



Voices on Reporting Ind AS 115-Automotive sector

30 August 2018

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Welcome



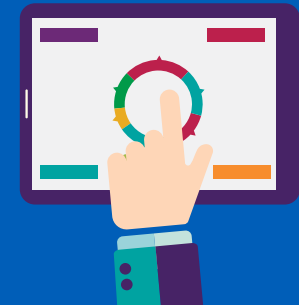
01

Series of knowledge sharing calls



02

Covering current and emerging reporting issues



03

Scheduled towards the end of each month



04

Look out for our Accounting and Auditing Update, IFRS Notes and First Notes publications



Speaker for the call



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Ind AS 115 – Quick recap

Ind AS 115 - Quick recap



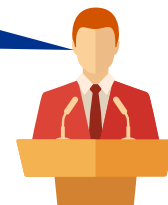
Core principle of Ind AS 115, *Revenue from Contracts with Customers*

.....is that an entity recognises **revenue** to depict the transfer of **promised goods and services** to customers in an amount that reflects the consideration to which the entity expects to be entitled **in exchange** for those goods or services.

Customer is...
..... "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**".

The new revenue standard is applicable to Indian companies following the Ind AS road map framework from 1 April 2018.

Recap of the five-step model



STEP 1	Identify the contract with the customer (One or multiple)	
STEP 2	Identify the performance obligations in the contract (One obligation or multiple)	
STEP 3	Determine the transaction price (Total consideration for contract)	
STEP 4	Allocate the transaction price to the performance obligation (Allocate to various performance obligations identified)	
STEP 5	Recognise revenue (At a point-in-time or over-time)	



Common industry issues – Automotive sector

Framework agreements



Do your framework agreements meet the contract existence criteria?

Generally, you can recognise revenue from a contract once all of these criteria are met

Collection of consideration
is probable

Contract has commercial
substance

Rights and payment terms
are identified

Approved and parties
committed to obligations

Think about...

