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (e.g. gym services, bookkeeping services).   alehda sy bechi jati hn

A k 100 units
B k 10
C k 250

Examples of distinct goods or services
o Sale of goods (produced or purchased by entity)
o Performing an agreed upon task for customer
o Providing a service of standing ready to provide goods or services (e.g. on-call basis)
o Providing agency services (on call rehna, yeh aik service hy)
o Constructing, manufacturing or developing an asset on behalf of a customer
o Granting licence (franchise dena, royalty wali bat)
o Granting options to purchase additional goods or services

without boly, actions sy {e.g. bus mn betha tu understood hy k transport ki service lyga

2. A contract with a customer generally **explicitly** states the goods or services that an entity promises to transfer to a customer. However, 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.

understood hy

→ ya point us case ma ha jb business aik sy zyada performance obligation ma involve ho (jsy AC khareeda deliver b hua + install b kr k dya)] yeh ab k performance obligation ha ya 3?

aik sy zyada promises kiye business ny.

3. A good or service that is promised to a customer is distinct if both of the following criteria are met:
   (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct). nature hi alag hy AFR, BFD, SPM sb k alag alag lectures bechy jaty
   → jin goods or services ko performance obligation kehna he wo sy nature b alag hon

Example – where customer can benefit from the good contract mn enter hony k bd b unki pehchan barkarar rhy.
The fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

lekin has aik ki identity alg → sub alg alg hai

   (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the promise to transfer the good or service is distinct within the context of the contract). CFAP k sara sub k lectures khreedy, beshak syllabus prhany ka tareeqa alag tha

combined output ki shakal na bn rae

Examples – where two or more promises are NOT separately identifiable
o The entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. entity ny aik ghr bnany ka wada kia, pora — cement, bajri, entein aik hi business dy rha
o One or more of the goods or services significantly modifies or customizes one or more of the other goods or services promised in the contract. license khreed k usi sy itni zyada modifications krwai k wo badal gya hy ab.
o The goods or services are highly interdependent or highly interrelated.

aik combined output (multiple services) aik hi entity dy g

single performance obligation

aik batch aya us sy batch ny ~~sepon~~ FAR or BFD prhni thi.

license becha → aik service
uski modification → aik service ki

yeh unka design by nature hi aesa hogga k kma pra ← tu ab syllabus kuch aesy design ⇒ depends hoga k jo common topics hn wo aik mn detail mn prhaye on physical not price. e.g. hedging. topics connect or relate krdiye.

(yeh 3 hoi tu mtlb aik performance obligation, multiple ni)

package discount ⇒ { do products agr is shart pr bech rae k dono hm sy khreedengy ~~tu itny paisy hn warna ni~~, yeh inter-related hona Nahi hy yeh sy pricing strategy hy

Date______20___

→ Read Example - 11 & 11 on (10.2.6)
↓
Case A, B, C, D & E

also, example - 12

Lecture # 105 :-

Pg- 10.1.3 ⇒ v. Imp to understand.

Now, Pg - 10.1.4 ⇒ Transaction price

Practice Question - 9 : (10.3.4)

		Rs- million
Basic price		20
Bonus	2.00	
deduction:		
2m * 10% * 0.3	(0.06)	
2m * 20% * 0.1	(0.04)	1.90
		21.90

'or'

$$\boxed{\begin{array}{l} 0.6 * 2m \\ 0.3 * 2m * 0.9 \\ 0.1 * 2m * 0.8 \end{array}}$$

Example 9—Unapproved change in scope and price

An entity enters into a contract with a customer to construct a building on customer-owned land. The contract states that the customer will provide the entity with access to the land within 30 days of contract inception. However, the entity was not provided access until 120 days after contract inception because of storm damage to the site that occurred after contract inception. The contract specifically identifies any delay (including force majeure) in the entity's access to customer-owned land as an event that entitles the entity to compensation that is equal to actual costs incurred as a direct result of the delay. The entity is able to demonstrate that the specific direct costs were incurred as a result of the delay in accordance with the terms of the contract and prepares a claim. The customer initially disagreed with the entity's claim.

The entity assesses the legal basis of the claim and determines, on the basis of the underlying contractual terms, that it has enforceable rights. Consequently, it accounts for the claim as a contract modification. The modification does not result in any additional goods and services being provided to the customer. In addition, all of the remaining goods and services after the modification are not distinct and form part of a single performance obligation. Consequently, the entity accounts for the modification by updating the transaction price and the measure of progress towards complete satisfaction of the performance obligation.

Identifying performance obligations (Step-2)

Example 10—Goods and services are not distinct

An entity, a contractor, enters into a contract to build a hospital for a customer. The entity is responsible for the overall management of the project and identifies various goods and services to be provided, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

The promised goods and services are capable of being distinct because the customer can benefit from the goods and services either on their own or together with other readily available resources. This is evidenced by the fact that the entity, or competitors of the entity, regularly sells many of these goods and services separately to other customers. However, the goods and services are not distinct within the context of the contract because the entity's promise to transfer individual goods and services in the contract are not separately identifiable from other promises in the contract. This is evidenced by the fact that the entity provides a significant service of integrating the goods and services (the inputs) into the hospital (the combined output) for which the customer has contracted. Hence the goods and services are not distinct. The entity accounts for all of the goods and services in the contract as a single performance obligation.

Example 11—Determining whether goods or services are distinct (step-2)

Case A—Distinct goods or services

An entity, a software developer, enters into a contract with a customer to transfer a software licence, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The entity sells the licence, installation service and technical support separately. The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

The entity observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. Thus, the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available. In particular, the entity observes that the installation service does not significantly modify or customise the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used to produce a combined output. On the basis of this assessment, the entity identifies four performance obligations in the contract for the following goods or services:

(a) the software licence;

(b) an installation service;

(c) software updates; and

(d) technical support.

Case B—Significant customisation

The promised goods and services are the same as in Case A, except that the contract specifies that, as part of the installation service, the software is to be substantially customised to add significant new functionality to enable the software to interface with other customised software applications used by the customer. The customised installation service can be provided by other entities.

The entity is using the licence and the customised installation service as inputs to produce the combined output. In addition, the software is significantly modified and customised by the service. Thus, the software licence and the customised installation service are not distinct.

On the basis of this assessment, the entity identifies three performance obligations in the contract for the following goods or services:

(a) customised installation service (that includes the software licence);

(b) software updates; and

(c) technical support.

Case C—Promises are separately identifiable (installation)

An entity contracts with a customer to sell a piece of equipment and installation services. The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

The entity identifies two promised goods and services in the contract:

(a) equipment; and (b) installation.

The customer can benefit from the equipment on its own, by using it or reselling it for an amount greater than scrap value, or together with other readily-available-resources (for example, installation services available from alternative providers). The customer also can benefit from the installation services together with other resources that the customer will already have obtained from the entity (ie the equipment).

The entity has not promised to combine the equipment and the installation services in a way that would transform them into a combined output. The entity's installation services will not significantly customize or significantly modify the equipment. The equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

On the basis of this assessment, the entity identifies two performance obligations in the contract for the following goods or services:

(i) the equipment; and

(ii) installation services.

Case D—Promises are separately identifiable (contractual restrictions)

Assume the same facts as in Case C, except that the customer is contractually required to use the entity's installation services.

The contractual requirement to use the entity's installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the contractual requirement to use the entity's installation services does not change the characteristics of the goods or services themselves, nor does it change the entity's promises to the customer. Although the customer is required to use the entity's installation services, the equipment and the installation services are capable of being distinct and the entity's promises to provide the equipment and to provide the installation services are each separately identifiable. The entity's analysis in this regard is consistent with that in Case C.

Case E—Promises are separately identifiable (consumables)

An entity enters into a contract with a customer to provide a piece of off-the-shelf equipment (i.e. the equipment is operational without any significant customization or modification) and to provide specialized consumables for use in the equipment at predetermined intervals over the next three years. The consumables are produced only by the entity, but are sold separately by the entity.

The entity determines that the customer can benefit from the equipment together with the readily available consumables. The consumables are readily available, because they are regularly sold separately by the entity (i.e. through refill orders to customers that previously purchased the equipment). Therefore, the equipment and the consumables are each capable of being distinct.

The entity determines that the equipment and the consumables are not inputs to a combined output. In addition, neither the equipment nor the consumables are significantly customized or modified by the other. Lastly, the entity concludes that the equipment and the consumables are not highly interdependent or highly interrelated because they do not significantly affect each other.

On the basis of this assessment, the entity identifies two performance obligations in the contract for the following goods or services:

(a) the equipment; and

(b) the consumables.

Example 12—Explicit and implicit promises in a contract (step-2)

An entity, a manufacturer, sells a product to a distributor (i.e. its customer) who will then resell it to an end customer.

Case A—Explicit promise of service dealer ko company waly keh rae k AC k sath maintenance b dengy

In the contract with the distributor, the entity promises to provide maintenance services for no additional consideration (i.e. 'free') to any party (i.e. the end customer) that purchases the product from the distributor. The entity outsources the performance of the maintenance services to the distributor and pays the distributor an agreed-upon amount for providing those services on the entity's behalf. If the end customer does not use the maintenance services, the entity is not obliged to pay the distributor.

The contract with the customer includes two promised goods or services—(a) the product and (b) the maintenance services. The product and the maintenance services are not inputs to a combined item in the contract. The entity is not providing a significant integration service because the presence of the product and the services together in this contract do not result in any additional or combined functionality. In addition, neither the product nor the services modify or customize the other. Lastly, the product and the maintenance services are not highly interdependent or highly interrelated because the entity would be able to fulfil each of the promises in the contract independently of its efforts to fulfil the other. Consequently, the entity allocates a portion of the transaction price to each of the two performance obligations (i.e. the product and the maintenance services) in the contract.

Case B—Implicit promise of service

The entity has historically provided maintenance services for no additional consideration (i.e. 'free') to end customers that purchase the entity's product from the distributor. The entity does not explicitly promise maintenance services during negotiations with the distributor and the final contract between the entity and the distributor does not specify terms or conditions for those services. However, on the basis of its customary business practice, the entity determines at contract inception that it has made an implicit promise to provide maintenance services as part of the negotiated exchange with the distributor. That is, the entity's past practices of providing these services create valid expectations of the entity's customers (i.e. the distributor and end customers). Consequently, the entity assesses whether the promise of maintenance services is a performance obligation. For the same reasons as in Case A, the entity determines that the product and maintenance services are separate performance obligations.

Case C—Services are not a promised service Sirf product becha, not maintenance services

In the contract with the distributor, the entity does not promise to provide any maintenance services. In addition, the entity typically does not provide maintenance services and, therefore, the entity's customary business practices, published policies and specific statements at the time of entering into the contract have not created an implicit promise to provide goods or services to its customers. The entity transfers control of the product to the distributor and, therefore, the contract is completed. However, before the sale to the end customer, the entity makes an offer to provide maintenance services to any party that purchases the product from the distributor for no additional promised consideration. The promise of maintenance is not included in the contract between the entity and the distributor at contract inception. Consequently, the entity does not identify the promise to provide maintenance services as a performance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Although the maintenance services are not a promised service in the current contract, in future contracts with customers the entity would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

Performance obligations satisfied over time

Example 13—Customer simultaneously receives and consumes the benefits

An entity enters into a contract to provide monthly payroll processing services to a customer for one year. The promised payroll processing services are accounted for as a single performance obligation. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the benefits of the entity's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the entity has provided to date also demonstrates that the customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs. The entity recognizes revenue over time by measuring its progress towards complete satisfaction of that performance obligation in.

3) Determine the transaction price

1. Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (e.g. sales tax).

2. When determining the transaction price, an entity shall consider the effects of the following:

   (a) Variable consideration / (b) constraining estimates of variable consideration PQ-9, 10 to understand

   bonus etc — kam ya zyada amounts b hosktI

   An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. An entity shall estimate an amount of variable using either (whichever better predicts the amount):

   - **Expected value** (Σpx) of a range of possible consideration amounts (it is used when there are large number of possible outcomes or large number of similar contracts) (ya amount hogi ya nai)
   - **Mostly likely amount** in a range of possible consideration amounts (it is used when a contract has only two possible outcomes). (kam ya zyada amount ho skti) 50% sy zyada tu ham wrna na.

   ksi or chez py depend krengi, kam zyada kr skti. TP ko. e.g. agr customer sy contract hoa k apsy hm 600m charge krengy lekin agr zyada achi quality hoggi tu 50m or dengy (change krengy) corona etc.

   company mohtaad rhy k jo revenue record keya ha ul ko reverse na krna pry.

   Transaction price shall include the amount of variable consideration only to the extent that it is highly probable that a significant reversal in recognized revenue will not occur. Following are the examples of factors that could increase the likelihood of revenue reversal: ↳ utna record krna jitna bad mn reverse na krna pry

   - Amount of consideration is highly susceptible to factors outside entity's influence. → material is short pr khreed a gya k agr customer ki cisy deal na hoi tu wo wapis krdy ga material
   - Uncertainty is not expected to be resolved for a long period of time. (deal final hony mn pta ni kitna arsa lg jae)
   - Entity's experience with similar types of contracts is limited (pehli deal)
   - Entity has a practice of offering a broad range of price concessions (wide range of discounts)
   - Contract has a large number and broad range of possible consideration amounts.

   yo andaza ka change ha wo usi period ma account kr na ha (jis ma change recognize hona) Example-6

   At end of every year, an entity shall update the estimated transaction price and any necessary adjustment in the amount of revenue, already recognized, shall be recognized in the period of change. (Jo estimate lga rae, unko har sal update kia jae ga. e.g agr contract 20sy sal k end tak b pora ni hoska, tu penalty ki amount ab TP mn add krengy) (Impairment of F.Asset wala concept apply ho rha ha).

   (c) Existence of a significant financing component in the contract (leen dena maqsad hy, udhar py sales)

   customer ny hmy udhar py k kam krwaya or years k end py performance jo pay kiya usi py aj revenue bana

   An entity shall adjust the promised amount of consideration for the effects of time value of money (excluding for reasons other than financing e.g. retention money). Significant financing component may exist in following two ways:

   cash ← years → ; cash — performance

Cash is received in advance:	Cash receipt is deferred:
○ Cash received is recognized as a liability. ○ Transaction price will be the future compounded value of cash received. ○ Interest expense is recognized over the period on liability.	○ Transaction price will be the present discounted value of cash consideration. ○ An asset is recognized on recognition of revenue. ○ Interest income is recognized over the period on asset.

   ya cash performance sy pehly aaha ya bad mn, or is mn years ka gap hy. Or yeh gap/udhar ka maqsad financing hy, nakhiy nai jo companies k hoty hm → market norms ya security ki wajah sy delay ya early. (then, (c) is not applicable)

   For above compounding/discounting calculations, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. It may be the rate implicit in the transaction. Such discount rate shall not be updated subsequently.

   An entity need not make such adjustment if the gap between transfer of good or service and payment by customer is equal to or less than one year.

advc Cost

QUESTION NO. 7

On 1 October 2017, Galaxy Telecommunications (GT) entered into a contract with a bank for supplying 20 smart phones to the bank staff with unlimited use of mobile network for one year. The contract price per smart phone is Rs. 34,650 and the price is payable in full within 10 days from the date of contract. At the end of the contract, the phones will not be returned to GT.

The entire amount received as per contract was credited by GT to advance from customers account. The smart phones were delivered on 1 November 2017.

If sold separately, GT charges Rs. 18,000 for a smart phone and a monthly fee of Rs. 1,800 for unlimited use of mobile network.

Required:

Prepare adjusting entry for the year ended 31 December 2017 in accordance with IFRS 15 'Revenue from Contracts with Customers'.

(04)

{Spring 2018, Q # 2 (b)}

QUESTION NO. 8

(a) Jupiter Limited (JL) entered into a two year contract on 1 January 2017, with a customer for the maintenance of computer network. JL has offered the following payment options:

Option 1: Immediate payment of Rs. 200,000.

Option 2: Payment of Rs. 110,000 at the end of each year.

The applicable discount rate is 6.596%.

Required:

Prepare journal entries to be recorded in the books of JL under each option over the period of contract.

(05)

(b) Pluto Limited (PL) sells industrial chemicals at following standalone prices:

Products	Rupees (per carton)
C-1	100,000
C-2	90,000
C-3	110,000

PL regularly sells a carton each of C-2 and C-3 together for Rs. 170,000.

Required:

Calculate the selling price to be allocated to each product, in case PL offers to sell one carton of each product for a total price of Rs. 260,000.

(05)

{Autumn 2017, Q # 6}

QUESTION NO. 9

Decent Constructions (DC) enters into a contract with a customer to build an asset for Rs. 20 million with a performance bonus of Rs. 2 million that will be paid based on the timing of completion. The amount of the performance bonus decreases by 10% per week for every week beyond the agreed-upon completion date. The contract requirements are similar to contracts DC has performed previously, and management believes that such experience is predictive for this contract. DC concludes that the expected value method is most predictive in this case.

DC estimates that there is a 60% probability that the contract will be completed by the agreed-upon completion date, a 30% probability that it will be completed one week late, and a 10% probability that it will be completed two weeks late.

Required

How should DC determine the transaction price?

Date______20___

PQ-10 (10.3.5) :-

	Rs. million
Basic price	250
Bonus	25
	275

Read and orally do PQ 11 & 12 (10.3.5)

See & understand PQ-13, 14 & 15.

—

⇒ Now, move to pt.(c) (10.1.4) of Transaction price

(c)

performance ← discounting — cash eg. 460m

Receivable	395			
Sales		395		
		cash	460	
		Receivable		395
		Int. income		65

and, if.

cash eg 340m — compounding → performance 410m

cash	340			
Liab.		340		
		Liab.	340	
		Int exp	70	
		Sales		410

Read, (c) whole pt

Now see and do on caf. PQ#16–20 ✓

QUESTION NO. 10

United Constructions (UC) enters into a contract to construct a manufacturing facility for a customer. The contract price was agreed at Rs. 250 million plus a Rs. 25 million bonus only if the facility is completed by a specified date. The contract is expected to take three years to complete. UC has a long history of constructing similar facilities. UC will receive no bonus if the facility is not completed by the specified date. UC believes, based on its experience, that it is 95% likely that the contract will be completed successfully and in advance of the target date.

Required:

How should UC determine the transaction price?

QUESTION NO. 11

Newage Constructions (NC) enters into a contract to construct a manufacturing facility for a customer. The contract price was agreed at Rs. 100 million and a stipulated time period of 2 years was also agreed. To ensure timely completion, a penalty of Rs. 10 million was agreed which would be deducted from contract price if work is not completed within 2 years. NC believes, based on its experience, that it is 80% likely that the contract will be completed successfully and in advance of the target date.

Required:

How should NC determine the transaction price?

QUESTION NO. 12

Alpha Consultants (AC) entered into a 1-year contract for book keeping services with a customer. Total contract price was agreed at Rs. 5 million. It was also agreed that AC will be entitled to an extra Rs. 500,000 if number of mistakes found in audit are less than 10. AC has experience of providing such services and it is highly probable that mistakes will not exceed the acceptable limit.

Required:

How should AC determine the transaction price?

QUESTION NO. 13

Beta Traders (BT) enters into 100 contracts with customers on January 1, 2018. Each contract includes the sale of one product for Rs. 500. The cost to BT of each product is Rs. 300. Cash is received upfront and control of the product transfers on delivery. Customers can return the product within 30 days to receive a full refund. BT can sell the returned products at a profit.

BT has significant experience in estimating returns for this product. It estimates that 92 products will not be returned.

Required:

How the above transactions should be accounted for if after 30 days:

(a) no refunds are claimed

(b) 5 products are refunded

(c) 10 products are refunded

4000 1000 5000 240 A B 150000* 37,500 15,000 150,000* 112,500

QUESTION NO. 14

Gamma Traders (GT) enters into a 1-year contract with a customer to supply standard capacity UPS for office use. The contract states that price per UPS will be adjusted retroactively once customer reaches certain sale volume as follows:

Cumulative annual sales (UPS)	Price (Rs.)
0 – 500	5,000
501 – 800	4,000
801 and above	3,500

Officially, tu usny 130 liye lekin hmara best andaza hy k sal mn wo 501-800 wa... TP mn fall krnege, tu why 4,000 ki record

Based on past experience and knowledge of customer, GT estimates that sales volume for the year will be 610 UPS. At the end of first month, customer purchased 130 UPS at a price of Rs. 5,000 per UPS.

Required:

Journal entry to record first month sale.

or 1000 hmein ho skta wapis dena pr jae tu abi sy 4000 ki sales mani...

QUESTION NO. 15

Using the same situation as in Question 14, at the end of 2nd month customer purchased 300 units at a price of Rs. 5,000 per UPS. Now GT estimates that cumulative sale volume for the year will be 850 UPS.

Required:

Journal entry to record 2nd month sale

is mahiny ki tu kam py record krengy, pichly month waly units ko b reduce krdengy NTP

QUESTION NO. 16

On January 1, 2018 Gallant Limited (GL) sold a machine to a customer. Control was transferred at the time of delivery. However customer requested for a special credit of 2 years. Therefore, a special price of Rs. 950,000 was charged. Prevailing market interest rate on that date was 10%. Financial year of GL ends every December 31st. Cost of machine to GL was Rs. 400,000. Cash equivalent price of machine was Rs. 750,000.

Required:

All journal entries for above transaction.

1 Jan 2018 Perform...

950,000

QUESTION NO. 17

On January 1, 2018 Prudent Limited (PL) agreed to sell an equipment to a customer. The customer demanded its delivery after 2 years. PL will manufacture the equipment at the time of delivery. PL gave two options to customer:

Option I – 100% advance payment of Rs. 800,000 at the time of agreement

Option II – Payment of Rs. 1,000,000 at the time of delivery

Prevailing market interest rate at the date of agreement was 9%.

