

# THE ORACLE

MANGALURU BRANCH (SIRC) E-NEWSLETTER  
DECEMBER 2025



# UPCOMING EVENTS

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## CHAIRMAN'S MESSAGE



**CA. Prashanth Pai K.**

*Chairman- ICAI Mangaluru Branch*

Dear Esteemed Members,

As we bid farewell to December 2025, I am pleased to share with you the highlights of the events organized by our

### December Highlights:

- 16th Dec: One-Day Seminar on International Taxation featuring CA Cotha S Srinivas and CA Suchin Kumar B P as resource persons.
- 22nd Dec: Half-Day Seminar on Cyber Security by CA Vikas Kamath. Both these programs were well received by the members by good number of registrations.
- DISA Course: Successfully launched with 41 registrations; course commenced on 11th Dec and will conclude on 4th Jan 2026.

It was indeed a wonderful month, and I thank all members for their support.

### January 2026 Plans:

- Debate Competition
- Series of IndAS Study Circle Meetings

We seek your active participation and support for these initiatives.

Wishing you a Happy and Prosperous New Year!

I conclude with a Chinese Proverb - "Learning is a treasure that will follow its owner everywhere."

Warm regards,

**CA Prashanth Pai K**  
Chairman, Mangalore Branch of SIRC of ICAI

## From the Editor's Desk

Dear Esteemed Members,  
Warm greetings from the Mangaluru Branch of SIRC of ICAI!



December marks the close of another calendar year — a natural pause that invites reflection, gratitude, and renewed purpose. For professionals like us, it is a time to look back at the challenges navigated, the responsibilities discharged, and the trust reposed in us by stakeholders across sectors.

The month also coincides with an important phase in the professional cycle. With year-end reviews, advance tax considerations, and strategic planning discussions gaining momentum, December calls for careful evaluation and forward planning. It is an opportune time for Chartered Accountants to assist clients in assessing financial performance, strengthening internal controls, and aligning business strategies for the year ahead.

On the national front, India enters the final quarter of the year with measured optimism. Strong festive-season consumption, stable financial markets, and continued emphasis on infrastructure and manufacturing have supported economic momentum. At the same time, evolving global conditions underline the importance of fiscal discipline, risk management, and prudent advisory — areas where Chartered Accountants play a vital and reassuring role for businesses and institutions alike.

This edition of the E-Bulletin once again features thoughtful articles authored by our members, reflecting the depth of knowledge and practical insight within our fraternity. I extend my sincere appreciation to all contributors and encourage continued participation from members in sharing their experiences, perspectives, and expertise through this platform.

As the year draws to a close, it is worth pausing to reflect on the journey of the past twelve months. I hope that 2025 has been a year of professional growth, learning, and stability for all our members. As we look ahead, let us set meaningful resolutions for the coming year — to strengthen our technical competence, uphold the highest ethical standards, mentor the next generation, and continue serving society with integrity and commitment.

Wishing you and your families a joyful holiday season and a healthy, prosperous New Year ahead.

Warm regards,  
CA. B Krishnanda Pai  
Editor - E-Bulletin  
Mangaluru Branch of SIRC of ICAI

# **Work in Progress in the Ordinary Course of Business of Service Providers**

### **Abstract**

Work in Progress (WIP) arising in service organisations represents costs incurred on assignments that are ongoing at the reporting date. Unlike manufacturing WIP, service-sector WIP represents accumulated labour hours, technical efforts, specialist inputs, subcontracted services, and attributable overheads connected directly with client assignments. The ICAI's Guidance Note on Accounting for Service Sector, Ind AS 115, IFRS 15, and corresponding international practices demand a robust, principle-based framework ensuring faithful representation of performance obligations and economic reality. This research bulletin synthesises Indian guidance, global standards, corporate practices, valuation complexities, and cross-country comparisons, supplemented with numerical illustrations, sectoral case studies, and disclosure requirements expected from professional service entities.



