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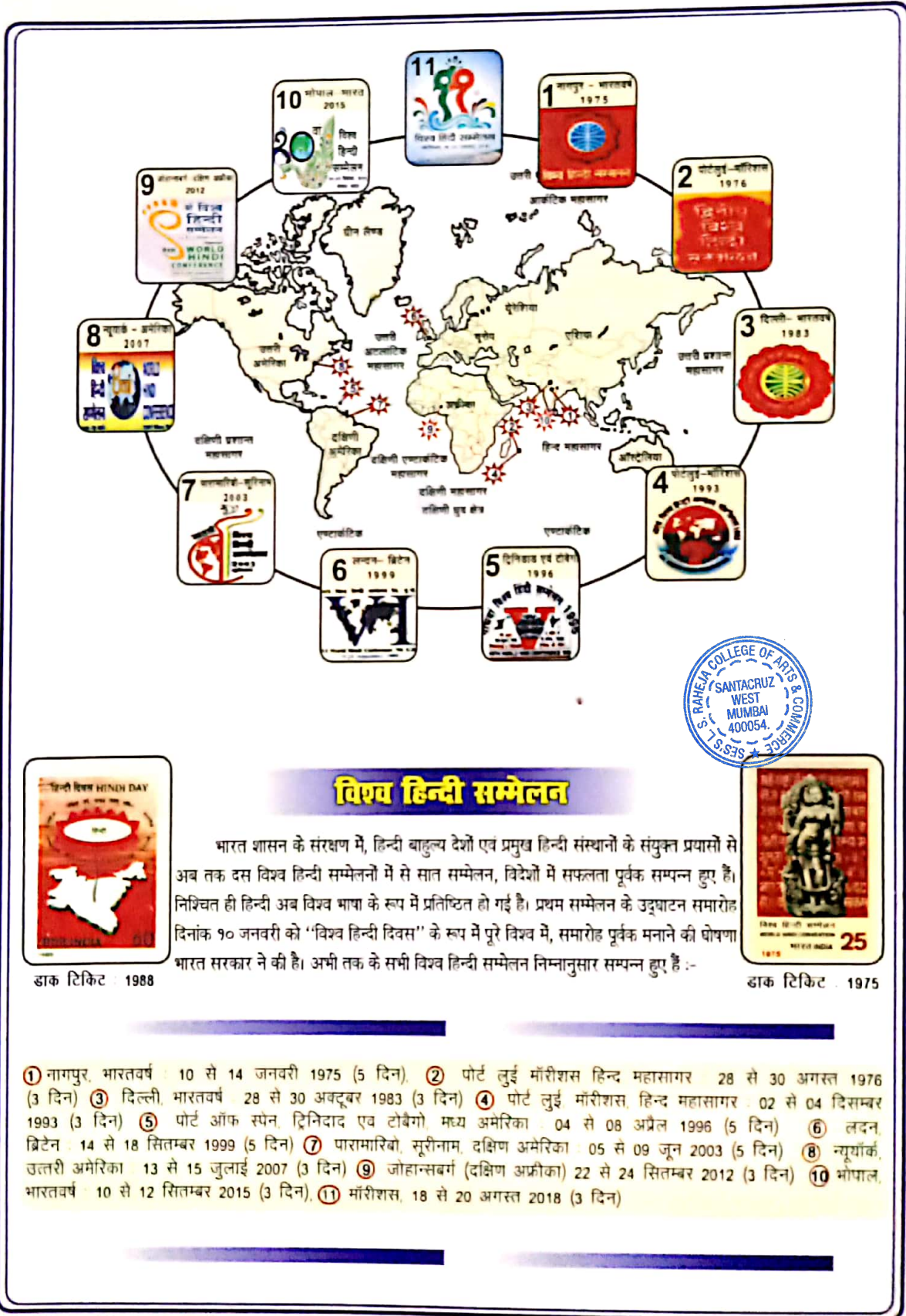
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# अब तक आयोजित समस्त विश्व हिन्दी सम्मेलन



डाक टिकिट : 1988

## विश्व हिन्दी सम्मेलन

भारत शासन के संरक्षण में, हिन्दी बाहुल्य देशों एवं प्रमुख हिन्दी संस्थानों के संयुक्त प्रयासों से अब तक दस विश्व हिन्दी सम्मेलनों में से सात सम्मेलन, विदेशों में सफलता पूर्वक सम्पन्न हुए हैं। निश्चित ही हिन्दी अब विश्व भाषा के रूप में प्रतिष्ठित हो गई है। प्रथम सम्मेलन के उद्घाटन समारोह दिनांक 90 जनवरी को "विश्व हिन्दी दिवस" के रूप में पूरे विश्व में, समारोह पूर्वक मनाने की घोषणा भारत सरकार ने की है। अभी तक के सभी विश्व हिन्दी सम्मेलन निम्नानुसार सम्पन्न हुए हैं :-



