

Query No. 39

Subject: *Accounting treatment of cost of fixed display (standees, tent cards, wobblers, hangers, product demonstrations for festivals and promotional aisle) under Ind AS 115.*¹

A. Facts of the Case

1. *Detailed Background*

1.1 About the Group

Group A (hereinafter referred to as ‘the Company’ or ‘the Group’) is in leading Fast-Moving Consumer Goods (FMCG) business dealing in personal care and home care products and is head-quartered in India. The Group is amongst the fastest growing FMCG businesses in operating geography of South-East Asia (SEA) in addition to India. Its businesses include personal wash products, skincare products, male grooming products, toiletries, wellness products and household products.

1.2 Structure of display and mailer costs:

The Group’s distribution network is vastly spread in the mentioned geographies. Being an FMCG group, marketing / promotional expenses constitute a significant portion of its operating cost. Major marketing / promotional activities are explained below:

(a) Display and visibility charges: The Company has a policy of paying ‘display & visibility charges’ to customers or retailers and key accounts for display of the products. For example, the products are placed near the checkout counter and include standees, tent cards, wobblers, hangers, product demonstrations for festivals and promotional aisle / end cap.

(b) Mailers: Mailers are promotional materials designed for distribution such that they capture attention quickly with details on features and other information. These are promotional materials distributed at a physical retail store to create product awareness to customers (including in-store).

(c) Other marketing /promotional costs: Other marketing costs include advertising costs incurred through various media. These are directly paid to vendors (not customer chain).

The query is in respect of expenses covered in (a) and (b) above.

1.3 Method of incurring:

The querist has stated that the Group A has structured the above promotion expenses into:

Spend fixed in nature: These costs are agreed with the customers on a period basis and are paid irrespective of the quantum of sale. These costs are paid to customer chain for display and mailer cost as described above.

¹ Opinion finalised by the Committee on 8.2.2025.

Spend with fair value established by fixed rate card capped at certain percentage of sales: These are agreed as percentage of sales subject to proof of performance submission by customers. These are agreed in the customer contracts through a clause called Business development fund (hereinafter referred to as BDF). This BDF is an industry practice for the commitment towards the spend on display, mailers, advertisements etc. by the seller to the retailer. This amount is reimbursed to the retailers/customers basis amount expended towards business development. Only if the amount is expended as per the promotion plan, then customer will get compensated by the Company. While the expenditure is incurred, the Group ensures to verify the same; the variable percentage agreed in the contract is for spend control purposes.

According to the querist, both the above categories of expenses are similar in nature and mutually exclusive. In practice, some customers opt for fixed payment of these expenses while some opt for second option involving rate card payment capped at certain percentage of sales.

2. *Literature of Indian Accounting Standard (Ind AS) 115, 'Revenue from Contracts with Customers' referred by the querist:*

(i) Variable consideration (Paragraphs 50 and 51):

“50 If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

51 An amount of consideration can vary because of *discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses*, or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.”

(ii) Consideration payable to a customer (Paragraphs 70, 71 and 72):

“70 *Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer).* Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer). *An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 26–30) that the customer transfers to the entity.* If the consideration payable to a customer includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 50–58.

71 *If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers.* If the amount of consideration payable to the customer exceeds the fair value of the

distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.

72 Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognise the reduction of revenue when (or as) the later of either of the following events occurs:

- (a) the entity recognises revenue for the transfer of the related goods or services to the customer; and
- (b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.”

(iii) Distinct goods or services (Paragraphs 27 and 28):

“27 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 promise to transfer the good or service is distinct within the context of the contract).

28 A customer can benefit from a good or service in accordance with paragraph 27(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. *For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.*”

(Emphasis supplied by the querist.)

3. Analysis supplied by the querist based on the Facts of the Case:

3.1 Spend fixed in nature:

3.1.1 *Display and visibility charges:*

Group A incurs various types of costs for advertising and marketing its products. There are hoardings put in many places and advertisement costs incurred through various media. One of such important places where these kinds of advertising/marketing/promotional costs are incurred happens to be within the retail stores. Display includes major portion of such in-store costs.

The retail stores place the products in the shelves for it to be made available to end consumers. This is as per the agreement with such retail customers. However, Group A can choose to incur additional cost to market / promote the products by opting for additional shelf space at prime location. These charges include services in respect of standees, tent cards, wobblers, hangers and product demonstrations for festivals.

Rates for such space are pre-decided and fixed based on the size, nature and location of the space and paid directly to customers / key accounts. The consideration paid for such a service is mostly fixed, agreed in rate cards. These rates are the same for all parties who opt for these display services.