Required:

All journal entries for above transaction if customer opts for:

(a) Option I

(b) Option II

(c)

QUESTION NO. 18

pehly hi mil gye sary paisy

Honest Traders (HT) entered into a contract with a customer to deliver Product A and Product B for Rs. 150,000 payable up-front. Product A will be delivered in two years and Product B will be delivered in five years.

HT has determined that contract contains two performance obligations; Product A and Product B. Total price of Rs. 150,000 has been allocated, on the basis of stand-alone prices, to Product A and B at Rs. 37,500 and Rs. 112,500 respectively. HT also concludes that transaction contains significant financing component and interest rate of 6% is appropriate.

Required:

Calculate annual interest expense till final delivery and amount of revenue recognized for each product.

QUESTION NO. 19

Finance House (FH) sold an equipment, costing Rs. 60,000, to a customer on installment sale basis on January 1, 2018. Each installment of Rs. 40,000 will be received on every December 31st for 3 years. Controlled was transferred on delivery. Applicable market interest rate is 12%. FH prepares its financial statements on 31st December every year.

Required: annuity & repayment schedule

All journal entries for above transaction.

QUESTION NO. 20

Modern Engineering (ME) entered into a contract for 3-year maintenance services with a manufacturing concern. Same service will be rendered over 3-year period. Contract required 100% upfront fees of Rs. 300,000 payable at the time of agreement on January 1, 2018. Prevailing market interest rate for ME is 12%. ME prepares its financial statements on 31st December every year.

Required:

All journal entries for above transaction.

QUESTION NO. 21

Manufacture Co enters into a contract with Technology Co to build a machine. Technology Co pays Manufacture Co Rs. 1 million and contributes materials to be used in the development of the machine. The materials have a fair value of Rs. 500,000. Technology Co will deliver the materials to Manufacture Co approximately three months after development of the machine begins. Manufacture Co concludes that it obtains control of the materials upon delivery by Technology Co and could elect to use the materials for other projects.

Required:

How should Manufacture Co determine the transaction price?

QUESTION NO. 22

Golden Gate enters into a contract with a major chain of retail stores. The customer commits to buy at least Rs. 20m of products over the next 12 months. The terms of the contract require Golden Gate to make a payment of Rs. 1m to compensate the customer for changes that it will need to make to its retail stores to accommodate the products. By the 31 December 2018, Golden Gate has transferred products with a sales value of Rs. 4m to the customer.

Required

How much revenue should be recognised by Golden Gate in the year ended 31 December 2018?

QUESTION NO. 23

Mobile Co sells 1,000 phones to Retailer for Rs. 100,000. The contract includes an advertising arrangement that requires Mobile Co to pay Rs. 10,000 toward a specific advertising promotion that Retailer will provide. Retailer will provide the advertising on strategically located billboards and in local advertisements. Mobile Co could have elected to engage a third party to provide similar advertising services at a cost of Rs. 10,000.

Required:

How should Mobile Co determine the transaction price?

QUESTION NO. 24

Marine sells boats and provides mooring facilities for its customers. Marine sells the boats for Rs. 300,000 each and provides anchorage facilities for Rs. 50,000 per year. Marine concludes that the goods and services are distinct and accounts for them as separate performance obligations. Marine enters into a contract to sell a boat and one year of anchorage services to a customer for Rs. 325,000.

Required:

How should Marine allocate the transaction price of Rs. 325,000 to the performance obligations?

Date ______ 20__

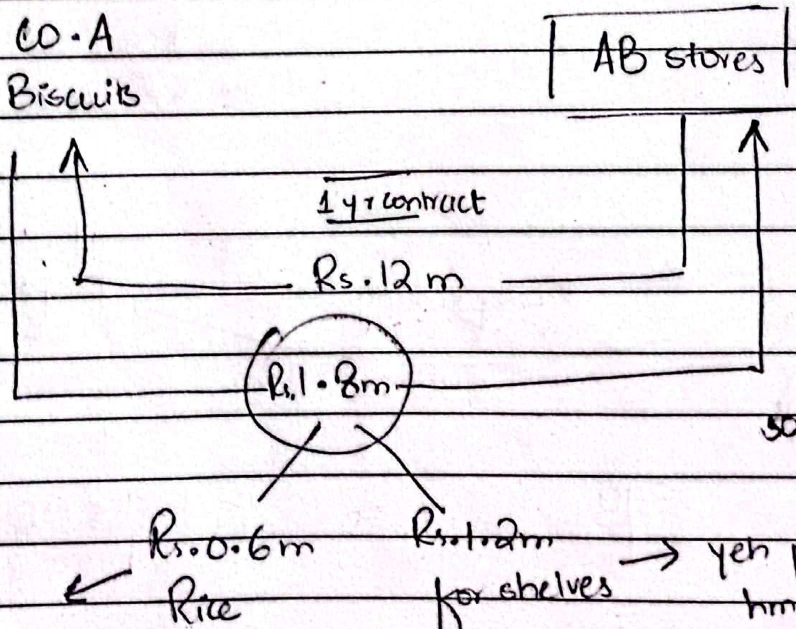
Lecture # 106:-

→ 10.1.5 (d) Non-cash considerations;

- Agr aik customer ny hmsy paint krwany ka contract kia, sirf paint customer ka baqi brush, seerhi etc hmari. Lekin customer ny keh dia, k yeh kuch brush pry hn paint waly hmary kam k nai, ap dekh len agr apky kam k hain tu rkh len.
  Ab jb wo brush hmary hogye, hmari mrzi k hm jahan mrzi istemal kren tu wo b consideration/price hogyi. Contract price + brush ki ~~price~~ FV.
  Yani k customer ki trf sy hmary hogye.

Now, read para.

→ 10.1.5, (e) consideration payable to a customer;



yeh isliye part ni bna transaction ka kiun k yeh bilkul khreeda hy.

yeh paisa hmari sale sy connected hy cuz isliye diy rae k shelves bna k hmary biscuit unpy display krna

so ab sales $12 - 1.2 = 10.8$ record krey g Co.A (paint + brush wali example) agr hm paint kr rhy hyn customer hmyn brush dy rha ho r kahy k ya brush ap ly lyna kam khtm hony k bd b (to ya brush ka control transfer ho geya) to ya revenue ma record hogeya.

(d) *Non-cash consideration*

An entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value. If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate an entity's fulfilment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the customer.

total revenue = 12 - 1.2 = 10.8m

Co.A ↑ Co.B
biscuit Rs 12m
Rs 1.8m
Rs 0.6m Rice purchase by Co.A
1.2m for chiller

(e) *Consideration payable to a customer*

An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity.

If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price.

= .5m k rice thy (F.V .5m thi) hmny .6m diay to excess f.v .1m ko hm revenue ma sy less krwayyy → 12m - 1.2 - .1m

4) Allocate transaction price

1. If there are more than one performance obligations in the contract, the transaction price shall be allocated to each performance obligation on the basis of relative stand-alone selling prices. (alag alag bechy jany ki price)

2. The best evidence of a stand-alone selling price is the observable price. If stand-alone selling price is not directly observable, then following are some suitable methods for estimating the stand-alone selling prices:
   - Adjusted market assessment approach (market ma jitny ka mil rha ho)
   - Expected cost plus a margin approach
   - Residual approach *[This approach can be used for a good or service only when the entity sells the same good or service for a broad range of prices OR the entity has not yet established a price for that good or service]* (apna bech jay wohi us ki price ha)

3. If a discount is allowed to customer for purchasing a bundle of goods or services, the entity shall allocate discount proportionately to all performance obligations unless there is an observable evidence that entire discount relates to only one or more performance obligations.

4. An entity shall allocate to the performance obligations in the contract, any subsequent changes in the transaction price (e.g. change in variable consideration) on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a satisfied performance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

→ Allocation k bad agr price mn change ayi tu dobara sy sari allocation ni krongy

change jo aik specific product sy relate krygi us ma hm incorporate kr dyngy dubara sy allocation ni krngy.

Date______20___

now, read (e).

⇒ See, and understand Practice Question 21 & 23 (10.3.7)

PQ - 22 :-

Total price	Rs. 20m
Shelves	Rs. 1m
	19m

Revenue ⇒ Rs. $4 * \frac{19}{20}$

(4) Allocate transaction price (10.1.5):

(read from book)

Example :-

3 performance obligations : A, B & C

Total contract price = Rs. 280,000

Stand-alone prices:

A	=	Rs. 75,000
B	=	Rs. 150,000
C	=	Rs. 80,000
		305,000

A = 280,000/305,000 * 75,000 = 68852

B = 280,000/305,000 * 150,000 = 137,705

C = 280,000/305,000 * 80,000 = 73,443

QUESTION NO. 19

Finance House (FH) sold an equipment, costing Rs. 60,000, to a customer on installment sale basis on January 1, 2018. Each installment of Rs. 40,000 will be received on every December 31st for 3 years. Controlled was transferred on delivery. Applicable market interest rate is 12%. FH prepares its financial statements on 31st December every year.

annuity & repayment schedule

Required:

All journal entries for above transaction.

QUESTION NO. 20

Modern Engineering (ME) entered into a contract for 3-year maintenance services with a manufacturing concern. Same service will be rendered over 3-year period. Contract required 100% upfront fees of Rs. 300,000 payable at the time of agreement on January 1, 2018. Prevailing market interest rate for ME is 12%. ME prepares its financial statements on 31st December every year.

Required:

All journal entries for above transaction.

1

QUESTION NO. 21

Manufacture Co enters into a contract with Technology Co to build a machine. Technology Co pays Manufacture Co Rs. 1 million and contributes materials to be used in the development of the machine. The materials have a fair value of Rs. 500,000. Technology Co will deliver the materials to Manufacture Co approximately three months after development of the machine begins. Manufacture Co concludes that it obtains control of the materials upon delivery by Technology Co and could elect to use the materials for other projects.

Required:

How should Manufacture Co determine the transaction price?

QUESTION NO. 22

Golden Gate enters into a contract with a major chain of retail stores. The customer commits to buy at least Rs. 20m of products over the next 12 months. The terms of the contract require Golden Gate to make a payment of Rs. 1m to compensate the customer for changes that it will need to make to its retail stores to accommodate the products. By the 31 December 2018, Golden Gate has transferred products with a sales value of Rs. 4m to the customer.

Required

How much revenue should be recognised by Golden Gate in the year ended 31 December 2018?

QUESTION NO. 23

Mobile Co sells 1,000 phones to Retailer for Rs. 100,000. The contract includes an advertising arrangement that requires Mobile Co to pay Rs. 10,000 toward a specific advertising promotion that Retailer will provide. Retailer will provide the advertising on strategically located billboards and in local advertisements. Mobile Co could have elected to engage a third party to provide similar advertising services at a cost of Rs. 10,000.

Required:

How should Mobile Co determine the transaction price?

300000 50000 350000 278571 46429

QUESTION NO. 24

Marine sells boats and provides mooring facilities for its customers. Marine sells the boats for Rs. 300,000 each and provides anchorage facilities for Rs. 50,000 per year. Marine concludes that the goods and services are distinct and accounts for them as separate performance obligations. Marine enters into a contract to sell a boat and one year of anchorage services to a customer for Rs. 325,000.

Required:

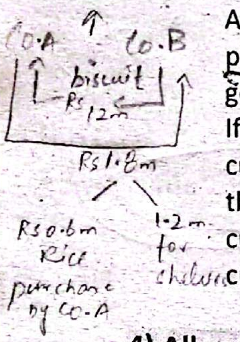
How should Marine allocate the transaction price of Rs. 325,000 to the performance obligations?

(paint + brush wali example) agr hm paint kr rhy hyn + customer hmyn brush dy rha ho k kahy k ya brush ap ly lyna kam khtm hony k bd b (to ya brush ka control transfer ho geya) to ya revenue ma record hoga.

(d) Non-cash consideration

An entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value. If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate an entity's fulfilment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the customer.

total revenue = 12 - 1.2 = 10.8m



(e) Consideration payable to a customer

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= .5m k rice thy (F.V .5m thi) hm ny .6m decay to excess F.V .1m ko hm revenue ma sy less krwyngy → 12m - 1.2 - .1m

4) Allocate transaction price

1. If there are more than one performance obligations in the contract, the transaction price shall be allocated to each performance obligation on the basis of relative stand-alone selling prices. (alag alag bechy jany ki price)

2. The best evidence of a stand-alone selling price is the observable price. If stand-alone selling price is not directly observable, then following are some suitable methods for estimating the stand-alone selling prices:
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3. If a discount is allowed to customer for purchasing a bundle of goods or services, the entity shall allocate discount proportionately to all performance obligations unless there is an observable evidence that entire discount relates to only one or more performance obligations.

4. An entity shall allocate to the performance obligations in the contract, any subsequent changes in the transaction price (e.g. change in variable consideration) on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a satisfied performance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

→ Allocation k bad agr price mn change ayi tu dobara sy sari allocation ni krngy

change jo ak specific product sy relate krygi us ma hm incorporate krdyngy dubara sy allocation ni krygy.

Date______ 20__

Example 2:

Total transaction price: Rs. 180,000

Performance Obligations (PO) ⇒ Machine & Install. service

Stand-alone SP of machine ⇒ 175,000
Cost of Install service ⇒ 25,000
Similar services are normally sold to other customers at cost + 20%.

Machine = 175,000
Install. service = 30,000
[25,000 * 1.2]

205,000

Allocation:-

Machine = $\frac{180,000}{205,000}$ * 175,000 = 153,659

Install = $\frac{180,000}{205,000}$ * 30,000 = 26,341

Example 3:-

Total TP = 250,000

P.O ⇒ Machine, Install. service & spare parts

SP of Machine ⇒ 175,000
cost of service. Install ⇒ 25,000
Install Services are sold same as above example
Spare parts haven't been sold yet. is

Date______ 20___

Machine	175,000
Install service	30,000
Spare parts	45,000 (bal.) majbooran aesy nikalengy
	250,000

Now, do PQ-24, 25 & 26 (10.3.7 & 10.3.8)

Transaction price 160,000

Stand-alone price:

A	60,000
B	40,000
C	70,000
	170,000

A is normally sold at a discount of Rs. 10,000

Allocation:-

A	50,000
B	40,000
C	70,000
	160,000

QUESTION NO. 19

Finance House (FH) sold an equipment, costing Rs. 60,000, to a customer on installment sale basis on January 1, 2018. Each installment of Rs. 40,000 will be received on every December 31st for 3 years. Controlled was transferred on delivery. Applicable market interest rate is 12%. FH prepares its financial statements on 31st December every year.

annuity & repayment schedule

Required:

All journal entries for above transaction.

QUESTION NO. 20

Modern Engineering (ME) entered into a contract for 3-year maintenance services with a manufacturing concern. Same service will be rendered over 3-year period. Contract required 100% upfront fees of Rs. 300,000 payable at the time of agreement on January 1, 2018. Prevailing market interest rate for ME is 12%. ME prepares its financial statements on 31st December every year.

Required:

All journal entries for above transaction.

1

QUESTION NO. 21

Manufacture Co enters into a contract with Technology Co to build a machine. Technology Co pays Manufacture Co Rs. 1 million and contributes materials to be used in the development of the machine. The materials have a fair value of Rs. 500,000. Technology Co will deliver the materials to Manufacture Co approximately three months after development of the machine begins. Manufacture Co concludes that it obtains control of the materials upon delivery by Technology Co and could elect to use the materials for other projects.

Required:

How should Manufacture Co determine the transaction price?

QUESTION NO. 22

Golden Gate enters into a contract with a major chain of retail stores. The customer commits to buy at least Rs. 20m of products over the next 12 months. The terms of the contract require Golden Gate to make a payment of Rs. 1m to compensate the customer for changes that it will need to make to its retail stores to accommodate the products. By the 31 December 2018, Golden Gate has transferred products with a sales value of Rs. 4m to the customer.

Required

How much revenue should be recognised by Golden Gate in the year ended 31 December 2018?

QUESTION NO. 23

Mobile Co sells 1,000 phones to Retailer for Rs. 100,000. The contract includes an advertising arrangement that requires Mobile Co to pay Rs. 10,000 toward a specific advertising promotion that Retailer will provide. Retailer will provide the advertising on strategically located billboards and in local advertisements. Mobile Co could have elected to engage a third party to provide similar advertising services at a cost of Rs. 10,000.

Required:

How should Mobile Co determine the transaction price?

QUESTION NO. 24

Marine sells boats and provides mooring facilities for its customers. Marine sells the boats for Rs. 300,000 each and provides anchorage facilities for Rs. 50,000 per year. Marine concludes that the goods and services are distinct and accounts for them as separate performance obligations. Marine enters into a contract to sell a boat and one year of anchorage services to a customer for Rs. 325,000.

Required:

How should Marine allocate the transaction price of Rs. 325,000 to the performance obligations?

QUESTION NO. 25

Alpha Traders (AT) sells industrial boilers and also provides maintenance services. On January 1, 2018 AT sold a boiler along with one year maintenance service at a package price of Rs. 400,000 to a customer. The contract involves two performance obligations. Boilers are normally sold at a price of Rs. 360,000 and maintenance services are sold at cost plus 20%. Estimated cost of services in this contract will be Rs. 50,000.

Required:

Allocate transaction price to the performance obligations.

QUESTION NO. 26

Seller enters into a contract with a customer to sell Products A, B, and C for a total transaction price of Rs. 100,000. Seller regularly sells Product A for Rs. 25,000 and Product B for Rs. 45,000 on a standalone basis. Product C is a new product that has not been sold previously, has no established price, and is not sold by competitors in the market. Products A and B are not regularly sold together at a discounted price. Product C is delivered on March 1, and Products A and B are delivered on April 1.

Required:

How should Seller determine the standalone selling price of Product C?

QUESTION NO. 27

A seller sold four products A, B, C and D (all qualify for separate performance obligation) to a customer at a package price of Rs. 500,000. It also sells such products on individual basis at following prices:

Products	Stand-alone price (Rs.)
A	120,000
B	140,000
C	130,000
D	150,000

260,000

540,000

115384
134615
250,000

115387
134615
130,000
150000
530,000

108853
126995
122642
Bal.
500,000

Some customers also normally purchase products A and B at a package price of Rs. 250,000.

Required:

Allocate transaction price of Rs. 500,000 to four performance obligations.

QUESTION NO. 28

Telecom sells wireless mobile phone and other telecom service plans from a retail store. Sales agents employed at the store signed 120 customers to two-year service contracts in a particular month. Telecom pays its sales agents commissions for the sale of service contracts in addition to their salaries. Salaries paid to sales agents during the month were Rs. 120,000, and commissions paid were Rs. 24,000. The retail store also incurred Rs. 20,000 in advertising costs during the month.

Required:

How should Telecom account for the costs?

QUESTION NO. 29

TechCo enters into a contract with a customer to track and monitor payment activities for a five-year period. A prepayment is required from the customer at contract inception. TechCo incurs costs at the outset of the contract consisting of uploading data and payment information from existing systems. The ongoing tracking and monitoring is automated after customer set up. There are no refund rights in the contract.

Required:

How should TechCo account for the set-up costs?

Date ______ 20 __

Now, if: transaction price 150,000

Stand-alone price:

A	60,000
B	40,000
C	70,000
	170,000

A & B are normally sold for Rs. 90,000.

Now first revise stand-alone prices of A & B.

Revised stand-alone:-

A	$\left[90{,}000 * \frac{60}{100}\right]$	54,000
B	$\left[90{,}000 * \frac{40}{100}\right]$	36,000
C		70,000
		160,000

ab is mn banty gy

Now, do PQ # 27 (10.3.8)

PQ # 2 (part-a)

QUESTION NO. 25
Alpha Traders (AT) sells industrial boilers and also provides maintenance services. On January 1, 2018 AT sold a boiler along with one year maintenance service at a package price of Rs. 400,000 to a customer. The contract involves two performance obligations. Boilers are normally sold at a price of Rs. 360,000 and maintenance services are sold at cost plus 20%. Estimated cost of services in this contract will be Rs. 50,000.

Required:
Allocate transaction price to the performance obligations.

QUESTION NO. 26
Seller enters into a contract with a customer to sell Products A, B, and C for a total transaction price of Rs. 100,000. Seller regularly sells Product A for Rs. 25,000 and Product B for Rs. 45,000 on a standalone basis. Product C is a new product that has not been sold previously, has no established price, and is not sold by competitors in the market. Products A and B are not regularly sold together at a discounted price. Product C is delivered on March 1, and Products A and B are delivered on April 1.

Required:
How should Seller determine the standalone selling price of Product C?

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250,000

115387
134615
130,000
150000
530,000

108853
126995
122642
Bla
500,000

Some customers also normally purchase products A and B at a package price of Rs. 250,000.

Required:
Allocate transaction price of Rs. 500,000 to four performance obligations.

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Telecom sells wireless mobile phone and other telecom service plans from a retail store. Sales agents employed at the store signed 120 customers to two-year service contracts in a particular month. Telecom pays its sales agents commissions for the sale of service contracts in addition to their salaries. Salaries paid to sales agents during the month were Rs. 120,000, and commissions paid were Rs. 24,000. The retail store also incurred Rs. 20,000 in advertising costs during the month.

Required:
How should Telecom account for the costs?

QUESTION NO. 29
TechCo enters into a contract with a customer to track and monitor payment activities for a five-year period. A prepayment is required from the customer at contract inception. TechCo incurs costs at the outset of the contract consisting of uploading data and payment information from existing systems. The ongoing tracking and monitoring is automated after customer set up. There are no refund rights in the contract.

Required:
How should TechCo account for the set-up costs?

PRACTICE QUESTIONS

QUESTION NO. 1

On 1 January 2021, Covaxin Telecom (CT) announced a new annual promotional package for its customers. The package comprises of a mobile phone, full year unlimited on-net calls and 1,000 minutes per month on other networks. Package price is Rs. 11,550 per quarter payable in advance on the first day of each quarter. At the end of the contract, the phone would not be returned to CT.

