Gurugram Branch of NIRC

The Institute of Chartered Accountants of India

(Set up by an act of parliament)

Chartered Accountant e-NEWSLETTER

Here it comes!

A year thats new!

Hope it brings

All the best to you!

Happy New Year 2019!

January 2019 | VOLUME 1

Chairman's Message

Dear Professional Colleagues and Students,

Respected Members,
Warm greetings for a Happy and Prosperous 2019. This year promises landmark and progressive changes for us as we welcome the new era and the developments it brings.

2018 also marked the end of the term of the Councils i.e., the change of guard at our apex. ICAI Elections were conducted pan-India and I am pleased to state that the electoral process was well-conducted and concluded smoothly. I compliment members – both in practice and in industry – for their support to this system.

The novel concept of decentralised counting of votes was well appreciated as it saved time and resources, while at the same time many members were able to witness this unique process. I take this opportunity to thank our Hon'ble President CA. Naveen N. D. Gupta and Vice President CA Prafulla Chhajed for their support and encouragement in the new initiative and the overall conduct of our elections at the highest standards possible. The remarkable efforts put in by our Officers and staff was commendable and I appreciate all the efforts put in by everyone to make the entire electoral process a complete success. Here, I also take the opportunity to wish our future leaders all the success for their endeavours and they can be rest assured of our support in every initiative.

Upcoming Programmes:

- We are organizing a Seminar on "Valuation - Overview and Techniques" on Friday, 4th January, 2019 at Fortune Select Excalibur, Main Sohna Road, Sector - 49, Gurugram.
- We are also organizing a Residential Seminar for CA Students from 11th to 13th January 2019

My best wishes to all Members and their families for the forthcoming festivities of Lohri and Makar Sankranti. Festivals re-energies us both in our mind and in our soul. I also extend my best wishes on the occasion of 70th Republic Day of our beloved motherland. The celebration of this day instils such a patriotic fervour that truly reflects our unity among diversity. Also, 26th January has been celebrated by Gurugram CAs, as foundation day of Gurugram Branch of NIRC of ICAI. I want to convey my sincere regards to our founder members for giving Gurugram its own identity in the form of Branch of ICAI.

Once again, Wish you a very Happy New Year!

Secretary's Message

Dear Professional Colleagues,

Heartiest Greetings for the New Year 2018!

We have stepped into a New Year. The spirit of this New Year should accompany gifts to our near and dear ones. Hope this New Year will bring a lot of hopes, aspirations and opportunities for all of us. Friends, this New Year, let us all resolve to take our profession and our esteemed Institute to greater heights. A number of initiatives have been taken during 2018 and a lot needs to be taken to realize our vision. The achievements during the year were the collective wisdom and efforts of the Council, members, employees and other stakeholders of the Institute and I am sure, we will continue our efforts to achieve further milestones in times to come.

It is important to realise that interactions and networking with other professionals are critical for our own growth. Henceforth, let us attend events & seminars with the goal of meeting new people to build a stronger base of professional contacts. The preparations for the forthcoming budget are progressing steadily and we have put forth our pre-budget recommendations to the Central and State Governments.

These professional insights will go far in cementing our commitment towards Nation Building. We are speedily implementing and executing our plans for taking the education of our students to the next level. 2019 will also see the steady implementation of our new course curriculum, which has received sincere appreciation from all. At the same time, our increased focus on reaching out to colleges and schools is helping to create a clear mandate for pursuing our curriculum.

As we draw open the curtains for 2019, we are once again enthused to make new resolutions in every arena for the upcoming year. Let us move forward by learning from our actions in the past year while making positive resolutions for the year in prospect. Along with my esteemed members in the Council, I pray for good health and prosperity on the professional and personal front for all our members and students. I also extend best wishes to our students for the ensuing results of our exams.

Manish Goyal

CA. Manish Goyal
(Secretary)
Gurugram Branch of NIRC

Fair Value of "Operating Leases" when acquisition of a Business – Ind-As/ IFRS

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Acquisitions of new businesses are quite common strategies for any business to leverage its exisiting competencies or to achieve an economy of scale. Apart from various valuation analysis that are being done while finalizing any new business acquisition decisions, a quick look towards its financial reporting aspects should also be done specially after the applicability of new accounting standards that are comprised with lot more specific detailings and guidances that are required to account for such transactions and possibly will be crucial for stakeholders perspective also.

As readers will be aware that after the introduction of new accounting standard on business acquisition, all assets & liabilities that are proposed to be taken over will be FAIR VALUED and if the acquisition meets the criteria of Business (definition of Business as per Ind-As- 103), then only fair value accounting is permitted.

While acquiring any Business, there could be some existing OPERATING LEASES within the business and that will probably be come together as part of this Business Combination. As per current accounting (Indian GAAPs) there is nothing specific available to deal with such instances.

Let' look at first the relevant guidance which specifically detailed out the treatment of such existing operating leases –

As per - Ind-As 103 – "Business Combinations" Appendix B

Para – B 28- The acquirer shall recognise no assets or liabilities related to an operating lease in which the acquiree is the lessee except as required by paragraphs B29 and B30.