Accordingly, display services in the current case are distinct because of the following reasons:

- a. These display services agreed have no correlation with the sales whatsoever. Even if the display services were not required to be provided by the customers, the sales would be continued to be made by the Company to the customers based on the existing agreements between these parties. In other words, the promises to the Company are not a combined output of integrated goods/ services.
- b. The display services provided by the customers do not modify or customise the purchases of the Company's products. The rates at which the products are sold to the customers do not change irrespective of whether the sales are made to parties who render such services or not.
- c. Further, these services are not highly interrelated or interdependent with the sale of the Company's products because it is not necessary that such services must be provided by the customers for the Company to sell the products i.e., there is no significant two-way dependency between the two promises.
- d. These display and mailer costs are akin to other marketing efforts carried out by the Group, like placing billboards in certain areas. Typically, consumer care companies incur in-store promotion costs, such as fees for displays through their distribution and retail channels. These expenses are not compulsory for the sales contract, as some shelf space must be allocated by the customers according to the contract. Additional display charges are incurred to enhance product visibility and awareness among final consumers.

Example of display charges contract:

Display charges are agreed with a Modern Trade (MT) customer with multiple stores situated across India. The rate was agreed at INR 70,000 per month and is not related to

the sale made at such MT store. Group A gets proof of performance through image on product display (store-wise) and then the claim is paid to the customers.

3.1.2 Mailer cost:

- a. This is a fixed fee paid in the nature of advertising cost.
- b. These costs are paid in respect of distinct service based on similar points stated above.

Illustration of the mailer cost mentioned above:

A contract with major supermarket chain includes a clause for mailer cost which is agreed at INR 60,000 per full page mailer. Similar process is followed for mailers as mentioned for product display wherein the sales team collects proof of performance and then the claim to be paid to such supermarket chain.

Since both the fixed display and mailer cost are separately identified from the sale of goods contract and are in respect of distinct service as described above, the same, according to the querist, would be accounted for as marketing / promotional expense in the Profit and Loss Statement.

3.2 Spend with fixed fair value (fair value established with rate card per month per store cost or per mailer cost) but capped at certain percentage of sales:

Business Development Fund (BDF) paid is utilised towards display and mailer cost at outlets. There are rate cards separately agreed with the customers for the consideration of these activities. Rate cards can be used to demonstrate the existence of fair value for these services since these rates are same for all the vendors of such customers including Group A.

Following is the detailed process followed for monitoring the spends disbursed through BDF:

- a. Arrangement with the group customer/key accounts on the type of display, product category and the number of stores in which the display to be incurred.
- b. The merchandiser will setup various displays in the stores such as hang sell, tent card, standees, and promotion aisles.
- c. Monthly, the merchandisers snap photos and share proof of performance to sales team for their verification.
- d. Based on rate card initially agreed, fair value of these services is captured.
- e. Sales team, then will track fair value of these services (based on rate card) vs. BDF claimed (percentage on sales).

Based on the facts stated above, the querist has stated that BDF is not in the nature of pure discount or rebate since the spend is not at the discretion of customer and they are required to submit supportings justifying the payment made by the entity. It is further to be noted that these display and BDF charges fall under the definition of consideration payable to customer and not variable consideration.

The spend tracker maintained indicates some difference between the BDF paid and the fair value of services received and the treatment of the same is as under:

- a. If the consideration payable is less than the fair value of services received, no reduction to revenue is required as per paragraph 71.
- b. On the contrary, if the BDF paid exceeds the fair value of services, then the standard stipulates the excess amount to be reduced from the revenue.

Illustration to demonstrate the same:

The agreement provides for 2% of Business Development Fund and the details for it are as follows. The querist has taken an example for one of the customer contracts in Malaysia entity (which is a subsidiary of Group A, Indian Parent); following are critical terms:

- i. Agreed to have hang sell or clip strip for certain category products at 100 stores.
- ii. Merchandiser will setup the hang sell, snap photos and share proof of performance to sales team.
- iii. Based on rate card, clip strip is Malaysian Ringgit (referred to as RM hereinafter) 1,440 per store. For 100 stores, monthly is RM 144,000.
- iv. This rate card is applicable to all vendors of the key account including Group A.
- v. Once the outlet details for the display charges are agreed, sales team will track actual BDF value vs BDF claimed.
- vi. Based on spending tracker, BDF value exceeds BDF claimed by RM 213k and the details of the same are summarised as follows:

(Amounts in RM)

Month (A)	Sales (B)	BDF Claimed @ 2% of Sales (C) = (B) * 2%	Fair value (@1,440 x 100 shops)
January	82,86,566	1,65,731	1,44,000
February	64,92,440	1,29,849	1,44,000
March	31,43,106	62,862	1,44,000
April	62,32,234	1,24,645	1,44,000
May	62,65,067	1,25,301	1,44,000
June	73,79,236	1,47,585	1,44,000
July	55,67,622	1,11,352	1,44,000
August	56,61,898	1,13,238	1,44,000
September	70,44,030	1,40,881	1,44,000
October	61,31,844	1,22,637	1,44,000
November	65,10,456	1,30,209	1,44,000
December	70,18,000	1,40,360	1,44,000
TOTAL	7,57,32,500	15,14,650	17,28,000
Excess of BDFvalue of Hangsell vs 2% BDF claimed			2,13,350

Since the fair value of the service exceeds BDF, no adjustment to revenue is required and such expenses can be represented as promotional expenses under Consolidated Profit and Loss of Group A. On the contrary, if the fair value is less than the BDF, the differential will be adjusted from the revenue.

