



#KPMGjosh

Voices on Reporting Healthcare sector

13 February 2019

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Welcome



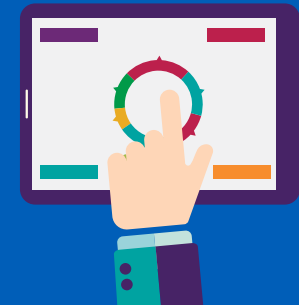
01

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)	A group of five business professionals (three men and two women) are seated around a table in a meeting room. They appear to be in the middle of a discussion, with some looking at documents or 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. He is pointing towards a screen or board that displays a flowchart or diagram.
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. On the wall behind him are several data charts and graphs, including a pie chart and a bar chart.
Step 4	Allocate the transaction price to the performance obligation (Allocate to various performance obligations identified)	A close-up illustration of two hands pointing at a financial spreadsheet or calculator. The spreadsheet shows various columns and rows of data, with a hand holding a pen pointing to a specific cell.
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. To his right is a speech bubble containing an icon of a green line graph with an upward arrow and three gold coins, symbolizing revenue growth.

A graphic illustration of a stack of papers. A blue pencil is positioned vertically on the left side of the stack. A yellow folder tab is visible on the right side. The top sheet of paper is white and contains the text 'Common industry issues' in a bold, blue, sans-serif font.

Common industry issues

Step 1 - Identifying the contract with the customer



Who is the customer - patient or the payer?

- For the purposes of Ind AS 115, **patient** is the customer
- Contract with the payer should also be evaluated.

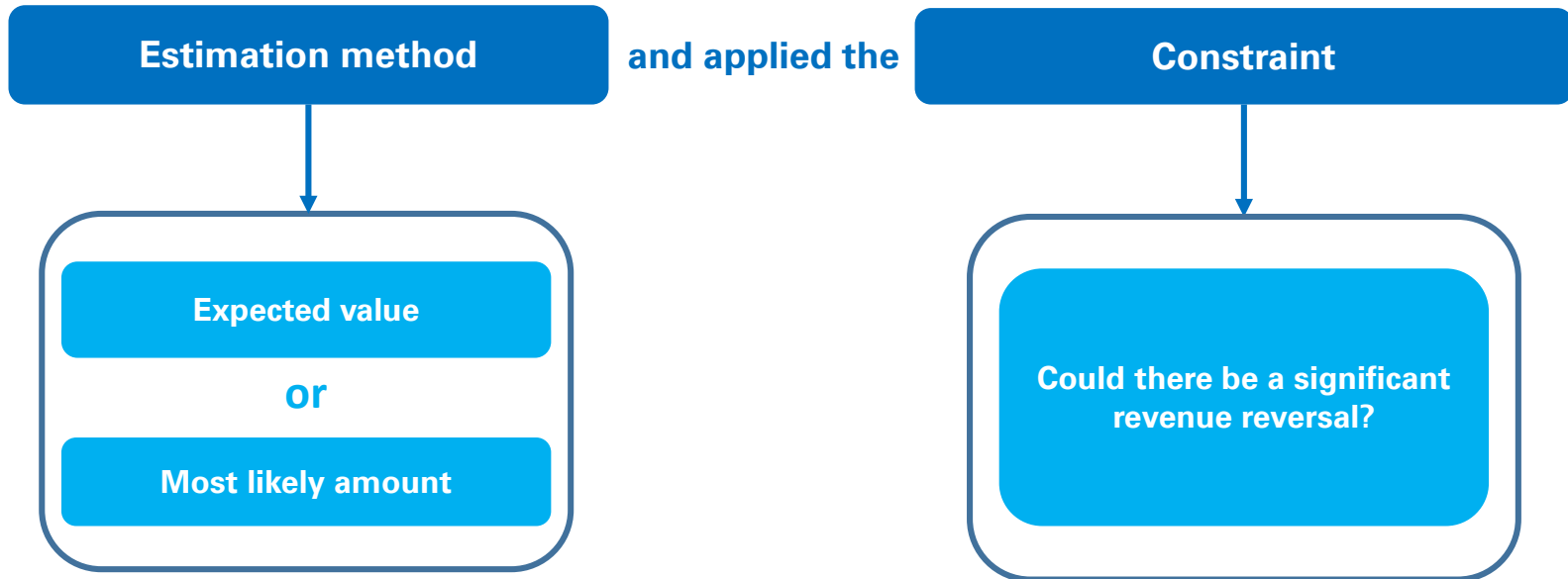
Whether a 'contract' exist if an arrangement with the patient is not executed as a written document (e.g. emergency services provided to an unconscious patient)?