Para –B 29- The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The acquirer shall recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms. Paragraph B42 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquiree is the lessor.

Para –B 30- An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits that qualify as identifiable intangible assets, for example, as a customer relationship. In that situation, the acquirer shall recognise the associated identifiable intangible asset(s) in accordance with paragraph B31.

Let' s take an example to understand what essentially the standard is trying to explain-

Example –

Company A is acquiring Company T, apart from other assets &liabilities which are being taken over by Company A, there is a lease agreement between Company T and some other party in which they agreed for some rent for next one year (approx) and in between this acquisition is happening. Now, the rent which was agreed between Company T and other party was more/ less than (substantially) any normal market rate currently available for such leases. How to account for this situation under Business Combination transactions?

Suggested approach-

As one can refer para B 28 which completely denies to create any asset or liability related to such operating lease agreements where an acquiree (i.e. Company T in our example) is leasee except para B 29 & B 30.

Now, coming to our example scenario, suppose the rate of the lease agreed for one year is much more than currently available market lease rates then that difference may be eligible to create a liability (i.e. unfavorable as defined in above para of the standards) or if the situation is reverse i.e agreed rate is less than the available market rate then acquier can create an Intangible assets (i.e. favourable as defined in above para of the standards) as per Ind-As 38- Intangible Assets (subject to recognition criteria).

Here the Intangible assets so created will be made separately from Goodwill and hence will be considered while calculating Goodwill amounts.

Such Intangibles so created will not be re-measured subsequent to initial re-measurement and will be eligible for amortization based on its useful life.

Now,

Other than that there is nothing specific which is allowed to be created as assets or liability related to Operating leases. Let's take another example where one can understand what could be other example where some assets or liabilities are related to an Operating Lease other than the situation explained above.

Example -

A company is having an operating lease contract which is of 5 years (assumed) subject to some rent-free period/ rent increase clauses etc. and hence a lease equalization reserve (which is commonly made to ensure straight lining of rental expenses) is made and that's how lease rent is being deferred to amortise/ charge equal amount to PL. Now at the time of acquisition, such balances lying as liability (being deferred amounts) will NOT be an eligible liability (as mentioned in B-28 above) and the company who is acquiring the business will RE-CALCULATE such amount for the period falls after the acquisition date and hence all such liability exists at acquisition date will not be taken into account.

In case acquiree (i.e. Company T in our example) is a lessor and has given its assets on operating leases than the scenario where lease rental is less/ more than market rate will be considered as part of fair value of these assets and will be depreciated accordingly.

Now,

The whole idea to bring these provision to create kind of awareness among readers so that one can consider the concepts while dealing with such business combination workings and in a way can reduce (in case liability) some Goodwill (as the Goodwill is calculated based on fair value of all assets minus fair value of all liabilities, hence if one is able to create liability then probably it can reduce some Goodwill) amount expected to be arisen.

A reader will appreciate about the main objective of the standard and an approach which one can follow while keeping in mind the basis of origin of such requirements. There could possibly be some specific situations or circumstances where the interpretation of any standard will be different as we should always keep in mind that IND-AS is principle based standards and lot more areas need management judgment in line with the standards relevant interpretation and best practices.

One has to look into all related facts and patterns before concluding this type of assessment based on this concept. Readers are requested not to take this article as any kind of advice (it is not exhaustive in nature) and should evaluate all relevant factors of each individual cases separately.

Lease Accounting- An overview and what lies ahead

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Overview

Leasing is an important and widely used tool that allows entities to use property and equipment without incurring large cash outflows at the inception.

IFRS 16 and ASC 842 (US GAAP) have been notified and are effective from 1st January, 2019. The exposure draft for IND AS 116 is already out there and it is just a matter of time till it gets notified.

At the outset, it is evidently clear that the new lease standard will bring a significant impact on the balance sheet size and the income statement of all those companies which have operating and CPI leases (US GAAP) by putting an asset and a liability and replacing the existing lease rentals with interest and amortisation. This article articulates brief summary of the changes that the new standards will bring and the events that will follow for their adoption.

Need for the new standards

Under the previous standards, operating leases have only got to do with the recording of minimum lease payments (MLP's)/ lease rentals, either by way of straight lining the lease rentals or by using another systematic charge.

The future obligations arising from lease arrangements only have to be reported as a part of the disclosure requirements. Even if the terms of the agreement binds you to pay MLP's for a minimum stipulated period or are reasonably certain that these are bound to be paid in future to support business operations, still there was no compulsion to record and show obligation from these future MLP's in the books thereby depriving the entities from presenting a true and fair view of the financial statements.

Under the US GAAP, there is triplicate classification of leases in the form of CPI (construction period involvement), operating and capital or finance leases. The CPI is a different concept altogether which, under specific circumstances, makes the lessee the owner of the leased asset by recording the 100% cost of construction with an offsetting debt related to the construction cost that it does not fund.

The new standards are purely based on the principle of substance over form. There are three major pillars behind the thought process of these standards:

- The obligation to pay minimum lease rentals basis the lease term need to be presented in the financial statements rather than being presented only as a disclosure.
- The comparability between the companies that borrow capital to purchase the assets and the companies which indulge in lease operations rather than purchasing an asset upfront needs to be improved.
- To increase much-needed transparency in company's lease assets and liabilities, meaning that off balance sheet lease financing should not be allowed to lurk in the shadows.