On the first day of the promotional announcement, CT sold 1,000 packages. Based on the data available with CT, it is expected that each customer would utilize 10,000 minutes of other networks with quarterly break-up as under:

Quarter ending	Minutes
31-Mar-21	2,700
30-Jun-21	2,000
30-Sep-21	2,900
31-Dec-21	2,400

The mobile phone has a retail value of Rs. 34,000, if sold separately. A monthly subscription for unlimited on-net calls is Rs. 500 while every call on other networks is charged at Rs. 1.5 per minute, if billed separately.

Required:

Compute the quarterly revenue to be recognised for the quarters ending 31 March 2021 and 30 June 2021. **(08)**

[Q-3, Spr-21]

QUESTION NO. 2

(a) Stupa Limited (SL) sells electrical products at following standalone prices:

Products	Rupees
E-1	30,000
E-2	30,000
E-3	50,000

30,000 27000
26250 23625
43750 39375
100000 90000

Required:

Calculate transaction price to be allocated to each product under each of the following independent situations:

(i) SL offered to sell one unit of each of the above products for Rs. 90,000. SL regularly sells one unit each of E-2 and E-3 together for Rs. 70,000. **(04)**

(ii) SL offered to sell one unit of E-1 and two units of E-3 for Rs. 104,000. **(02)**

(b) On 1 October 2018, Kushan Construction Limited (KCL) entered into a contract to construct a commercial building for a customer for Rs. 50 million and a bonus of Rs. 10 million if the building is completed on or before 31 December 2019.

Till 30 June 2019, KCL expected that the building will be completed within time at a total cost of Rs. 40 million. However, due to bad weather and time involved in regulatory approvals, the building was completed on 28 February 2020 at a total cost of Rs. 42 million of which Rs. 26 million was incurred till 30 June 2019.

Required:

Compute profit to be recognized for the years ended 30 June 2019 and 2020, if:

(i) performance obligation under the contract is satisfied over time. **(04)**

(ii) performance obligation under the contract is satisfied at a point in time. **(01)**

(c) The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.

Define the term 'transaction price' and list down the factors that may affect determination of the transaction price.

(04)

[Q-5, Autumn 2020]

Date______20___

Lecture # 107 :-

Read, pt. 1, 2 & 3 from (4) (10.1.5)

Now, move to (10.1.8), read 3 paras.

Practice Question - 4 : Thursday Enterprise

(a)

28-08-18	Contract asset [3000*250]	750,000	
	Sales		750,000
04-09-18	Receivable	750,000	
	Contract asset		750,000
12-09-18	Cash	750,000	
	Receivable		750,000

2nd order :

	Sales [3000* 35]	105,000	
25-12-18	Receivable [4000 * 215 − 3000*35]	755,000	
	Contract liability [4000* 215]		860,000
10-01-19	Cash	755,000	
	Receivable		755,000
15-01-19	Contract liab	860,000	
	Sales		860,000

QUALITY PAPER PRODUCTS

(paint + brush wala example) agr hm paint kr rhy hyn + customer hm ko brush dy rha ho + kahy k ya brush ap hy lyna kam khtm hony k bd b (to yo brush ka control transfer ho geya) to ya revenue ma record hoga.

(d) Non-cash consideration

An entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value. If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate an entity's fulfilment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the customer.

total revenue = 12 - 1.2 = 10.8m

(e) Consideration payable to a customer

Co.A ↑ Co.B
biscuit Rs 12m
Rs 1.8m
Rs 0.6m Rice purchase by Co.A
1.2m for chiller

An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity.

If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price.

= .5m k rice thy (F.V .5m thi) hmny .6m dea to excess F.V .1m ko hm revenue ma sy less krwayy → 12m - 1.2 - .1m

4) Allocate transaction price

1. If there are more than one performance obligations in the contract, the transaction price shall be allocated to each performance obligation on the basis of relative stand-alone selling prices. (alag alag bechy jany ki price)

2. The best evidence of a stand-alone selling price is the observable price. If stand-alone selling price is not directly observable, then following are some suitable methods for estimating the stand-alone selling prices:
   - Adjusted market assessment approach (market ma jitny ka mil rha ho)
   - Expected cost plus a margin approach
   - Residual approach *[This approach can be used for a good or service only when the entity sells the same good or service for a broad range of prices OR the entity has not yet established a price for that good or service]* (jo price bach jay wohi us ki price ha)

3. If a discount is allowed to customer for purchasing a bundle of goods or services, the entity shall allocate discount proportionately to all performance obligations unless there is an observable evidence that entire discount relates to only one or more performance obligations.

4. An entity shall allocate to the performance obligations in the contract, any subsequent changes in the transaction price (e.g. change in variable consideration) on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a satisfied performance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

→ Allocation k bad agr price mn change ayi tu dobara sy sari allocation ni krengy

change jo ak specific product sy relate krygi us ma hm incorporate kr dyngy dubara sy allocation ni krygy.

PRESENTATION

① *Receivable* jb invoice raise hoi

If an entity has unconditional right to an amount of consideration, it is presented as a "receivable". A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due even though that amount may be subject to refund in future. Such receivable is measured as per IFRS 9.

01-04-22 Goods delivered — 01-05-22 Invoice raised — 31-05-22 cash received.

② *Contract asset*

If an entity has transferred goods or services before the customer pays consideration or before the payment is due, it shall present as a "contract asset". This asset shall be assessed for impairment in accordance with IFRS 9.

③ *Contract liability*

If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e. a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a "contract liability" when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

Good delivered — Invoice raised — cash received

Ex1 Now, on 01-04-22
Dr. Contract asset
Cr. Sales

01-05-22
Dr. Receivable
Cr. contract asset

31-05-22
Dr. Cash
Cr. Receivable

Ex2

01-04-22 invoice raised
Dr. Receivable
Cr. Contract liability

15-04-22 cash received
Dr. Cash
Cr. Receivable

15-5-22 Goods delivered
Dr. Contract liability
Cr. Sales

let say 4 years ka project tha 600m

Y-1
Y-2 } sales, cos
Y-3

$\boxed{Y-4}$ → contract WIP at start of year 4 = 150m

(Remaining) Sales 185
(to be incurred this year) Expenditure (45)
140

Sales 140
Cost 150
10

P&L ← NRV adj

(ii) TML entered into a contract to manufacture a specialised machine for Dhan Limited at a price of Rs. 30 million. The contract meets the criteria of recognition of revenue over time. At the year end, the machine was 60% complete and it was estimated that a further cost of Rs. 10 million would be incurred. Cost of Rs. 15 million incurred till year end has been included in closing inventory and receipts of Rs. 11 million have been credited to revenues.

(iii) TML entered into a contract to sell one unit of Machine A and Machine B for a total price of Rs. 16 million. Machine A was delivered in December 2019 to the customer while Machine B was delivered in January 2020. The consideration of Rs. 16 million is due only after TML transfers both the machines to the customer. TML sells machines A and B at standalone prices of Rs. 12 million and Rs. 8 million respectively. The accountant recognised receivable and revenue of Rs. 12 million upon delivery of Machine A.

Required:

Prepare correcting entries for the year ended 31 December 2019 in accordance with IFRS 15. **(14)**

(Spring 2020, Q # 7)

QUESTION NO. 4

Thursday Enterprise (TE) is a supplier of product Zee and has provided you the following information:

(a) On 1 August 2018, TE entered into a six months contract with customer Alpha for sale of Zee for Rs. 250 per unit, under the following terms and conditions:

- if Alpha purchases more than 5,000 units during the contract period, the price per unit would be retrospectively reduced to Rs. 215 per unit.
- TE's unconditional right to receive consideration would be established upon:
  - completion of quality control procedures by Alpha for the first order. The procedure would take a week after receiving the goods. pehly order py hmara haq paisy leny ka us wqt bny ga jb hm goods bhej deng or TE unpy Quality control procedures peform kry
  - placement of order by Alpha for subsequent orders.

bad waly orders place hony k sath hi hmara paisy leny ka haq ban jaega

At the inception of the contract, TE concludes that Alpha's purchases will not exceed the 5,000 units threshold for the discount. Alpha placed the following orders:

Order date	Units	Delivery date [Transfer of control]	Payment date
10-08-2018	3,000	28-08-2018	12-09-2018
25-12-2018	4,000	15-01-2019	10-01-2019

(b) On 1 February 2019, TE entered into a six months contract with another customer Beta for sale of Zee for Rs. 250 per unit, under the following terms and conditions:

- if the Beta purchases more than 15,000 units during the contract period, the price per unit would be retrospectively reduced to Rs. 215 per unit.
- TE's unconditional right to receive consideration would be established upon delivery of goods to Beta.

At the inception of the contract, TE concludes that Beta will meet 15,000 units threshold for the discount.
Beta placed the following orders:

Order date	Units	Delivery date [Transfer of control]	Payment date
14-02-2019	10,000	28-02-2019	20-03-2019
01-06-2019	8,000	15-07-2019	18-07-2019

Required:
In respect of the above contracts, prepare journal entries to be recorded in the books of TE for the years ended 31 December 2018 and 2019. (Entries without date will not be awarded any marks) **(15)**

{Autumn 2019, Q # 8}

QUESTION NO. 5

Guitar World (GW) normally sells Machine A13 for Rs. 1.7 million. Maintenance services for such type of machines are provided separately at Rs. 25,000 per month. Details of two contracts for sale of Machine A13 are as follows:

(i) On 1 July 2018, GW signed a contract with Energene Limited to sell Machine A13 with one year free maintenance services at a lumpsum payment of Rs. 1.8 million. The amount was received upon delivery of machine on 1 August 2018.

(ii) On 1 October 2018, GW sold Machine A13 to Vitalene Limited for Rs. 1.95 million. As per the contract, payment would be made after 2 years. Maintenance services would also be provided for Rs. 25,000 per month for two years which would be paid at the end of each month.

Required:

With reference to IFRS-15 'Revenue from Contracts with Customers', explain how the above contracts should be recorded in GW's books for year ended 31 December 2018. (Show supporting calculations but entries are not required).

(11)

{Spring 2019, Q # 4(b)}

QUESTION NO. 6

On 1 June 2018 Ravi Limited (RL) delivered 500 units of one of its products to Bravo Limited (BL) at Rs. 200 per unit. BL immediately paid the amount and obtained control upon delivery. BL is allowed to return unused units within 30 days and receive a full refund. RL's cost of the product is Rs. 150 per unit and it uses perpetual system for recording inventory transactions.

On 30 June 2018, BL returned 20 units.

Required:

Prepare necessary journal entries in the books of RL on 1 June 2018 and 30 June 2018 under each of the following independent situations:

(i) Based upon historical data, RL estimates that 5% units will be returned on expiry of 30 days. **(05)**

(ii) The product is new and RL has no relevant historical evidence of product returns or other available market evidence.

(04)

{Autumn 2018, Q # 3}

(b)

Date______20___

28-02-19 Receivable [10,000* 250] 2500,000
Sales [10,000*215] 2150,000
Contract Liab. 350,000

20-03-19 Cash 2500,000
Receivable 2500,000

15-07-19 Receivable 1370,000
[8000* 215 – 10,000 * 35]
Contract Liab. 350,000
Sales 1720,000
[8000* 215]

& then, cash Dr, receivable Cr.

Illustrative Example -39 (10.2.24) read. whole example

= Now move to (5) Recognize revenue when PO is satisfied (10.1.6). read first 2 pts

= Read Illustrative example -13, 18 (10.2.9)

The same facts as in Case A apply to Case B except that the contract is non-cancellable. The following journal entries illustrate how the entity accounts for the contract:

(a) The amount of consideration is due on 31 January 20X9 (which is when the entity recognizes a receivable because it has an unconditional right to consideration):

Dr. Receivable Rs. 1,000

Cr. Contract liability Rs. 1,000

(b) The entity receives the cash on 1 March 20X9:

Dr. Cash Rs. 1,000

Cr. Receivable Rs. 1,000

(c) The entity satisfies the performance obligation on 31 March 20X9:

Dr. Contract liability Rs. 1,000

Cr. Revenue Rs. 1,000

If the entity issued the invoice before 31 January 20X9 (the due date of the consideration), the entity would not present the receivable and the contract liability on a gross basis in the statement of financial position because the entity does not yet have a right to consideration that is unconditional.

Example 39—Contract asset recognized for the entity's performance

On 1 January 20X8, an entity enters into a contract to transfer Products A and B to a customer in exchange for Rs. 1,000. The contract requires Product A to be delivered first and states that payment for the delivery of Product A is conditional on the delivery of Product B. In other words, the consideration of Rs. 1,000 is due only after the entity has transferred both Products A and B to the customer.

The entity identifies the promises to transfer Products A and B as performance obligations and allocates Rs. 400 to the performance obligation to transfer Product A and Rs. 600 to the performance obligation to transfer Product B on the basis of their relative stand-alone selling prices. The entity recognizes revenue for each respective performance obligation when control of the product transfers to the customer. The entity satisfies the performance obligation to transfer Product A:

Dr. Contract asset Rs. 400

Cr. Revenue Rs. 400

The entity satisfies the performance obligation to transfer Product B and to recognize the unconditional right to consideration:

Dr. Receivable Rs. 1,000

Cr. Contract asset Rs. 400

Cr. Revenue Rs. 600

jb customer mutmain hoga

5) Recognize revenue when performance obligation is satisfied

1. An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

when control is transferred?

2. Following are the indicators of the transfer of control to customer:
   - the entity has a present right to payment for the asset – entity ny apna kam krdia, jb kia tu haq bna paisy leny ka.
   - the customer has legal title to the asset
   - the entity has transferred physical possession of the asset
   - the customer has the significant risks and rewards of ownership of the asset
   - the customer has accepted the asset

3. Performance obligation is satisfied as follows:

3.1 ***Performance obligation satisfied at a point in time*** at once, aik bar hi hogyi.

If a performance obligation is not satisfied over time then it is satisfied at a point in time (e.g. supply of goods). mtlb dukan waly ko paisy diye, usny usi wqt cheez dydi.

3.2 ***Performance obligation satisfied over time:***

An entity transfers control of a good or service over time and thus recognizes revenue over time if any one of the following criteria is met:

in mn sy aik b pora hoa tu PO satisfied overtime

- Customer simultaneously receives and consumes the benefits provided by the entity's performance (e.g. cleaning services) gym ki masal.
- The customer controls the asset as it is created or enhanced (e.g. building under construction for customer) customer k hi control mn hy asset,
- The entity's performance does not create an asset with an alternative use to entity (e.g. asset has a design specifications unique to the customer) and the entity has an enforceable right to payment for performance completed to date. company k kam ka nal asset e.g kapry tailor k pas hi pary hn customer k, ab jo b suit jitna b sila hy wo customer ka hy ab agr tailor customer kahy k mn ny nai silwany kapry lekin tailor kam kr chuka, ab uska haq bangya paisy leny ka.

for pt. 3

Important points regarding enforceable right:

- The payment must at least compensate, at all times throughout the contract, the entity for performance completed to date if contract is terminated for reasons other than entity's failure to perform as promised.
- This compensation comprises of costs incurred by entity **plus** a reasonable profit margin. zrori ni k receivable Dr. krny ka haq hmara hoga ho.
- Entity's right needs not be a present unconditional right to payment. contract k mutabiq receivable Dr. nai bnta tha lekin legal right b na bnta ho. iska yeh mtlb ni k
- If customer terminates the contract without having the right to do so, the contract might entitle the entity to continue to complete the performance obligation and require the customer to pay promised consideration. In this case the entity has an enforceable right to payment.
- If entity has a customary business practice of choosing not to enforce a right to payment, even then the entity would continue to have an enforceable right to payment.
- The agreed payment schedule does not necessarily indicate whether the entity has an enforceable right to payment because such contract could also specify that consideration received is refundable for some reasons.

agr to customer k ps right ha k wo kisi b wqt contract radd kr sakta ho r entity ka ya right ho k jitna km ho chuka ha us k paisay r profit us ka lang bn jay to ya overtime hoga.

have not created an implicit promise to provide go... the contract is complete... control of the product to the distributor and, therefore, the contract is complete... sale to the end customer, the entity makes an offer to provide maintenance services to any party that purchases the product from the distributor for no additional promised consideration. The promise of maintenance is not included in the contract between the entity and the distributor at contract inception. Consequently, the entity does not identify the promise to provide maintenance services as a performance obligation. Instead, the obligation to provide maintenance services is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Although the maintenance services are not a promised service in the current contract, in future contracts with customers the entity would assess whether it has created a business practice resulting in an implied promise to provide maintenance services.

Performance obligations satisfied over time

Example 13—Customer simultaneously receives and consumes the benefits

An entity enters into a contract to provide monthly payroll processing services to a customer for one year. The promised payroll processing services are accounted for as a single performance obligation. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the benefits of the entity's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that the entity has provided to date also demonstrates that the customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs. The entity recognizes revenue over time by measuring its progress towards complete satisfaction of that performance obligation in.

Measuring progress towards complete satisfaction of a performance obligation

Example 18—Measuring progress when making goods or services available (gym wali example)

An entity, an owner and manager of health clubs, enters into a contract with a customer for one year of access to any of its health clubs. The customer has unlimited use of the health clubs and promises to pay Rs. 100 per month.

The entity determines that its promise to the customer is to provide a service of making the health clubs available for the customer to use as and when the customer wishes. This is because the extent to which the customer uses the health clubs does not affect the amount of the remaining goods and services to which the customer is entitled. The entity concludes that the customer simultaneously receives and consumes the benefits of the entity's performance as it performs by making the health clubs available. Consequently, the entity's performance obligation is satisfied over time.

The entity also determines that the customer benefits from the entity's service of making the health clubs available evenly throughout the year. Consequently, the entity concludes that the best measure of progress towards complete satisfaction of the performance obligation over time is a time-based measure and it recognizes revenue on a straight-line basis throughout the year at Rs. 100 per month.

Example 19—Uninstalled materials (table on page 6)

In November 20X2, an entity contracts with a customer to refurbish a 3-storey building and install new elevators for total consideration of Rs. 5 million. The promised refurbishment service, including the installation of elevators, is a single performance obligation satisfied over time. Total expected costs are Rs. 4 million, including Rs. 1.5 million for the elevators. A summary of the transaction price and expected costs is as follows:

	Rs.
Transaction price	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

Total expected
elevator 1.5
other 4
5.5

The entity uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. The customer obtains control of the elevators when they are delivered to the site in December 20X2, although the elevators will not be installed until June 20X3. The costs to procure the elevators (Rs. 1.5 million) are significant relative to the total expected costs to completely satisfy the performance obligation (Rs. 4 million). The entity is not involved in designing or manufacturing the elevators.

The entity concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of the entity's performance. Consequently, the entity adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction price. The entity recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e. at a zero margin).

As of 31 December 20X2 the entity observes that:

(a) other costs incurred (excluding elevators) are Rs. 500,000; and

(b) performance is 20% complete (i.e. Rs. 500,000 ÷ Rs. 2,500,000).

Consequently, at 31 December 20X2, the entity recognizes the following:

(a) Revenue of Rs. 2,200,000
[20% × Rs. 3,500,000 (i.e. Transaction price excluding cost of elevators) + Rs. 1,500,000]

(b) Cost of goods sold of Rs. 2,000,000
[Rs. 500,000 + Rs. 1,500,000]

elevator start mn hi khreed li thi or unka kharcha itna bra tha k sahi sy cost ko reflect ni kr rha tha so usko alag krlia

Date______20___

Lecture # 108 :-

- PO satisfied over-time (10.1.6)

⇒ Read Illustrative Example # 14 – 17 (all) (10.2.10)

Practice of Over-time :

Q:-

Contract period = 3 yrs
Total TP = 430 million
Progress measurement ~~end~~
End of Yr. 1 = 35%
" " Yr. 2 = 80%
" " Yr 3 = 100%

Revenue :

Yr. 1 Rs. 430m × 35% = Rs. 150.5m
Yr. 2 ~~Rs. 430 × 45% – 193.50~~ Yr. 2 Rs. 430m × 80% – Rs. 150.5m = Rs. 193.50m
Yr. 3 Rs. 430 m – 150.5 – 193.5 = Rs. 86m

Q: Contract price = 250 m
Early completion bonus = 30m
Contract period = 3yrs

Early completion bonus will be received for completion within 2.5 yrs.

Progress measurement :
End of Yr. 1 ⇒ 42%
" " Yr. 2 ⇒ 75%
" " Yr.

Building was completed within 2.5 yrs.

QUALITY PAPER PRODUCTS

jb customer mutmain hoga

5) Recognize revenue when performance obligation is satisfied

1. An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

when control is transferred?

2. Following are the indicators of the transfer of control to customer:
   - the entity has a present right to payment for the asset entity ny apna kam krdia, jb kia tu haq bna paisy leny ka.
   - the customer has legal title to the asset
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   - the customer has the significant risks and rewards of ownership of the asset
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An entity transfers control of a good or service over time and thus recognizes revenue over time if any one of the following criteria is met:

in mn sy aik b pora hoa tu PO satisfied overtime

- Customer simultaneously receives and consumes the benefits provided by the entity's performance (e.g. cleaning services) gym ki masal.
- The customer controls the asset as it is created or enhanced (e.g. building under construction for customer) customer k hi control mn hy asset,
- The entity's performance does not create an asset with an alternative use to entity (e.g. asset has a design specifications unique to the customer) and the entity has an enforceable right to payment for performance completed to date. company k kam ka nai asset e.g kapry tailor k pas hi pary hn customer k, ab jo b suit jitna b sila hy wo customer ka hy ab agr ~~tailor~~ customer kahy k mn ny nai silwany kapry lekin tailor kam kr chuka, ab uska haq bangya paisy leny ka.

for pt. 3

Important points regarding enforceable right:

- The payment must at least compensate, at all times throughout the contract, the entity for performance completed to date if contract is terminated for reasons other than entity's failure to perform as promised.
- This compensation comprises of costs incurred by entity **plus** a reasonable profit margin. zrori ni k receivable Dr. krny ka haq hmara hoga ho.
- Entity's right needs not be a present unconditional right to payment.
- If customer terminates the contract without having the right to do so, the contract might entitle the entity to continue to complete the performance obligation and require the customer to pay promised consideration. In this case the entity has an enforceable right to payment.
- If entity has a customary business practice of choosing not to enforce a right to payment, even then the entity would continue to have an enforceable right to payment.
- The agreed payment schedule does not necessarily indicate whether the entity has an enforceable right to payment because such contract could also specify that consideration received is refundable for some reasons.

contract k mutabiq receivable Dr. nai bnta tha lekin legal right b nai bnta ho. iska yeh mtlb ni k

agr to customer k ps right ha k wo kisi b wqt contract rukwa sakta ho r entity ka ya right ho k jitna kam ho chuka ha us k paisay r profit ~~pay~~ us ka bna jay to ya overtime hoga.

