



Voices on Reporting Transport, leisure and sports sector

12 December 2018

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Welcome



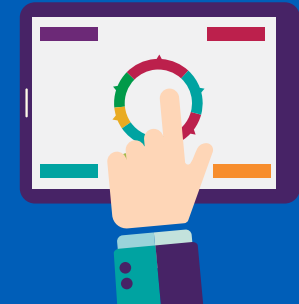
01

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



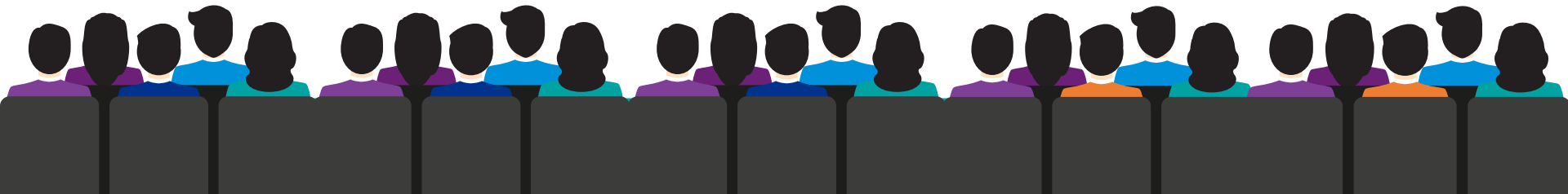
Speaker for the call



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Partner

Assurance
KPMG in India





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

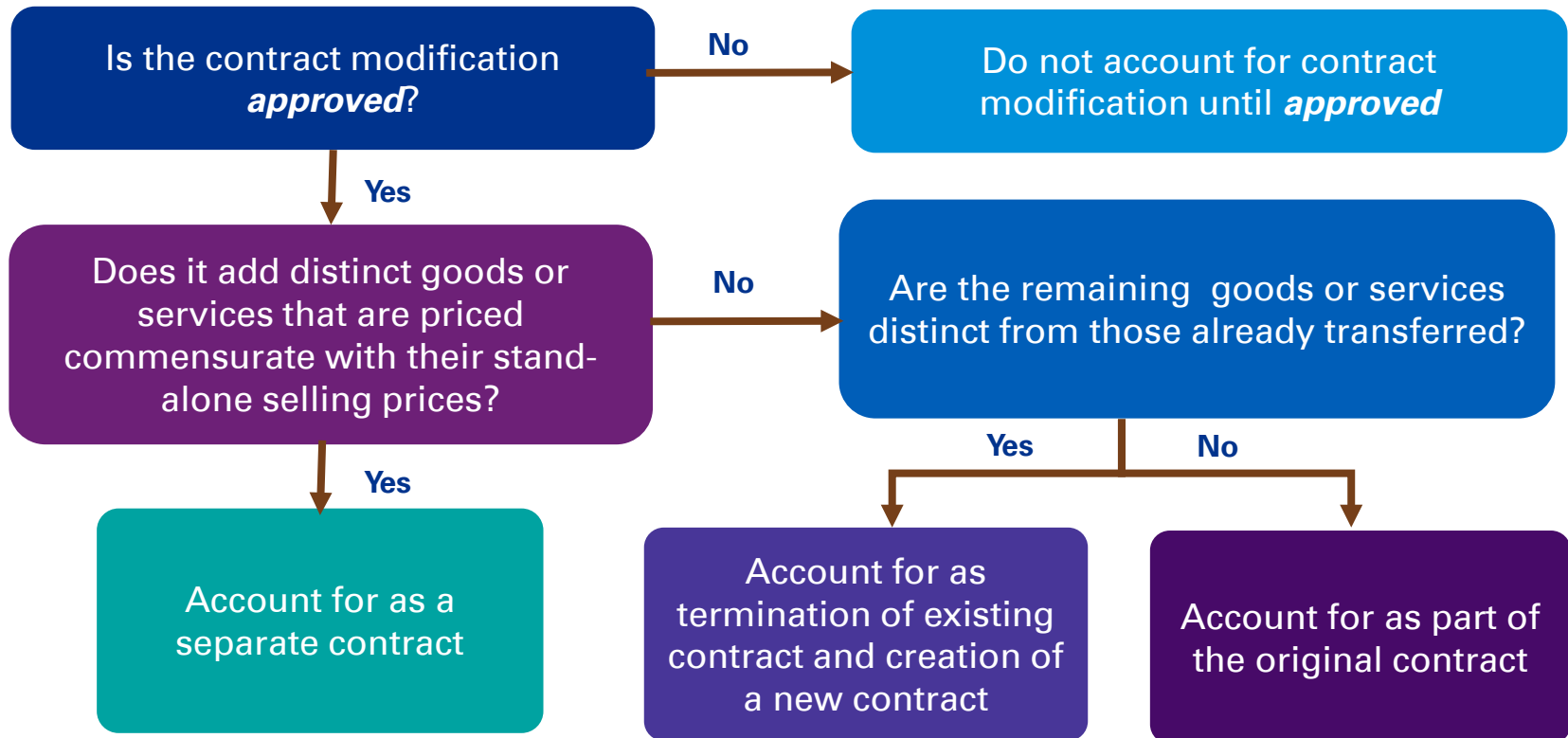


Step 1	Identify the contract with the customer (One or multiple)	A group of five business professionals (three men and two women) are seated around a table, engaged in a meeting. They are looking at documents and laptops.
Step 2	Identify the performance obligations in the contract (One obligation or multiple)	A man in a blue suit is standing and presenting to a group of three people seated at a table. A presentation board with arrows is visible in the background.