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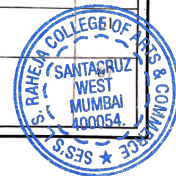
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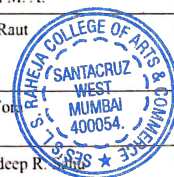
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- Proper biographical references must be given alphabetically in APA style at the end of the text.

## INDIAN ACCOUNTING STANDARD 115 – KEY FACTORS AND IMPACT ON REAL ESTATE INDUSTRY

Mr. Raju Dattaram Gole\*

### ABSTRACT

Ind AS (Indian Accounting Standard) 115 is the new accounting standard for revenue recognition effective from reporting periods beginning on or after 1 April 2018 helped in "improved disclosures" as well as minimise the scope for interpretation on various areas. It brings in a detail and transparent framework for recognition, measurement and disclosure of revenue. Ind AS 115 is coalition to IFRS 15, Revenue from Contracts with Customers, issued by International Accounting Standards Board ('IASB'). IFRS 15, Revenue from Contracts with Customers, was jointly issued by IASB and Financial Accounting Standards Board ('FASB') with mandatory effective date of 1 January 2018. It has replaced other two standards Ind AS 18 and 11, which are related to revenue and construction contracts. This paper takes you through each of the key steps involved in recognising revenue under Ind AS 115 and looks at some of the practical implications, objective, scope, features associated with implementation of standard along with available practical expedients. In addition, it also looks at the disclosures that will need to be provided under Ind AS 115. The publication also takes a look at the potential impact on real estate sectors. The data used in it is collected from secondary sources according to the need of the study.

**Keywords:** Indian Accounting Standard, IFRS, Principles, Features, Objective, Revenue recognition, Disclosure

#### I. Introduction:

Ind AS 115 Revenue from Contracts with Customers has notified by the Ministry of Corporate Affairs (MCA) On 29 March 2018, which is for companies following Indian Accounting Standards (Ind AS) from 1st April, 2018.

Ind AS 115 is based on IFRS and US GAAP, which are internationally effective from annual periods starting January 1, 2018. After several years of international joint discussions, deliberations and outreach across various sectors by the International Accounting Standards Board and the US Financial Accounting Standards Board these new standards became reality.

Ind AS 115 has replaced the existing Ind AS

standards, i.e., Ind AS 18 Revenue, Ind AS 11 Construction Contracts and their associated appendices with effect from financial year beginning from 1 April 2018,

Ind AS 115 principles differs to a great extent as compared to existing revenue recognition principles. The new standard has removed inconsistencies and loopholes in previous revenue requirements, provide a more robust framework and improve comparability of revenue recognition practices across entities. It also provides more relevant and useful information to users of financial statements through improved disclosure requirements.

Ind AS 115 requires retrospective application. Full retrospective' adoption or a 'modified

\*Assistant Professor - BBI Department & M. Com Coordinator, SES'S L. S. Raheja College of Arts & Commerce, Santacruz West, Mumbai

retrospective' adoption are allowed under this standard. In the first case the standard is applied to all of the periods presented, including the comparative period under the latter case the cumulative effect of retrospective application is recognised at the date of application.

Transition to Ind AS 115 has significantly impacted various sectors such as telecom, information technology, engineering and construction, real estate construction, consumer products and retail. Transition to new revenue recognition standard is not only an accounting change but it has also affected company's data, systems and processes.

#### II. Objectives of the Study:

1. To study about the principles of Ind AS 115.
2. To study about the scope of Ind AS 115.
3. To study about the objective of Ind AS 115.
4. To study about the disclosure requirements of Ind AS 115.
5. To highlight the features associated with the implementation of Ind AS 115.
6. To study the impact of Ind AS 115 on real estate sector.

#### III. Research Methodology:

This study is descriptive in nature and it has used the exploratory technique. The data for the study has been gathered from the secondary sources such as books, journals, newspaper, research papers, articles and websites.

#### IV. Scope of the Study

The present study is done on key factors related to the implementation of Ind AS 115 and analysing its impact on the real estate industry of Indian economy.