Example 14—Assessing alternative use and right to payment

(scenario 3 pura hone do performance obligation satisfied overtime ho.)

An entity enters into a contract with a customer to provide a consulting service that results in the entity providing a professional opinion to the customer. The professional opinion relates to facts and circumstances that are specific to the customer. If the customer were to terminate the consulting contract for reasons other than the entity's failure to perform as promised, the contract requires the customer to compensate the entity for its costs incurred plus a 15% margin. The 15% margin approximates the profit margin that the entity earns from similar contracts.

If the entity were to be unable to satisfy its obligation and the customer hired another consulting firm to provide the opinion, the other consulting firm would need to substantially re-perform the work that the entity had completed to date, because the other consulting firm would not have the benefit of any work in progress performed by the entity.

However, the entity's performance obligation is a performance obligation satisfied over time because of both of the following factors:

(a) the development of the professional opinion does not create an asset with alternative use to the entity because the professional opinion relates to facts and circumstances that are specific to the customer; and

(b) the entity has an enforceable right to payment for its performance completed to date for its costs plus a reasonable margin, which approximates the profit margin in other contracts.

Example 15—Asset has no alternative use to the entity

An entity enters into a contract with a customer, a government agency, to build a specialized satellite. The entity builds satellites for various customers, such as governments and commercial entities. The design and construction of each satellite differ substantially, on the basis of each customer's needs and the type of technology that is incorporated into the satellite.

Although the contract does not preclude the entity from directing the completed satellite to another customer, the entity would incur significant costs to rework the design and function of the satellite to direct that asset to another customer. Consequently, the asset has no alternative use to the entity because the customer-specific design of the satellite limits the entity's practical ability to readily direct the satellite to another customer.

For the entity's performance obligation to be satisfied over time when building the satellite, IFRS 15 also requires the entity to have an enforceable right to payment for performance completed to date. This condition is not illustrated in this example.

Example 16—Enforceable right to payment for performance completed to date

An entity enters into a contract with a customer to build an item of equipment. The payment schedule in the contract specifies that the customer must make an advance payment at contract inception of 10% of the contract price, regular payments throughout the construction period (amounting to 50% of the contract price) and a final payment of 40% of the contract price after construction is completed and the equipment has passed the prescribed performance tests. The payments are non-refundable unless the entity fails to perform as promised. If the customer terminates the contract, the entity is entitled only to retain any progress payments received from the customer. The entity has no further rights to compensation from the customer. sirf advance ki payment rkhy g entity agr ~~baqi custom~~ customer ny tor dia contract wo kharcha tu lga hi ni.

Even though the payments made by the customer are non-refundable, the cumulative amount of those payments is not expected, at all times throughout the contract, to at least correspond to the amount that would be necessary to compensate the entity for performance completed to date. This is because at various times during construction the cumulative amount of consideration paid by the customer might be less than the selling price of the partially completed item of equipment at that time. Consequently, the entity does not have a right to payment for performance completed to date. Thus, the entity accounts for the construction of the equipment as a performance obligation satisfied at a point in time.

Example 17—Assessing whether a performance obligation is satisfied at a point in time or over time

An entity is developing a multi-unit residential complex. A customer enters into a binding sales contract with the entity for a specified unit that is under construction. Each unit has a similar floor plan and is of a similar size, but other attributes of the units are different (for example, the location of the unit within the complex).

Case A — Entity does not have an enforceable right to payment for performance completed to date

The customer pays a deposit upon entering into the contract and the deposit is refundable only if the entity fails to complete construction of the unit in accordance with the contract. The remainder of the contract price is payable on completion of the contract when the customer obtains physical possession of the unit. If the customer defaults on the contract before completion of the unit, the entity only has the right to retain the deposit.

The entity does not have an enforceable right to payment for performance completed to date because, until construction of the unit is complete, the entity only has a right to the deposit paid by the customer. Because the entity does not have a right to payment for work completed to date, the entity's performance obligation is not a performance obligation satisfied over time. Instead, the entity accounts for the sale of the unit as a performance obligation satisfied at a point in time.

Case B—Entity has an enforceable right to payment for performance completed to date

The customer pays a non-refundable deposit upon entering into the contract and will make progress payments during construction of the unit. The contract has substantive terms that preclude the entity from being able to direct the unit to another customer. In addition, the customer does not have the right to terminate the contract unless the entity fails to perform as promised. If the customer defaults on its obligations by failing to make the promised progress payments as and when they are due, the entity would have a right to all of the consideration promised in the contract if it completes the construction of the unit. The courts have previously upheld similar rights that entitle developers to require the customer to perform, subject to the entity meeting its obligations under the contract.

The entity also has a right to payment for performance completed to date. This is because if the customer were to default on its obligations, the entity would have an enforceable right to all of the consideration promised under the contract if it continues to perform as promised. Therefore, the terms of the contract and the practices in the legal jurisdiction indicate that there is a right to payment for performance completed to date. Consequently, the entity has a performance obligation that it satisfies over time.

Case C—Entity has an enforceable right to payment for performance completed to date

The same facts as in Case B apply to Case C, except that in the event of a default by the customer, either the entity can require the customer to perform as required under the contract or the entity can cancel the contract in exchange for the asset under construction and an entitlement to a penalty of a proportion of the contract price.

Notwithstanding that the entity could cancel the contract (in which case the customer's obligation to the entity would be limited to transferring control of the partially completed asset to the entity and paying the penalty prescribed), the entity has a right to payment for performance completed to date because the entity could also choose to enforce its rights to full payment under the contract. The fact that the entity may choose to cancel the contract in the event the customer defaults on its obligations would not affect that assessment, provided that the entity's rights to require the customer to continue to perform as required under the contract (ie pay the promised consideration) are enforceable.

Date______20__

At end of year 1, early completion was not probable.
But, it was highly probable at end of Yr. 2

Revenue: (best estimate ko ly k chaleingy)

Yr. 1 → 250m * 42% = 105 m

Yr. 2 → 280m * 75% − 105 = ~~82.5m~~ 105m

Yr. 3 → 280m ~~* 100% − 82.5 − 105 + 30~~ = ~~92.5m~~ 70m
−210m

—

→ Progress measurement (payments) → (10.1.7) top.

Q Total contract period = 4yrs
TP = 360 m
Total costs of contract = 180m (initially estimated)
costs actually incurred & revised estimates are as follows:

Year	Actual cost incurred	Estimate of remaining cost
1	45m	145 m
2	60m	105m
3	75m	50m
4	55m	-

Amount of revenue & cost of sales for all years. Calculate them if progress is measured on the basis of cost incurred.

Calculated at the end of every period on cumulative basis using updated estimates

Progress % = $\frac{\text{total Base to date}}{\text{total estimated base for contract}} \times 100$

Revenue shall be recognized over time by measuring the progress towards complete satisfaction. Following methods, provided the selected method **faithfully depicts** the entity's performance, may be used for measuring progress:

- Output methods (e.g. survey of performance, milestones achieved, time elapsed and units produced/delivered) customer ka banda a k kahy ga: k itna kam hogya (dekhny k bad)
- Input methods (e.g. resources consumed, cost incurred, machine/labor hours used)

> **Important for input methods:** (Ex - 12)
> An entity shall exclude while applying input method the effects of any inputs that do not depict the entity's performance in transferring control of goods or services. For instance, when using a cost-based input method an adjustment may be required for a cost incurred that is not proportionate to the progress in satisfying the performance obligation. In those circumstances, the best depiction of the entity's performance may be to adjust the input method to recognize revenue only to the extent of that cost incurred if all of the following conditions are met:
> - The good transferred is not distinct; (elevator distinct ni ha agr distinct hota to 2 separate performance obligation hoti.)
> - The customer is expected to obtain control of the good significantly before receiving services related to the good;
> - The cost of the transferred good is significant relative to the total expected costs;
> - The entity procured the transferred good from a third party and is not significantly involved in designing and manufacturing of good. (elevator hmny ni bnaye)

At end of every year, an entity shall remeasure its progress using updated estimates.

temporary masla jo k start of the contract date ayega or year end qareeb agya ⇒ phr jitna cost lgi bas utna revenue

If progress cannot be measured reliably (i.e. in early stages of a contract), the entity shall recognize revenue only to the extent of recoverable costs incurred.

CONTRACT COSTS

Costs of obtaining the contract: directly attributable to contract	o An entity shall recognize as an asset [i.e. **"contract cost"**] the incremental costs (e.g. sales commission) of obtaining a contract if it expects to recover those costs. *[Entity may recognize these incremental costs as expense when incurred if amortization period, as discussed below in point 1, is one year or less].* (over the period / expense bnana) o Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained or not shall be recognized as expense when incurred unless those costs are explicitly chargeable to customer. (wo kharchy jo lazmi hony thy)
Costs to fulfill the contract:	o Costs incurred in fulfilling the contract *(except for those covered under IAS 2, IAS 16 and IAS 38 which are accounted for as per aforementioned standards accordingly)* shall be recognized as an asset [i.e. **"contract cost"**] only if those costs are directly related to the contract (e.g. direct material, direct labor, directly attributable overheads). Contract WIP mn debit kia tha inko o General and administrative costs, costs of wasted resources which were not reflected in price of contract and costs related to past satisfied performance shall be recognized as expense when incurred. material zaya hojata jo, wo expense bny ga.

1. The **"Contract cost"** asset shall be amortized on a systematic basis that is consistent with the transfer of the goods or services to the customer (i.e. consistent with revenue recognition).
2. An entity shall recognize an impairment loss in P&L to the extent the carrying amount of the asset exceeds "remaining consideration entity expects to receive for goods or services to which the asset relates **less** directly related costs not yet recognized as expense". (NRV adjustment)
(ya IAS-36 ni ha)

Date______20___

Progress % →

Yr.1 → $\frac{45}{190} * 100$ = ~~31.034 %~~ 23.68 %

~~Yr.2 → $\frac{60}{165} * 100$ ⇒ 57.14 % 36.36 %~~

~~Yr.3 → $\frac{75}{125} * 100$ = 60 %~~

~~Yr.4~~

Yr.2 → $\frac{105}{210} * 100$ = 50 %

Yr.3 = $\frac{180}{230} * 100$ = 78.26 %

Yr.4 = 100 %

		Revenue	COS	
Yr.1	(360×23.68%)	85.26	45	[190×23.68%]
Yr.2	[360×50% − 85.26]	94.74	60	[210×50% − 45]
Yr.3		101.74	75	[230 × 78.26% − 60 − 45]
Yr.4		78.26	55	[235 − 75 − 60 − 45]

QUALITY PAPER PRODUCTS

Date______20___

Lecture # 109 :-

Practice Question #01 (10.3.1)

	Rs.'000'	
Total transaction price [11,550*4]	46,200	(aik sal k contract ki price hy)

Stand-alone prices:

Mobile set	34,000	
On-net calls [500*12]	6,000	{ye yeh b aik sal k according hi cal kien gy}
Off-net calls [1.5*10,000]	15,000	
	55,000	

Price allocation according to contract price:

Mobile set → $46,200 * \frac{34,000}{55,000} = 28560$

On-net calls ⇒ $46,200 * \frac{6}{55} = 5040$

Off-net calls → $46,200 * \frac{15}{55} = 12,600$

Revenue:-

Q-1

	Rs.000
Mobile sets	28560
On-net calls $\left[\frac{5040*3}{12}\right]$	1260
Off-net calls $\left[\frac{12,600*2700}{10,000}\right]$	3402

PRACTICE QUESTIONS

QUESTION NO. 1

On 1 January 2021, Covaxin Telecom (CT) announced a new annual promotional package for its customers. The package comprises of a mobile phone, full year unlimited on-net calls and 1,000 minutes per month on other networks. Package price is Rs. 11,550 per quarter payable in advance on the first day of each quarter. At the end of the contract, the phone would not be returned to CT.

On the first day of the promotional announcement, CT sold 1,000 packages. Based on the data available with CT, it is expected that each customer would utilize 10,000 minutes of other networks with quarterly break-up as under:

Quarter ending	Minutes
31-Mar-21	2,700
30-Jun-21	2,000
30-Sep-21	2,900
31-Dec-21	2,400

The mobile phone has a retail value of Rs. 34,000, if sold separately. A monthly subscription for unlimited on-net calls is Rs. 500 while every call on other networks is charged at Rs. 1.5 per minute, if billed separately.

Required:

Compute the quarterly revenue to be recognised for the quarters ending 31 March 2021 and 30 June 2021. **(08)**

[Q-3, Spr-21]

QUESTION NO. 2

(a) Stupa Limited (SL) sells electrical products at following standalone prices:

Products	Rupees
E-1	30,000
E-2	30,000
E-3	50,000

30,000 27000
26250 23625
43750 39375
100000 90000

Required:

Calculate transaction price to be allocated to each product under each of the following independent situations:

(i) SL offered to sell one unit of each of the above products for Rs. 90,000. SL regularly sells one unit each of E-2 and E-3 together for Rs. 70,000. **(04)**

(ii) SL offered to sell one unit of E-1 and two units of E-3 for Rs. 104,000. **(02)**

(b) On 1 October 2018, Kushan Construction Limited (KCL) entered into a contract to construct a commercial building for a customer for Rs. 50 million and a bonus of Rs. 10 million if the building is completed on or before 31 December 2019.

Till 30 June 2019, KCL expected that the building will be completed within time at a total cost of Rs. 40 million. However, due to bad weather and time involved in regulatory approvals, the building was completed on 28 February 2020 at a total cost of Rs. 42 million of which Rs. 26 million was incurred till 30 June 2019.

Required:

Compute profit to be recognized for the years ended 30 June 2019 and 2020, if:

(i) performance obligation under the contract is satisfied over time. **(04)**

(ii) performance obligation under the contract is satisfied at a point in time. **(01)**

(c) The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.

Define the term 'transaction price' and list down the factors that may affect determination of the transaction price.

(04)

[Q-5, Autumn 2020]

Date ______ 20__

Quarter-2

On-net calls 1260

Off-net calls 2520

$$\left[12,600 * \frac{2000}{10,000}\right]$$

Practice Question-30 (10.3.9), read & understand.

COSTS

Pre
before start of work

post
to fulfill contract → Material, Labor etc

Indirect
⇓
contract milta ya na milta, yeh kharcha hona hi hona tha
e.g bid k docs prepare krna, fee etc dena

direct
⇓
yeh tb hoga jb contract mily ga

contract WIP (like inventory)
LOS mn jaega
Revenue sy match kry ge.

Now, Practice Question-32 (10.3.9)

QUESTION NO. 30

On 1 January 2018, Angelo enters into a twelve-month 'pay monthly' contract for a mobile phone. The contract is with TeleSouth, and terms of the plan are:

(a) Angelo receives a free handset on 1 January 2018

(b) Angelo pays a monthly fee of Rs. 200, which includes unlimited free minutes. Angelo is billed on the last day of the month

Customers may purchase the same handset from TeleSouth for Rs. 500 without the payment plan. They may also enter into the payment plan without the handset, in which case the plan costs them Rs. 175 per month.

Required:

Show how TeleSouth should recognise revenue from this plan in accordance with IFRS 15 *Revenue from contracts with customers.* Your answer should also give journal entries:

(a) On 1 January 2018

(b) On 31 January 2018

1 Jan 2018 Receivable 412
Revenue 412
Handset 500 461
2100 1938
2600 2400

31 Jan 2018 Cash 200
Revenue 161
Receivable 38.8

QUESTION NO. 31

Hassan Builders (HB) entered into a construction contract for construction of a building on January 1, 2017. Total contract price was agreed at Rs. 500 million. Following information relates to the year ending December 31, 2017:

	Rs. million
Contract cost incurred to date	80
Estimated further cost to complete the contract	320
Invoice issued on December 1, 2017	75

(HB has an unconditional right to receive payment against this invoice)

It has been determined that construction of building is single performance obligation and it will be satisfied over time. It is HB's policy to measure progress using proportion of cost incurred to date method.

Required:

Prepare extracts of statement of financial position and statement of comprehensive income for the year ending December 31, 2017.

QUESTION NO. 32

Kamran Builders (KB) signed a contract for construction of an office building for a customer in 3 years. Total contract price was agreed at Rs. 700 million. Construction was commenced on January 1, 2021 and following information relates to the year ended December 31, 2021:

- A plant was purchased on January 1, 2021 for Rs. 320 million. Its total useful life is estimated to be 20 years. It would be used throughout the contract period.
- Total costs incurred during the year (excluding plant depreciation) amounted to Rs. 85 million.
- As per contract, 1st invoice was raised on December 31, 2021 for Rs. 120 million which will be received on January 31, 2022.
- At year end, additional total cost (excluding plant depreciation) to be incurred for completion of contract is estimated at Rs. 310 million.
- Using an appropriate method, progress is estimated at 22% till year end.

Required:

Journal entries, extracts of SOFP and SOCI for the year ending December 31, 2021.

Date ______ 20____

PQ-32 :-

Date	Account	Dr	Cr
01-01-21	PPE	320	
	Cash		320
31-12-21	Contract WIP	85	
	Cash		85
"	Contract WIP [320/20]	16	
	Acc. dep		16
31-12-21	Receivable	120	
	Contract asset (bal.)	34	
	Sales [700 * 22 %]		154
"	Cost of Sales [443 * 22 %]	97.46	
	Contract WIP		97.46

W-1 : Total contract costs (31.12.21)

Costs incurred [85 + 16] (16 = dep-1 yr)	101
Costs to be incurred [310 + 32] (32 = dep-2 yrs)	342
	443

Date_______20___

Extracts: SOCI

	Rs. m
Sales	154
Cost of sales	97.4

Extracts - SOFP

NCA	PPE [320-16]	304
CA	Contract WIP [101-97.46]	3.54
	Contract asset	34
	Receivable	120

Read Practice Question-31, & understand (10.3.9)

Past Papers Q-2 (10.4.1) :- (June-17)

W-1:

	Rs. million	
~~Total~~ Total consideration	275	
Maintenance [6m x 5 x 1.3]	39	(over time)
Building (residual)	236	(at point in time)

Building ki stand-alone price ni pta, tu majboran aesy nikala end of the warranty period

(v) QWL is required to rectify defects, if any, during the warranty period. Cost of rectification
of the contract price.

Required:

In light of the International Financial Reporting Standards, prepare relevant extracts from the following:

(a) Statement of financial position as at 30 June 2014. **(08)**

(b) Statement of comprehensive income for the year ended 30 June 2014. **(07)**

(Show comparative figures and ignore taxation) **[Q-3 Dec-14]**

Question No. ~~2~~ 4

On 15 December 2014, Builders and Developers (BnD) announced a project to build and sell a 5-storey building on a piece of land acquired at a cost of Rs. 50 million. In the last week of December 2014, BnD was approached by Jannat Homes (JH) with the offer to acquire the entire building. JH also suggested that BnD may continue to provide maintenance services for five years after the handover of building. The agreement was signed on 1 January 2015. As per the agreement, the entire contract amount of Rs. 275 million (in respect of the building and five years maintenance charges) was paid by JH on signing the agreement. till June 2016

According to the terms of the agreement, the construction work was to be completed within 18 months and control of the building was to be transferred immediately thereafter. The control was transferred as agreed. The expenditures incurred on construction of the building from 1 January 2015 to 30 June 2016 (evenly throughout the period) were as follows:

	Rs. in million
Direct materials	80.20
Direct labour	32.60
Other costs directly related to the contract	5.80

Total Maintenance [3.9*2*5] 39

275
39
Building 236

During the period 1 July 2016 to 31 December 2016, BnD incurred Rs. 3 million for providing maintenance services relating to the building. BnD expects this rate of expenditure to continue in future also.

BnD's incremental borrowing rate is 9% per annum. It normally earns a profit of 30% of cost, on the provision of maintenance services.

Required:

Prepare relevant extracts from statements of financial position and comprehensive income of BnD for the years ended 31 December 2015 and 2016. **(18)**

[Q-4 Jun-17]

Question No. 3

Lira and Co., Chartered Accountants (LCCA) is considering the impact of possible adoption of IFRS 15 'Revenue from Contracts with Customers' on its revenues. In this regard, the Finance Manager of LCCA has sought your advice on the following matters:

31 October

(i) At LCCA's year end, external audits of the financial statements of various clients are in progress. LCCA usually raises bills for such audits on signing of the audit report when LCCA's enforceable right to payment has been established. However, in some other cases, LCCA has an enforceable right to payment for the work done to date which is non-refundable unless LCCA fails to complete the audit. In these cases, progress bills are raised by LCCA.

(ii) LCCA has a contract with a client to provide assistance to the client's internal audit department for a period of 3 years. The work is performed in complete coordination with client's internal audit personnel and any issues identified during the course of audit are immediately brought to the knowledge of the client.

Client's internal audit plan is agreed in advance with LCCA. Only few internal audits are scheduled in the months of July and August as compared to other months, due to post year end work load at client's other departments. LCCA deputes staff on need basis. Contract price is billed in six equal instalments through bills raised in arrears at the end of each half year on 30 June and 31 December.