What will change

The new lease standards will bring a complete overhaul to the operating lease accounting for lessee. There will be single classification model under IFRS 16 and Ind AS 116 for lessee. However ASC 842 retains dual classification in the form of operating and finance lease basis the classification criteria which is similar to previous standards. Further CPI accounting has been discontinued under the standard.

The existing finance lease model for lessee and the lease accounting for lessor will largely operate in the same way as before. Significant changes made in the standards are discussed below:

- Components/ Elements – There will be two new elements in the balance sheet.

Lease obligation/ liability - Representing the future lease obligation, comprising of the present value of the future minimum lease payments or MLP's (yet to be paid), will appear on the liability side.

These MLPs comprises of fixed payments + variable lease payments (estimated) + residual value guarantees + other payments required to be made under the contract – lease incentives.

-Right of Use (ROU) asset will be recorded under the asset side representing the value that the entity possesses from the lease arrangement which is being used by it to generate return or profits.

-ROU asset comprises of Lease obligation (computed above) + Initial direct costs + Asset retirement obligation (for IFRS 16 & Ind AS 116).

- Conditions for a lease: The definition for lease has been modified and the element of "control" has been replaced with "use" which is much broader and well defined within the standards. "An arrangement contains a lease when such arrangement conveys the right to control the use of identified asset for a period of time in exchange for consideration". So the two major elements that constitute a lease are:

Identified asset

- Asset must be specified (whether explicitly or implicitly)
- Asset must be physically distinct
- The vendor must not have a substantive substitution right throughout the contract term

Control over use of asset

- Lessee receives substantially all the economies benefits from the use of the asset
- Lessee has the ability to direct the use of the identified asset i.e., how and for what purpose the identified asset is used

- Commencement date vs inception date – Commencement date is the date on which a lessor makes an underlying asset available for use by a lessee or in other words when the possession is handed over to the lessee. Inception date is the date of the lease agreement or the date of commitment by the parties to the principal terms and conditions of the lease. The accounting for leases under the new standards is to be performed on the commencement date.

- Short term lease and low value lease – Leases having lease term for a period of 12 months or less are short term lease. Low value lease are leases which are less significant in value or use to the organization like tablets, office furniture, telephones etc. These two are to be booked as lease expense in P&L and are to be disclosed separately.

- Sale & lease back – This area has gone through a significant change and now an assessment is required whether a transaction is a sale or not by referring to the provisions of IFRS 15/Ind AS 115/ASC 606 as the case may be. There is separate treatment in the standards for transactions which qualify as sale and for such which do not.

What will be the impact on the financial statement

- There are major implications on the various aspects of the financial statement:
- Balance sheet impact – The balance sheet size will increase since operating leases and CPI leases will be presented in the form of "Right to Use" assets on the assets side and "Lease Obligation" on the liabilities side of the balance sheet.

Income statement impact –

- For IFRS 16 and Ind AS 116 – The rental expense for operating leases will be replaced by interest/ finance charges and amortisation which will result in higher EBITDA. The PAT however, will be lower initially since the interest/ finance charges will be higher in the initial years. The accounting for finance leases will remain unaffected.
- ASC 842 – The treatment however is significantly different under ASC 842 due to dual classification such that the straight line rentals will continue to be there for operating leases. However, since CPI leases need to be classified as operating or finance in the new standard, there will be an impact on the P&L basis their new classification. For capital/ finance leases, the treatment is similar to IFRS 16 and Ind AS 116.
- Cash flow impact – The principal repayment of lease obligation will be considered as a financing activity under all the standards. Also short term lease, variable lease (not recognised at inception) and low value lease rentals will form part of operating activities under all the standards. However, treatment of interest charge is different in the three standards which is explained as follows:

- IFRS 16 – IFRS allows an option to consider interest charge as part of either operating or financing activities.

-Ind AS 116 – Interest will form part of financing activities.

-ASC 842 – Interest will be considered as part of operating activities. The straight line lease rentals for operating leases under ASC 842 will also be treated as operating cash outlaws.

- Financial ratios – This will have impact on all the commonly used financial ratios and performance metrics such as gearing ratio, current ratio, asset turnover, interest cover, EBITDA, EBIT, operating profit, EPS, ROCE, ROE and operating cash flows. These changes may affect loan covenants, credit ratings and borrowing costs.

What needs to be done during the adoption

A number of practical expedients, approaches and options are prescribed under the standards for the transition phase. Few important ones are as follows:

- Transitional Approach- Entities may opt for either of the below two approaches for transition:
- Full retrospective approach- This approach effectively restates the financial statements as if standards have always been applied with the help of IAS 8/ Ind AS 8/ ASC 250 Accounting policies, changes in accounting estimates and errors.
- Modified retrospective approach- Under this approach comparative figures for the year ended are not restated to reflect the adoption of standard but instead continue to reflect the accounting policies under the previous standards.

The full retrospective approach will provide users of financial statements with better information but it requires more data and analysis.

- Lease assessment– Under the standards, as a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application.