- A contract exists if rights and obligations are enforceable
- An oral contract may constitute an enforceable contract, but key considerations to be factored in are:
 - a) Customary practices
 - b) Communications with the patient
- Consider involvement of the legal department while identifying a contract.

Step 3 - Variable consideration



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



Think about...



Implicit price concessions to patients | Amounts recoverable from government administered schemes

Step 5 - 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

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

Think about...



Stem cell services | In-Vitro Fertilisation (IVF) treatments | Chemotherapy sessions

Principal vs agent



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



Think about...



Arrangements with consultant doctors | Operations and maintenance arrangements

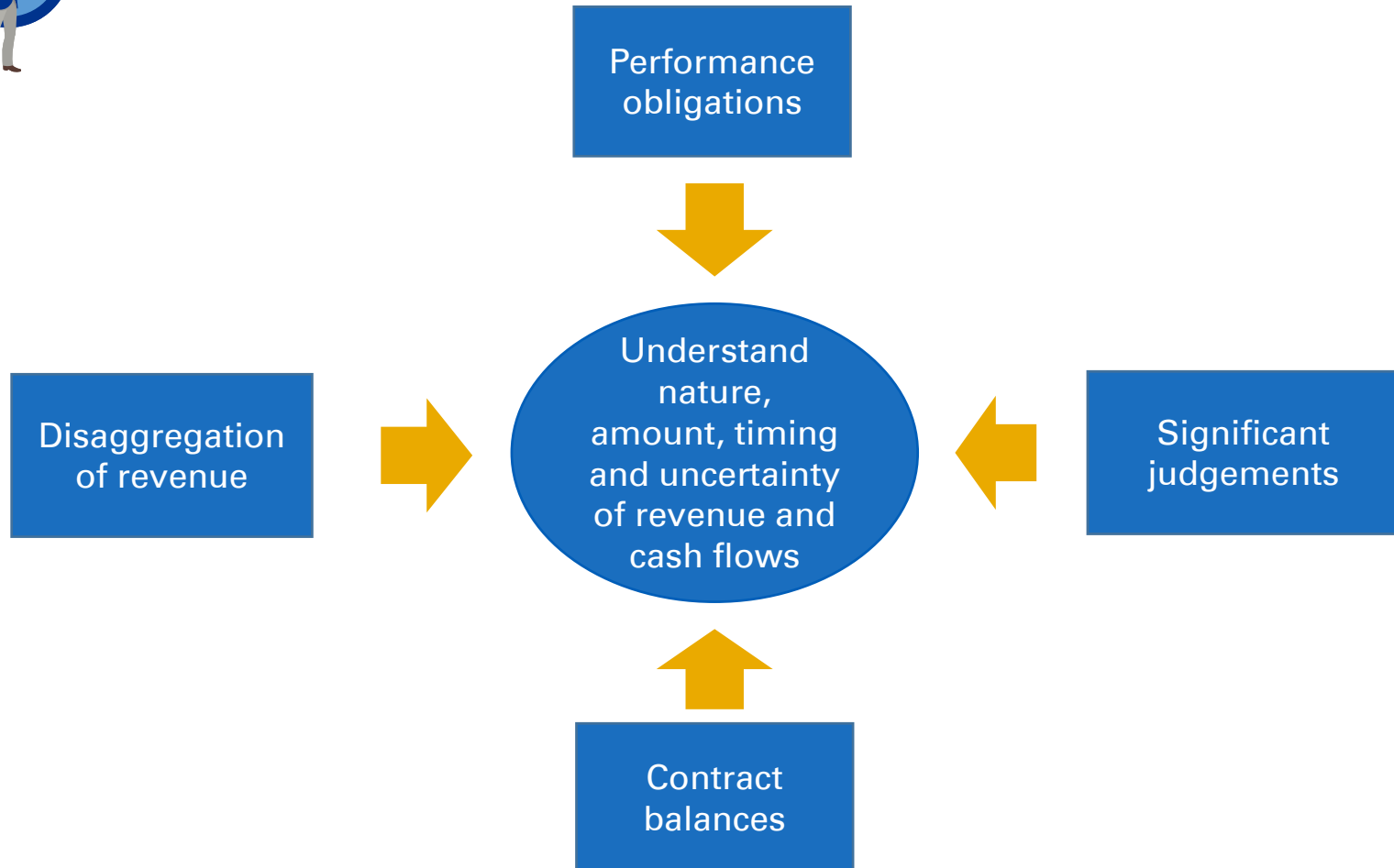


Disclosure requirements

Disclosure



Qualitative and quantitative disclosures





Preparing for the new leases standard (IFRS 16)