Step 3	Determine the transaction price (Total consideration for contract)	A man in a purple suit is sitting at a desk, working on a laptop. Several data charts and graphs are displayed on the wall behind him.
Step 4	Allocate the transaction price to the performance obligation (Allocate to various performance obligations identified)	A pair of hands is shown pointing at a calculator and a spreadsheet. The spreadsheet contains various data points and charts.
Step 5	Recognise revenue (At a point-in-time or over-time)	A man in a dark suit is standing with his hand on his chin, appearing to be in deep thought. A speech bubble next to him contains a bar chart with an upward-pointing green arrow, symbolizing revenue growth.



Common industry issues

Step 1 - Identify the contract with the customer (modification of contracts)



Think about...



Aviation

- Up gradation charges
- Change of travel plan

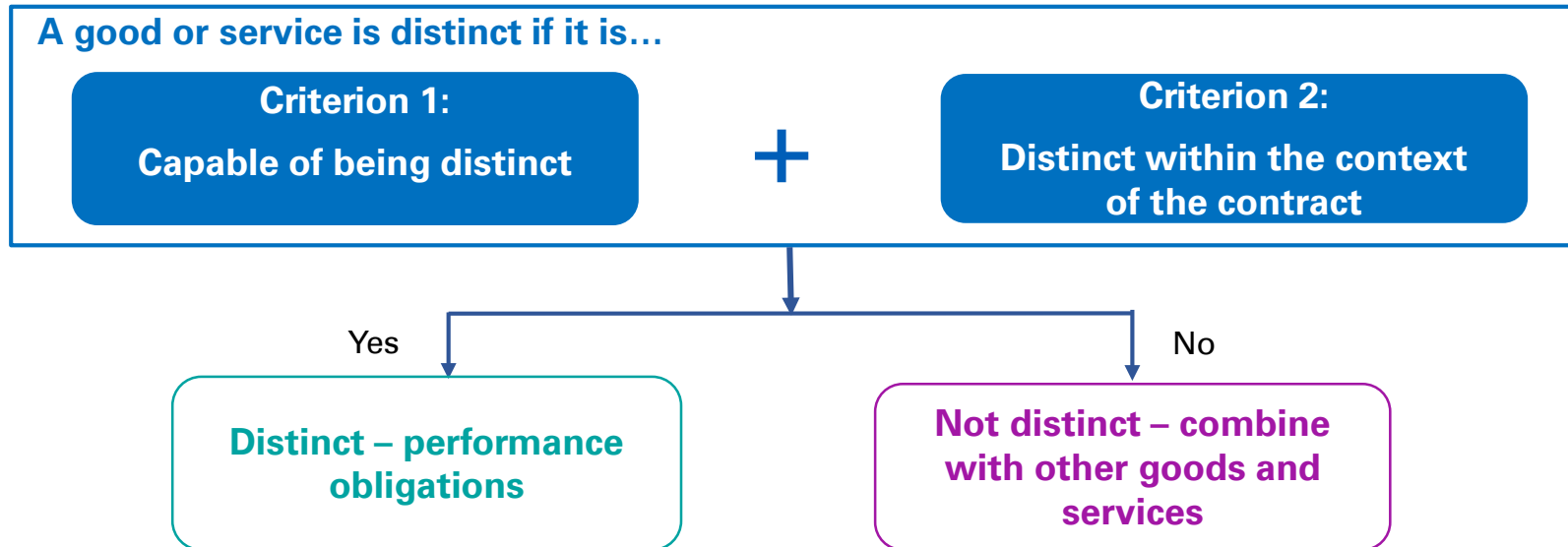
Hospitality

- Ancillary services (business centre, travel support, etc.)

Step 2 - Identify the performance obligations in the contract



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



Think about...