Under ASC 842, since there is dual classification, all the leases which exist on the date of transition need to be reclassified as operating or finance lease under the new standard, however, companies may use the practical expedient and can carry forward the classification from the previous standard which is ASC 840.

Due to discontinuation of CPI accounting, CPI leases need to be classified as operating or finance lease based on the classification criteria as prescribed in the standard. Further, under land and building CPI leases, both land and building need to be classified separately.

- Existing balances: The lease obligation and right of use asset will equate if an entity does not have any outstanding balances of lease equalisation reserve/ deferred rent or prepaid rentals as on the date of transition. However, if an entity does have these balances lying in their books, the same need to be adjusted to arrive at the right of use asset. In other words, ROU assets will be recorded after reducing the balance of lease equalisation reserve/ deferred rent and adding prepaid rent balance in the lease obligation balance.
- Companies following ASC 842 need to reverse all the existing balances under CPI accounting i.e. balance of CPI assets & CPI lease obligation lying in the books need to be reversed. The differential impact has to be taken through retained earnings.
- Lease previously classified as finance lease – The balances of the existing leases/ capital leases will be carried forward in the new standard. The finance/ capital lease asset will become ROU assets and the finance/ capital lease obligation will become finance lease obligation. Also if the assets under the finance/ capital lease are being recorded at fair values in the existing standard then the same fair values can be carried forward to the new standard.
- Lease components – For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. As a practical expedient, a lessee may elect not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

What need to be done post adoption

- The ROU asset needs to be amortised over the lease term and the lease obligation will be repaid with the MLPs amount after charging finance cost/ interest charge over the outstanding balance.

- Under ASC 842, for operating leases, instead of booking interest and amortisation, straight line rent/equalised rent will be booked as lease expense. The amortisation of ROU under operating leases will be calculated by taking the differential of the straight line rent and the interest on lease obligation. In a way it is deemed as the balancing figure.
- If there is a change to the lease term, future MLP's or other contractual terms, a re-measurement or lease modification as the case may be, needs to be accounted for by making changes in the lease obligation with adjustment to ROU asset

Industries affected

Entities leasing 'big-ticket' assets – including real estate, manufacturing equipment, aircraft, trains, Telecom Infrastructure, ships and technology – are expected to be greatly affected.

Differences between IFRS 16, IND AS 116 and ASC 842

A summary of the major difference between the three standards is as follows:

Basis	**IFRS 16**	**ASC 842**	**Ind AS 116**
Lease classification	Lessee apply a single on-balance sheet lease accounting model	There is a dual classification in the form of Operating and Capital leases.	Same as IFRS 16
IBR	The incremental borrowing rate is the rate a lessee would have to pay to borrow over a similar security term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.	The incremental borrowing rate is the rate a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.	Same as IFRS 16
Nature of expenditure in P&L	Interest and Amortisation	Interest and Amortisation for finance leases. Straight line rent for operating leases.	Same as IFRS 16
Presentation in statement of cash flows	Option to classify interest as financing or operating activities.	Interest to be shown as operating activities	Interest to be shown as financing activities.
Variable lease payments	Reassessment of a lease liability is required if change in lease payments occur as a result of a change in an index or rate.	Change in the lease payments as a result of a change in index or rate is not a reassessment event	Same as IFRS 16
Low value asset	Recognition and measurement exemption for leases of low-value assets is given.	No exemption for leases of low-value assets	Same as IFRS 16

Apart from the above there are differences in the disclosure requirements as well as practical expedients allowed during the transition phase under IFRS 16 and ASC 842.

The new lease standards will result in a paradigm shift in the accounting and reporting of leases, major impact in the ratios and recognition of assets and liabilities in the balance sheet. Hence, lot of due diligence and care is required on the part of the management and the auditors for effective and qualitative reporting of the numbers in the financial statements.

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Revenue Recognition by Real estate developer as per Ind AS 115- Revenue from Contracts with customers

Revenue recognition for real estate developers has always been a sensitive and highly debated matter in India. Under Ind AS, we currently have a Guidance Note on Accounting for Real Estate Transactions (for entities to which Ind AS is applicable) which deals with revenue recognition for real estate transactions. Revenue in such cases is recognized by applying the percentage of completion method on the basis of the methodology explained in Ind AS 11, Construction Contracts. Now ICAI's has also withdrawn this Guidance note w.e.f 1st June '2018 after the announcement of applicability of Ind as 115

The ICAI's announced that Ind AS 115 Revenue from Contracts with Customers would be effective from financial year ended 2018-19 and would be applicable for accounting periods beginning on or after 1 April 2018. This Article touches upon the issue on revenue recognition on percentage completion method or project completion method under Ind as 115.

Main Concept of Ind As 115

1. An entity shall apply this Standard to a contract, if the counterparty to the contract is a customer.

Customer as per Ind AS 115 means "A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration

2. An entity shall apply this Standard to all contracts with customers, except the following:

(a) Lease contracts within the scope of Ind AS 17, Leases;

(b) Insurance contracts within the scope of Ind AS 104, Insurance Contracts;

(c) financial instruments and other contractual rights or obligations within the scope of Ind AS 109, Financial Instruments, Ind AS 110, Consolidated Financial Statements, Ind AS 111, Joint Arrangements, Ind AS 27, Separate Financial Statements and Ind AS 28, Investments in Associates and Joint Ventures; and

(d) Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfill demand from their customers in different specified locations on a timely basis.