(iii) LCCA provides/arranges employees on secondment basis to a local client and also to its network firms abroad. In this respect, LCCA receives full amount each month and then disburses employees' share.

The local client requests for the specific persons which are then hired by LCCA exclusively for the client. LCCA is not responsible for ensuring that the services are performed by the employees in accordance with the terms and conditions of the contract. Consideration received by LCCA is different for each employee and is

W-2 :-

01-01-15	Advance	236	cash mila aj or sales bani 1.5 sal bad, tu compounding
31-12-15	Interest exp 9%	21.24	
		~~21.24~~	
		257.24	
30.6.16	Interest exp 9%	11.58	
		268.82	

W-3: Cost of sales

2015

Land	50
Construction cost $\left[(80.2+32.6+5.8)\times \frac{1}{1.5}\right]$	79.07
	129.07

2016

Construction cost $\left[(80.2+32.6+5.80)\times \frac{0.5}{1.5}\right]$	39.53
	168.60

Extracts - SOCI

	2016	2015
Sales (W-2)	268.82	-
COS (W-3)	168.60	-
Interest cost (W-2)	11.58	21.24
Maintenance revenue [3m * 1.3]	3.90	-
Maint. cost	3.00	-

Date______20___

Extracts - SOFP :-

	2016	2015
NCA		
CA		
Contract - WIP	-	129.07
NCL		
Contract liab.	27.30	35.10
	[35.10 - 7.80]	[39 - 3.9]
CL		
Contract liab.	7.80	261.14
		[257.24 + 3.90]

—

Example: 19 read carefully (10.2.12)

Now read Imp for input methods box (10.1.7)

Measuring progress towards complete satisfaction of a performance obligation

Example 18—Measuring progress when making goods or services available (gym wali example)

An entity, an owner and manager of health clubs, enters into a contract with a customer for one year of access to any of its health clubs. The customer has unlimited use of the health clubs and promises to pay Rs. 100 per month.

The entity determines that its promise to the customer is to provide a service of making the health clubs available for the customer to use as and when the customer wishes. This is because the extent to which the customer uses the health clubs does not affect the amount of the remaining goods and services to which the customer is entitled. The entity concludes that the customer simultaneously receives and consumes the benefits of the entity's performance as it performs by making the health clubs available. Consequently, the entity's performance obligation is satisfied over time.

The entity also determines that the customer benefits from the entity's service of making the health clubs available evenly throughout the year. Consequently, the entity concludes that the best measure of progress towards complete satisfaction of the performance obligation over time is a time-based measure and it recognizes revenue on a straight-line basis throughout the year at Rs. 100 per month.

Example 19—Uninstalled materials (table on page 6)

In November 20X2, an entity contracts with a customer to refurbish a 3-storey building and install new elevators for total consideration of Rs. 5 million. The promised refurbishment service, including the installation of elevators, is a single performance obligation satisfied over time. Total expected costs are Rs. 4 million, including Rs. 1.5 million for the elevators. A summary of the transaction price and expected costs is as follows:

	Rs.
Transaction price	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

Total expected
elevator 1.5
other 4
5.5

The entity uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. The customer obtains control of the elevators when they are delivered to the site in December 20X2, although the elevators will not be installed until June 20X3. The costs to procure the elevators (Rs. 1.5 million) are significant relative to the total expected costs to completely satisfy the performance obligation (Rs. 4 million). The entity is not involved in designing or manufacturing the elevators.

The entity concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of the entity's performance. Consequently, the entity adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction price. The entity recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e. at a zero margin).

As of 31 December 20X2 the entity observes that:

(a) other costs incurred (excluding elevators) are Rs. 500,000; and

(b) performance is 20% complete (i.e. Rs. 500,000 ÷ Rs. 2,500,000).

Consequently, at 31 December 20X2, the entity recognizes the following:

(a) Revenue of Rs. 2,200,000
[20% × Rs. 3,500,000 (i.e. Transaction price excluding cost of elevators) + Rs. 1,500,000]

(b) Cost of goods sold of Rs. 2,000,000
[Rs. 500,000 + Rs. 1,500,000]

elevator start mn hi khreed li thi or unka khrcha itna bra tha k sahi sy cost ko reflect ni kr rha tha so usko alag krlia

$\text{Progress \%} = \frac{\text{total Base to date}}{\text{total estimated base for contract}} \times 100$

Revenue shall be recognized over time by measuring the progress towards complete satisfaction. Following methods, provided the selected method **faithfully depicts** the entity's performance, may be used for measuring progress:

- Output methods (e.g. survey of performance, milestones achieved, time elapsed and units produced/delivered) customer ka banda a k kahy ga: k itna kam hogya (dekhny k bad)
- Input methods (e.g. resources consumed, cost incurred, machine/labor hours used)

> **Important for input methods:** (Ex - 19)
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> - The customer is expected to obtain control of the good significantly before receiving services related to the good;
> - The cost of the transferred good is significant relative to the total expected costs;
> - The entity procured the transferred good from a third party and is not significantly involved in designing and manufacturing of good. (elevator hamny ni banaya)

- At end of every year, an entity shall remeasure its progress using updated estimates.
- If progress cannot be measured reliably (i.e. in early stages of a contract), the entity shall recognize revenue only to the extent of recoverable costs incurred.

temporary masla jo k start of the contract date ayega or year end qareeb agya ⇒ phr jitna cost lgi bas utna revenue

CONTRACT COSTS

Costs of obtaining the contract: directly attributable to contract	o An entity shall recognize as an asset [i.e. **"contract cost"**] the incremental costs (e.g. sales commission) of obtaining a contract if it expects to recover those costs. *[Entity may recognize these incremental costs as expense when incurred if amortization period, as discussed below in point 1, is one year or less].* over the period expense banana o Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained or not shall be recognized as expense when incurred unless those costs are explicitly chargeable to customer. wo kharchy jo lazmi hony thy
Costs to fulfill the contract:	o Costs incurred in fulfilling the contract *(except for those covered under IAS 2, IAS 16 and IAS 38 which are accounted for as per aforementioned standards accordingly)* shall be recognized as an asset [i.e. **"contract cost"**] only if those costs are directly related to the contract (e.g. direct material, direct labor, directly attributable overheads). contract WIP mn debit kia tha inko o General and administrative costs, costs of wasted resources which were not reflected in price of contract and costs related to past satisfied performance shall be recognized as expense when incurred. material zaya hojata je, wo expense bny ga.

1. The **"Contract cost"** asset shall be amortized on a systematic basis that is consistent with the transfer of the goods or services to the customer (i.e. consistent with revenue recognition).
2. An entity shall recognize an impairment loss in P&L to the extent the carrying amount of the asset exceeds "remaining consideration entity expects to receive for goods or services to which the asset relates less directly related costs not yet recognized as expense". (NRV adjustment)

(ya IAS-36 ni ha)

Date______20___

Lecture # 110 :-

Read Contract costs (10.1.7)

Read Illustrative example - 36 & 37 (10.2.22)

(10.1.7), pt.1 under table :

Jis pattern sy sales recognize hogi usi pattern sy cost of sales recognize hogi.

pt.2

Contract 4 yrs
Price 600m

Yr. 1
2 Sales
3 COS → contract WIP (cost) 150m (balance as on end of 3rd yr)
4

Yr.4 mn yeh abi hona :

Sales	195	
Expenditures (COS)	(55)	→ 10m ka loss fori record krdengy
	140m	

Modification, (10.1.2)

Case -2 : 1st box

Original Prod-A 500 units @ Rs. 300

1,800 × Rs. 300) allocated to Licence Y. When Licence X is transferred, the entity recognizes as revenue the Rs. 133 (Rs. 800 ÷ Rs. 1,800 × Rs. 300) allocated to Licence X.

In the first month, the royalty due from the customer's first month of sales is Rs. 200. Consequently, the entity recognizes as revenue Rs. 111 (Rs. 1,000 ÷ Rs. 1,800 × Rs. 200) allocated to Licence Y (which has been transferred to the customer and is therefore a satisfied performance obligation). The entity recognizes a contract liability for the Rs. 89 (Rs. 800 ÷ Rs. 1,800 × Rs. 200) allocated to Licence X. This is because although the subsequent sale by the entity's customer has occurred, the performance obligation to which the royalty has been allocated has not been satisfied.

Contract costs

Example 36—Incremental costs of obtaining a contract

An entity, a provider of consulting services, wins a competitive bid to provide consulting services to a new customer. The entity incurred the following costs to obtain the contract:

	Rs.
External legal fees for due diligence	15,000
Travel costs to deliver proposal	25,000
Commissions to sales employees	10,000
Total costs incurred	50,000

customer ko btany k liye k hm ya kon kr skty hyn.

The entity recognizes an asset for the Rs. 10,000 incremental costs of obtaining the contract arising from the commissions to sales employees because the entity expects to recover those costs through future fees for the consulting services. The entity also pays discretionary annual bonuses to sales supervisors based on annual sales targets, overall profitability of the entity and individual performance evaluations. However, the entity does not recognize an asset for the bonuses paid to sales supervisors because the bonuses are not incremental to obtaining a contract. The amounts are discretionary and are based on other factors, including the profitability of the entity and the individuals' performance. The bonuses are not directly attributable to identifiable contracts. Also the external legal fees and travel costs would have been incurred regardless of whether the contract was obtained. Therefore, those costs are recognized as expenses when incurred.

Example 37—Costs that give rise to an asset

An entity enters into a service contract to manage a customer's information technology data centre for five years. The contract is renewable for subsequent one-year periods. The average customer term is seven years. The entity pays an employee a Rs. 10,000 sales commission upon the customer signing the contract. Before providing the services, the entity designs and builds a technology platform for the entity's internal use that interfaces with the customer's systems. That platform is not transferred to the customer, but will be used to deliver services to the customer.

Incremental costs of obtaining a contract

The entity recognizes an asset for the Rs. 10,000 incremental costs of obtaining the contract for the sales commission because the entity expects to recover those costs through future fees for the services to be provided. The entity amortizes the asset over seven years, because the asset relates to the services transferred to the customer during the contract term of five years and the entity anticipates that the contract will be renewed for two subsequent one-year periods.

Costs to fulfill a contract

The initial costs incurred to set up the technology platform are as follows:

	Rs.
Design services	40,000
Hardware	120,000
Software	90,000
Migration and testing of data centre	100,000
Total costs	350,000

is pa contract WIP Dr hoga.

The initial setup costs relate primarily to activities to fulfil the contract but do not transfer goods or services to the customer.

The entity accounts for the initial setup costs as follows:

(a) hardware costs—accounted for in accordance with IAS 16 Property, Plant and Equipment.
(b) software costs—accounted for in accordance with IAS 38 Intangible Assets.
(c) costs of the design, migration and testing of the data centre—assessed to determine whether an asset can be recognized for the costs to fulfil the contract. Any resulting asset would be amortized on a systematic basis over the seven-year period that the entity expects to provide services related to the data centre. ye platform ha k client ka bht sara data ha to us k pas data save krny k liay koi software nhi to unhyn ny ya km outsource keya to us k liay platform bnaya

In addition to the initial costs to set up the technology platform, the entity also assigns two employees who are primarily responsible for providing the service to the customer. Although the costs for these two employees are incurred as part of providing the service to the customer, the entity concludes that the costs cannot be recognized as an asset rather the entity recognizes the payroll expense for these two employees when incurred.

r us data ko client k st connect krny k liay b platform chaheay to ya technology platform ha

Presentation

Example 38—Contract liability and receivable

Case A — Cancellable contract

On 1 January 20X9, an entity enters into a cancellable contract to transfer a product to a customer on 31 March 20X9. The contract requires the customer to pay consideration of Rs. 1,000 in advance on 31 January 20X9. The customer pays the consideration on 1 March 20X9. The entity transfers the product on 31 March 20X9. The following journal entries illustrate how the entity accounts for the contract:

(a) The entity receives cash of Rs. 1,000 on 1 March 20X9 (cash is received in advance of performance):

Dr. Cash Rs. 1,000

Cr. Contract liability Rs. 1,000

(b) The entity satisfies the performance obligation on 31 March 20X9:

Dr. Contract liability Rs. 1,000

Cr. Revenue Rs. 1,000

3. If identification criteria as mentioned in point 1 above is not met, then any consideration received from the customer shall be recognized as revenue only when either of the following events has occurred:
   (a) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is nonrefundable; or
   (b) the contract has been terminated and the consideration received from the customer is non-refundable.

Combination of contracts

An entity shall combine two or more contracts entered into at or near the **same time** with the same **customer** (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single commercial objective;
(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
(c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

modification onwards chalna ha v change of estimate
retrospectively chalna ha.

Contract modification

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract.

inc in scope & price is fair -> separate performance obligation

Case 1 – Modification is a separate contract

An entity shall account for a contract modification as a separate contract if both of the following conditions are present:

or goods ya services mang rha or usky paisy b fairly dy rha

(a) the scope of the contract increases because of the addition of promised goods or services that are distinct; and
(b) the price of the contract increases by an amount of consideration that reflects the entity's *stand-alone selling prices* of the additional promised goods or services and appropriate adjustments to that price to reflect the circumstances of the particular contract. ab aisy accounting krengy jesy aik naya contract hy (jitny paisy kam charge kiye cuz ya tu pehly zyada charge kr liye thy ya pichla kam b acha nai kr rae thy)

Case 2 – Modification is NOT a separate contract

scope inc hua then price fair ni ha (same product ho) or different product ho → termination of old contract & formation of new contract)

If the remaining goods or services are distinct from those already transferred: Price fair ni ha.	o An entity shall account for the modification as if it were a termination of existing contract and the creation of a new contracts. o Total amount of consideration to be allocated to remaining performance obligation(s) = consideration promised (including already received) by the customer that had not been recognized as revenue plus consideration promised for modification.
If the remaining goods or services are not distinct separate PO ja.	o An entity shall account for the modification as if it were a part of the existing contract. o The effect of modification on transaction price and progress measurement is recognized as an adjustment to revenue at modification date. (i.e. cumulative catch-up basis) estimate change jesi accounting hogi

marked units ni hyn. srf design change hoja.

aik hi product ki modification hoi

Date______20___

31-12-21 280 units sold

01-01-22 | remaining (from 500) 220 @ 300 = 66,000

New | Modification 150 @ 180 = 27,000

370 | 93,000

yeh usny or order kiye products or kaha mn 180 k hi dunga

251.35/unit

ab jesy jesy unit biky unki price yeh record hogi.

2nd box:- Illustrative (Example-5)

Original

A 500 units @ 300

31.12.21 280 sold

01-01-22 Modification

B 150 units @ Rs.180 [stand-alone price Rs. 280]

A 220 units @ Rs.300

Total transaction price 93,000

Stand-alone

A	220 * 300	=	66000
B	150 * 280	=	42,000
			108,000

QUALITY PAPER PRODUCTS

customers and thus the customer's ability to pay significantly deteriorates. The entity therefore concludes that it is unlikely that the customer will be able to make any further royalty payments for ongoing usage of the entity's patent. As a result of this significant change in facts and circumstances, the entity reassesses the criteria and determines that they are not met because it is no longer probable that the entity will collect the consideration to which it will be entitled. Accordingly, the entity does not recognize any further revenue associated with the customer's future usage of its patent. The entity accounts for any impairment of the existing receivable in accordance with IFRS 9 *Financial Instruments*.

Contract modification

Example 5—Modification of a contract for goods

120 @ 100
30 @ 95

An entity promises to sell 120 products to a customer for Rs. 12,000 (Rs. 100 per product). The products are transferred to the customer over a six-month period. The entity transfers control of each product at a point in time. After the entity has transferred control of 60 products to the customer, the contract is modified to require the delivery of an additional 30 products (a total of 150 identical products) to the customer. The additional 30 products were not included in the initial contract.

Case A—Additional products for a price that reflects the stand-alone selling price

When the contract is modified, the price of the contract modification for the additional 30 products is an additional Rs. 2,850 or Rs. 95 per product. The pricing for the additional products reflects the stand-alone selling price of the products at the time of the contract modification and the additional products are distinct from the original products.

The contract modification for the additional 30 products is, in effect, a new and separate contract for future products that does not affect the accounting for the existing contract. The entity recognizes revenue of Rs. 100 per product for the 120 products in the original contract and Rs. 95 per product for the 30 products in the new contract.

60 @ 100
30 @ 90

Case B—Additional products for a price that does not reflect the stand-alone selling price

During the process of negotiating the purchase of an additional 30 products, the parties initially agree on a price of Rs. 80 per product. However, the customer discovers that the initial 60 products transferred to the customer contained minor defects that were unique to those delivered products. The entity promises a partial credit of Rs. 15 per product to compensate the customer for the poor quality of those products. The entity and the customer agree to incorporate the credit of Rs. 900 (Rs. 15 credit × 60 products) into the price that the entity charges for the additional 30 products. Consequently, the contract modification specifies that the price of the additional 30 products is Rs. 1,500 or Rs. 50 per product. That price comprises the agreed-upon price for the additional 30 products of Rs. 2,400, or Rs. 80 per product, less the credit of Rs. 900.

2400
(900)
1500

At the time of modification, the entity recognizes the Rs. 900 as a reduction of the transaction price and, therefore, as a reduction of revenue for the initial 60 products transferred. In accounting for the sale of the additional 30 products, the entity determines that the negotiated price of RS. 80 per product does not reflect the stand-alone selling price of the additional products.

Consequently, the contract modification does not meet the conditions to be accounted for as a separate contract. Because the remaining products to be delivered are distinct from those already transferred, the entity accounts for the modification as a termination of the original contract and the creation of a new contract.

Consequently, the amount recognized as revenue for each of the remaining products is a blended price of Rs. 93.33 {[(Rs. 100 × 60 products not yet transferred under the original contract) + (Rs. 80 × 30 products to be transferred under the contract modification)] ÷ 90 remaining products}.

$\frac{(60 \times 100) + (80 \times 30)}{90}$

Example 6—Change in the transaction price after a contract modification

On 1 July 20X0, an entity promises to transfer two distinct products to a customer. Product X transfers to the customer at contract inception and Product Y transfers on 31 March 20X1. The consideration promised by the customer includes fixed consideration of Rs. 1,000 and variable (bonus) consideration that is estimated to be Rs. 200. The entity includes its estimate of variable consideration in the transaction price because it concludes that it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved.

1200
(600)
600

The transaction price of Rs. 1,200 is allocated equally to the performance obligation for Product X and the performance obligation for Product Y (because both have same stand-alone price). When Product X transfers to the customer at contract inception, the entity recognizes revenue of Rs. 600.

On 30 November 20X0, the scope of the contract is modified to include the promise to transfer Product Z (in addition to the undelivered Product Y) to the customer on 30 June 20X1 and the price of the contract is increased by Rs. 300 (fixed consideration), which does not represent the stand-alone selling price of Product Z. The stand-alone selling price of Product Z is the same as the stand-alone selling prices of Products X and Y.

The entity accounts for the modification as if it were the termination of the existing contract and the creation of a new contract. This is because the remaining Products Y and Z are distinct from Product X, which had transferred to the customer before the modification. Consequently, the consideration to be

Date______20___

Illustrative Example -7 , Read (10.2.4)

Past Paper #4:-

Penalty revenue mn sy minus hogi hmesha.

Original

Price 150

Progress

$$= \frac{67.50}{90} * 100 = 75\%$$

Revised

Price [150 + 70] 220
Penalty (14)
206

SOCI:

Sales [150 * 75%] 112.50
COS 67.50

Progress

$$= \frac{67.50}{90+40} * 100 = 51.92\%$$

Read Illustrative example - 6 (10.2.3)

Estimate change jo aye, 200 sy barh k 240, tu 20 sales mn foran record krengy 'X' ki kiun k uski sales record ho chuki. or jo baki ka '20' hy woo 'Y' ki price mn add krengy, jo 920 (total) hojae g or phr standalone Y or Z ki ratio mn banengy.

Illustrative Example - 8, read (10.2.5)

allocated to the remaining performance obligations comprises the consideration that had been allocated to the performance obligation for Product Y and the consideration promised in the modification. The transaction price for the modified contract is Rs. 900 and that amount is allocated equally to the performance obligation for Product Y and the performance obligation for Product Z (i.e. Rs. 450 is allocated to each performance obligation).

After the modification but before the delivery of Products Y and Z, the entity revises its estimate of the amount of variable consideration to which it expects to be entitled to Rs. 240. The entity concludes that the change in estimate of the variable consideration can be included in the transaction price, because it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Therefore, the change in the transaction price is allocated to the performance obligations for Product X and Product Y on the same basis as at contract inception. Consequently, the entity recognizes revenue of Rs. 20 for Product X in the period in which the change in the transaction price occurs. Because Product Y had not transferred to the customer before the contract modification, the change in the transaction price that is attributable to Product Y is allocated to the remaining performance obligations at the time of the contract modification. Thus, the entity allocates the Rs. 20 increase in the transaction price for the modified contract equally to the performance obligations for Product Y and Product Z. Consequently, the amount of the transaction price allocated to the performance obligations for Product Y and Product Z increases by Rs. 10 to Rs. 460 each.

$\frac{1240}{2} = 620$

$\frac{620+300}{2} = \frac{920}{2} = 460$

On 31 March 20X1, Product Y is transferred to the customer and the entity recognizes revenue of Rs. 460. On 30 June 20X1, Product Z is transferred to the customer and the entity recognizes revenue of Rs. 460.