#### V. Principles of Ind AS 115:

Ind AS-115 core principle is that revenue should be recognized from the transfer of goods or services to a customer in an amount that reflects the consideration that the entity expects to be received in exchange for the goods or services.

Ind AS 115 requires an entity to emphasize on the customer's point of view to decide revenue recognition. It prescribes a five-step model for revenue recognition:

#### Step 1: Identify the contracts with the customer

An agreement which creates enforceable rights and obligations between two or more parties is known as a contract. It's a matter of law to enforce the rights and obligations in a contract. Contracts can be written, oral or implied by an entity's customary business practices but revenue can be recognised only on those contracts that are enforceable and have commercial substance.

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. An approval to the contract (in writing, orally or in accordance with other customary business practices) has given by the parties and are committed to perform their respective obligations;
- b. Each party's rights regarding the goods or services to be transferred can be identified by the entity;
- c. The payments terms regarding goods or services to be transferred can be identified by the entity;
- d. The contract has commercial substance (i.e. the timing, risk 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 consideration to which an entity will be entitled in exchange for the goods or services that will be transferred to the customer will be collected. Consideration may vary due to discounts etc.

#### Step 2: Identify the separate performance obligations

Performance obligation is refers to a promise to transfer the following to a customer  
A good or service (or bundle of goods or services) which is distinct in nature or



- A series of substantially same goods or services and are transferred in the same way
- The goods or services are combined into a single performance obligation, if a promise to transfer a good or service is not distinct from other goods & services in a contract, then

Distinction of goods or services that is promised to a customer is based upon the fulfilment of the following criteria:

- a. the customer can benefit from the good or service either on its own or along with other resources that are readily available to the customer (i.e. the good or service is distinct in its individual capacity); and
- b. it is identifiable independently the entity's promise to transfer the good or service to the customer from other promises in the contract (i.e. the good or service is distinct within the background of the contract).

#### Satisfaction of performance obligations

The recognition of revenue by an entity shall be 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 considered to be transferred when (or as) the customer gains control of that asset.

So based on aforementioned principle one can infer that Ind AS 115 provides the "Control" aspect for revenue recognition instead of the "risk and reward" aspect under Ind AS 18. Performance obligations are satisfied either over a period of time or at a point in time.

#### Step 3: Determine the transaction price

The transaction price refers to the amount of consideration receivable by an entity for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, VAT, CST now GST). The consideration may include fixed amounts, variable amounts or both as promised in a contract with a customer.

The effects of variable consideration, Non-cash consideration (to be valued at fair value), the existence of a significant financing component in the contract and Consideration payable to a customer shall be

considered while computing transaction price. While 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 altered.

#### Step 4: Allocate the transaction price to the performance obligations

The very purpose when allocating the transaction price is to apportion transaction price to each performance obligation (or distinct goods or service) in such manner that

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

#### Step 5: Recognise revenue when (or as) a performance obligation is satisfied.

Ind AS 115 focuses on "control aspect" for revenue recognition over the "risk and rewards" approach under Ind AS 18. Performance obligation can be satisfied over time or at a point in time. Performance obligation is satisfied over time is achieved if either the customer simultaneously receives and consumes the benefits, the entity's performance creates or enhances an asset (for example WIP) or an asset is not created by entity's performance.

#### VI. Scope of the Ind AS 115

##### In Scope

Revenue from contracts with customers (subject to exceptions as specified), including contracts for

- ✓ Sales of goods
- ✓ Rendering of services, including construction services
- ✓ Licensing of intellectual property

Non-monetary assets exchanges other than barter exchanges (see scope exclusions)

Non-contractual income e.g. Under Ind AS 41, Agriculture - Fair value of agricultural produce recognised

Contracts within the scope of:

- Ind AS 17, Leases
- Ind AS 104, Insurance Contracts
- Ind AS 109, Financial Instruments: Recognition and Measurement
- Contracts that are not with customers (e.g. some risk and benefit sharing contracts)
- Non-monetary exchanges between companies in the same line of business to facilitate sales to customers

#### Objective of Ind AS 115:

The objective of introduction of Ind AS 115 is to provide the principles that an entity should apply to provide necessary and useful information to users of financial statements about the timing, nature, amount and uncertainty of revenue and cash flows arising from contract with a customer, according to a notification issued by the Corporate Affairs Ministry.