Aviation

- Air travel loyalty points and other vouchers
- Lounge access, seat assignment

Hospitality

- Non-refundable upfront membership fees
- Loyalty points

Contract logistics

- End to end turn-key projects

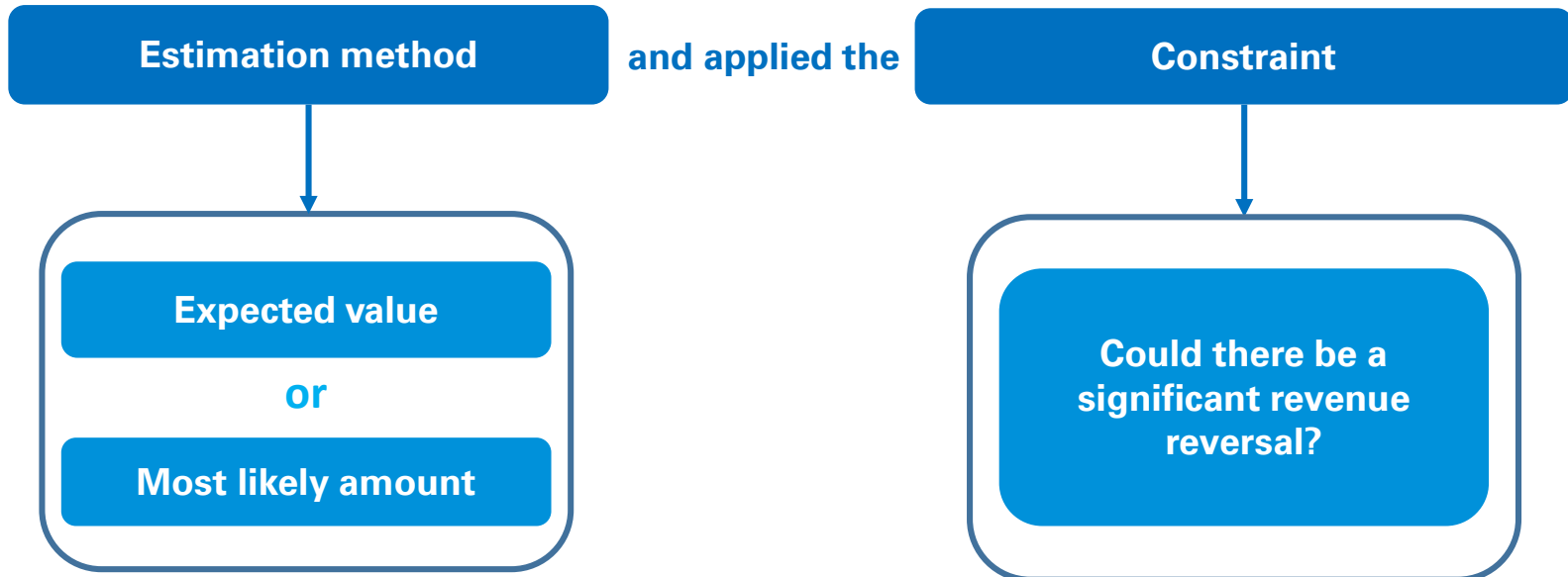
Container freight station

- Import related services

Step 3 - Determine the transaction price



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



Think about...



Railway

- Accounting of rebates

Shipping

- Demurrage claims

Contract logistics

- Performance incentives

Aviation

- Accounting of ticket breakages

Step 3 - Determine the transaction price (cont.)



Have you determined whether payments to customers should be netted against the revenue?

A payment to a customer that is not for a distinct good or service is netted against revenue...

At the later of when you...

- **Recognise revenue for related goods or services , or**
- **Pay, or promise , the amount**

Think about...