Snippet showing the above 2% - Business Development Fund is as follows:

B.3 BUSINESS DEVELOPMENT FUND (BDF)	NET PURCHASE VALUE	2.00 %
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Snippet of the rate card to demonstrate the fair value: *(Refer to the highlighted portion for per store clip strip cost – RM 1440 per store)*

In-Store TV (10 Stores)	RM36k per Store / PCO (subject for availability)
Display	Charges (RM)
Gondola End (GE) per store	RM5200 Header + Top Shelf, RM8450 Header + Full Display, Customized RM11,440
Mix GE	RM455 per skus per store
Promo Top	RM3,120 for 1m, RM1,560 for 0.5m
Standee	RM3,000 per store
Clip Strip	RM1,440 per store
Stack Rack	RM3,000 per store
Brand Trans (0.5m) - Yearly Charge	RM3,250 per store
Bus Stop Signage	RM2,600 per store
Check Up Counter (COC) - 1st shelf per sku	RM360 per store
Check Up Counter (COC) - 2nd shelf per sku	RM264 per store
Pharmacy Counter (RX Tray) monthly	RM2,400 per store
Out Of Home	
DOOH (3 sites venues)	
Wow Media*	RM360,000 Per week per Location
Mentari Court/Kayu Ara/Federal Highway	
Jalan University/Jalan Harapan/Time Square	

According to the querist, although these expenses are consideration payable to the customer, it is important to understand the substance of the same. Substance over form is one of the fundamental principles on which Indian Accounting Standards framework is based. It is to be further noted that paragraphs 70 and 71 of Ind AS 115 require judgement to be exercised while assessing whether the consideration payable to customer involves distinct service or not. Going by the substance of these transactions, these expenses involve distinct value as demonstrated above. Hence, these expenses are to be interpreted as marketing / promotional costs.

The querist has also provided an update of the above-mentioned facts, views and analysis as supplementary note, which is annexed as Annexure A.

B. Query

4. Given the above Illustrations, the querist has sought the opinion of the Expert Advisory Committee on the accounting treatment of the following:

- Whether fixed display cost (standees, tent cards, wobblers, hangers, product demonstrations for festivals and promotional aisle) to be treated as cost or to be considered as reduction in revenue;
- Whether spend with fixed fair value (fair value established with rate card per month per store cost or per mailer cost) but capped at certain percentage of sales to be treated as cost or to be considered as reduction in revenue.

C. Points considered by the Committee

5. The Committee notes that the basic issue raised by the querist relates to the accounting treatment of the cost of display (Spend fixed in nature and Spend with fair value established by

fixed rate card capped at certain percentage of sales) under Ind AS 115 by Group A. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, identification of customer under Ind AS 115, treatment of variable consideration under Ind AS 115, accounting for and impact of right of return, accounting for price protection (if any), accounting for incentives/bonus/coupons/rebates etc. (if any) given to the retailers, accounting for negative revenue in the event the display and mailer costs exceed revenue, etc. The Committee has only examined the issue from an accounting perspective and has not examined the regulatory or legal classification and implications. Further, the Standards referred hereinafter are the Indian Accounting Standards (Ind AS), notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended or revised from time to time.

At the outset, the Committee notes that the Company or Group A treats the retailers as its customers. In this regard, the Committee wishes to point out that the terms of trade and agreement with retailers should be carefully considered by Group A along with the guidance in Ind AS 115 (paragraphs B34–B38) in order to determine whether the retailers are acting as agent (and therefore cannot be considered as customer under Ind AS 115) or principal (and therefore can be considered as customer under Ind AS 115), which has not been examined by the Committee; rather the Committee has presumed that the retailer is the ‘customer’ under Ind AS 115, as understood by Group A and has proceeded on this premise. Further, if there is any change or deviation in any terms, the opinion may not hold good.

6. The Committee notes that Ind AS 115, ‘Revenue from Contracts with Customers’ states the following:

“27 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 promise to transfer the good or service is distinct within the context of the contract).

28 A customer can benefit from a good or service in accordance with paragraph 27(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

- 29 In assessing whether an entity’s promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph 27(b), the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a customer are not separately identifiable include, but are not limited to, the following:
- (a) the entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit.
 - (b) one or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract.
 - (c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfil its promise by transferring each of the goods or services independently.
- 30 If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.”
- “70 Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity’s goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity’s goods or services from the customer). **An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 26–30) that the customer transfers to the entity.** If the consideration payable to a customer includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 50–58. (Emphasis supplied by the Committee.)
- 71 If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If

the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.

- 72 Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognise the reduction of revenue when (or as) the later of either of the following events occurs:
- (a) the entity recognises revenue for the transfer of the related goods or services to the customer; and
 - (b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices."

Further, in this respect, the Committee notes the following paragraphs of Basis for Conclusion to International Financial Reporting Standard (IFRS) 15 (corresponding international standard to Ind AS 115), issued by International Accounting Standards Board:

"BC255 In some cases, an entity pays consideration to one of its customers or to its customer's customer (for example, an entity may sell a product to a dealer or distributor and subsequently pay a customer of that dealer or distributor). That consideration might be in the form of a payment in exchange for goods or services received from the customer, a discount or refund for goods or services provided to the customer, or a combination of both.