#### III. Disclosure Requirements under Ind AS 115

Disclosure requirements under Ind AS 115 are more detailed as compared to those under the current Ind AS. Accordingly an entity should disclose the following

- Disaggregation of revenue
- Contract balances
- Performance obligations
- Significant judgements
- Cost to obtain or fulfil a contract

#### IX. Features Associated with the Implementation of Ind AS 115

1. Developers can no longer book revenue using Percentage Completion Method

be accounted as per the 'Project Completion Method'.

2. Globally, the standard accounting practice is to book profits on the 'Project Completion Method', because any buyer in an under-construction project can exit and seek a refund.
3. Standard business accounting calculates any payment received before the transaction as an advance payment or loan. Buyer's payments in under-construction projects heretofore would be treated as loans.
4. IND AS 115 provisions are in line with the RERA that prescribes sales proceeds of under-construction projects to be kept in a separate escrow account and not treat it as revenue.

#### X. Impact of Ind AS 115 on Real Estate Sector

Both preparers and users of financial statements in any industry emphasize significantly on revenue accounting. Thus, the notification of Indian Accounting Standard 115 (Ind-AS 115), 'Revenue from Contracts with Customers' in March 29, 2019 provided a new comprehensive framework for recognising revenue.

The new revenue standard takes over all current revenue recognition requirements under Ind AS, i.e., Ind AS 18, Ind AS 11 and related guidance notes. The core effect of the new revenue standard includes change in nature, timing, extent and amount of revenue to be recognised.

One of the major Ind AS issues in the sector is around revenue recognition for real estate development. In fact, one of the carve outs from IFRS is on account of non-inclusion of the equivalent of an IFRS interpretation, IFRIC 15 - Agreements for the Construction of Real Estate, under Ind AS issued. There is guidance note issued by the ICAI for real estate sales that is to be applied. As per the Ind AS 11, the revenue is generally recognized by applying the percentage of completion method as Ind AS 11 Construction contracts.

Under Ind AS 115, an entity transfers control of a good or service over time (rather than at a point in time).

time) when any of the three criteria mentioned under step 5 is met. If an entity is unable to demonstrate that control transfers over time, the presumption is that control transfers at a point in time.

#### Barter and Joint Development Agreement

In case of barter and joint development agreement where Landowners & the Developer enters into Joint Development Agreement & Landowners grant development rights to construct real states on its land and in consideration either ask for share in the percentage of sales value of real state property constructed or to be constructed or ask from developer some portion of completed Real Estate Property.

Ind AS 115 applies only to contracts with the customer for sale of goods or services in the ordinary course of business. Ind AS 115 is not applicable in case Joint Development Agreement if landowner does not under the ambit of definition of a customer.

Customer has been defined under 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"

Landowner will be outside scope of Ind AS 115 if he is receiving fix percentage of sales value of constructed to be constructed Real Estate which will be termed as just a sale of Land transaction.

If the landowner gets certain portion of completed real state 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.

However, Ind AS 111 Joint Arrangement is applicable if it is a Joint Agreement.

#### Sale of Completed Property

As per Ind AS 115 if Real Estate Developer sold completed property then he will be required to recognize revenue when control is transferred to the customer i.e. at a point in time.

#### Sale of Under Construction Property

Real Estate Developers mainly entered into sale of under construction property. With inception of

Ind AS 115, revenue has to be recorded by Real Estate Developer following above-mentioned 5 steps approach wherein as per step 5 revenue is to be recognized when entity satisfy each performance obligation. So now query is 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. We have seen above that if criteria prescribed under the standard should be met to prove that performance obligation is satisfied.

#### Contract Costs

##### Incremental costs of obtaining a contract

Incremental costs of procuring contract shall be recognized as an asset if the entity expects to recover those costs. Incremental cost refers to additional costs an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example a sales commission). It may be recognized as an expense if the amortization period of the asset is one year or less.

##### Brokerage in Real Estate Industry

Brokers assists Real estate developers for finding buyers to enter real estate contracts of buying flats commercial property with them. Brokerage is fully paid on receipt of full consideration from the customer or it is paid proportionately based on amount received from the customer or it is paid on execution of the agreement for real estate sales. As per Ind AS 115, Brokerage which is incremental costs of obtaining a contract will have to be capitalized as cost to obtain a contract as mentioned above.

#### XI. Conclusion:

Information about revenue is very important and is used to assess a company's financial performance and position and to compare that company with other companies. Ind AS 115 has improved the comparability of revenue across entities, industries, global capital markets and enabled them for more improved disclosures of revenue to help investors and analysts better understand entity's position.

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