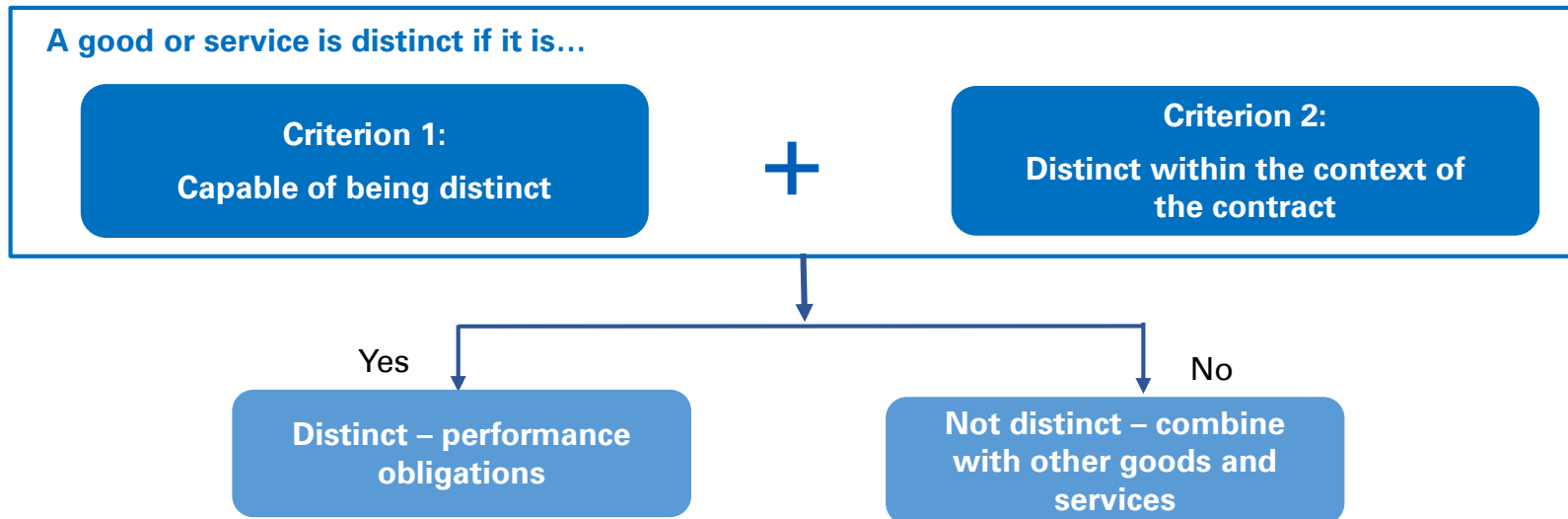


Master service agreements | Tooling arrangements | Subsequent purchase orders

Performance obligations-dealer incentives



Do your agreements include elements that meet the new '**distinct**' test to be accounted for separately?



Think about...



Manufacturer with a history of offering free goods/maintenance services to its dealers' customers e.g. free spares/accessories

Implicit promise may exist and maintenance services to be treated as a separate performance obligation

Performance obligations (continued)



Car manufacturer N sells to customer A



Car

+



Standard
warranty: 3 years
or 36,000 miles

+



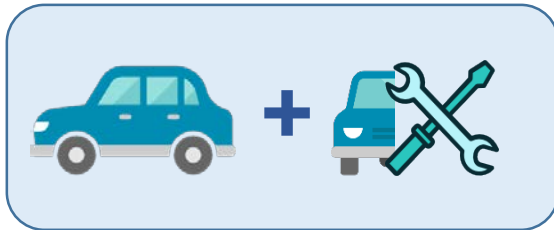
Extended warranty:
additional 3 years or up
to 70,000 miles for
INR5,000

Think about..



How many performance obligations are there in the contract?

Performance obligations (continued)



Car and standard warranty



Standard warranty is an assurance type warranty

Apply
Ind AS 37

And



Extended warranty



The customer has the option to purchase the extended warranty separately

The extended warranty provides additional services to the customer

Think about...



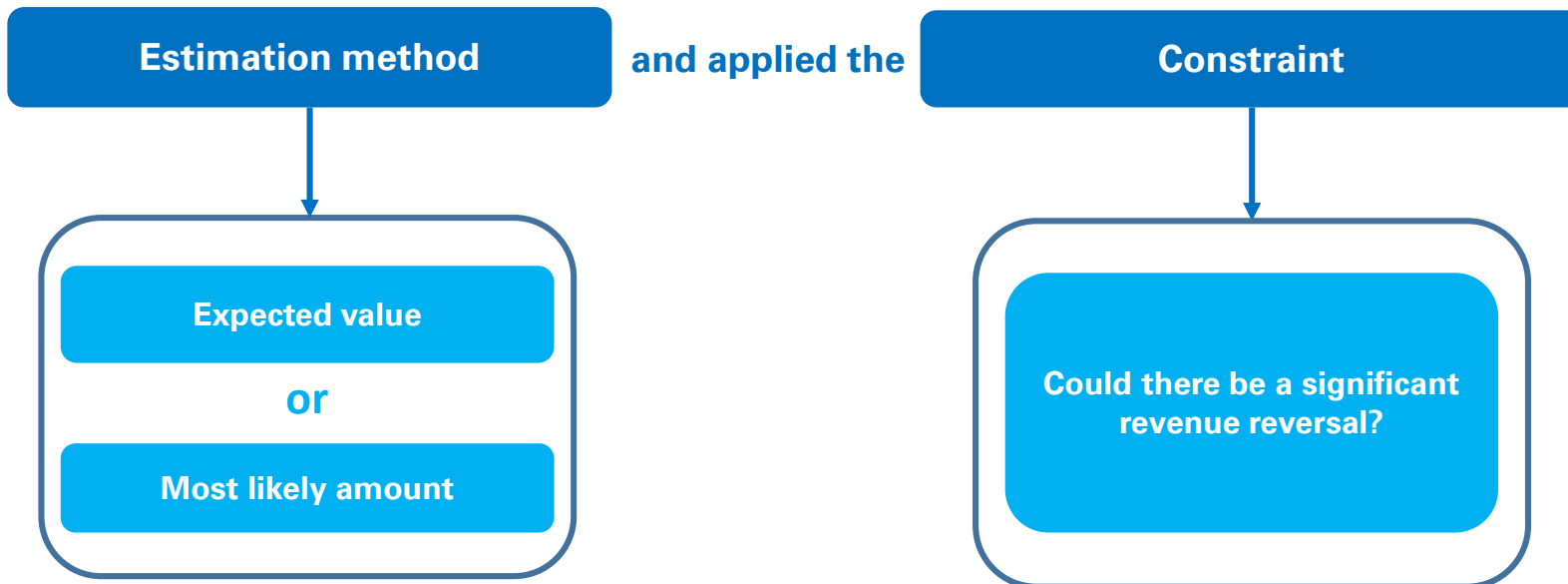
Factors to be considered whether a warranty provides an additional service