BC256 **To help an entity distinguish between those types of payments, the boards decided that the only circumstance in which an entity should account for any good or service received in the same way as for other purchases from suppliers is if the good or service is distinct.** Previous requirements in US GAAP on the consideration that a vendor gives to a customer used the term 'identifiable benefit', which was described as a good or service that is 'sufficiently separable from the recipient's purchase of the vendor's products such that the vendor could have entered into an exchange transaction with a party other than a purchaser of its products or services in order to receive that benefit'. The boards concluded that the principle in IFRS 15 for assessing whether a good or service is distinct is similar to the previous requirements in US GAAP. (Emphasis supplied by the Committee.)

BC257 The amount of consideration received from a customer for goods or services, and the amount of any consideration paid to that customer for goods or services, could be linked even if they are separate events. For instance, a customer may pay more for goods or services from an entity than it would otherwise have paid if it was not receiving a payment from the entity. Consequently, the boards decided that to depict revenue faithfully in those cases, any amount accounted for as a payment to the customer for goods or services received should be limited to the fair value of those goods or services, with any amount in excess of the fair value being recognised as a reduction of the transaction price.

BC258 If the payment of consideration is accounted for as a reduction of the transaction price, an entity would recognise less revenue when it satisfies the related performance obligation(s). However, in some cases, an entity promises to pay consideration to a customer only after it has satisfied its performance obligations and, therefore, after it has recognised revenue. When this is the case, a reduction in revenue should be recognised immediately. Accordingly, the boards clarified that the reduction of revenue is recognised at the later of when the entity transfers the goods or services to the customer and when the entity promises to pay the consideration. By using the phrase ‘promises to pay’, the boards clarified that an entity should reflect in the transaction price payments to customers that are conditional on future events (for example, a promise to pay a customer that is conditional on the customer making a specified number of purchases would be reflected in the transaction price when the entity makes the promise).”

7. From the above, the Committee notes that as per requirements of paragraphs 70 and 71 of Ind AS 115 (as reproduced above), consideration payable to a customer shall be accounted for as a reduction of the transaction price and, therefore, of revenue *unless* the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price. Thus, it needs to be evaluated whether or not the good or service transferred to the Company/Group A by the retailer/customer is ‘distinct’ as per the requirements of Ind AS 115. Further, the discussion hereinafter is in the context of the Company acting as a customer of the retailer supplying good or service.

8. In this context, the Committee notes that by virtue of paragraph 27 of Ind AS 115, a good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) Customer can benefit from good/service on its own or with other resources readily available to the customer (i.e. the good/service is distinct).
- (b) The entity’s promise to transfer good/service to customer is separately identifiable from other promises in the contract (promise to transfer good/service is distinct).

In the extant case, in case of fixed spends/fee arrangements with retailers for display services, the consideration paid by Group A to the retailers are fixed at predetermined rates agreed in rate cards. There are standard fees/rates for various services, such as, mailers and various types of displays (in-store) activities. As submitted by the querist, these rates are dependent on the size of space taken and its location in the store and these rates are the same for all parties who opt for these display services.

In this regard, the Committee notes that in the extant case, the Company is making these payments to its customers for undertaking activities which help them generate higher sale of

the Company's products through prominent display of products as well as through informing features of these products to the customers. Since the retailer is acting as principal in the arrangement, it may be argued that the retailer is anyway expected to undertake activities which will increase the sale of products. Further, the retailer provides these services to the Company only in respect of the goods supplied by the Company (as vendor) to the retailer. Also, the Company obtains services such as placement of products and other materials near checkout counter in the store as well as mailers only from its customers and not from other third parties who are not directly/ indirectly selling or otherwise involved with the Company's products. These facts indicate that the substantive economic benefit received by the Company from these arrangements is increased sale of product to the retailers and it cannot get the benefit from display or mailer services on its own without selling its products to the retailers/customers. Thus, display and mailer services cannot provide benefits to the Company (as a customer of the retailer) on its own or with other readily available resources in terms of paragraph 27(a) of Ind AS 115. In other words, the services, if any, provided by retailers are not sufficiently separable from the retailer's/customer's purchases of the Company's products to be regarded as distinct.