Example 7—Modification of a services contract

An entity enters into a three-year contract to clean a customer's offices on a weekly basis. The customer promises to pay Rs. 100,000 per year. The stand-alone selling price of the services at contract inception is Rs. 100,000 per year. The entity recognizes revenue of Rs. 100,000 per year during the first two years of providing services. At the end of the second year, the contract is modified and the fee for the third year is reduced to Rs. 80,000. In addition, the customer agrees to extend the contract for three additional years for consideration of Rs. 200,000 payable in three equal annual instalments of Rs. 66,667 at the beginning of years 4, 5 and 6. After the modification, the contract has four years remaining in exchange for total consideration of Rs. 280,000. The stand-alone selling price of the services at the beginning of the third year is Rs. 80,000 per year, therefore, total stand-alone price of remaining services should be Rs. 320,000 (i.e. 4 years × Rs. 80,000 per year).

distinct but price not fair → termination of old contract & new contract

At contract inception, the entity accounts for the cleaning contract as a single performance obligation because the weekly cleaning services are a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. At the date of the modification, the entity assesses the remaining services to be provided and concludes that they are distinct. However, the amount of remaining consideration to be paid (Rs. 280,000) does not reflect the stand-alone selling price of the services to be provided (Rs. 320,000).

fair ni hy price

Consequently, the entity accounts for the modification as a termination of the original contract and the creation of a new contract with consideration of Rs. 280,000 for four years of cleaning service and recognizes revenue of Rs. 70,000 per year (Rs. 280,000 ÷ 4 years) as the services are provided over the remaining four years.

Revenue = $\frac{80+200}{4} = \frac{280}{4} = 70$ per year

150
90

Question No. 4

For the purpose of this question, **assume that the date today is 1 February 2020.**

Financial statements of Hikmat Limited (HL) for the year ended 31 December 2019 areunder preparation. In this respect, following matters are under consideration:

step:3 me variable consideration

(a)

On 1 September 2019, HL entered into a contract to develop a software for Doctor Limited (DL) for Rs. 150 million. HL ascertained that the promised development ofsoftware is a single performance obligation satisfied over time. The terms of the contract include a penalty of Rs. 14 million if the development of software is not completed before 29 February 2020. At the inception of the contract, HL determined that the expected cost of completing the contract would be Rs. 90 million and the software development would be completed before 29 February 2020.

15090

Till 31 December 2019, HL incurred cost of Rs. 67.5 million. As the original contractwas 75% complete, HL has recognized revenue and profit of Rs. 112.5 million and Rs. 45 million respectively in the draft financial statements.

However, HL and DL have amended the contract on 31 December 2019. As a result, the consideration and expected cost increased by Rs. 70 million and Rs. 40 millionrespectively. The allowable time for completion without penalty is increased by onemonth only. HL now expects that the development of software would not becompleted by 31 March 2020. The additional work is not distinct from services under original contract. No adjustment has been made in HL's financial statements in respect of the amendment in the contract. **(07)**

Required:

Discuss how the above matters should be dealt with in HL's financial statements for the year ended 31 December 2019. Show all calculations wherever possible. **[Q-1(a) Dec-20]**

Question No. 5

Marmalade Limited (ML) is a manufacturer of Industrial machines. During 2020, ML launched a new machine with model name Alpha. Each unit of Alpha is being sold for Rs. 10 million payable upon delivery. Revenue from sale of Alpha is recognised upon delivery to the customer premises. Further, two year support service contract for Alpha is sold separately at Rs. 0.1 million payable monthly. Revenue from support services is recognized over contract period. Customers can also obtain such support services from third parties.

Sales of Alpha have remained below expectation so far. The marketing department has proposed the following options to increase the sales of Alpha:

Option 1:

ML would offer customers a bundle of Alpha and support services at a combined price of Rs. 11 million.

Option 2:

ML would sell Alpha at Rs. 10 million on lease. The rate of interest implicit in the lease would be 5% per annum which is significantly lower than market interest rate of 12% per annum. Customers would pay in five equal annual instalments payable in advance. Ownership of Alpha would be transferred to the customer at the end of five years.

Option 3:

Upon purchase of one unit of Alpha, customers would be provided with an option to purchase another unit of Alpha within 12 months at a material discount of 25%. It is estimated that 40% customers will avail the option.

Option 4:

Customer would be given an option to get customized version of Alpha. The price would vary in each case; however, the customer would be required to pay the entire amount in advance as these machines could not be sold to other customers. The manufacturing of customized Alpha might take an average of 3 months.

Required:

Discuss the recognition and amount of revenue under each of the above independent options. Compute the amount of revenue, wherever possible.

(18)

[Q-3 Jun-21]

The contract modification for the additional 30 products is, in effect, a new and separate contract for future products that does not affect the accounting for the existing contract. The entity recognizes revenue of Rs. 100 per product for the 120 products in the original contract and Rs. 95 per product for the 30 products in the new contract.

60 @ 100
30 @ 90

Case B—Additional products for a price that does not reflect the stand-alone selling price

During the process of negotiating the purchase of an additional 30 products, the parties initially agree on a price of Rs. 80 per product. However, the customer discovers that the initial 60 products transferred to the customer contained minor defects that were unique to those delivered products. The entity promises a partial credit of Rs. 15 per product to compensate the customer for the poor quality of those products. The entity and the customer agree to incorporate the credit of Rs. 900 (Rs. 15 credit × 60 products) into the price that the entity charges for the additional 30 products. Consequently, the contract modification specifies that the price of the additional 30 products is Rs. 1,500 or Rs. 50 per product. That price comprises the agreed-upon price for the additional 30 products of Rs. 2,400, or Rs. 80 per product, less the credit of Rs. 900.

2400
(900)
1500

At the time of modification, the entity recognizes the Rs. 900 as a reduction of the transaction price and, therefore, as a reduction of revenue for the initial 60 products transferred. In accounting for the sale of the additional 30 products, the entity determines that the negotiated price of RS. 80 per product does not reflect the stand-alone selling price of the additional products.

Consequently, the contract modification does not meet the conditions to be accounted for as a separate contract. Because the remaining products to be delivered are distinct from those already transferred, the entity accounts for the modification as a termination of the original contract and the creation of a new contract.

Consequently, the amount recognized as revenue for each of the remaining products is a blended price of Rs. 93.33 {[(Rs. 100 × 60 products not yet transferred under the original contract) + (Rs. 80 × 30 products to be transferred under the contract modification)] ÷ 90 remaining products}.

$\frac{(60 \times 100) + (80 \times 30)}{90}$

Example 6—Change in the transaction price after a contract modification

On 1 July 20X0, an entity promises to transfer two distinct products to a customer. Product X transfers to the customer at contract inception and Product Y transfers on 31 March 20X1. The consideration promised by the customer includes fixed consideration of Rs. 1,000 and variable (bonus) consideration that is estimated to be Rs. 200. The entity includes its estimate of variable consideration in the transaction price because it concludes that it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved.

1200
(600)
600
300

The transaction price of Rs. 1,200 is allocated equally to the performance obligation for Product X and the performance obligation for Product Y (because both have same stand-alone price). When Product X transfers to the customer at contract inception, the entity recognizes revenue of Rs. 600.

On 30 November 20X0, the scope of the contract is modified to include the promise to transfer Product Z (in addition to the undelivered Product Y) to the customer on 30 June 20X1 and the price of the contract is increased by Rs. 300 (fixed consideration), which does not represent the stand-alone selling price of Product Z. The stand-alone selling price of Product Z is the same as the stand-alone selling prices of Products X and Y.

The entity accounts for the modification as if it were the termination of the existing contract and the creation of a new contract. This is because the remaining Products Y and Z are distinct from Product X, which had transferred to the customer before the modification. Consequently, the consideration to be allocated to the remaining performance obligations comprises the consideration that had been allocated to the performance obligation for Product Y and the consideration promised in the modification. The transaction price for the modified contract is Rs. 900 and that amount is allocated equally to the performance obligation for Product Y and the performance obligation for Product Z (i.e. Rs. 450 is allocated to each performance obligation).

After the modification but before the delivery of Products Y and Z, the entity revises its estimate of the amount of variable consideration to which it expects to be entitled to Rs. 240. The entity concludes that the change in estimate of the variable consideration can be included in the transaction price, because it is highly probable that a significant reversal in cumulative revenue recognized will not occur when the uncertainty is resolved. Therefore, the change in the transaction price is allocated to the performance obligations for Product X and Product Y on the same basis as at contract inception. Consequently, the entity recognizes revenue of Rs. 20 for Product X in the period in which the change in the transaction price occurs. Because Product Y had not transferred to the customer before the contract modification, the change in the transaction price that is attributable to Product Y is allocated to the remaining performance obligations at the time of the contract modification. Thus, the entity allocates the Rs. 20 increase in the transaction price for the modified contract equally to the performance obligations for Product Y and Product Z. Consequently, the amount of the transaction price allocated to the performance obligations for Product Y and Product Z increases by Rs. 10 to Rs. 460 each.

$\frac{1240}{2} = 620$

$\frac{620+300}{2} = \frac{920}{2} = 460$

On 31 March 20X1, Product Y is transferred to the customer and the entity recognizes revenue of Rs. 460. On 30 June 20X1, Product Z is transferred to the customer and the entity recognizes revenue of Rs. 460.

Example 7—Modification of a services contract

An entity enters into a three-year contract to clean a customer's offices on a weekly basis. The customer promises to pay Rs. 100,000 per year. The stand-alone selling price of the services at contract inception is Rs. 100,000 per year. The entity recognizes revenue of Rs. 100,000 per year during the first two years of providing services. At the end of the second year, the contract is modified and the fee for the third year is reduced to Rs. 80,000. In addition, the customer agrees to extend the contract for three additional years for consideration of Rs. 200,000 payable in three equal annual instalments of Rs. 66,667 at the beginning of years 4, 5 and 6. After the modification, the contract has four years remaining in exchange for total consideration of Rs. 280,000. The stand-alone selling price of the services at the beginning of the third year is Rs. 80,000 per year, therefore, total stand-alone price of remaining services should be Rs. 320,000 (i.e. 4 years × Rs. 80,000 per year).

distinct but price not fair → termination of old contract & new contract

At contract inception, the entity accounts for the cleaning contract as a single performance obligation because the weekly cleaning services are a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. At the date of the modification, the entity assesses the remaining services to be provided and concludes that they are distinct. However, the amount of remaining consideration to be paid (Rs. 280,000) does not reflect the stand-alone selling price of the services to be provided (Rs. 320,000).

fair ni hy price

Consequently, the entity accounts for the modification as a termination of the original contract and the creation of a new contract with consideration of Rs. 280,000 for four years of cleaning service and recognizes revenue of Rs. 70,000 per year (Rs. 280,000 ÷ 4 years) as the services are provided over the remaining four years.

Revenue = $\frac{80+200}{4} = \frac{280}{4} = 70$ per year

Example 8—Modification resulting in a cumulative catch-up adjustment to revenue

An entity, a construction company, enters into a contract to construct a commercial building for a customer on customer-owned land for promised consideration of Rs. 1 million and a bonus of Rs. 200,000 if the building is completed within 24 months. The entity accounts for the promised bundle of goods and services as a single performance obligation satisfied over time. At the inception of the contract, the entity expects the following: 1200000

	Rs.
Transaction price	1,000,000
Expected costs	700,000
Expected profit (30%)	300,000

At contract inception, the entity excludes the Rs. 200,000 bonus from the transaction price because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

By the end of the first year, the entity has satisfied 60% of its performance obligation on the basis of costs incurred to date (Rs. 420,000) relative to total expected costs (Rs. 700,000). The entity reassesses the variable consideration and concludes that the amount is still constrained. Consequently, the cumulative revenue and costs recognized for the first year are as follows:

	Rs.
Revenue	600,000
Costs	420,000
Gross profit	180,000

1150000 1350000
820000 820000

In the first quarter of the second year, the parties to the contract agree to modify the contract by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by Rs. 150,000 and Rs. 120,000, respectively. Total potential consideration after the modification is Rs. 1,350,000 (Rs. 1,150,000 fixed consideration + Rs. 200,000 completion bonus). In addition, the allowable time for achieving the Rs. 200,000 bonus is extended by 6 months to 30 months from the original contract inception date. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, the entity concludes that it is highly probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognized and includes the Rs. 200,000 in the transaction price. In assessing the contract modification, the entity evaluates that the remaining goods and services to be provided using the modified contract are not distinct from the goods and services transferred on or before the date of contract modification; that is, the contract remains a single performance obligation. Consequently, the entity accounts for the contract modification as if it were part of the original contract and updates its measure of progress and estimates that it has satisfied 51.2 % of its performance obligation (Rs. 420,000 actual costs incurred ÷ CU820,000 total expected costs). The entity recognizes additional revenue of Rs. 91,200 [(51.2 % complete × CU1,350,000 modified transaction price) – Rs. 600,000 revenue recognized to date] at the date of the modification as a cumulative catch-up adjustment.

Date______20___

Lecture # 111 :-

Read

- Sale with Right of Return (10.2.13)

- Example-28 (10.2.17)

Determining the discount rate.

If sale price = 940m (after 3 yrs) credit period

Cash eq. price = 700m (today)

$$940 = 700(1+?)^3$$

$\Rightarrow$ 10.33%

940 ki PV is rate py ni nikly g jo borrowing rate hy uspy nikly g

—. Read, Warranties (10.2.25)

—. Read, Principal versus agent considerations (10.2.26)

Example- 45, 46, 46A, 48A

Variable consideration

Example 20—Penalty gives rise to variable consideration

An entity enters into a contract with a customer to build an asset for Rs. 1 million. In addition, the terms of the contract include a penalty of Rs. 100,000 if the construction is not completed within three months of a date specified in the contract. The entity concludes that the consideration promised in the contract includes a fixed amount of Rs. 900,000 and a variable amount of Rs. 100,000 (arising from the penalty).

Example 21—Estimating variable consideration

An entity enters into a contract with a customer to build a customized asset. The promise to transfer the asset is a performance obligation that is satisfied over time. The promised consideration is Rs. 2.5 million, but that amount will be reduced or increased depending on the timing of completion of the asset. Specifically, for each day after 31 March 20X7 that the asset is incomplete, the promised consideration is reduced by Rs. 10,000. For each day before 31 March 20X7 that the asset is complete, the promised consideration increases by Rs. 10,000. In addition, upon completion of the asset, a third party will inspect the asset and assign a rating based on metrics that are defined in the contract. If the asset receives a specified rating, the entity will be entitled to an incentive bonus of Rs. 150,000.

In determining the transaction price, the entity prepares a separate estimate for each element of variable consideration as follows:

(a) the entity decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e. Rs. 2.5 million, plus or minus Rs. 10,000 per day). This is because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled.

(b) the entity decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (Rs. 150,000 or Rs. 0) and it is the method that the entity expects to better predict the amount of consideration to which it will be entitled.

Constraining estimates of variable consideration

Sale with right of return

An entity transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product). 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.

An entity's 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.

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).

Example 27—Withheld payments on a long-term contract

An entity enters into a contract for the construction of a building that includes scheduled milestone payments for the performance by the entity throughout the contract term of three years. The performance obligation will be satisfied over time and the milestone payments are scheduled to coincide with the entity's expected performance. The contract provides that a specified percentage of each milestone payment is to be withheld (i.e. retained) by the customer throughout the arrangement and paid to the entity only when the building is complete. The entity concludes that the contract does not include a significant financing component. The milestone payments coincide with the entity's performance and the contract requires amounts to be retained for reasons other than the provision of finance. The withholding of a specified percentage of each milestone payment is intended to protect the customer from the contractor failing to adequately complete its obligations under the contract.

Example 28—Determining the discount rate Agr us wqt wo borrowing/lending krty tu kia rate. apk dany ko charge krty

An entity enters into a contract with a customer to sell equipment. Control of the equipment transfers to the customer when the contract is signed. The price stated in the contract is Rs. 1 million plus a 5% contractual rate of interest, payable in 60 monthly instalments of Rs. 18,871.

Case A—Contractual discount rate reflects the rate in a separate financing transaction

In evaluating the discount rate in the contract that contains a significant financing component, the entity observes that the 5% contractual rate of interest reflects the rate that would be used in a separate financing transaction between the entity and its customer at contract inception (i.e. the contractual rate of interest of 5% reflects the credit characteristics of the customer). The market terms of the financing mean that the cash selling price of the equipment is Rs. 1 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the customer. The entity accounts for the receivable in accordance with IFRS 9.

Case B—Contractual discount rate does not reflect the rate in a separate financing transaction

In evaluating the discount rate in the contract that contains a significant financing component, the entity observes that the 5% contractual rate of interest is significantly lower than the 12% interest rate that would be used in a separate financing transaction between the entity and its customer at contract inception (i.e. the contractual rate of interest of 5% does not reflect the credit characteristics of the customer). This suggests that the cash selling price is less than Rs. 1 million.

Thus, the entity determines the transaction price by adjusting the promised amount of consideration to reflect the contractual payments using the 12% interest rate that reflects the credit characteristics of the customer. Consequently, the entity determines that the transaction price is Rs. 848,357 (60 monthly payments of CU18,871 discounted at 12%). The entity recognizes revenue and a loan receivable for that amount. The entity accounts for the loan receivable in accordance with IFRS 9.

Example 29—Advance payment and assessment of discount rate

An entity enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e. the performance obligation will be satisfied at a point in time). The contract includes two alternative payment options: payment of Rs. 5,000 in two years when the customer obtains control of the asset or payment of Rs. 4,000 when the contract is signed. The customer elects to pay Rs. 4,000 when the contract is signed. The entity concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer.

The interest rate implicit in the transaction is 11.8%. However, the entity determines that the rate that should be used in adjusting the promised consideration is 6%, which is the entity's incremental borrowing rate as well as the prevailing market interest rate. The following journal entries illustrate how the entity would account for the significant financing component:

(a) recognize a contract liability for the Rs. 4,000 payment received at contract inception:

Dr. Cash	Rs. 4,000	
Cr. Contract liability		Rs. 4,000

(b) during the two years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration and accretes the contract liability by recognizing interest on Rs. 4,000 at 6% for two years:

Dr. Interest expense	Rs. 494(*)	
Cr. Contract liability		Rs. 494

** Rs. 494 = Rs. 4,000 x 1.06^2 – Rs. 4,000.*

(c) recognize revenue for the transfer of the asset:

Dr. Contract liability	Rs. 4,494	
Cr. Revenue		Rs. 4,494

Example 30—Advance payment

An entity, a technology product manufacturer, enters into a contract with a customer to provide global telephone technology support and repair coverage for three years along with its technology product. The customer purchases this support service at the time of buying the product. Consideration for the service is an additional Rs. 300. Customers electing to buy this service must pay for it upfront (i.e. a monthly payment option is not available). The entity charges a single upfront amount, not with the primary purpose of obtaining financing from the customer but, instead, to maximize profitability, taking into consideration the risks associated with providing the service. Specifically, if customers could pay monthly, they would be less likely to renew and the population of customers that continue to use the support service in the later years may become smaller and less diverse over time (i.e. customers that choose to renew historically are those that make greater use of the service, thereby increasing the entity's costs). In addition, customers tend to use services more if they pay monthly rather than making an upfront payment. Finally, the entity would incur higher administration costs such as the costs related to administering renewals and collection of monthly payments.

Thus, the entity determines that the payment terms were structured primarily for reasons other than the provision of finance to the entity and concludes that there is not a significant financing component.

Non-cash consideration

Example 31—Entitlement to non-cash consideration

An entity enters into a contract with a customer to provide a weekly service for one year. In exchange for the service, the customer promises 100 shares of its common stock per week of service (a total of 5,200 shares for the contract). The terms in the contract require that the shares must be paid upon the successful completion of each week of service. The entity measures its progress towards complete satisfaction of the performance obligation as each week of service is complete. To determine the transaction price (and the amount of revenue to be recognized), the entity measures the fair value of 100 shares that are received upon completion of each weekly service. The entity does not reflect any subsequent changes in the fair value of the shares received (or receivable) in revenue.

Example 40—Receivable recognized for the entity's performance

An entity enters into a contract with a customer on 1 January 20X9 to transfer products to the customer for Rs. 150 per product. If the customer purchases more than 1 million products in a calendar year, the contract indicates that the price per unit is retrospectively reduced to Rs. 125 per product. Consideration is due when control of the products transfer to the customer. Therefore, the entity has an unconditional right to consideration (i.e. a receivable) for Rs. 150 per product until the retrospective price reduction applies (i.e. after 1 million products are shipped).

In determining the transaction price, the entity concludes at contract inception that the customer will meet the 1 million products threshold and therefore estimates that the transaction price is Rs. 125 per product. Consequently, upon the first shipment to the customer of 100 products the entity recognises the following:

Dr. Receivable Rs. 15,000*

Cr. Revenue Rs. 12,500**

Cr. Refund liability (contract liability) Rs. 2,500

* Rs. 150 per product × 100 products.

** Rs. 125 transaction price per product × 100 products.

The refund liability represents a refund of Rs. 25 per product, which is expected to be provided to the customer for the volume-based rebate.

Warranties

Warranty provides a customer with assurance that the product will function as intended: (customer ki tasali k liye	▪ It is generally the case when a customer does not have an option to purchase a warranty separately. ▪ It is not a separate performance obligation rather it is accounted for in accordance with IAS 37. warranty apny di k jesa chaha, wesa hi product hy)
Warranty provides the service to the customer in addition to the assurance of compliance as intended: (customer ny extra service li hmsy normally warranty k bghair b product ly skta tha)	▪ It is the case when a customer has an option to purchase a warranty separately. (warranty k alehda paisy charge krty) ▪ It is considered as a separate performance obligation and a portion of transaction price is allocated to that performance obligation.

Factors to be considered:

- If the entity is required by law to provide a warranty, then it is not a separate performance obligation. (yeh tu zbrdsti ki govt ny) yeh alag PO ni.
- Longer warranty coverage period is more likely to be a separate performance obligation.
  baqi periods sy zyada warranty di, tu alag PO ban jae g

E• ample 44—Warranties

An entity, a manufacturer, provides its customer with a warranty with the purchase of a product. The warranty provides assurance that the product complies with agreed-upon specifications and will operate as promised for one year from the date of purchase. The contract also provides the customer with the right to receive up to 20 hours of training services on how to operate the product at no additional cost.