Is it required by law | Is it longer than customary | What tasks are performed

Variable consideration



If the contract price contains variable consideration, have you decided on the...



Think about...



Sales incentives offered by a seller

Cash incentives | Discounts | Volume rebates |
Subvention schemes | Loss sharing | Other
similar items

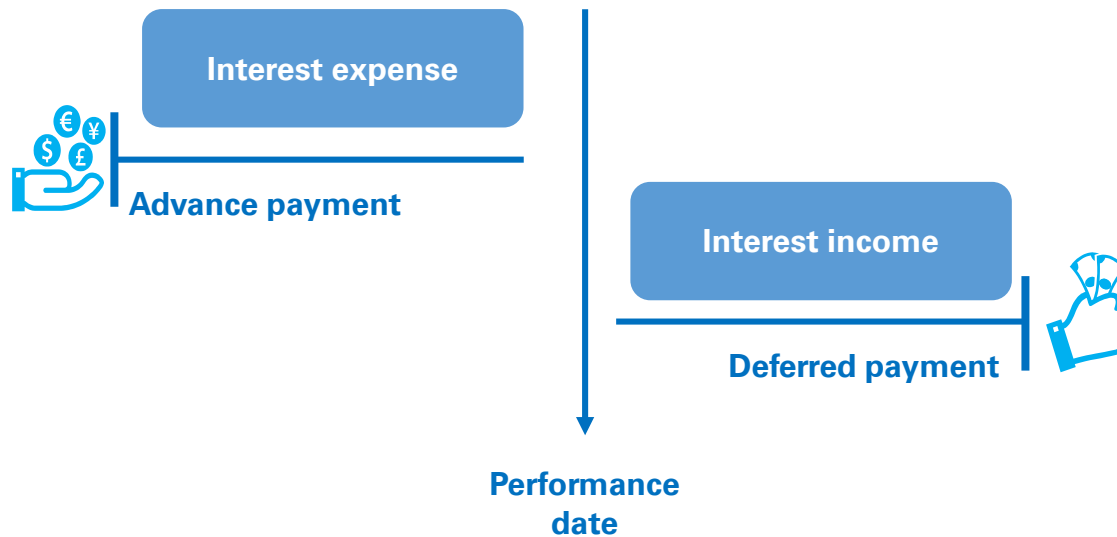
Element of contingency in the form of occurrence or non-occurrence of a future event

Performance bonuses | Refunds | Credits

Significant financing components



Do **deferred or advance payment terms** in your contracts give rise to a significant financing component?



Does not apply if the timing of performance is at the customer's discretion



Practical expedient

No need to recognise if period between payment and performance is less than one year.



Have you determined the accounting treatment for tools manufactured?

Sale?

Lease?

**Property, plant and
equipment?**

Think about...