9. The Committee further notes that in respect of the criterion of 'separately identifiable from other promises' in paragraph 27(b) of Ind AS 115, as per paragraph 29, one of the factors that indicate that two or more promises to transfer goods or services are not separately identifiable is whether the goods or services are highly interdependent or highly interrelated. Further, as per BC 256, in order to be distinct, the customer (the Company/Group A in the extant case) should get an 'identifiable benefit', which is described as a good or service that is 'sufficiently separable from the recipient's purchase of the vendor's products such that the vendor could have entered into an exchange transaction with a party other than a purchaser of its products or services in order to receive that benefit'. However, as noted above, in the extant case, the Company/Group A only incurs the cost for display/mailer services with the retail stores/retailers that purchase goods from the Company/Group A or hosts them in their stores/mailers for sale to end customer. The retailers are considered by the Company/ Group A as customers (to whom the 'control' of the goods have been transferred) and they are reselling the goods to end customers. The retailers provide the display services to Group A in respect of onward sale of retailers' own products to end-customers which are purchased from Group A. Therefore, the display services cannot be said to be independent of the onward sale by the retailers to the end customers which in turn would affect Group A's subsequent sale to the retailers. These display services do not have any standalone value to the Company/Group A (as a customer) in the absence of onward sales by the retailer. Accordingly, the display and mailer services can be said to be highly interrelated or interdependent with the sale of the Company's /Group A's goods.

10. With regard to the querist's contention in relation to separate or independent agreement for display or mailer services, the Committee wishes to point out that as per BC 257 to IFRS 15, the amount of consideration received from a customer for goods or services and the amount of any consideration paid to that customer for goods or services, could be linked even if they are separate events.

11. Based on the above, the Committee is of the view that the display services cannot be said to be 'distinct' from the goods that Group A sells to the retailers as per the criteria laid down in paragraph 27 of Ind AS 115. Therefore, as per the requirement of paragraph 70 of Ind AS 115, these costs shall be accounted for as a reduction of the transaction price and, therefore, of revenue by Group A.

12. In case of arrangements with retailers in respect of spend with fixed fair value, containing business development fund (BDF), in addition the discussion in paragraphs 7 to 11 above in relation to distinct service, which is applicable for such spends also, the Committee notes that the BDF computed as a percentage (%) of sales made to customer is payable to customer irrespective of display services are obtained by Group A from the customer or not. In other words, even if Group A decides not to avail in-store publicity and mailer services, contractually, it will be still required pay these charges to its customer computed as a % of sales. Thus, in such cases, these payments would be primarily dependent on the sales to the customers. Therefore, such BDF payments are directly co-related with sales to customers and cannot be said to be 'distinct' from the goods that Group A sells to the retailers as per the criteria laid down in paragraph 27 of Ind AS 115. Further in such arrangements, it can also be said that the fair value of the services from the retailers cannot be reasonably estimated as the retailers (customers) do not sell these services to companies other than vendors whose products are hosted in the retailers' stores/mailers, i.e., independent of products that are hosted in their stores.

Accordingly, the Committee is of the view that the obligations to pay BDF should also be accounted for as a reduction of the transaction price and of revenue by Group A pursuant to the requirement of paragraph 70 of Ind AS 115. Further, since there may be a variable amount in the consideration (depending on % of sales), as per the requirements of paragraph 70 of Ind AS 115, Group A should estimate its transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 50–58 of Ind AS 115.

D. Opinion

13. On the basis of the above and subject to limitations and presumptions in paragraph 5 above, the Committee is of the opinion on the issues raised in paragraph 4 above:

- (a) The cost of display in fixed fee arrangements shall be accounted for as a reduction of the transaction price and, therefore, of revenue by Group A, as discussed in paragraphs 7 to 11 above.
- (b) In case of arrangements with retailers in respect of spend with fixed fair value containing BDF, the obligations to pay BDF to the retailers should also be accounted for as a reduction of the transaction price and of revenue by Group A, as discussed in paragraph 12 above. Further, since there may be a variable amount in the consideration, Group A should estimate its transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 50–58 of Ind AS 115.

View 1 – Treat these costs as expense in the profit and loss statement**1.1 Spend fixed in Nature:****1.1.1 Background:**

Group A incurs various types of costs for advertising and marketing its products. There are hoardings put in many places and advertisement costs incurred through various media. Such expenses include TV advertisement, print media and online campaigns etc. All these expenses are incurred to create visibility around the product categories of the group and enhance the saleability of the group's products at various retailer outlets. One of such important places, where these kinds of advertising / marketing / promotional costs are incurred, happen to be within the retail stores. Display includes major portion of such in-store costs.

The retail stores place the products in the shelves for it to be made available to end consumers. This is as per the agreement with such retail customers. However, Group A can choose to incur additional cost to market / promote the products by opting for additional shelf space at prime location. These costs include services in respect of standees, tent cards, wobblers, hangers, and product demonstrations for festivals.

Standee: A standee is a self-standing display, often made from cardboard or other sturdy materials, featuring a life-size image or cutout. They are commonly used for promotional purposes in retail stores.

Tent Cards: Tent cards are small, folded cards that stand on their own, typically placed on tables or counters. They are used to display information such as menus, promotions, or event details.

Wobblers: This motion helps to catch the eye of customers, making them effective for drawing attention to special offers or specific products in retail environments. This motion helps to catch the eye of customers, making them effective for drawing attention to special offers or specific products in retail environments.

Hangers: Hangers, in a marketing context, refer to promotional materials that hang from shelves, ceilings, or other fixtures. They are designed to be eye-catching and can include information about promotions, new products, or other important messages

The consideration paid for such a service is mostly fixed at predetermined agreed in rate cards. But these rates are dependent on the size space taken and its location in the store. These rates are the same for all parties who opt for these display services. The entire space in the outlet is a monetisable independent asset for the retailer. It is at the discretion of the retailer to offer space within the outlet. In other words, this is akin to the spend incurred on hoardings placed outside the store in commercial substance in that both are meant for enhancing the product awareness.