Lessee accounting



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

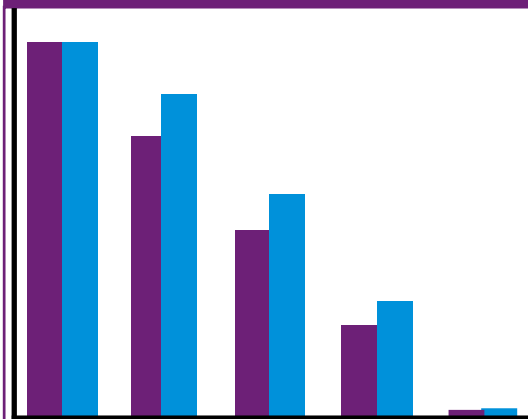
+ Interest

= Front-loaded total lease expense

Impact on financial statements



Balance sheet

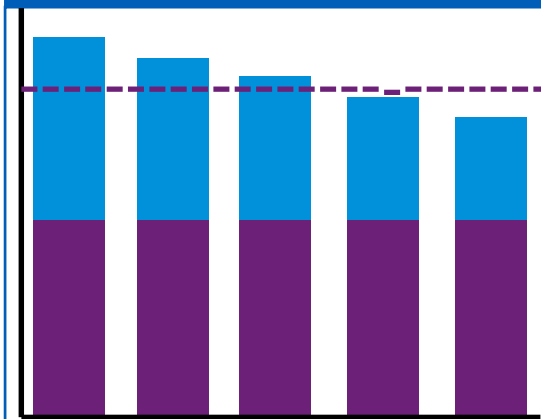


■ Asset ■ Liability

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



PAT#/EPS*
(in early years)

Net assets

Interest cover
Asset turnover

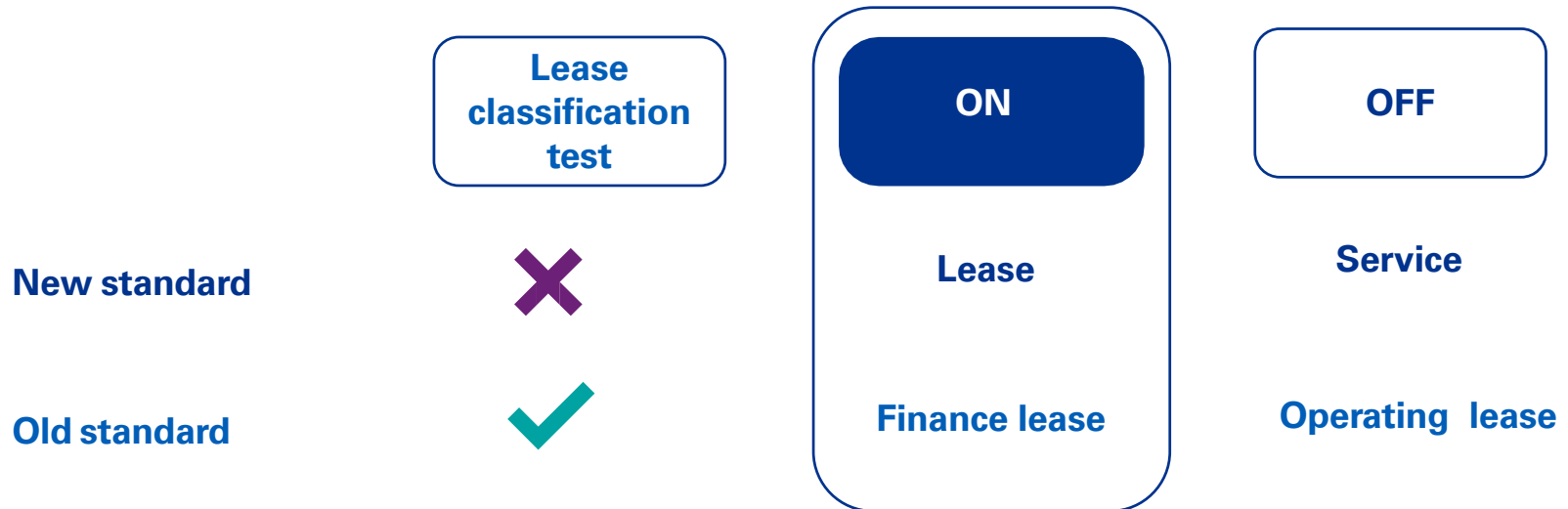
(#PAT - Profit After Tax

*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



Lease



Not a lease



Think about...