Who develops them

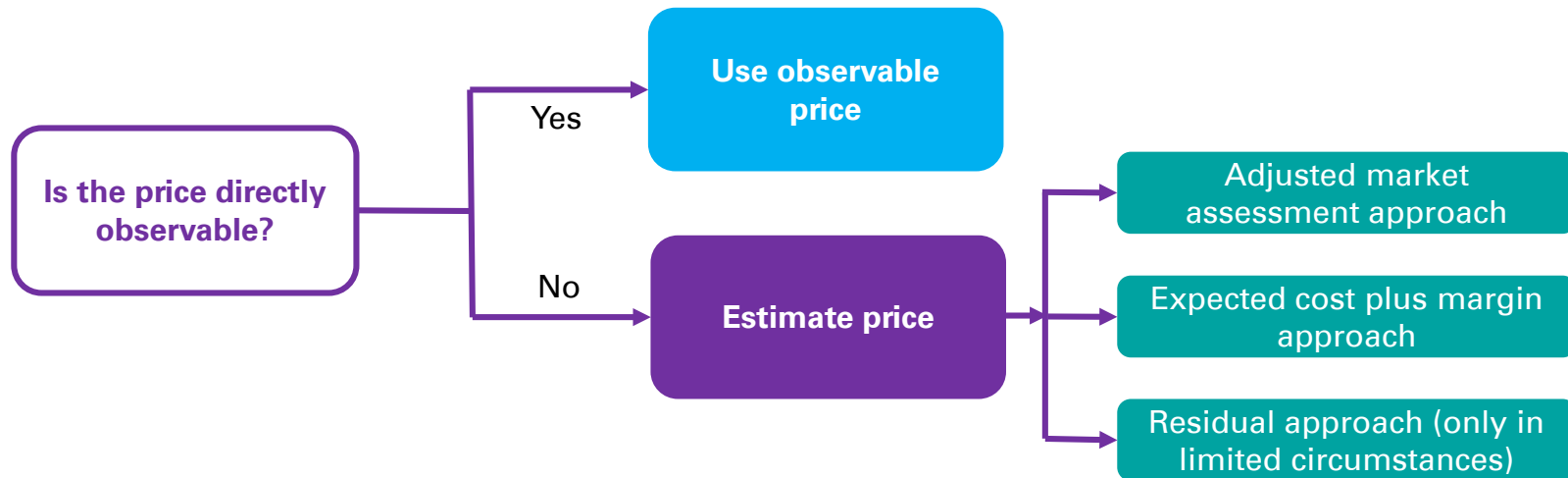
Who owns them

Who directs their use

Allocating the transaction price



How will you determine the **stand-alone selling prices** of your performance obligations and allocate the transaction price?



Think about...



Extended warranty | Free goods and services

Timing of revenue recognition



Will there be any changes to the **timing** of your **revenue recognition**?

Revenue is recognised...

At a point-in-time when the customer obtains control

or

Over-time if specific criteria are met

Think about...



Shipping and handling activities | Transfer of control | Principal vs agent

Principal vs agent



Have you reassessed whether you are acting as a **principal** or as an **agent**?



Think about..