These spends in fixed nature include display costs and mailer costs.

1.1.2 Literature from Ind AS:**1.1.2A Consideration payable to a customer (Paragraphs 70 & 71):**

- i. **Consideration payable to a customer includes cash amounts that an entity pays, or**

expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer). **An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service** (as described in paragraphs 26–30) that the customer transfers to the entity. If the consideration payable to a customer includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 50–58. [*Ind AS 115 Paragraph 70*]

- ii. **If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers.** If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price. [*Ind AS 115 Paragraph 71*]
- iii. Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognise the reduction of revenue when (or as) the later of either of the following events occurs:
 - a) the entity recognises revenue for the transfer of the related goods or services to the customer;
 - b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices. [*Ind AS 115 Paragraph 72*]

1.1.2B. Distinct goods or services (Paragraphs 26 & 27):

- i. 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 (i.e. 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 (i.e. the good or service is distinct within the context of the contract). [*Ind AS 115 Paragraph 27*]
- ii. A customer can benefit from a good or service in accordance with paragraph 27(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other

goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. **For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.** [*Ind AS 115 Paragraph 28*]

1.1.3 Analysis to Whether the “Spend fixed in nature” demonstrate the performance of a distinct service?

- a. These display services agreed have no correlation with the sales whatsoever. Even if the display services were not required to be provided by the customers, the sales would be continued to be made by entity to the customers based on the existing agreements between these parties. In other words, the promises to entity are not a combined output of integrated goods / services.
- b. The display services provided by the customers do not modify or customise the purchases of entity’s products. The rates at which the products are sold to the customers do not change irrespective of whether the sales are made to parties who render such services or not.
- c. Further, these services are not highly interrelated or interdependent with the sale of entity’s products because it is not necessary that such services must be provided by the customers for entity to sell the products i.e., there is no significant two-way dependency between the two promises.
- d. These display and mailer costs are akin to other marketing efforts carried out by the group, like placing billboards in certain areas. Typically, consumer care companies incur in-store promotion costs, such as, fees for displays, through their distribution and retail channels. These expenses are not compulsory for the sales contract, as some shelf space must be allocated by the customers according to the contract. Additional display costs are incurred to enhance product visibility and awareness among final consumers.
- e. These costs are not agreed in the contract with customer and separate arrangement exists for the same.
- f. These amounts charged by the retailers do not have any bearing on the sale of products. It is primarily based on the customer footfall in a particular store. If a particular store has more footfalls, more spend is incurred in such store but that might not necessarily translate to sale in the same store. Such spend might translate into more awareness around the product category among the end consumers visiting the retail store.
- g. These services are not an entitlement to the group. Group A has the complete liberty to incur these costs. But when the Group A chooses to incur these costs, it is legitimately evidenced by valid supporting.
- h. The fair value of these services can be demonstrated based on the rate charged by the customer to other vendors. In case, the amount paid is more than the fair value of these services, the same will be reduced from the revenue.

1.2. Spend with fixed fair value (fair value established with rate card per month per store cost or per mailer cost) but capped at certain percentage of sales:

1.2.1 Background:

Business Development Fund (BDF) paid is utilised toward display and mailer cost at outlets. There is rate cards separately agreed with the customers for the consideration of these activities. Rate cards can be used to demonstrate the existence of fair value for these services since these rates are same for all the vendors of such customers including Group A.

Following is the detailed process followed for monitoring the spends disbursed through BDF:

- a. Arrangement with the group customer/key accounts on the type of display, product category and the number of stores in which the display to be incurred.
- b. The merchandiser will setup various displays in the stores such as hang sell, tent card, standees, and promotion aisles.
- c. Monthly, the merchandisers snap photos and share proof of performance to sales team for their verification.
- d. Based on rate card initially agreed, fair value of these services is captured.
- e. Sales team, then will track fair value of these services (based on rate card) vs. BDF claimed (percentage on sales).

1.2.2 Literature from Ind AS:

Same paragraphs as mentioned above.

1.2.3 Analysis to Whether 'spend with fixed fair value (fair value established with rate card per month per store cost or per mailer cost) but capped at certain percentage of sales' can be considered as distinct service and represent fair value under Ind AS 115.

- a. BDF is not in the nature of pure discount or rebate since the spend is not at the discretion of customer and they are required to submit supporting justifying the payment paid by the entity. It is further to be noted that these display and BDF amounts fall under the definition of consideration payable to customer and not variable consideration.
- b. Further, the display services provided by the customers do not modify or customise the purchases of entity's products. The rates at which the products are sold to the customers do not change irrespective of whether the sales are made to parties who render such services or not.
- c. These display and mailer costs are akin to other marketing efforts carried out by the group, like placing billboards in certain areas. Typically, consumer care companies incur in-store promotion costs, such as fees for displays, through their distribution and retail channels. These expenses are not compulsory for the sales contract, as some shelf space must be allocated by the customers according to the contract. Additional display costs are incurred to enhance product visibility and awareness among final consumers.