3. As per this standard below mentioned 5 steps are to be followed for Revenue Recognition

1. Identify the contract(s) with customer

2. Identify the separate performance obligations

3. Determine the transaction price

4. Allocate the transaction price to the performance obligations

5. Revenue recognition when performance obligations are satisfied

Step 1 Identify the contract(s) with the customer

A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices.

As per Para 9 of the standard 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 (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

(e) It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. Consideration may not be the same due to discounts etc.

Step 2 Identify the separate performance obligations

Performance obligation is a promise to transfer to a customer:

1. A good or service (or bundle of goods or services) that is distinct or

2. A series of goods or services that are substantially the same and are transferred in the same way

3. If a promise to transfer a good or service is not distinct from other goods & services in a contract, then the goods or services are combined into a single performance obligation.

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 (i.e. the goods or service is capable of being distinct); and

(b) The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract).

Satisfaction of performance obligations

An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer.

An asset is transferred when (or as) the customer obtains control of that asset.

So based on above one can conclude that Ind AS 115 prescribes the "Control' aspect for revenue recognition as against the "risk and reward" aspect under Ind AS 18.

Some performance obligations are satisfied over a period of time and some are satisfied at a point in time.

Step 3 Determine the Transaction Price

The 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 (for example, some sales taxes now GST). The consideration promised in a contract with a customer may include fixed amounts, variable amounts or both.

When determining the transaction price an entity shall consider the effect of all of the following:

a) Variable consideration.

b) The existence of a significant financing component in the contract.

c) Non-cash consideration (to be valued at fair value) and

d) Consideration payable to a customer

For the purpose of determining transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.

Step 4: Allocate the transaction price to the performance obligations

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

Allocation of transaction price can be done proportionately based on stand-alone selling prices. The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer.

Step 5 Revenue Recognition when performance obligations are satisfied

As per Para 35 of this standard Performance obligation is satisfied over time or at a point in time. Performance obligation is satisfied over time if one of the criteria is met out of three:

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

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

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

So based on above the Revenue Recognition for a performance obligation is done over time if one of the criteria is met out of three else Revenue Recognition for a performance obligation is done at a point in time (i.e. upon completion of the construction). Therefore, Ind AS 115 focuses on "control approach" for revenue recognition as against the "risk and rewards" approach under Ind As 18.

Key Impact in Real estate sector

Situation 1

Joint Development Agreement

Sometimes Landowners enter into Joint Development Agreement with the Developer & grant Development rights to construct real estate on its land and in return either ask the developer to share the percentage of Sales Value of constructed/to be constructed Real Estate Property or demand from developer some portion of completed Real Estate Property.

Ind AS 115 applies only to Revenue from contracts with the customer for sale of goods or services in the ordinary course of business. So in case of Joint Development Agreement Ind AS 115 applies only if landowner falls under the definition of a customer.

Meaning of Customer

Customer as per Ind AS 115 means "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"

So if Landowner will get fix percentage of sales value of constructed /to be constructed Real Estate then it is just a sale of Land transaction & will be outside the ambit of Ind AS 115.

If the landowner will get certain portion of completed property in exchange for development rights given, then the landowner may fall under the definition of customer so in that case Ind AS 115 applies & in that case revenue will be recognized at a point in time when landowner will get completed property in lieu of development rights parted with the Developer.

However, if it is a Joint Arrangement then it will fall under the ambit of Ind AS 111 Joint Arrangement.

Situation 2

Sale of Completed Property

It is possible that Real Estate Developer will sell Real Estate flats/commercial units after the construction of property is completed.

Nowadays if Real Estate Developer will sell property after it is completed then the same can be outside the ambit of RERA & also at the same time the same will be outside the ambit of GST.

But mainly for funding purpose Developer tries to sell under construction property so that with internal accruals they can complete the construction to save interest burden on Loan/Debt.

In case of sale of completed property as per Ind AS 115 Real Estate Developer will be required to recognize revenue when control is transferred to the customer i.e. at a point in time.

Situation 3

Sale of Under Construction Property

Majority of the transactions entered by the Real Estate Developers are sale of under construction property.

With the introduction of Ind AS 115 now Real Estate Developer has to account for Revenue by following above stated 5 steps approach wherein as per step 5 revenue is to be recognized when entity satisfy each performance obligation.

So, performance obligation is satisfied;

When real estate unit is handed over to customer on delivery

Or

It can be proved that performance obligation is satisfied over a period of time.

A performance obligation is satisfied over a period of time one of the criteria to be met out of three of Para 35 of Ind AS115 which are;

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

Analysis: The customer does not simultaneously receive and consume the benefits provided by the entity's construction of the real estate unit as the unit is being part-constructed real estate unit. Consequently, the observed that the criterion in paragraph 35(a) of Ind As115 is not met in under construction property PCOM cannot be applied in such cases.

b) The entity's performance creates or enhances an asset, that the customer controls as the asset is created or enhanced or

Analysis: It means this criterion applies in situations where the customer controls the work in process as the entity manufactures goods or provides services. Means arrangements include construction or manufacturing contracts where the customer controls the work in process, or research and development contracts where the customer owns the findings.