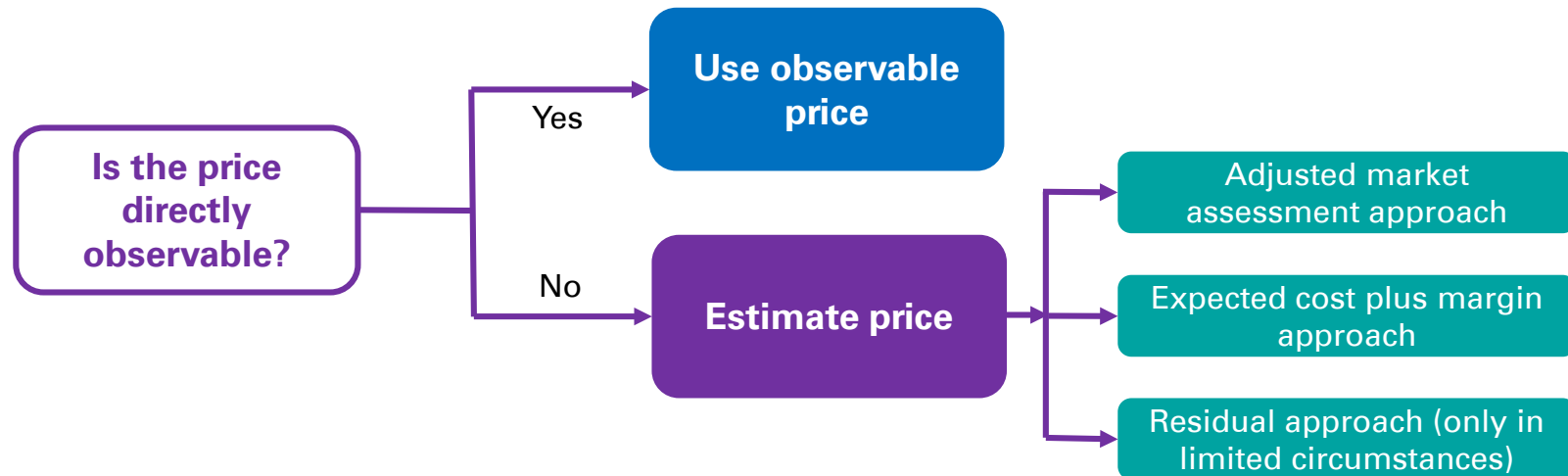
Leisure sector (online travel agents)

- Cash back to customers

Step 4 - Allocation of transaction price



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



Think about...



Aviation

- Accounting of loyalty points

Leisure sector

- Accounting of free services provided in a package holiday

Hospitality

- Accounting of loyalty points

Step 5 – Timing of revenue recognition



Timing of revenue recognition

Revenue is recognised ...

At the point in time when the customer obtains control

Or

Over time if specific criteria are met

Think about...



Shipping

- Revenue is recorded over time, given the customer simultaneously receives and consumes benefits

Freight forwarding (prepaid)

- On completion of the performance obligation

Hospitality

- Management fees for operating hotels.
- Non-refundable up-front membership fees

Aviation

- Customers' unexercised rights (breakage)

Principal versus Agent



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



Think about....



Aviation

- Interline billing
- Airport charges and taxes

Contract logistics sector

- Payment of freight cost, port handling and other statutory charges
- Statutory dues paid on behalf of customers

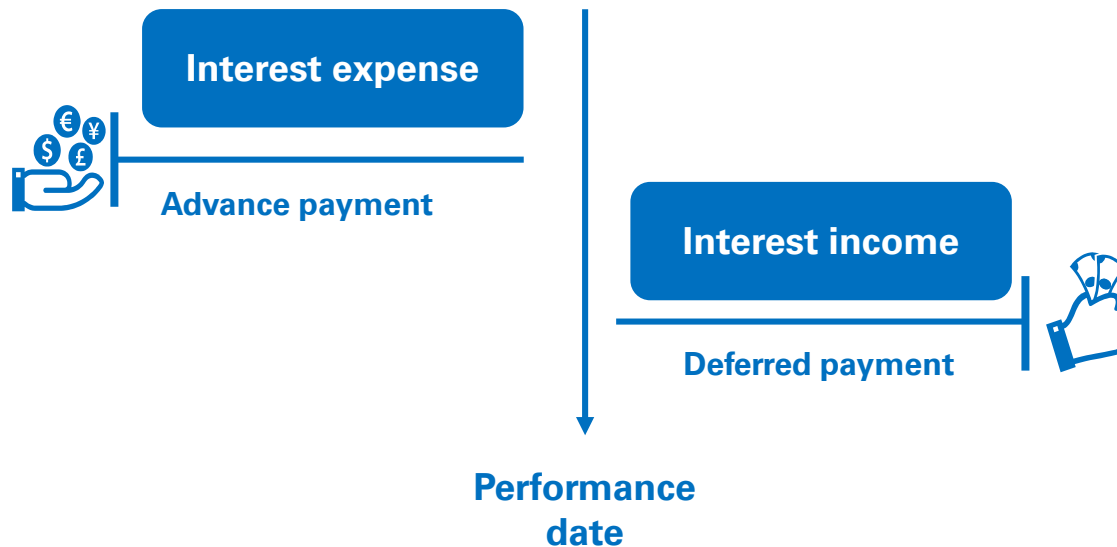
Hospitality

- Payment of other ancillary services – car hiring, tour guides, etc.

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.