**Rahul Sharma**

**FCA, MBA(Fin.), LL.b., CAIIB**

**Chartered Accountant & Banker**

### **Introduction**

Service providers—ranging from IT consulting firms, engineering design units, EPC advisory companies, legal firms, audit practices, management consultants, fintech service groups, research institutions, and technical service vendors undertake assignments that extend across months or years. Work is performed progressively, and benefits accrue to clients over time. In such cases, economic performance precedes invoicing, creating a temporary asset known as Work in Progress (WIP). Unlike goods-producing entities, service enterprises cannot rely on physical verification, stock counts, or material reconciliation. Instead, they must depend on cost records, job-progress documentation, timesheet systems, milestone certifications, and deliverable-level progress mapping. This makes WIP accounting more judgment-driven and vulnerable to estimation uncertainty. Such complexities justify why ICAI, IFRS Foundation, and AICPA emphasise strong governance, documentation, and disclosure in the service sector.

## **ICAI Guidance**

Under ICAI's Guidance Note on Accounting for Service Sector (2019), revenue is recognised using either the proportionate completion method or completed service contract method based on reliability of estimation. WIP arises when costs are incurred but revenue is not yet recognised. ICAI requires maintenance of detailed job-cost sheets capturing staff hours, cost rates, project-specific overhead absorption, materials consumed for service delivery, and subcontractor charges. Prudence requires that foreseeable losses be recognised immediately, while WIP must not be overstated. ICAI also mandates disclosure of contract assets, unbilled revenue, cumulative costs incurred, recognised revenue, and expected costs to complete. These requirements ensure that WIP reflects the actual stage of completion rather than arbitrary management estimates.

## **International Comparison**

A three-jurisdiction comparison reveals both convergence and divergence:

- India (Ind AS 115): Fully converged with IFRS 15, emphasising enforceable contracts, transfer of control, and input/output-based progress measurement. Contract assets include unbilled revenue and WIP.
- EU (IFRS 15): Similar conceptual basis but EU regulators emphasise narrative disclosures of significant judgments, especially in engineering and defence contracts. EU companies often apply output-based progress when client approvals are contractually binding.
- United States (ASC 606): Converged framework but retains industry-specific application guidance for engineering, software, and defence. Percentage-of-completion remains widely used. US firms generally present unbilled revenue and contract assets separately, and impairment testing is stricter for long-duration technical contracts.

This comparison highlights that while principles are aligned, sectoral practices differ based on regulatory expectations, litigation environments, and industry norms.

## **Recognition Measurement**

WIP recognition follows two phases: initial recognition and subsequent measurement. At the initiation stage, all directly attributable costs—professional labour, technical time charges, travel, subcontractor services, consumables, quality-testing charges, software usage costs, and project-specific overheads—are debited to WIP. Measurement requires identifying performance obligations, determining total estimated contract cost, and

computing the degree of completion using input methods (cost-to-cost, hour-based effort) or output methods (milestones, approvals, deliverables). WIP = cumulative cost incurred – cost of services recognised in P&L. When revenue is recognised proportionately, WIP tends to decline. When revenue is deferred pending client acceptance, WIP accumulates. This dynamic interaction between cost recognition and revenue timing reflects the contractual economics of service engagements.

## Numerical Illustrations

### Illustration 1 – Cost-to-Cost Method:

Contract value = ₹1.2 crore; estimated total cost = ₹90 lakh.

Costs incurred till date = ₹36 lakh  $\rightarrow$  completion % =  $36/90 = 40\%$ .

Revenue recognised = 40% of ₹1.2 crore = ₹48 lakh.

Cost of services recognised = 40% of ₹90 lakh = ₹36 lakh.

WIP closing = ₹36 lakh – ₹36 lakh = Nil (all costs consumed proportionately).

### Illustration 2 – Time-Based IT Implementation Contract:

Hours incurred = 2,000 hours; hourly billing rate = ₹3,000; certified hours = 1,600.

Revenue recognised = ₹48 lakh ( $1,600 \times 3,000$ ).

WIP = 400 hours  $\times$  direct labour cost rate (₹1,800/hour) = ₹7.2 lakh.

### Illustration 3 – Engineering Design Contract with Uncertain Milestones:

Total estimated cost = ₹50 lakh; cost incurred = ₹10 lakh; client deliverables pending approval  $\rightarrow$  revenue cannot be recognised.