- d. The fair value of services is computed using a standard rate card which is commonly applicable to all the vendors of the customers including Group A. Since, the rate does not change based on the product category and brand value, the rates mentioned in the standard rate card can be considered as fair value of services.
- e. It is highly unlikely that BDF has been paid to the customer, but no service has been availed against the same. It is a customary practice between the parties that services are availed and measured against the BDF paid. Historically, there has never been an instance of BDF paid and no services availed.
- f. While BDF clause is included in the contract itself, this cannot be treated as component of transaction price since it is mutually understood by the parties that BDF is utilised towards services provided by the customer (such as display and mailer services) and there is documentation to that effect.
- g. It is also important to note that in the customer agreement, there are some rebates and incentives which are flat discount as a percentage of sale. These are reduced from the revenue since there is no spend obligation on the retailer. Please refer to the below table where Clause B.2 & B.4 are reduced from the revenue as there is evidence requirement of the cost incurrence by the retailer.

BDF falls under clause B.3 in the below snippet in respect of which there is an obligation on the part of the retailer to evidence the spend by way of supportings. These spends are mutually decided between the group A and the retailer. Thus, this is **NOT** flat discount or incentive and hence, only this clause where cost if incurred for the same is considered as distinct service.

B. PURCHASES AND REBATES		2022	2023	2024	
B.1	TARGET PURCHASES PER YEAR	GROSS PURCHASE VALUE	MYR 23,000,000.00	MYR 23,000,000.00	MYR 23,000,000.00
B.2	FLAT REBATE	NET PURCHASE VALUE	3.00 %	3.00 %	3.00 %
B.3	BUSINESS DEVELOPMENT FUND (BDF)	NET PURCHASE VALUE	5.50 %	5.50 %	5.50 %
B.4	YEARLY INCENTIVE REBATE	NET PURCHASE VALUE	YES	YES	YES
A)	PURCHASE TARGET TIER 1		MYR 0.00 TO 20,000,000.00 3.00 %	MYR 0.00 TO 20,000,000.00 3.00 %	MYR 0.00 TO 20,000,000.00 3.00 %
B)	PURCHASE TARGET TIER 2		> MYR 20,000,000.00 TO 45,000,000.00 4.00 %	> MYR 20,000,000.00 TO 45,000,000.00 4.00 %	> MYR 20,000,000.00 TO 45,000,000.00 4.00 %
C)	PURCHASE TARGET TIER 3		> MYR 45,000,000.00 TO 47,000,000.00 4.50 %	> MYR 45,000,000.00 TO 47,000,000.00 4.50 %	> MYR 45,000,000.00 TO 47,000,000.00 4.50 %
D)	PURCHASE TARGET TIER 4		> MYR 47,000,000.00 AND ABOVE 5.00 %	> MYR 47,000,000.00 AND ABOVE 5.00 %	> MYR 47,000,000.00 AND ABOVE 5.00 %

- h. The spend tracker maintained indicates some difference between the BDF paid and the value of services received and the treatment of the same is as under:
 - If the consideration payable is less than the fair value of services received, no reduction to revenue is required as per paragraph 71.
 - On the contrary, if the BDF paid exceeds the fair value of services, then the excess amount which the standard stipulates to be reduced from the revenue.

View 2 – Treat these as reduction in revenue

2.1 Background:

- The Group only incurs the display costs and slotting fee with the stores that purchase goods from the Group or hosts them in their stores for sale to end customer.
- The variable charges (BDF) computed as a % of sales made to customer are payable to customer irrespective of the Group obtaining display services from the customer. i.e., even in the event the Group A decided to not avail in-store publicity and mailer services contractually it will be still required pay these charges to its customer computed as a % of sales. However, the Company is allowed to avail bouquet of service that the store provides and assign the value against BDF based on pre agreed activity rate card.
- The BDF is part of the arrangement to sale with the customer and not a separate agreement entered into between the Group and the Customer. In some of the fixed display charges contract, these are separately entered.
- The spend does not reflect fair value of charges in accordance with Ind AS 115.71 and BC 256 to IFRS 15, as the customers do not sale these display services independent of products that are hosted in their stores.
- Below are extracts from Basis for Conclusion from *IFRS 15, 'Revenue from Contracts with Customers'* on payments made to customers; these are applicable to Ind AS as well, as there are no GAAP differences with IFRSs as noted in Appendix 1 to Ind AS 115.
 - *BC255 In some cases, an entity pays consideration to one of its customers or to its customer's customer (for example, an entity may sell a product to a dealer or distributor and subsequently pay a customer of that dealer or distributor). That consideration might be in the form of a payment in exchange for goods or services received from the customer, a discount or refund for goods or services provided to the customer, or a combination of both.*
 - *BC256 To help an entity distinguish between those types of payments, the boards decided that **the only circumstance in which an entity should account for any good or service received in the same way as for other purchases from suppliers is if the good or service is distinct.** Previous requirements in US GAAP on the consideration that a vendor gives to a customer used the term 'identifiable benefit', which was described as a good or service that is 'sufficiently separable from the recipient's purchase of the vendor's products such that the vendor could have entered into an exchange transaction with a party other than a purchaser of its products or services in order to receive that benefit'. The boards concluded that the principle in IFRS 15 for assessing whether a good or service is distinct is similar to the previous requirements in US GAAP.*
 - *BC257 The amount of consideration received from a customer for goods or services, and the amount of any consideration paid to that customer for goods or services, could be linked even if they are separate events. For instance, a customer may pay more for goods or services from an entity than it would otherwise have paid if it was not receiving a payment from the entity. Consequently, the boards decided that to*