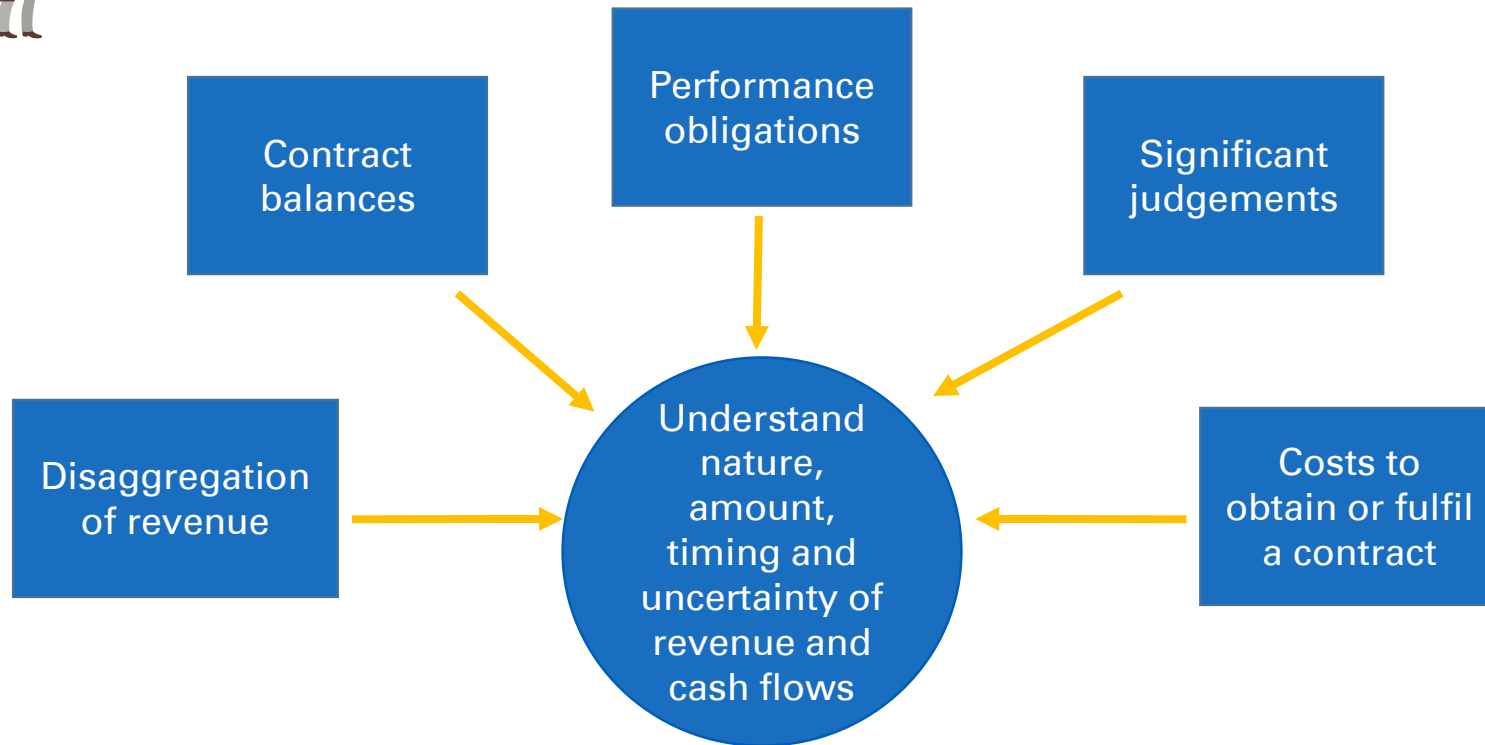
A graphic illustration of a stack of papers. The top paper is white and features the text 'Disclosure requirements'. To the left of the papers is a blue pencil with a white eraser. To the right is a yellow folder tab. The entire graphic is set against a dark blue background.

Disclosure requirements

Disclosure requirements



Qualitative and quantitative disclosures





Preparing for the new leases standard (IFRS 16)

IFRS 16, *Leases*



Lessees face major changes

All major leases on balance sheet

Balance sheet

Asset

= 'Right-of-use' of underlying asset

Liability

= Obligation to make lease payments

Profit/Loss

Lease expense

Depreciation

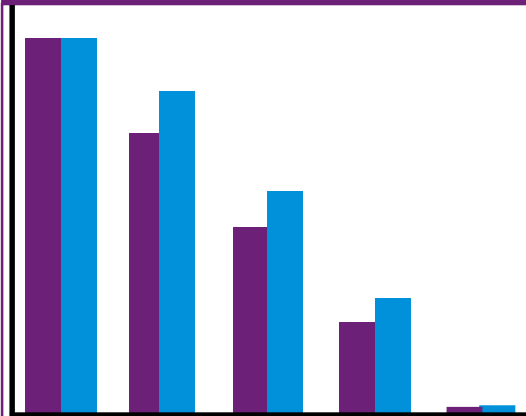
+ Interest

= Front-loaded total lease expense

IFRS 16 (cont.)