To illustrate, an entity enters into a contract with a customer to build a highly customized plant on the customer's land. The customers provide specifications for the plant and these specifications can be changed by the customer at any time during the contract term. On cancellation, any work-in-progress is the customer's property. In this case, the customer controls assets as it is created or enhanced.

But in general in real estate on cancellation by the customer the work-in-progress is the entity's property and the entity can sell the work-in-progress to another customer without incurring significant cost. Hence, the customer does not control the asset as it is created or enhanced.

So applying the Para 35(b), it is important to apply the requirements for control to the asset that the entity's performance creates or enhances. In a contract for the sale of a real estate unit that the entity constructs, the asset created is the real estate unit itself.

Although the customer can resell or pledge its contractual right to the real estate unit under construction, it is unable to sell the real estate unit itself without holding legal title to it.(because registry not in name of customer).

The customer has no ability to direct the construction or structural design of the real estate unit as the unit is constructed, nor can it use the part-constructed real estate unit in any other way.

The customer's legal title (together with other customers) to replace the real estate entity, only in the event of the entity's failure to perform as promised, is protective in nature and is not indicative of control.

The customer's exposure to changes in the market value of the real estate unit may indicate that the customer has the ability to obtain substantially all of the remaining benefits from the real estate unit. However, it does not give the customer the ability to direct use of the unit as it is constructed.

Thus, the customer does not control the part-constructed unit. Consequently, PCOM cannot be applied in such cases.

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

Analysis

The third criterion on which control is transferred over time has the following two requirements and both must be met:

1. The entity's performance does not create an asset with alternative use to the entity.

2. The entity has an enforceable right to payment for performance completed to date.

No alternative use

An asset has an alternative use if an entity can redirect that asset for another use or to another customer

An asset does not have an alternative use if the entity is unable, because of contractual restrictions or practical limitations, to redirect the asset for another use or to another customer.

Whether a good or service has alternative use, an entity must consider any substantive contractual restrictions.

Substantive means not a contract specify that an entity cannot transfer a good to another customer because the customer has legal title to the good.

Such a contractual term would not be substantive, if the entity could physically substitute that good for another and could redirect the original good to another customer for little cost.

Example of substantive contract is; Like in certain manufacturing contracts, the basic design of the asset is the same across all contracts, but substantial customization is made to the asset. As a result, redirecting the finished asset would require significant rework and the asset would not have an alternative use because the entity would incur significant economic losses to direct the asset for another use.

To illustrate, a contractor is building a highly customized mega power plant for a specific customer. Although the contract does not preclude the contractor from directing the completed power plant to another customer, it is highly customized plant. The contractor will incur significant costs to rework the design and specification of the plant to direct it to another customer. Consequently, the plant has no alternative use to the contractor.

Enforceable right to payment for performance completed to date

Any contract term, an entity must be entitled to an amount that at least compensates the entity for performance completed to date, if the contract is terminated by the customer for reasons other than the entity's failure to perform as promised.

An amount that would compensate an entity for performance completed to date would be an amount that approximates the selling price of the goods or services transferred – e.g., a right to recover costs incurred plus a reasonable margin. The amount to which the entity is entitled does not need to equal the contract margin, but has to be based on either a reasonable proportion of the entity's expected profit margin or a reasonable return on the cost of capital. However, if an entity would only recover its costs, then it would not have the right to payment for performance completed to date.

The real estate developer needs to examine information that may contradict the payment schedule and may represent the entity's actual right to payment for performance completed to date (e.g., an entity's legal right to continue to perform and enforce payment by the buyer if a contract is terminated without cause). In order to have an enforceable right to payment for performance completed to date, an entity does not need to have a present unconditional right to payment. Instead, it must have enforceable right to demand and/ or retain payment for performance completed to date upon customer termination without cause. In addition to that, if the entity receives a non-refundable upfront payment that represents the full transaction price and the entity's right to retain and not refund the payment is enforceable upon termination by the customer, this will demonstrate the entity's enforceable right to payment for performance completed to date. This is because a full upfront payment would at least compensate an entity for the work completed to date through-out the contract.

Many real estate developers sell real estate on a small down payment, followed by the rest of the payment being made at the time of delivery of the real estate; for example, a 10:90 scheme, wherein 10% of the consideration is paid upfront on booking, followed by 90% payment on delivery of the unit.

The customer can walk away without making the rest of the payment if the customer is not interested in taking delivery of the unit. Such real estate contracts do not meet the criterion of enforceable right to payment for performance completed to date.

In light of the requirements of Ind AS 115, many real estate companies in India may not qualify for POCM.

Transition Methods

Ind AS 115 requires retrospective application. It permits either 'full retrospective' adoption or a 'modified retrospective' adoption.