The product and training services are each capable of being distinct because the customer can benefit from the product on its own without the training services and can benefit from the training services together with the product that already has been transferred by the entity. The entity regularly sells the product separately without the training services.

The training services and product do not significantly modify or customize each other. The product and the training services are not highly interdependent or highly interrelated. Consequently, the entity concludes that its promise to transfer the product and its promise to provide training services are not inputs to a combined item, and, therefore, give rise to two separate performance obligations.

Finally, the entity assesses the promise to provide a warranty and observes that the warranty provides the customer with the assurance that the product will function as intended for one year. The entity, therefore, does not account for it as a performance obligation rather it accounts for the assurance-type warranty in accordance with the requirements in IAS 37. As a result, the entity allocates the transaction price to the two performance obligations (the product and the training services) and recognizes revenue when (or as) those performance obligations are satisfied.

Principal versus agent considerations :-

Principal:	▪ An entity is a principal if it **controls** the specified good or service before that good or service is transferred to a customer. ▪ When principal satisfies a performance obligation, then it recognizes revenue in the gross amount of consideration.
Agent: Aik dealer hy usny toyota sy contract kia hon, toyota ki ny gaariyan khud uski shop py khari krai hn, Risk n rewards toyota walon ka jb tk gari bik ni jati, dealer ko sif comm mily go or yahi uska revenue hoga.	▪ An entity is an agent if its performance obligation is to arrange for the provision supply ~~of the~~ specified good or service by another party. It does not control the specified good or service before that good or service is transferred to a customer. ▪ When agent satisfies a performance obligation, then it recognizes revenue in the amount of any fees or commission (it may be the net amount of consideration that the agent retains after paying the principal the consideration received for goods or services).

Imp

- Indicators of an entity being a principal:
  - The entity is primarily responsible for fulfilling the promise to provide the specified good or service.
  - The entity has inventory risk before the specified good or service has been transferred to a customer.
  - The entity has discretion in establishing the price for the specified good or service.
- If a contract includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

Example 45—Arranging for the provision of goods or services (entity is an agent)

An entity operates a website that enables customers to purchase goods from a range of suppliers who deliver the goods directly to the customers. Under the terms of the entity's contracts with suppliers, when a good is purchased via the website, the entity is entitled to a commission that is equal to 10% of the sales price. The entity's website facilitates payment between the supplier and the customer at prices that are set by the supplier. The entity requires payment from customers before orders are processed and all orders are non-refundable. The entity has no further obligations to the customer after arranging for the products to be provided to the customer.

The website operated by the entity is a marketplace in which suppliers offer their goods and customers purchase the goods that are offered by the suppliers. Accordingly, the entity observes that the specified goods to be provided to customers that use the website are the goods provided by the suppliers, and no other goods or services are promised to customers by the entity. The entity does not control the suppliers' inventory of goods used to fulfil the orders placed by customers using the website.

Consequently, the entity concludes that it is an agent and its performance obligation is to arrange for the provision of goods by the supplier. When the entity satisfies its promise to arrange for the goods to be provided by the supplier to the customer (which, in this example, is when goods are purchased by the customer), the entity recognizes revenue in the amount of the commission to which it is entitled.

Example 46—Promise to provide goods or services (entity is a principal)

An entity enters into a contract with a customer for equipment with unique specifications. The entity and the customer develop the specifications for the equipment, which the entity communicates to a supplier that the entity contracts with to manufacture the equipment. The entity also arranges to have the supplier deliver the equipment directly to the customer. Upon delivery of the equipment to the customer, the terms of the contract require the entity to pay the supplier the price agreed to by the entity and the supplier for manufacturing the equipment. The entity and the customer negotiate the selling price and the entity invoices the customer for the agreed-upon price with 30-day payment terms. The entity's profit is based on the difference between the sales price negotiated with the customer and the price charged by the supplier. The contract between the entity and the customer requires the customer to seek remedies for defects in the equipment from the supplier under the supplier's warranty. However, the entity is responsible for any corrections to the equipment required resulting from errors in specifications.

The entity concludes that it has promised to provide the customer with specialized equipment designed by the entity. Although the entity has subcontracted the manufacturing of the equipment to the supplier, the entity concludes that the design and manufacturing of the equipment are not distinct, because they are not separately identifiable (i.e. there is a single performance obligation). The entity is responsible for the overall management of the contract (for example, by ensuring that the manufacturing service conforms to the specifications) and, thus, provides a significant service of integrating those items into the combined output—the specialized equipment—for which the customer has contracted. In addition, those activities are highly interrelated. If necessary, modifications to the specifications are identified as the equipment is manufactured, the entity is responsible for developing and communicating revisions to the supplier and for ensuring that any associated rework required conforms with the revised specifications.

Thus, the entity concludes that it is a principal in the transaction. The entity recognizes revenue in the gross amount of consideration to which it is entitled from the customer in exchange for the specialized equipment.

is mn entity agent ni kz wo sirf outsource kr rai hy kam ko, services wo apna hi hoga

Example 46A—Promise to provide goods or services (entity is a principal)

An entity enters into a contract with a customer to provide office maintenance services. The entity and the customer define and agree on the scope of the services and negotiate the price. The entity is responsible for ensuring that the services are performed in accordance with the terms and conditions in the contract. The entity invoices the customer for the agreed-upon price on a monthly basis with 10-day payment terms. The entity regularly engages third-party service providers to provide office maintenance services to its customers. When the entity obtains a contract from a customer, the entity enters into a contract with one of those service providers, directing the service provider to perform office maintenance services for the customer. The payment terms in the contracts with the service providers are generally aligned with the payment terms in the entity's contracts with customers. However, the entity is obliged to pay the service provider even if the customer fails to pay.

The customer does not have a right to direct the service provider to perform services that the entity has not agreed to provide. Therefore, the right to office maintenance services obtained by the entity from the service provider is not the specified good or service in its contract with the customer. The entity concludes that it controls the specified services before they are provided to the customer. The entity obtains control of a right to office maintenance services after entering into the contract with the customer but before those services are provided to the customer.

Thus, the entity is a principal in the transaction and recognizes revenue in the amount of consideration to which it is entitled from the customer in exchange for the office maintenance services.

Example 47—Promise to provide goods or services (entity is a principal)

An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets and must pay for those tickets regardless of whether it is able to resell them. The reduced rate paid by the entity for each ticket purchased is negotiated and agreed in advance. The entity determines the prices at which the airline tickets will be sold to its customers. The entity sells the tickets and collects the consideration from customers when the tickets are purchased.

The entity also assists the customers in resolving complaints with the service provided by the airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

The entity concludes that, with each ticket that it commits itself to purchase from the airline, it obtains control of a right to fly on a specified flight (in the form of a ticket) that the entity then transfers to one of its customers.

The entity has inventory risk with respect to the ticket because the entity committed itself to obtain the ticket from the airline before obtaining a contract with a customer to purchase the ticket. This is because the entity is obliged to pay the airline for that right regardless of whether it is able to obtain a customer to resell the ticket to or whether it can obtain a favourable price for the ticket. The entity also establishes the price that the customer will pay for the specified ticket.

Thus, the entity concludes that it is a principal in the transactions with customers. The entity recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred to the customers.

Example 48—Arranging for the provision of goods or services (entity is an agent)

An entity sells vouchers that entitle customers to future meals at specified restaurants. The sales price of the voucher provides the customer with a significant discount when compared with the normal selling prices of the meals (for example, a customer pays Rs. 100 for a voucher that entitles the customer to a meal at a restaurant that would otherwise cost Rs. 200). The entity does not purchase or commit itself to purchase vouchers in advance of the sale of a voucher to a customer; instead, it purchases vouchers only as they are requested by the customers. The entity sells the vouchers through its website and the vouchers are non-refundable. The entity and the restaurants jointly determine the prices at which the vouchers will be sold to customers. Under the terms of its contracts with the restaurants, the entity is entitled to 30% of the voucher price when it sells the voucher. The entity also assists the customers in resolving complaints about the meals and has a buyer satisfaction programme. However, the restaurant is responsible for fulfilling obligations associated with the voucher, including remedies to a customer for dissatisfaction with the service.

A customer obtains a voucher for the restaurant that it selects. The entity does not engage the restaurants to provide meals to customers on the entity's behalf. The entity concludes that it does not control the voucher (right to a meal) at any time.

Thus, the entity concludes that it is an agent with respect to the vouchers. The entity recognizes revenue in the net amount of consideration to which the entity will be entitled in exchange for arranging for the restaurants to provide vouchers to customers for the restaurants' meals, which is the 30% commission it is entitled to upon the sale of each voucher.

Example 48A—Entity is a principal and an agent in the same contract

aik business kuch services k liye Principal hoskta or kuch k liye agent within a contract

An entity sells services to assist its customers in more effectively targeting potential recruits for open job positions. The entity performs several services itself, such as interviewing candidates and performing background checks. As part of the contract with a customer, the customer agrees to obtain a License to access a third party's database of information on potential recruits. The entity arranges for this License with the third party, but the customer contracts directly with the database provider for the License. The entity collects payment on behalf of the third-party database provider as part of the entity's overall invoicing to the customer. The database provider sets the price charged to the customer for the License, and is responsible for providing technical support and credits to which the customer may be entitled for service down time or other technical issues.

Database mn by comm ly tha hega or recruitn services ka revenue

For the purpose of this example, it is assumed that the entity concludes that its recruitment services and the database access License are each distinct. Accordingly, there are two specified goods or services to be provided to the customer—access to the third party's database and recruitment services. The entity concludes that it does not control the access to the database before it is provided to the customer. The entity does not at any time have the ability to direct the use of the License because the customer contracts for the License directly with the database provider. The entity does not control access to the provider's database—it cannot, for example, grant access to the database to a party other than the customer, or prevent the database provider from providing access to the customer.

Thus, the entity concludes that it is an agent in relation to the third party's database service. In contrast, the entity concludes that it is the principal in relation to the recruitment services because the entity performs those services itself and no other party is involved in providing those services to the customer.

Past Paper-3 :- (Dec-19) {10.4.2} Date________20___

Discussion. of all (3) points.

31-12-21

Product A was sold for Rs. 50,000 along with a discount coupon of 15% for purchases in range of Rs. 100,000 - Rs. 160,000 within next 30 days

Transaction price 50,000

Stand-alone prices:

A	50,000
Discount option [120,000 * 15%] * 80%	14,400
	64,400

Estimated Total purchase

probability of availing discount

Allocation :-

A [50,000 * 50/64.4]	38820
Discount option	11,180

31-12-21

Cash	50,000	
Sales (A)		38820
Contract Liab		11,180

During the period 1 July 2016 to 31 December 2016, BnD incurred Rs. 3 million for providing maintenance services relating to the building. BnD expects this rate of expenditure to continue in future also.

BnD's incremental borrowing rate is 9% per annum. It normally earns a profit of 30% of cost, on the provision of maintenance services.

Required:

Prepare relevant extracts from statements of financial position and comprehensive income of BnD for the years ended 31 December 2015 and 2016. **(18)**

[Q-4 Jun-17]

Question No. 3

Lira and Co., Chartered Accountants (LCCA) is considering the impact of possible adoption of IFRS 15 'Revenue from Contracts with Customers' on its revenues. In this regard, the Finance Manager of LCCA has sought your advice on the following matters:

31 October

(i) At LCCA's year end, external audits of the financial statements of various clients are in progress. LCCA usually raises bills for such audits on signing of the audit report when LCCA's enforceable right to payment has been established. However, in some other cases, LCCA has an enforceable right to payment for the work done to date which is non-refundable unless LCCA fails to complete the audit. In these cases, progress bills are raised by LCCA.

(ii) LCCA has a contract with a client to provide assistance to the client's internal audit department for a period of 3 years. The work is performed in complete coordination with client's internal audit personnel and any issues identified during the course of audit are immediately brought to the knowledge of the client.

Client's internal audit plan is agreed in advance with LCCA. Only few internal audits are scheduled in the months of July and August as compared to other months, due to post year end work load at client's other departments. LCCA deputes staff on need basis. Contract price is billed in six equal instalments through bills raised in arrears at the end of each half year on 30 June and 31 December.

(iii) LCCA provides/arranges employees on secondment basis to a local client and also to its network firms abroad. In this respect, LCCA receives full amount each month and then disburses employees' share.

The local client requests for the specific persons which are then hired by LCCA exclusively for the client. LCCA is not responsible for ensuring that the services are performed by the employees in accordance with the terms and conditions of the contract. Consideration received by LCCA is different for each employee and is based on negotiations between employee and the client.

Network firms request for any suitable personnel for their field work. LCCA then selects from its existing employees and seconds them to the network firms. Consideration received by LCCA for each employee is same and is based on negotiations between LCCA and the network firm.

Required:

(a) In respect of (i) and (ii), discuss **when** revenue should be recognized by LCCA. For each situation where revenue is to be recognized over time, suggest an appropriate **method for measuring progress** towards complete satisfaction of the performance obligation. **Assume that LCCA's year end is 31 October.** **(10)**

(b) In respect of (iii), discuss whether the revenue should be recorded as 'Net amount' (i.e. after deducting employees' share) or 'Gross amount'. **(08)**

[Q-5 Dec-19]

Date______20___

30-01-22

Customer actually purchased goods pricing Rs. 130,000

Cash [130,000 * 0.85]	110,500	
Contract liab	11,180	
Sales		121,680

—

Read Example 49 (10.2.30)

Example - 52 k bad wala box (10.2.33)

{Non-refundable upfront fee}.

—

Must

{ June - 22, Q-2 (iii), must do. on your own

PP # 5, {10.4.3}, do option 1, 3 & 4. on your own.

—• Licensing (10.2.33)

use krny ka right dena

- jisny right khreeda, uska IAS-38 k mutabiq deal hoga.
- jisny right becha, uska revenue IFRS-15 k mutabiq record hoga.

Practice its examples (must)

⇓

54 - 61

Ready

Customer options for additional goods or services

If an entity grants a customer the option to acquire additional goods or services (e.g. sales incentive, credit points, renewal options or other discounts), that option gives rise to a performance obligation in the contract only if the option provides a material right to the customer that it would not receive without entering into that 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 related revenue is thus recognized when those future goods or services are transferred or when the option expires. 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:

- any discount that the customer could receive without exercising the option; and
- the likelihood that the option will be exercised.

Example 49—Option that provides the customer with a material right (discount voucher)

An entity enters into a contract for the sale of Product A for Rs. 100. As part of the contract, the entity gives the customer a 40 per cent discount voucher for any future purchases up to Rs. 100 in the next 30 days. The entity intends to offer a 10 per cent discount on all sales during the next 30 days as part of a seasonal promotion. The 10 per cent discount cannot be used in addition to the 40 per cent discount voucher.

Because all customers will receive a 10 per cent discount on purchases during the next 30 days, the only discount that provides the customer with a material right is the discount that is incremental to that 10 per cent (i.e. the additional 30 per cent discount). The entity accounts for the promise to provide the incremental discount as a performance obligation in the contract for the sale of Product A. To estimate the stand-alone selling price of the discount voucher, the entity estimates an 80 per cent likelihood that a customer will redeem the voucher and that a customer will, on average, purchase Rs. 50 of additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is Rs. 12 (Rs. 50 average purchase price of additional products × 30 per cent incremental discount × 80 per cent likelihood of exercising the option).

The stand-alone selling prices of Product A and the discount voucher and the resulting allocation of the Rs. 100 transaction price are as follows:

Performance obligation	Stand-alone selling price (Rs.)
Product A	100
Discount voucher	12
	112

Performance obligation	Allocated transaction price (Rs.)	
Product A	89	[100 x 100/112]
Discount voucher	11	[100 x 12/112]
	100	

The entity allocates Rs. 89 to Product A and recognizes revenue for Product A when control transfers. The entity allocates Rs. 11 to the discount voucher and recognizes revenue for the voucher when the customer redeems it for goods or services or when it expires.

Non-refundable upfront fee

beshall ~~nonfo~~ nonrefundable to customer hy

Jo upfront hy usko b over time phelaingy wiz yeh Total TP ka hisa ban gya

> An entity may charge a customer a non-refundable upfront fee at or near inception (e.g. joining fees in health club). It does not result in the transfer of a promised good or service to the customer. Instead the upfront fee is an advance payment for future goods or services and therefore would be recognized as revenue when those when those future goods or services are provided.
>
> An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a contract (or other administrative tasks). If those setup activities do not satisfy a performance obligation, the entity shall disregard those activities (and related costs) when measuring progress. That is because the costs of setup activities do not depict the transfer of services to the customer.

Example 53—Non-refundable upfront fee

An entity enters into a contract with a customer for one year of transaction processing services. The entity's contracts have standard terms that are the same for all customers. The contract requires the customer to pay an upfront fee to set up the customer on the entity's systems and processes. The fee is a nominal amount and is non-refundable. The customer can renew the contract each year without paying an additional fee.

The entity's setup activities do not transfer a good or service to the customer and, therefore, do not give rise to a performance obligation. The entity concludes that the renewal option does not provide a material right to the customer that it would not receive without entering into that contract. The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the entity determines the transaction price, which includes the non-refundable upfront fee, and recognizes revenue for the transaction processing services as those services are provided.

Licensing (ksi cheez ko use krny ki ijazat dena)

> A License establishes a customer's rights to the intellectual property of an entity. Following are some examples of such intellectual properties:
> (a) software and technology;
> (b) motion pictures, music and other forms of media and entertainment;
> (c) franchises; and
> (d) patents, trademarks and copyrights.
>
> In addition to a promise to grant a License to a customer, an entity may also promise to transfer other goods or services to the customer:

If the promise to grant a License is NOT distinct from other promised goods or services:	An entity shall account for the License and other services as a single performance obligation. Examples of such Licenses are: ▪ a License that forms a component of a tangible good and that is integral to the functionality of the good; and DVD or CD ▪ a License that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a License, the customer to access content) eg LMS Determination of whether the performance obligation is satisfied over time or at a point in time is made as per guidance studied in IFRS 15.

(a)

On 1 September 2019, HL entered into a contract to develop a software for Doctor Limited (DL) for Rs. 150 million. HL ascertained that the promised development ofsoftware is a single performance obligation satisfied over time. The terms of the contract include a penalty of Rs. 14 million if the development of software is not completed before 29 February 2020. At the inception of the contract, HL determined that the expected cost of completing the contract would be Rs. 90 million and the software development would be completed before 29 February 2020.

Till 31 December 2019, HL incurred cost of Rs. 67.5 million. As the original contractwas 75% complete, HL has recognized revenue and profit of Rs. 112.5 million and Rs. 45 million respectively in the draft financial statements.

However, HL and DL have amended the contract on 31 December 2019. As a result, the consideration and expected cost increased by Rs. 70 million and Rs. 40 millionrespectively. The allowable time for completion without penalty is increased by onemonth only. HL now expects that the development of software would not becompleted by 31 March 2020. The additional work is not distinct from services under original contract. No adjustment has been made in HL's financial statements in respect of the amendment in the contract. **(07)**

Required:

Discuss how the above matters should be dealt with in HL's financial statements for the year ended 31 December 2019. Show all calculations wherever possible. **[Q-1(a) Dec-20]**

Question No. 5

Marmalade Limited (ML) is a manufacturer of Industrial machines. During 2020, ML launched a new machine with model name Alpha. Each unit of Alpha is being sold for Rs. 10 million payable upon delivery. Revenue from sale of Alpha is recognised upon delivery to the customer premises. Further, two year support service contract for Alpha is sold separately at Rs. 0.1 million payable monthly. Revenue from support services is recognized over contract period. Customers can also obtain such support services from third parties.

Sales of Alpha have remained below expectation so far. The marketing department has proposed the following options to increase the sales of Alpha:

Option 1:

ML would offer customers a bundle of Alpha and support services at a combined price of Rs. 11 million.

Option 2:

ML would sell Alpha at Rs. 10 million on lease. The rate of interest implicit in the lease would be 5% per annum which is significantly lower than market interest rate of 12% per annum. Customers would pay in five equal annual instalments payable in advance. Ownership of Alpha would be transferred to the customer at the end of five years.

Option 3:

Upon purchase of one unit of Alpha, customers would be provided with an option to purchase another unit of Alpha within 12 months at a material discount of 25%. It is estimated that 40% customers will avail the option.

Option 4:

Customer would be given an option to get customized version of Alpha. The price would vary in each case; however, the customer would be required to pay the entire amount in advance as these machines could not be sold to other customers. The manufacturing of customized Alpha might take an average of 3 months.

Required:

Discuss the recognition and amount of revenue under each of the above independent options. Compute the amount of revenue, wherever possible.

(18)

[Q-3 Jun-21]

Non-refundable upfront fee

beshall ~~nonfe~~ nonrefundable to customer hy

Jo upfront hy usko b over time phelaingy cuz yeh Total TP ka hisa ban gya

An entity may charge a customer a non-refundable upfront fee at or near inception (e.g. joining fees in health club). It does not result in the transfer of a promised good or service to the customer. Instead the upfront fee is an advance payment for future goods or services and therefore would be recognized as revenue when those when those future goods or services are provided.

An entity may charge a non-refundable fee in part as compensation for costs incurred in setting up a contract (or other administrative tasks). If those setup activities do not satisfy a performance obligation, the entity shall disregard those activities (and related costs) when measuring progress. That is because the costs of setup activities do not depict the transfer of services to the customer.

Example 53—Non-refundable upfront fee

An entity enters into a contract with a customer for one year of transaction processing services. The entity's contracts have standard terms that are the same for all customers. The contract requires the customer to pay an upfront fee to set up the customer on the entity's systems and processes. The fee is a nominal amount and is non-refundable. The customer can renew the contract each year without paying an additional fee.