Balance sheet

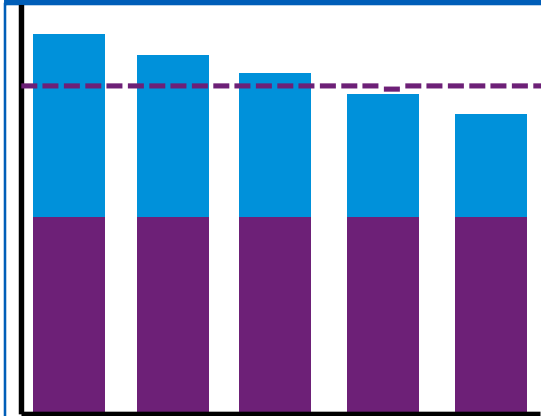


■ Asset ■ Liability

Companies with operating leases will appear to be more asset-rich, but also more heavily indebted.

Balance sheet to be significantly grossed up

Profit/loss



■ Depreciation ■ Interest
- - - Cash rental payments

Total lease expense is *front-loaded* even when cash rentals are constant.

EBITDA will improve*

*EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation



Impact on financial ratios



Profit/loss

Balance sheet

Ratios

EBITDA

Total assets

Gearing



EPS*
(in early years)

Net assets

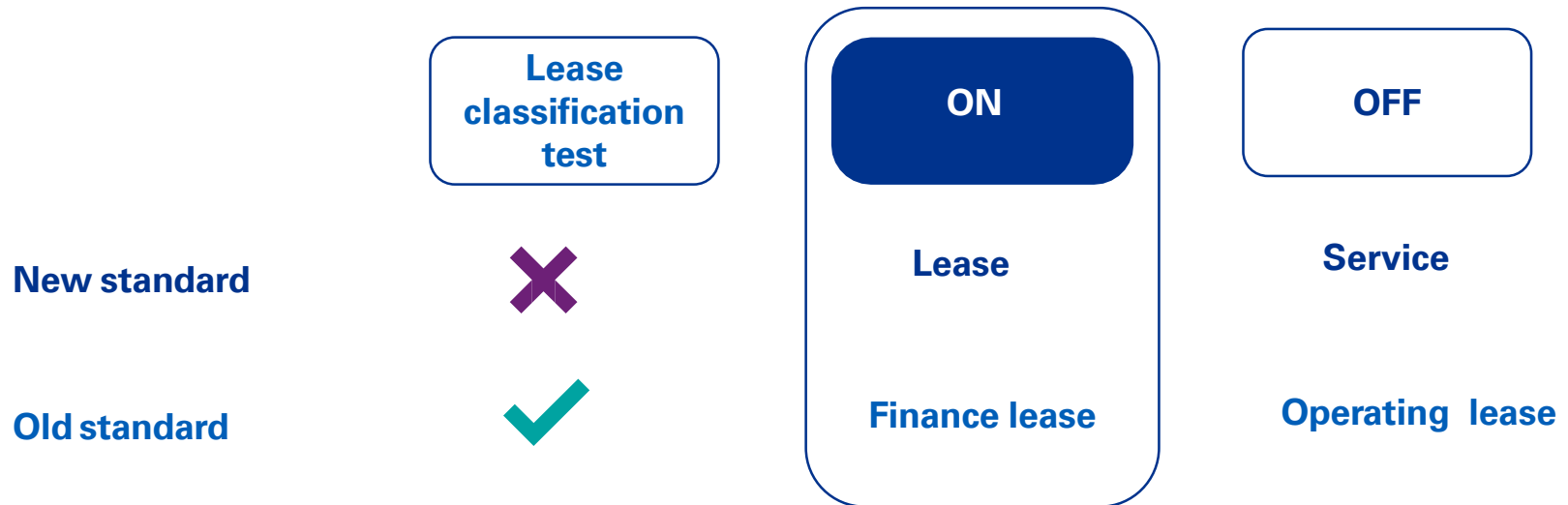
Interest cover
Asset turnover

*EPS – Earnings Per Share



Lease definition

The new on/off-balance sheet test for lessees – a key judgement area





Lease definition – Control

The new definition increases focus on who controls the asset and may change which contracts are leases



Think about...