Full retrospective adoption

Entities electing the full retrospective adoption will apply the requirements of Ind AS 115 to each period presented in the financial statements, in accordance with Ind AS 8 Accounting

Policies, Changes in Accounting Estimates and Errors, subject to certain practical expedients. In accordance with Ind AS 8, when an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. The resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance retained earnings. However, some adjustment may be made to another component of equity (e.g., to comply with an Ind AS).

Modified retrospective adoption

Entities that elect the modified retrospective method will apply the standard retrospectively to only the most current period presented in the financial statements (i.e., the initial period of application). To do so, the entity will have to recognise the cumulative effect of applying Ind AS 115 retrospectively as an adjustment to the opening balance of retained earnings (or other appropriate components of equity) at the date of initial application.

Under this method, Ind AS 115 will be applied to either all contracts at the date of initial application (e.g., 1 April 2018) or only contracts that are not completed at this date. Depending on how an entity elects to apply the modified retrospective method, it will have to evaluate either all contracts or only those that are not completed before the date of initial application as if the entity had applied the new standard to them since inception. An entity will be required to disclose how it has applied the modified retrospective method.

CA Students Seminar on GST Audit & Annual Return

Topic : **CA Students Seminar on GST Audit & Annual Return**

Audience : Students

Date & Day : 14th December 2018, Friday

Lead By : CA. Aditi Kansal & CA. Ankur Kapil

Group Discussion on Technology & Finance

Topic : GD on "Technology & Finance "

Audience : CA Members

Lead By : CA. Arun Aggarwal & CA. Ashok Ahuja

Date & Day : 21st December 2018, Friday

Seminar on "Income Tax"

Topic : Seminar on "Income Tax"

Audience : CA Members

Speaker By : CA. Sanjay Agarwal & CA. (Dr.) Rakesh Gupta

Date & Day : 22nd December 2018, Saturday

Group Discussion on Ind AS-21 Effect of Change in Foreign Exchange

Topic : Group Discussion on Ind AS-21 Effect of Change in Foreign Exchange

Audience : CA Members

Lead By : CA. Naresh Lakhani

Date & Day : 28th December 2018, Friday

SAG Infotech Pvt. Ltd. having its registered office at Plot No 495, Above Bank of Baroda, Raja Park Gali No 5, Near AC Market, Raja Park, Jaipur – 302004, Rajasthan, India.

And

Gurugram Branch of NIRC of ICAI having its registered office at 60A, 3rd Floor, Sector-18, Gurugram, 122001, Haryana.

WHEREAS, SAG Infotech Pvt. Ltd. is a reputed IT Company AND WHEREAS, Gurugram Branch of NIRC of ICAI, is an branch of NIRC of Chartered Accountants.

In this Regard. Upon successful implementation of the arrangement, both parties are interested to work together for a mutually beneficial and strategic alliance in respect of the benefit of Chartered Accountants of Gurugram Branch of NIRC of ICAI.

NOW THEREFORE THIS MOU WITNESSETH AS FOLLOW CONDITIONS:

1. The objective of this MoU is primarily to establish a fruitful association with Gurugram Branch of NIRC of ICAI and SAG Infotech Pvt. Ltd.
2. SAG Infotech Pvt. Ltd.'s Genius software, primarily used by Chartered Accountants, is used for Taxation purpose and very popular software across India and available at an MRP of 10,000 (Exclusive Taxes).
3. SAG Infotech Pvt. Ltd, is willing to provide this said product with name of Genius to all Chartered Accountants, under Gurugram Branch of NIRC of ICAI, with a discount of 50%. Therefore, all Chartered Accountants, under Gurugram Branch of NIRC of ICAI exclusively get this software with name of Genius at Rs. 5,000 (Exclusive Taxes).
4. Gurugram branch will share this understanding with its members through suitable means.
5. SAG Infotech Pvt. Ltd. will treat each Chartered Accountant, under Gurugram Branch of NIRC of ICAI, as an individual customer of Company and all conditions which are applicable to any other customer will be applicable to them as well. (Separate Document of Customer Guidelines/Conditions is attached).

Medanta - The Medicity

Medanta – The Medicity with 'The Institute of Chartered Accountants of India' for providing medical services to the members & their dependents of 'The Institute of Chartered Accountants of India'

Following are the agreed terms & conditions:

- 10% discount on OPD services such as Consultation Fees, Investigations (Laboratory & Radiology). Please note that no discount will be given on any package based OPD procedures, drugs, consumables, blood components, implants, devices, day care procedures, CT Angiography, CT Scan, PET CT, MRI & outsourced investigations.
- 10% discount on IPD services (for non – insured employees) such as Room Rent & Investigations (Laboratory & Radiology) except drugs, disposables, consumables, blood components, implant, devices, contents of pre defined packages, outsourced services, CT – Angiography, MRI, OT, Anesthesia Charges & outsourced investigations.
- 10 % discount on Standard Health Checkup packages.
- Personal assistance in admissions & treatment.
- Health Education talks in organization premises.
- Discount on Healthcare services can be availed by the employee by showing the Membership ID Card. In case of dependent family member the Membership ID Card of the member & the Govt. ID Card (like PAN Card, Election ID Card, Passport etc.) of the dependent will be required.
- The validity of the agreement will be one year i.e. from September, 15, 2018 to September, 14, 2019.
- All services are agreed in cash mode. No credit to be extended.

