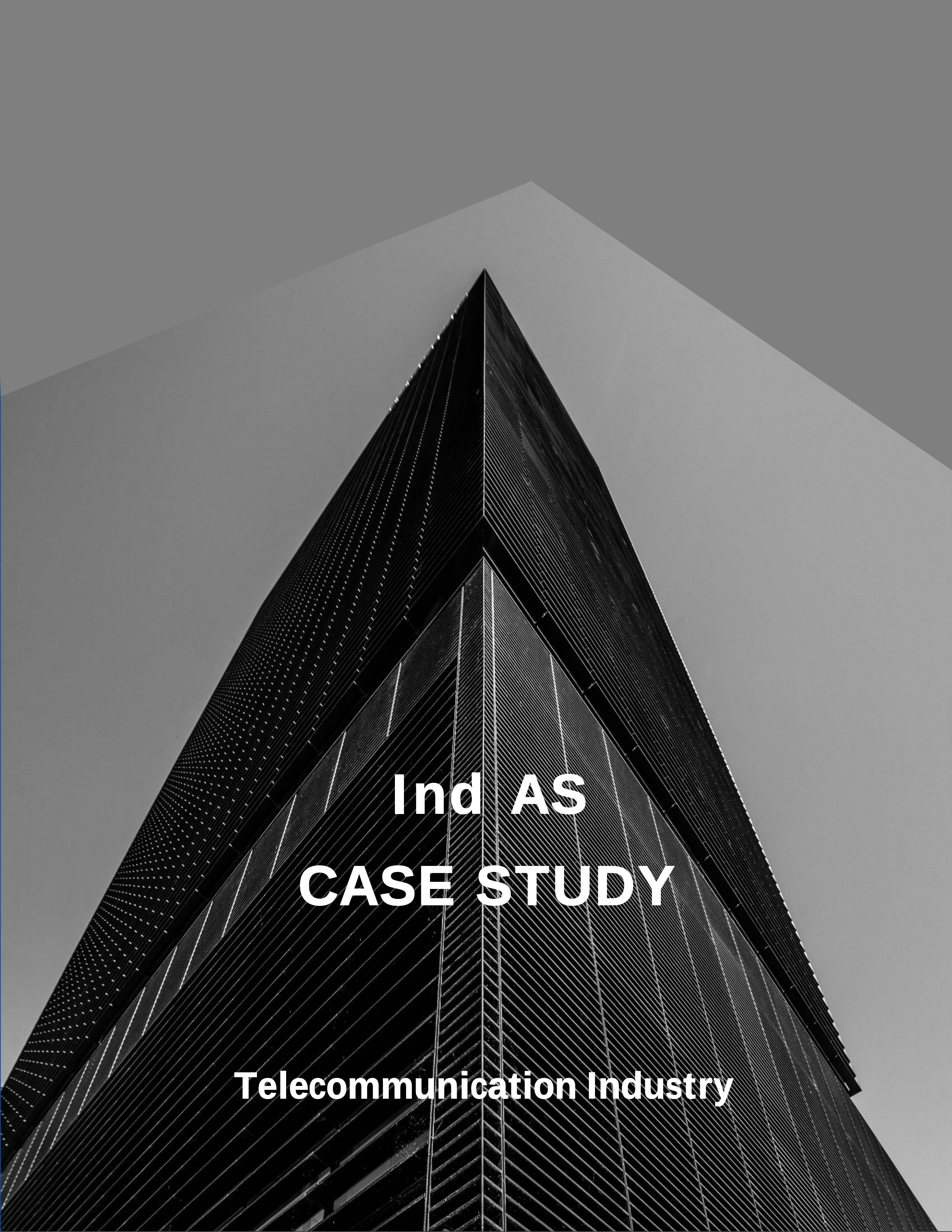

Ind AS
CASE STUDY

Telecommunication Industry

CASE STUDY

Ind AS 115 – How to Allocate the Transaction Price to Separate Performance Obligations Combined into a Contract

EXAMPLE

The reporting period of ABC Ltd, a telecommunication entity, ends on 31 March each year. ABC Ltd sells a particular type of handset for CU 7,200 (ie, the stand-alone selling price) and the customer pays in full at the point of sale, ie, when the customer takes possession of the handset. A customer can also purchase the handset by entering into a 24-month contract to make the deferred payment for CU 400 per month beginning from one month after contract inception.

The following are the terms of the plan for telecom services (per month) –

Talk-time	Data pack	SMS
CU 100 for 1,000 minutes per month, thereafter, CU 0.05 for every additional minute after using up the allotted 1,000 minutes.	5 GB Data plan. First 5 GB is at 4G speed for CU 50. CU 5 for every 500 MB of extra data used, thereafter.	Unlimited. A customer can text any number of messages without incurring any additional cost.

For handset sold in bundled packages, customers pay monthly in equal installments over a period of 24 months. Telecom services are billed and paid on monthly basis.

On 1 February 20x4, a customer enters into a 24-month contract to purchase the handset and services (as mentioned above) under a deferred payment scheme for a consolidated monthly payment of CU 500.