Aviation

- Lease of aircrafts

Leisure sector

- Lease of land and building of hotels

Transport (rail and road)

- Lease of wagons/trailers/trucks
- Dedicated asset versus substitution rights



Lease definition – Exemptions

Two major optional exemptions make the standard easier to apply



Short term leases

≤ 12 months

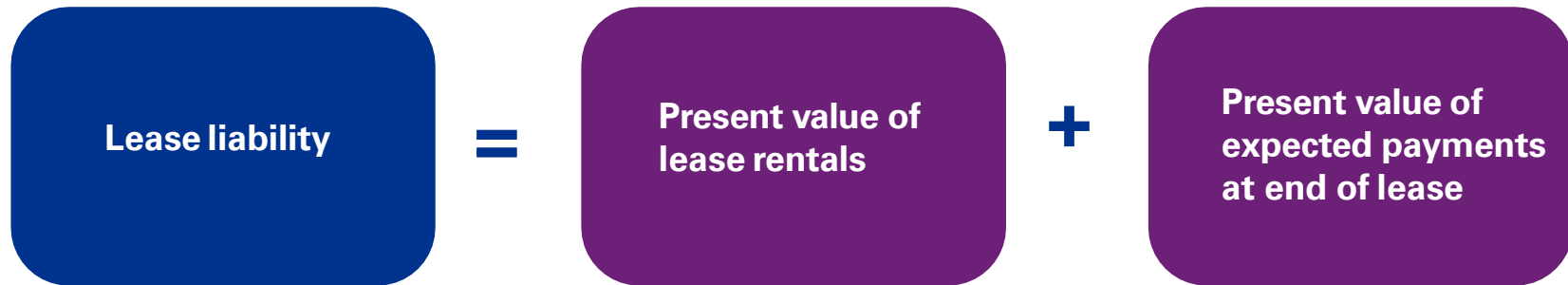


Leases of low value items

≤ USD5,000
for example



Measuring the lease liability



Think about...



Aviation

- Foreign currency debt
- Return/restoration costs

Leisure sector

- Long term debt
- Return/restoration costs

Transport (rail and road)

- Foreign currency debt

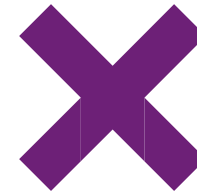


Variable lease payments

Which variable lease payments are included in the lease liability?



Payments based on an index or rate



Payments based on turnover or usage

Think about...



Leisure

- Revenue share arrangements

Transport (road)

- Fuel inflation linked payments



Lessor accounting

Lessor accounting remains similar to current practice...

but lacks consistency with new lessee accounting model

Lease classification test



Finance leases and operating leases



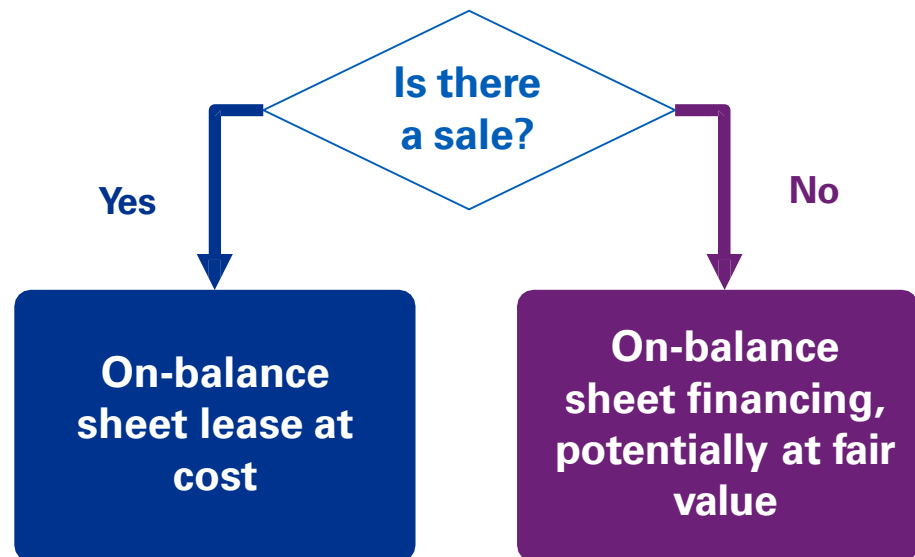
Consistent accounting model for lessors and lessees





Sale-and-leaseback

IFRS 16 essentially kills sale-and-leaseback as an off-balance sheet financing structure