depict revenue faithfully in those cases, any amount accounted for as a payment to the customer for goods or services received should be limited to the fair value of those goods or services, with any amount in excess of the fair value being recognised as a reduction of the transaction price.

- *BC258 If the payment of consideration is accounted for as a reduction of the transaction price, an entity would recognise less revenue when it satisfies the related performance obligation(s). However, in some cases, an entity promises to pay consideration to a customer only after it has satisfied its performance obligations and, therefore, after it has recognised revenue. When this is the case, a reduction in revenue should be recognised immediately. Accordingly, the boards clarified that the reduction of revenue is recognised at the later of when the entity transfers the goods or services to the customer and when the entity promises to pay the consideration. By using the phrase ‘promises to pay’, the boards clarified that an entity should reflect in the transaction price payments to customers that are conditional on future events (for example, a promise to pay a customer that is conditional on the customer making a specified number of purchases would be reflected in the transaction price when the entity makes the promise).*

2.2 Analysis to “Whether the spend fixed in nature demonstrate the performance of a ‘distinct service’”.

As mentioned in Ind AS 115.27, Ind AS 115.71 and BC 256 to IFRS 15, the expenses incurred on display charges and slotting fees inside the customer store do not reflect distinct services as

- a. Group A does not enter into exchange transaction with a party other than its customers a purchaser of its product or services to receive this benefit.
- b. these display, mailer and slotting services are not independently obtained by the Group from other than the retail stores that are Group’s customers (stores that host company’s products);
- c. the group’s customers (retail stores) do not generally sell these services to companies other than vendors whose products are hosted in the retail store, fair value of these services cannot be established as the customers do not sell these display services independent of products that are hosted in their stores.
- d. Accordingly in accordance with Ind AS 115.71, if the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.
- e. As mentioned in BC 257 to IFRS 15, the amount of consideration received from a customer for goods or services, and the amount of any consideration paid to that customer for goods or services, could be linked even if they are separate events, hence mere the fact that the amount paid is fixed in nature and is entered in a separate agreement compared to the agreement to sale of base product does not make it a distinct transaction / services.
- f. Group A cannot benefit from display the good or service on its own without selling its product to the customers, hence considering that Entity A’s only substantive benefit

from those services will be through additional sales in customer's store and that it does not and would not enter into such slotting fees and display charges transaction with a retail stores other than its customers in order to receive that benefit these are not sufficiently separable from Customer's purchases of Company A's products and hence should not be regarded as distinct in accordance with Ind AS 115.27, Ind AS 115.71 and BC 256 to IFRS 15 and hence should be treated as reduction of revenue.

2.3 Analysis to Whether "spend with fixed fair value (fair value established with rate card per month per store cost or per mailer cost) but capped at certain percentage of sales" can be considered as distinct service and represent fair value under Ind AS 115.

- a. As discussed above these services do not constitute a distinct service provided by the customer.
- b. The BDF is payable as a percentage (%) of revenue irrespective of the spend by the Company. The BDF increases with every increase in sale hence the cost required to be spent with customer is directly co-related to sales achieved by the customer. The Company can avail services from bouquet of services from the store which are primarily used for activities in the store that results in higher sales from Group A to the customer. The spend can be attributed basis the fixed rate card along with proof of services which are verified by Group A. Hence in substance these are variable consideration to retail chains to sale company's products to end customers.
- c. Contractually, the Company is required to pay these charges independent of it availing services from bouquet of services provided by the customer, i.e., even in the event the Group A decided to not avail in-store publicity and mailer services it will be still required pay these charges to its customer computed as a % of sales and hence represents reduction from transaction price.
- d. Considering that the Company has to pay these charges independent of it availing services, hence realistically there is no choice for Group A but to pay these charges and avail display services, hence such activity does not represent distinct services or fair value of services received by Group A.
- g. Group A cannot benefit from display of the good or service on its own without selling its product to the customers; hence considering that Entity A's only substantive benefit from those services will be through additional sales in Customer's store and that it does not and would not enter into such slotting fees and display charges transaction with a retail stores other than its customers in order to receive that benefit, these are not sufficiently separable from Customer's purchases of Company A's products to be regarded as distinct in accordance with Ind AS 115.27, Ind AS 115.71 and BC 256 to IFRS 15 and hence should be treated as reduction of revenue.