The entity's setup activities do not transfer a good or service to the customer and, therefore, do not give rise to a performance obligation. The entity concludes that the renewal option does not provide a material right to the customer that it would not receive without entering into that contract. The upfront fee is, in effect, an advance payment for the future transaction processing services. Consequently, the entity determines the transaction price, which includes the non-refundable upfront fee, and recognizes revenue for the transaction processing services as those services are provided.

Licensing (ksi cheez ko use krny ki ijazat dena)

A License establishes a customer's rights to the intellectual property of an entity. Following are some examples of such intellectual properties:

(a) software and technology;
(b) motion pictures, music and other forms of media and entertainment;
(c) franchises; and
(d) patents, trademarks and copyrights.

In addition to a promise to grant a License to a customer, an entity may also promise to transfer other goods or services to the customer:

If the promise to grant a License is NOT distinct from other promised goods or services:	An entity shall account for the License and other services as a single performance obligation. Examples of such Licenses are: ▪ a License that forms a component of a tangible good and that is integral to the functionality of the good; and DVD or CD ▪ a License that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a License, the customer to access content) eg LMS Determination of whether the performance obligation is satisfied over time or at a point in time is made as per guidance studied in IFRS 15.

If the promise to grant a License is distinct from other promised goods or services:

Mcdonalds, international branches ki performance b Pak wali branches ko effect kry g Franchise bech di usky bad b mehnat b chaiye ho g to retain its reputation customers k benefit uthany k liye

An entity shall account for the License as a separate performance obligation. Determination of whether the performance obligation is satisfied over time or at a point in time is made as follows:

(a) performance obligation is satisfied over time:

If grant of License is a right to access the intellectual property as it exists throughout the License period. It happens when all of the following criteria is met:

- entity will undertake the activities that significantly affect the intellectual property. international Mcdonald ko acha kam krna pry ga
- the rights granted by the License directly expose (affect) the customer to any +/- effects of aforementioned activities *(e.g. the benefit derived from a brand is often dependent on the entity's ongoing activities that support or maintain the value of property).*
- these activities do not result in the transfer of a good or service to customer as those activities occur. int Mc Pak ko kuch dy ni rae hongy wo bas repo apna kam acha krky tu repo maintain rae g

(b) performance obligation is satisfied at a point in time

If grant of License is a right to access the intellectual property as it exists at the point in time at which the License is granted. It happens when the intellectual property, to which the customer has rights, has significant stand-alone functionality and a substantial portion of the benefit of that intellectual property is derived from that functionality. Consequently, the ability of the customer to obtain benefit from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality.

aik movie bnai gye cinemas ko dy di, TV or netflix py b dal di/ bech di, ab wo 3 ya 6 mahiny tak udr hi rae g, viewers jitni dfa mrzi dekhen, ab wo bs bik gye or usi halat mn hy jis mn customers benefit gain kren gy

Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

However, revenue cannot be recognized before the beginning of the period during which the customer is able to use and benefit from the License. For example, if a software License period begins before an entity provides (or otherwise makes available) to the customer a code that enables the customer to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

Sale-based or usage-based royalties

An entity shall recognize revenue from a sale-based or usage-based royalty promised in exchange for a License of intellectual property only when (or as) the **later of** the following events occurs:

(a) the subsequent sale or usage occurs; and

(b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Example 54—Right to use intellectual property

Using the same facts as in Case A in Example 11, the entity identifies four performance obligations in a contract:

(a) the software License;
(b) installation services;
(c) software updates; and
(d) technical support.

The entity observes that it does not have any contractual or implied obligations (independent of the updates and technical support) to undertake activities that will change the functionality of the software during the License period. The entity also observes that the software remains functional without the updates and the technical support. The entity concludes that the software to which the License relates has significant stand-alone functionality. The entity further concludes that the nature of the entity's promise in transferring the License is to provide a right to use the entity's intellectual property as it exists at a point in time. Consequently, the entity accounts for the License as a performance obligation satisfied at a point in time.

Example 55—License of intellectual property

An entity enters into a contract with a customer to License (for a period of three years) intellectual property related to the design and production processes for a good. The contract also specifies that the customer will obtain any updates to that intellectual property for new designs or production processes that may be developed by the entity. The updates are integral to the customer's ability to derive benefit from the License during the License period, because the intellectual property is used in an industry in which technologies change rapidly. Although the benefit the customer can derive from the License on its own (i.e. without the updates) is limited because the updates are integral to the customer's ability to continue to use the intellectual property in an industry in which technologies change rapidly, the License can be used in a way that generates some economic benefits. The entity determines that the customer can benefit from (a) the License on its own without the updates; and (b) the updates together with the initial License.

Because the benefit that the customer could obtain from the License over the three-year term without the updates would be significantly limited, the entity's promises to grant the License and to provide the expected updates are, in effect, inputs that together fulfil a single promise to deliver a combined item to the customer. The promises within that combined item (i.e. to grant the License and to provide when-and-if-available updates) are, therefore, not separately identifiable and are a single performance obligation. The entity concludes that because the customer simultaneously receives and consumes the benefits of the entity's performance as it occurs, the performance obligation is satisfied over time.

Example 56—Identifying a distinct License

An entity, a pharmaceutical company, licenses to a customer its patent rights to an approved drug compound for 10 years and also promises to manufacture the drug for the customer. The drug is a mature product; therefore the entity will not undertake any activities to support the drug, which is consistent with its customary business practices.

Case A—License is not distinct

In this case, no other entity can manufacture this drug because of the highly specialized nature of the manufacturing process. As a result, the License cannot be purchased separately from the manufacturing services. The entity determines that the customer cannot benefit from the License without the manufacturing service; therefore, the License and the manufacturing service are not distinct and the entity accounts for the License and the manufacturing service as a single performance obligation.

Case B—License is distinct

In this case, the manufacturing process used to produce the drug is not unique or specialized and several other entities can also manufacture the drug for the customer. The entity concludes that its promises to grant the License and to provide the manufacturing service are separately identifiable. In reaching this conclusion, the entity considers that the customer could separately purchase the License without significantly affecting its ability to benefit from the License. Neither the License, nor the manufacturing service, is significantly modified or customized by the other and the entity is not providing a significant service of integrating those items into a combined output. Thus, although the manufacturing service necessarily depends on the License in this contract (i.e. the entity would not provide the manufacturing service without the customer having obtained the License), the License and the manufacturing service do not significantly affect each other. Consequently, the entity concludes that its promises to grant the License and to provide the manufacturing service are distinct and that there are two performance obligations.

The drug is a mature product (i.e. it has been approved, is currently being manufactured and has been sold commercially for the last several years). For these types of mature products, the entity's customary business practices are not to undertake any activities to support the drug. The drug compound has significant stand-alone functionality (i.e. its ability to produce a drug that treats a disease or condition). Consequently, the customer obtains a substantial portion of the benefits of the drug compound from that functionality, rather than from the entity's ongoing activities. The nature of the entity's promise in transferring the License is to provide a right to use the entity's intellectual property in the form and the functionality with which it exists at the point in time that it is granted to the customer. Consequently, the entity accounts for the License as a performance obligation satisfied at a point in time.

Example 57—Franchise rights

An entity enters into a contract with a customer and promises to grant a franchise License that provides the customer with the right to use the entity's trade name and sell the entity's products for 10 years. In addition to the License, the entity also promises to provide the equipment necessary to operate a franchise store. In exchange for granting the License, the entity receives a sales-based royalty of 5% of the customer's monthly sales. The fixed consideration for the equipment is Rs. 150,000 payable when the equipment is delivered.

Identifying performance obligations

The entity observes that the entity, as a franchisor, has developed a customary business practice to undertake activities such as analyzing consumers' changing preferences and implementing product improvements, pricing strategies, marketing campaigns and operational efficiencies to support the franchise name. However, the entity concludes that these activities do not directly transfer goods or services to the customer because they are part of the entity's promise to grant a License.

The entity determines that it has two promises to transfer goods or services: a promise to grant a License and a promise to transfer equipment. In addition, the entity concludes that the promise to grant the License and the promise to transfer the equipment are each distinct. The customer can benefit from the License together with the equipment that is delivered before the opening of the franchise and the equipment can be used in the franchise or sold for an amount other than scrap value. The entity concludes that the License and the equipment are not inputs to a combined item (i.e. they are not fulfilling what is, in effect, a single promise to the customer). In addition, the License and the equipment are not highly interdependent or highly interrelated because the entity would be able to fulfil each promise (i.e. to license the franchise or to transfer the equipment) independently of the other. Consequently, the entity has two performance obligations; the franchise license and the equipment.

Allocating the transaction price

The entity determines that the transaction price includes fixed consideration of Rs. 150,000 and variable consideration (5% of customer sales). The stand-alone selling price of the equipment is Rs. 150,000 and the entity regularly licenses franchises in exchange for 5% of customer sales. In addition, the entity observes that allocating Rs. 150,000 to the equipment and the sales-based royalty to the franchise License would be consistent with an allocation based on the entity's relative stand-alone selling prices in similar contracts. Consequently, the entity concludes that the variable consideration should be allocated entirely to the performance obligation to grant the franchise License.

Application guidance: licensing

The entity assesses the nature of the entity's promise to grant the franchise License and concludes that it is to provide access to the entity's intellectual property in its current form throughout the license period because:

- entity will undertake the activities that significantly affect the intellectual property. In addition, the entity observes that because part of its compensation is dependent on the success of the franchisee (as evidenced through the sales-based royalty), the entity has a shared economic interest with the customer that indicates that the customer will expect the entity to undertake those activities to maximize earnings.
- the rights granted by the License directly expose the customer to any +/- effects of aforementioned activities.
- these activities do not result in the transfer of a good or service to customer as those activities occur.

The entity concludes that the promise to transfer the License is a performance obligation satisfied over time. After the transfer of the franchise License, the entity recognizes revenue as and when the customer's sales occur because the entity concludes that this reasonably depicts the entity's progress towards complete satisfaction of the franchise License performance obligation.

Example 58—Access to intellectual property

An entity, a creator of comic strips, licenses the use of the images and names of its comic strip characters in three of its comic strips to a customer for a four-year term. There are main characters involved in each of the comic strips. However, newly created characters appear regularly and the images of the characters evolve over time. The customer, an operator of cruise ships, can use the entity's characters in various ways, such as in shows or parades, within reasonable guidelines. The contract requires the customer to use the latest images of the characters. In exchange for granting the License, the entity receives a fixed payment of Rs. 1 million in each year of the four-year term. The entity concludes that it has no other performance obligations other than the promise to grant a License. That is, the additional activities associated with the License do not directly transfer a good or service to the customer because they are part of the entity's promise to grant a License.

The entity assesses the nature of the entity's promise to grant the license and concludes that it is to provide access to the entity's intellectual property in its current form throughout the license period because:

- entity will undertake the activities that significantly affect the intellectual property. This is because the entity's activities (i.e. development of the characters) change the form of the intellectual property.
- the rights granted by the License directly expose the customer to any +/- effects of aforementioned activities because the contract requires the customer to use the latest characters.
- these activities do not result in the transfer of a good or service to customer as those activities occur.

Consequently, the entity concludes that the nature of the entity's promise to transfer the License is to provide the customer with access to the entity's intellectual property as it exists throughout the License period. The entity accounts for the promised License as a performance obligation satisfied over time. Because the contract provides the customer with unlimited use of the licensed characters for a fixed term, the entity determines that a time-based method would be the most appropriate measure of progress towards complete satisfaction of the performance obligation.

Example 59—Right to use intellectual property

An entity, a music record label, licenses to a customer a 1975 recording of a classical symphony by a noted orchestra. The customer, a consumer products company, has the right to use the recorded symphony in all commercials, including television, radio and online advertisements for two years in Country A. In exchange for providing the License, the entity receives fixed consideration of Rs. 10,000 per month. The contract does not include any other goods or services to be provided by the entity. The contract is non-cancellable. The entity concludes that its only performance obligation is to grant the License. The entity determines that the term of the License (two years), its geographical scope (the customer's right to use the recording only in Country A), and the defined permitted use for the recording (in commercials) are all attributes of the promised License in the contract. The entity does not have any contractual or implied obligations to change the licensed recording. The licensed recording has significant stand-alone functionality (i.e. the ability to be played) and, therefore, the ability of the customer to obtain the benefits of the recording is not substantially derived from the entity's ongoing activities. Consequently, the entity concludes that the nature of its promise in transferring the License is to provide the customer with a right to use the entity's intellectual property as it exists at the point in time that it is granted. The entity recognizes all of the revenue at the point in time when the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licensed intellectual property. Because of the length of time between the entity's performance (i.e. at the beginning of the period) and the customer's monthly payments over two years (which are non-cancellable), the entity must determine whether a significant financing component exists.

Example 60—Sales-based royalty for a License of intellectual property

An entity, a movie distribution company, licenses Movie XYZ to a customer. The customer, an operator of cinemas, has the right to show the movie in its cinemas for six weeks. Additionally, the entity has agreed to (a) provide memorabilia from the filming to the customer for display at the customer's cinemas before the beginning of the six-week screening period; and (b) sponsor radio advertisements for Movie XYZ on popular radio stations in the customer's geographical area throughout the six-week screening period. In exchange for providing the License and the additional promotional goods and services, the entity will receive a portion of the operator's ticket sales for Movie XYZ (i.e. variable consideration in the form of a sales-based royalty). The entity concludes that the License to show Movie XYZ is the predominant item to which the sales-based royalty relates because the entity has a reasonable expectation that the customer would ascribe significantly more value to the License than to the related promotional goods or services. If the License, the memorabilia and the advertising activities are separate performance obligations, the entity would allocate the sales-based royalty to each performance obligation.

Example 61—Access to intellectual property

An entity, a well-known sports team, licenses the use of its name and logo to a customer. The customer, an apparel designer, has the right to use the sports team's name and logo on items including t-shirts, caps, mugs and towels for one year. In exchange for providing the License, the entity will receive fixed consideration of Rs. 2 million and a royalty of 5% of the sales price of any items using the team name or logo. The customer expects that the entity will continue to play games and provide a competitive team.

The entity concludes that its only performance obligation is to transfer the License. The additional activities associated with the License (i.e. continuing to play games and provide a competitive team) do not directly transfer a good or service to the customer because they are part of the entity's promise to grant the License.

The entity assesses the nature of the entity's promise to grant the license and concludes that it is to provide access to the entity's intellectual property in its current form throughout the license period because:

- entity will undertake the activities that significantly affect the intellectual property. This is because the entity's activities (i.e. continuing to play) support and maintain the value of the name and logo. In addition, the entity observes that because part of its compensation is dependent on the success of the customer (as evidenced through the sales-based royalty), the entity has a shared economic interest with the customer that indicates that the customer will expect the entity to undertake those activities to maximize earnings.
- the rights granted by the License directly expose the customer to any +/- effects of aforementioned activities.
- these activities do not result in the transfer of a good or service to customer as those activities occur.

The entity concludes that the entity's promise to grant the License is to provide the customer with access to the entity's intellectual property as it exists throughout the License period. Consequently, the entity accounts for the promised License as a performance obligation satisfied over time. The entity concludes that recognition of the Rs. 2 million fixed consideration as revenue rateably over time plus recognition of the royalty as revenue as and when the customer's sales of items using the team name or logo occur reasonably depicts the entity's progress towards complete satisfaction of the License performance obligation

Repurchase agreements

A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the customer, an asset that is substantially the same as that asset, or another asset of which the asset that was originally sold is a component. Repurchase agreements generally come in following forms:

A forward or a call option:	If an entity an obligation to repurchase (i.e. forward) or a right to repurchase (i.e. call option) the asset, a customer does not obtain control of the asset. Consequently, the entity shall account for the contract as either of the following:
200 ka becha or	▪ a <u>lease</u> in accordance with IFRS 16 if the entity can or must repurchase the asset for an amount that is <u>**LESS**</u> than the original selling price of the asset.; OR operating lease. 120 mka repurchase kia tu 80 ko over the period rent income banaye ga
aesy hi hmny jesy aj 200 ka loan dia or kal 250 wapis liya. hm asset ka ~~bechna record~~ hi ni krengy aj.	▪ a <u>**financial liability**</u> **(e.g. loan)** for consideration received if the entity can or must repurchase the asset for an amount **EQUAL** to or **MORE** than the original selling price of the asset. The asset shall remain recognized in books and the difference between the consideration received for sale and consideration to be paid for repurchase shall be recognized as interest. If option lapses unexercised, an entity shall derecognize the liability and recognize revenue. risk & reward transfer hi ni hoe.

A put option:	
01-01-22 Co.A – sold for Rs.100m → Co.B ← repurchase ← for Rs. 70m 31.12.22 Estimated Market Value Rs.120m	▪ If an entity has an obligation to repurchase the asset at customer's demand at a price **LOWER** than the original selling price of the asset as well as than expected market value of the asset at the date of repurchase, the entity shall account for the agreement as a sale of a product with a right of return. ▪ If an entity has an obligation to repurchase the asset at customer's demand at a price **LOWER** than the original selling price of the asset but **MORE** than expected market value of the asset at the date of repurchase, the entity shall account for the agreement as a lease in accordance with IFRS 16. (forward k pehly scenario jesa hogya) ▪ If an entity has an obligation to repurchase the asset at customer's demand at a price **EQUAL** to or **MORE** than the original selling price of the asset and **MORE** than expected market value of the asset at the date of repurchase, the entity shall account for the agreement as a financial liability as studied above for call option. (loan ki trah) ▪ If an entity has an obligation to repurchase the asset at customer's demand at a price **EQUAL** to or **MORE** than the original selling price of the asset but **EQUAL** to or **LESS** than expected market value of the asset at the date of repurchase, the entity shall account for the agreement as a sale of a product with a right of return. (chance hy hmary pas aye ga) ↳ sale b ni ban pa rae hogi
When comparing repurchase price with the selling price, time value of money is to be considered.	

Example 62—Repurchase agreements

An entity enters into a contract with a customer for the sale of a tangible asset on 1 January 20X7 for Rs. 1 million.

Case A—Call option: financing

The contract includes a call option that gives the entity the right to repurchase the asset for Rs. 1.1 million on or before 31 December 20X7. Control of the asset does not transfer to the customer on 1 January 20X7 because the entity has a right to repurchase the asset and therefore the customer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Consequently, the entity accounts for the transaction as a financing arrangement, because the exercise price is more than the original selling price. Hence, the entity does not derecognize the asset and instead recognizes the cash received as a financial liability. The entity also recognizes interest expense for the difference between the exercise price (Rs. 1.1 million) and the cash received (Rs. 1 million), which increases the liability. On 31 December 20X7, the option lapses unexercised; therefore, the entity derecognizes the liability and recognizes revenue of Rs. 1.1 million.

Case B—Put option: lease

Instead of having a call option, the contract includes a put option that obliges the entity to repurchase the asset at the customer's request for Rs. 900,000 on or before 31 December 20X7. The market value is expected to be Rs. 750,000 on 31 December 20X7. The entity concludes that the customer has a significant economic incentive to exercise the put option because the repurchase price significantly exceeds the expected market value of the asset at the date of repurchase. Consequently, the entity concludes that control of the asset does not transfer to the customer, because the customer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The entity accounts for the transaction as a lease in accordance with IFRS 16 *Leases*.

Consignment arrangements

When an entity delivers a product to another party (such as a dealer or a distributor) for sale to end customers, the entity shall evaluate whether that other party has obtained control of the product at that point in time. A product that has been delivered to another party may be held in a consignment arrangement if that other party has not obtained control of the product. Accordingly, an entity shall not recognize revenue upon delivery of a product to another party if the delivered product is held on consignment.

Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following:

(a) the product is controlled by the entity until a specified event occurs, such as the sale of the product to a customer of the dealer or until a specified period expires;
(b) the entity is able to require the return of the product or transfer the product to a third party (such as another dealer); and
(c) the dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).

Jb tk inventory dealor k pas hy end-user tk ni ponchi, tb tk wo consignment inventory hy

Bill-and-hold arrangements

A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but the entity retains physical possession of the product (i.e. entity provides custodial service) until it is transferred to the customer at a point in time in the future.

The entity has satisfied its performance obligation to transfer a product when a customer obtains control of that product. For a customer to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:

(a) the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);
(b) the product must be identified separately as belonging to the customer; Supp ny alag kr k rkh di wo product, ksi or ko sale ni hogi
(c) the product currently must be ready for physical transfer to the customer; and
(d) the entity cannot have the ability to use the product or to direct it to another customer.

supp ki ly sy furniture tyar hy lekin abi tk customer k kehny par apny pas rkhi hoi hn, tu wo sale ho chuki, bas wey kisi majbori ki wjah sy rkhwai hoi cheez

Example 63—Bill-and-hold arrangement

An entity enters into a contract with a customer on 1 January 20X8 for the sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is two years.

Upon completion of manufacturing, the entity demonstrates that the machine and spare parts meet the agreed-upon specifications in the contract. The promises to transfer the machine and spare parts are distinct and result in two performance obligations that each will be satisfied at a point in time. On 31 December 20X9, the customer pays for the machine and spare parts, but only takes physical possession of the machine. Although the customer inspects and accepts the spare parts, the customer requests that the spare parts be stored at the entity's warehouse because of its close proximity to the customer's factory. The customer has legal title to the spare parts and the parts can be identified as belonging to the customer. Furthermore, the entity stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the customer's request. The entity expects to hold the spare parts for two to four years and the entity does not have the ability to use the spare parts or direct them to another customer.

The entity identifies the promise to provide custodial services as a performance obligation because it is a service provided to the customer and it is distinct from the machine and spare parts. Consequently, the entity accounts for three performance obligations in the contract (the promises to provide the machine, the spare parts and the custodial services). The transaction price is allocated to the three performance obligations and revenue is recognized when (or as) control transfers to the customer.

Control of the machine transfers to the customer on 31 December 20X9 when the customer takes physical possession. The entity recognizes revenue for the spare parts on 31 December 20X9 when control transfers to the customer. The performance obligation to provide custodial services is satisfied over time as the services are provided.