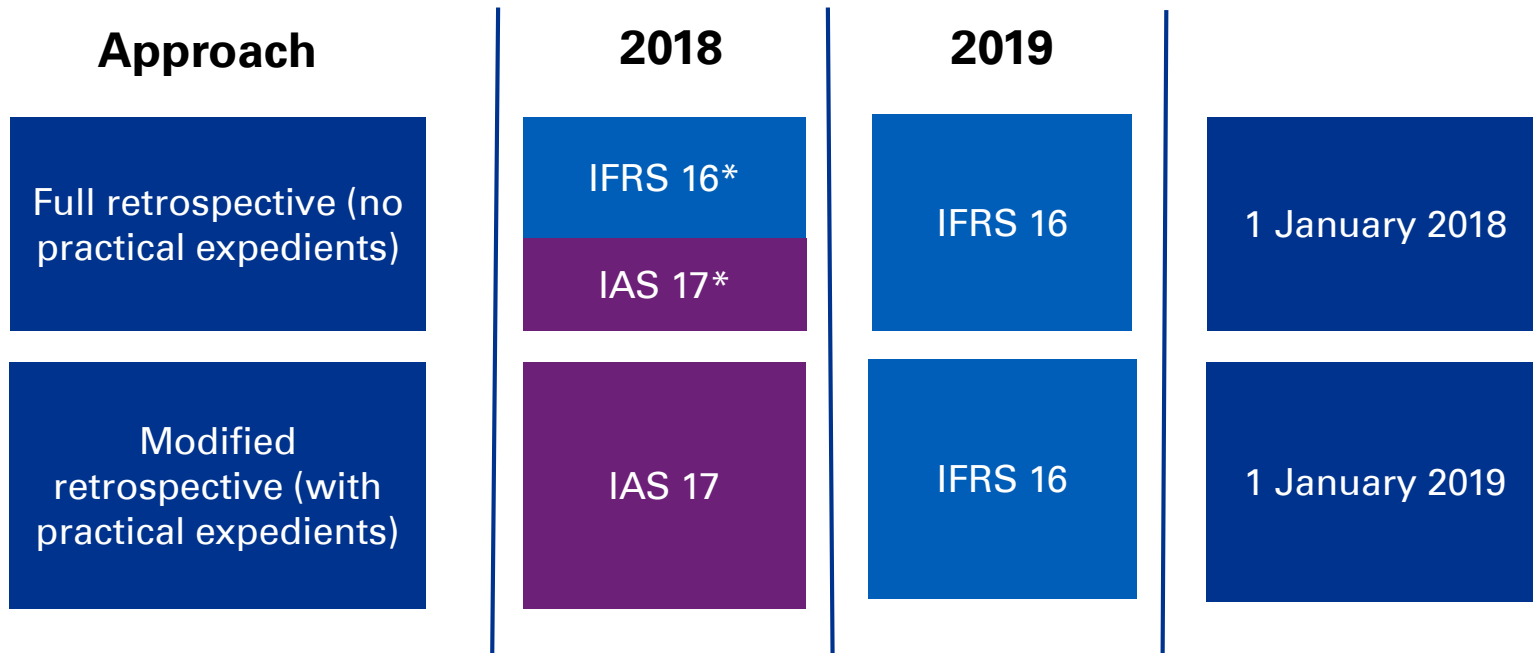
Think about...



Aviation/Shipping

- Sale and lease back of aircrafts or vessels

IFRS 16 (cont.)



- Full retrospective: parallel systems for 2018.
- Modified retrospective approach: additional disclosure.



Things to think about now

Some questions to assess the impact on your company's financial statements

Which contracts are leases?

Which transition options to choose?

Database of all leases?

Systems and processes in place?

What about ratios and covenants?



Q&A



Links to previous recordings of VOR



Month	Topics	Link
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
August 2018 (special session)	Ind AS 115 – Sector Series Automotive Sector	Click here
September 2018 (special session)	Ind AS 115 – Sector Series Consumer and retail sector	Click here
October 2018	<ul style="list-style-type: none">• Key clarifications on some Ind AS implementation issues provided in the Ind AS Transition Facilitation Group (ITFG) Bulletin 16.• An overview of the key amendments in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.• Notification of certain important sections of the Companies (Amendment) Act, 2017 such as amendments related to managerial remuneration, financial statements and board’s report, Corporate Social Responsibility (CSR), etc.• Amendments to Ind AS 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>.	Click here
November 2018 (special session)	<ul style="list-style-type: none">• Impact of Ind AS 103 and Ind AS 115 on technology sector	Click here

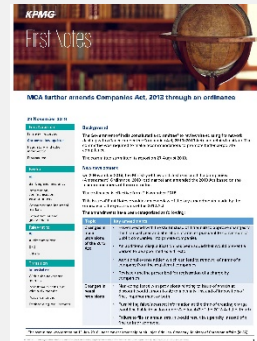
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Our publications

Accounting and Auditing Update



First Notes



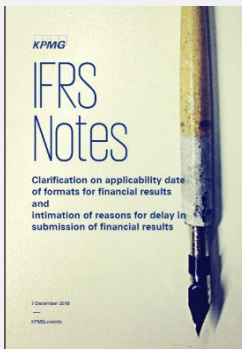
Coming up next

New issue of:

- Accounting and Auditing Update
- First Notes
- IFRS Notes

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IFRS Notes





Thank you

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