Overview of 'Lite Bite Foods' and Validity

'Lite Bite Foods' is one of the largest & most dynamic Food & Beverage retail company in the country, with over 14 core brands & 6 Franchise brands under its umbrella. We have 95 operational outlets in India, Bangkok, Singapore, Abu Dhabi, Dubai & United States of America & with a plan of opening 31 new outlets company aims to become one of the largest Food & Beverage players in India by 2016. Currently we have a strong presence in Malls, High Streets, Airports, Multiplexes, Office complexes, Hotels and other high footfall locations.

Our awarded hero brands are Punjab Grill, Zambar, Fresco Co, Asia 7, Street Foods By Punjab Grill, Baker Street, Artful Baker, Pino's, Flamez & Roasted, Naashto, American Tandoor, Savour (Outdoor Catering Brand), Clink, Bottoms Up. We also run Franchise stores of Subway, KFC, Pizza Hut, Burger King, and Café Istanbul.

We invite all are members to avail this opportunity at their restaurants.

The Terms and Conditions offered will be as follows:

1. <u>Fine Dining Restaurants& Casual Dining Restaurants</u> will offer 15% discount on food & soft beverage. The restaurant covered under this policy will be:
   a) Punjab Grill
   b) Asia Seven
   c) Zambar- Coastal Kitchen
   d) Fresc co
   e) Bottoms Up

2. <u>Quick Service Restaurants</u> will offer 10% discount on food. The restaurant covered under this policy will be:
   a) <u>Baker Street</u>
   b) <u>Pino's</u>
   c) Street Foods by Punjab Grill
   d) <u>Subway</u>
   e) <u>Asia Seven Express</u>
   f) Zambar Express

Other applicable Conditions:

- All Discount OFFER(s) are NOT applicable on Festivals and Public Holidays.
- All Discount applicable on Saturdays and Sundays also.
- Discounts are only applicable on showing valid Membership Card/CA logo visiting card at the time on Dining.
- The menu prices at Outlets are subject to change without any prior notice.
- The conditions mentioned on the menu are applicable.

- Taxes and other Govt. levies are applicable.
- No other offers, exemptions or discount schemes can be clubbed with this corporate offer.
- Discounts are not applicable on Hard drinks & MRP products.
- Discount are not applicable at Airport/ railway/ Metro outlets.
- Mode of Payment-Cash / Credit Cards.

S.No	Outlet Name	Location	Outlet Landline No.	Address
1	ASIA 7	Ambience Mall	0124-4665571	Shop No. 318, 3rd Floor, Next to Food Court, Ambience Mall, Gurugram.
2	BAKER STREET	Ambience Mall	0124-4665567	Shop No.16, Food Union, 3rd Floor, Ambience Mall, Gurugram.
3	FRESC CO	Ambience Mall	0124-4665572	Shop No. 317, 3rd Floor, Next to Food Court, Ambience Mall, Gurugram.
4	PINO'S	Ambience Mall	0124-4665495	Shop No. 14, 3rd Floor, Food Union, Ambience Mall, Gurugram.
5	PUNJAB GRILL	Ambience Mall	0124-4665478	Shop No. 319, 3rd Floor, Next to Food Court, Ambience Mall, Gurugram.
6	SF by PG	Ambience Mall	0124-4665513	Shop No. 02, 3rd Floor, Food Union, Ambience Mall, Gurugram.
7	SF by PG	MGF Metropolitan Mall	0124-4222238	Shop No. 05, 3rd Floor, Food Court, MGF Metropolitan Mall, Gurugram.
8	SF by PG (Delivery Only)	Udyog Vihar	0124-4236633	Plot - 317 Udyog Vihar Phase - 4 Gurugram
9	SUBWAY	Ambience Mall	0124-4665515	Shop No. 04, 3rd Floor, Food Union, Ambience Mall, Gurugram.
10	SUBWAY	DT Mega Mall	0124-4015577	3rd Floor, Food Court, DT Mega Mall, Gurugram.
11	SUBWAY	Cyber Green	0124-4016962	Ground Floor, Food Court, Cybergreen Tower, DLF Phase-III, Gurugram.
12	SUBWAY	Fortis Hospital	0124-4039728	Fortis Hospital Sector 44, Gurugram Haryana
13	ZAMBAR	Ambience Mall	0124-4665639	Shop No. 310, 3rd Floor, Next to Food Court, Ambience Mall, Gurugram.
14	ZAMBAR	Cyber Hub	91-8130450438	Ground Floor, Cyber Hub, Cyber City, Gurugram

Feedback & Suggestions

Gurugram Branch will be happy to receive the feedback from you regarding the seminars/workshops and other activities organized by branch.

You may please send feedback at-

Gurugram Branch of NIRC of ICAI requests the members & students to come forward & share the articles (Professional & other) to be published in the upcoming newsletter. The submissions may be sent to itticaigurgaon@gmail.com with the subject line (Article Newsletter).

Regarding	Email	Subject line
Seminars/Workshops	icaigurgaon@gmail.com	Sub: Seminar______
Others	icaigurgaon@gmail.com or arunaggarwalca@gmail.com	Feedback______

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