For the month of February, the customer stayed within the level of service in the above mentioned plan. But for the month of March, he used 1,200 minutes of talk time and 1 GB of extra data for which he paid CU 520. **The point to note is that when a customer goes over the minutes/date usage, the price for additional minutes/data usage reflect their stand-alone selling prices**.

How will ABC Ltd account for this transaction?

WHAT THE STANDARD SAYS

Ind AS 115 paragraph reference - 27, 31, 33, 73, 81 and 83. The paragraphs involved have been included here for ease of reference. This will enable one to correlate between theory and practice.

As per **paragraph 27 of Ind AS 115** *Revenue from Contracts with Customers* "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); and

(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 good or service is distinct within the context of the contract)."

Since the sale of the handset and the telecom services are distinct goods and services respectively, they are typically separate *performance obligations*.

Definition from Appendix A – Defined terms

Performance obligation "A promise in a contract with a customer to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer."

As per **paragraph 31 of Ind AS 115**, "An entity shall recognise 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."

According to **paragraph 33 of Ind AS 115**, "……Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from an asset……."

A performance obligation can be satisfied either –

- ***at a point in time***, ie, when the customer obtains control of a promised asset; or
- ***over time***, ie, the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.

Therefore, revenue from the sale of handset is recognised when the handset is delivered to the customer (at a point in time) and the service revenue (ie, talk-time, data pack and SMS) is recognised over the contract service period (over time).

In accordance with **paragraph 73 of Ind AS 115** *Revenue from Contracts with Customers* "The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good 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."

Then **paragraph 81 of Ind AS 115** states: "A customer receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract. Except when an entity has observable evidence that the entire discount relates to only one or more, but not all, performance obligations in a contract, the entity shall allocate a discount proportionately to all performance obligations in the contract…"

As per **paragraph 83**, "If a discount is allocated entirely to one or more performance obligations in the contract, an entity shall allocate the discount before using the residual approach to estimate the stand-alone selling price (SSP) of a good or service."

SOLUTION

ABC Ltd regularly sells handsets and telecom services individually, thereby establishing the following stand-alone selling prices (SSP):

Goods or services	Stand-alone selling price (CU)
Handset	400
Talk-time	100
Data pack	50
SMS	Nil
	550 per month

Allocation of discount

Handset	The stand-alone selling price of the handset is CU 7,200. But the total payment to be made by the customer is CU 9,600 (CU 400 x 24). Therefore, the difference of CU 2,400 (9,600 – 7,200) is the interest income. When the handset is sold under a plan (ie, not separately), ABC Ltd. applies the **adjusted market assessment approach** (as outlined in paragraph 79 a) to allocate the transaction price. This involves evaluating the market in which it sells goods or services and estimating the price that a customer in that market would be willing to pay for those goods. That approach might also include referring to prices from ABC Ltd's competitors for similar goods and adjusting those prices as necessary to reflect ABC Ltd's costs and margins. ABC Ltd estimates that by applying the adjusted market assessment approach, the allocated transaction price for the handset is CU 350 per month.
Talk-time	Here, ABC Ltd applies the **expected cost plus a margin approach** (as outlined in paragraph 79 b). ABC Ltd forecasts its expected costs of satisfying a performance obligation and then adds an appropriate margin for that service. ABC Ltd estimates that the allocated transaction price for the talk-time should be CU 75 per month.
Data pack	The charge for the data pack is directly observable. Therefore, the allocated transaction price for the data pack is its stand-alone selling price, which is CU 50.
SMS	The best evidence of a stand-alone selling price is the observable price of a service when the entity sells that service separately in similar circumstances and to similar customers. Since there is no charge for SMS, ABC Ltd applies the **residual approach** for allocating transaction price, which is CU 25 [500 – (350 + 75 + 50)].

The discount, and therefore, the transaction price is allocated as follows –

Goods or services	Allocated transaction price (CU)
Hand set	350
Talk-time	75
Data pack	50
SMS	25
	500 per month

Journal

20x4				
Feb 29	(1)	Receivable	8,550 [(350 x 24) + (75 + 50 + 25)]	
		Revenue		7,350 [(300 x 24) + (75 + 50 + 25)]
		Interest income		1,200 [(350 x 24) – 7,200]
	(2)	Cash	500	
		Receivable		500
Mar 31	(1)	Receivable	170 (85 + 60 + 25)	
		Revenue		170
	(2)	Cash	520	
		Receivable		520
	(3)	Revenue	6,600 (7,200 ÷ 24 x 22*)	
		Interest income	1,100 (1,200 ÷ 24 x 22*)	
		Deferred revenue		6,600
		Deferred interest income		1,100

* *Total 24 months minus 2 months for 20x4, ie, 22 months.*

Statement of Profit and Loss for the period (Extract)

	CU
Revenue (7,350 + 170 – 6,600)	920
Interest income (1,200 – 1,100)	100

Balance Sheet (Extract)

	CU
Equity and Liabilities	
Deferred revenue	6,600
Deferred interest income	1,100