Equipment leases

Lease definition - Exemptions



Two major optional exemptions make the standard easier to apply



Short term leases

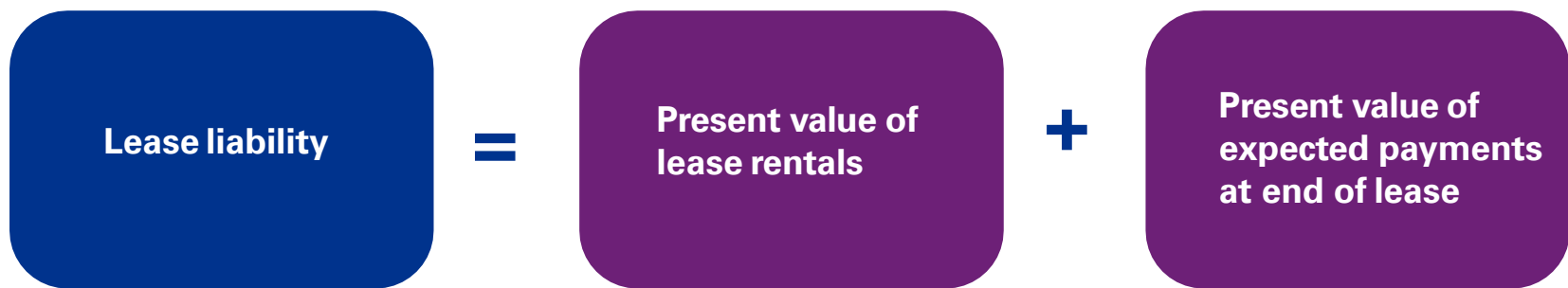
≤ 12 months



Leases of low value items

≤ USD5,000
for example

Measuring the lease liability



Think about...



Optional renewable periods | Discount rates

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...



Revenue share arrangements – operation and management agreements

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



Transition options



Approach	2018	2019	
Full retrospective (no practical expedients)	IFRS 16* IAS 17*	IFRS 16	1 January 2018
Modified retrospective (with practical expedients)	IAS 17	IFRS 16	1 January 2019

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

*(*The company will apply IAS 17 in preparing its financial statements for 2018. It will then apply IFRS 16 to prepare comparative financial information to be included in its 2019-20 financial statements.)*

Transition options (cont.)



Have you evaluated which option to consider while transitioning to new standard?

Transition options

Retrospective

- Apply the standard to all leases in which the entity is a lessee
- Restate prior period financial information
- Recognise an adjustment in equity at the beginning of the earliest period presented
- Make the disclosure as per Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Modified retrospective

- Lease liability is recognised at the date of initial application using the incremental borrowing rate at that date
- Does not restate its prior-period financial information
- Recognises an adjustment in equity at the beginning of the current period
- Make additional disclosures as per the standard.

Think about...



As each option has significant differences, this may change the numbers significantly.

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

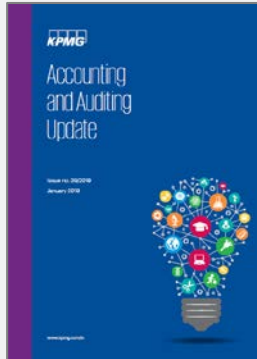


Month	Topics	Link
August 2018 (special session)	Ind AS 115 – Sector Series 3 – <i>Automotive Sector</i>	Click here
September 2018 (special session)	Ind AS 115 – Sector Series 4 – <i>Consumer and retail sector</i>	Click here
October 2018	<ul style="list-style-type: none">• Ind AS Transition Facilitation Group (ITFG) clarification - Bulletin 16• SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018• Certain sections of the Companies (Amendment) Act, 2017 and related rules notified• 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
December 2018 (special session)	<ul style="list-style-type: none">• Ind AS 115 and IFRS 16 - Impact on Transport, leisure and sports sector	Click here
January 2019	<ul style="list-style-type: none">• Ind AS Transition Facilitation Group (ITFG) clarification - Bulletin 17• Amendments to the Companies Act, 2013 and key clarifications• Framework for fund raising by issue of debt securities by large corporates	Click here

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

Our publications

Accounting and Auditing Update



First Notes



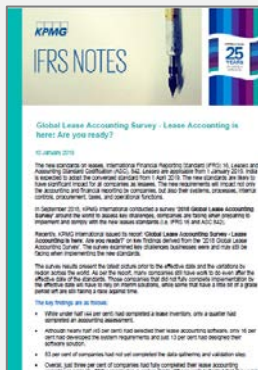
Coming up next

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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