Original Equipment Manufacturer (OEM) acts as a principal | OEM acts as an agent

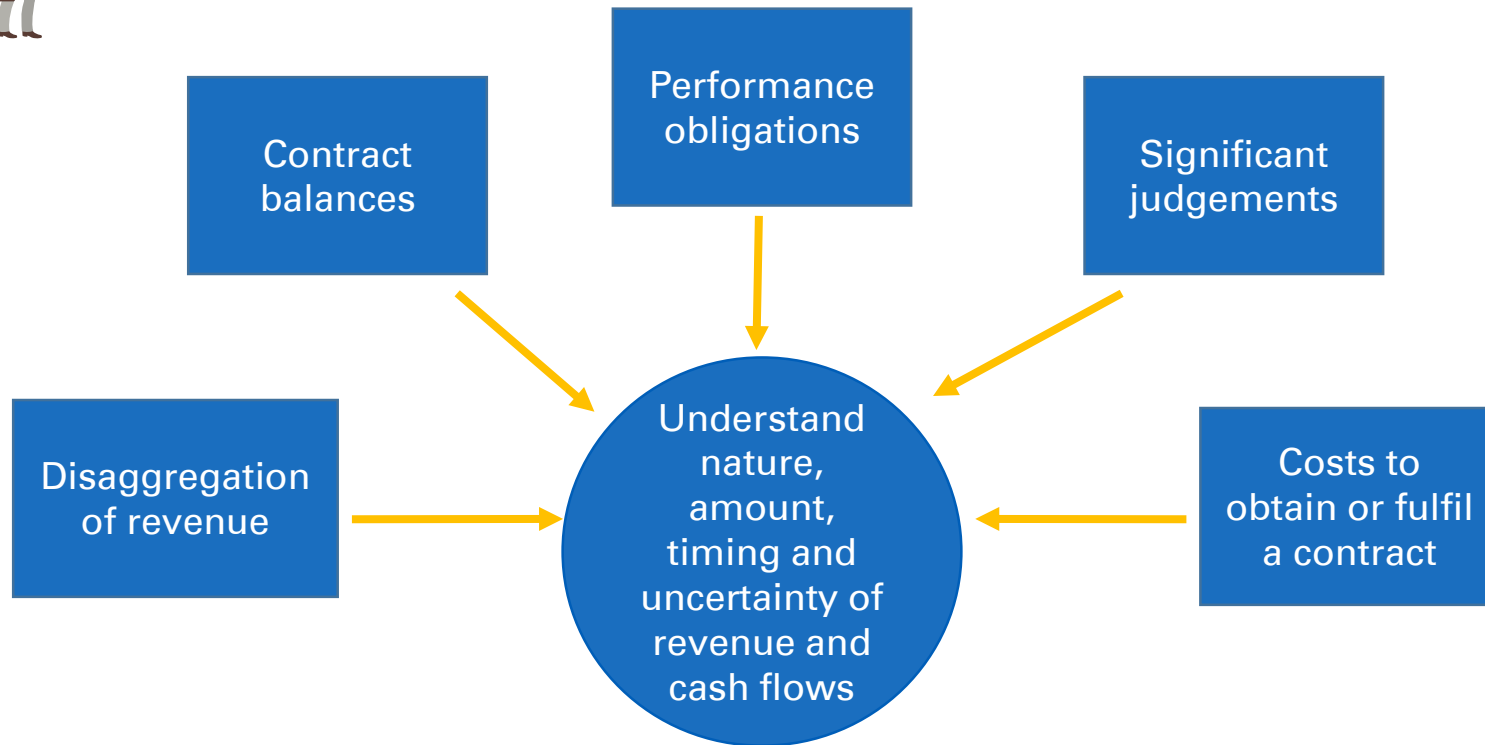
A graphic illustration of a stack of papers. The top paper is white and features the text 'Disclosure requirements'. To the left of the papers is a blue pencil with a white eraser. To the right is a yellow folder tab. The entire graphic is set against a dark blue background.

Disclosure requirements

Disclosure requirements



Qualitative and quantitative disclosures





Q&A



Links to previous recordings of VOR



Month	Topics	Link
April 2018 (special session)	<ul style="list-style-type: none">• Ind AS 115 - Sector series 2	Click here
May 2018 (special session)	<ul style="list-style-type: none">• Integrated Reporting	Click here
May 2018 (special session)	<ul style="list-style-type: none">• SEBI implements Kotak Committee recommendations	Click here
June 2018 (special session)	<ul style="list-style-type: none">• ICDS implementation issues	Click here
June 2018 (special session)	<ul style="list-style-type: none">• Ind AS implementation for NBFCs	Click here
July 2018	<ul style="list-style-type: none">• Notification of sections of the Companies (Amendment) Act, 2017 and related rules under the Companies Act, 2013• Amendments to SEBI Listing Regulations pursuant to Kotak Committee recommendations• Ind AS Transition Facilitation Group (ITFG) clarification - Bulletin 15	Click here

For other archives of VOR calls, visit www.KPMG.com/in

Our publications

Accounting and Auditing Update



First Notes



Coming up next

New issue of:

- Accounting and Auditing Update
- First Notes
- IFRS Notes

Download from www.kpmg.com/in

IFRS Notes





Thank you

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