Hence, WIP = entire ₹10 lakh.

These varied illustrations demonstrate how revenue timing influences WIP magnitude and classification.

## Valuation Models

Valuation models for WIP in service organisations include:

1. Cost-to-Cost Model: Appropriate for long-duration projects where effort correlates with value addition.
2. Time-Based Model: Used by consulting, audit, and legal sectors. Hours captured through timesheets translate into WIP until billed.
3. Milestone-Based Model: Ideal for engineering design, EPC consulting, and digital transformation projects where client acceptance determines revenue timing.

4. Activity-Based Costing (ABC): For complex multi-departmental service delivery models.
5. Hybrid Model: Mix of effort-based and deliverable-based valuation for multi-phase IT and engineering contracts.

Each model has limitations such as subjectivity, dependency on managerial judgment, and sensitivity to estimation errors.

### Tables

A simplified WIP valuation table:

Model	Basis	Ideal Use Case	Risk
Cost-to-Cost	Cost proportion	EPC, engineering	Estimation errors
Hour-Based	Timesheets	Consulting	Inflated hours
Milestone-Based	Deliverables	Design, architecture	Approval delays
Hybrid	Multi-basis	IT & R&D	Complex governance

This structured approach enables professional judgment aligned with ICAI requirements.

### Case Studies

Case Study – Infosys Ltd.: Infosys uses effort-based measurement for fixed-price contracts. Unbilled revenue is recognised based on progress verified through project managers. Robust timesheet systems reduce estimation risk.

Case Study – L&T Technology Services: Engineering projects often require multidisciplinary design efforts and progress certifications. L&T books WIP when costs are incurred but deliverables await client validation.

Case Study – Deloitte India: Professional audit and advisory firms rely heavily on billable-hour systems. WIP arises when audit teams complete fieldwork but reports are pending partner review or client sign-off.

These cases highlight the variety of challenges across the service industry spectrum.

## **Disclosure Requirements**

Under Ind AS 115 and ICAI Guidance:

- Contract assets must be disclosed separately from receivables.
- WIP must include details of cumulative cost, progress measurement basis, contract modifications, and provisioning for loss contracts.
- Significant judgments relating to progress measurement, estimation uncertainties, and cost allocations must be included in Notes to Accounts.
- Reconciliation of opening and closing WIP balances is recommended for transparency.

These disclosures enhance comparability and reduce information asymmetry for investors and regulators.

## **Practical Challenges**

Practical challenges include:

- Estimation uncertainty, especially for qualitative deliverables.
- Client-side delays in acceptance of work.
- Scope variations without formal contract modifications.
- Dependency on subcontractors.
- Integration of timesheet systems with ERP modules.
- Differences in cost absorption bases across departments.
- Litigation risks under US GAAP for delayed client approvals.

Strong internal controls, documentation discipline, and digital systems mitigate these risks.

## **Automation Analytics**

Modern service companies use AI-driven timesheet validation, project analytics, earned value management (EVM), predictive estimation tools, and automated milestone tracking to enhance WIP accuracy. Cloud-based ERP platforms integrate cost accumulation, progress measurement, and billing workflows, reducing human subjectivity and strengthening compliance with ICAI and IFRS norms.

## **Governance**

Strong governance includes periodic cost reviews, technical audits, milestone revalidation, independent contract supervision committees, and materiality-driven WIP thresholds. Internal audit, statutory audit, and risk management divisions evaluate whether WIP estimation procedures align with ICAI guidance and global practices.

## Conclusion

Accurate WIP accounting in service enterprises is critical for presenting a faithful picture of financial performance. The service sector's intangible nature increases reliance on cost systems, management judgment, and documentation controls. ICAI's guidance, together with Ind AS 115 and IFRS 15, provides a clear yet principle-driven framework. Cross-country practices demonstrate broad convergence but differing disclosure emphases. Strengthened internal processes, transparency, and analytical tools significantly enhance reporting quality.

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## **THE MONTH GONE BY DECEMBER 2025**

**-ONE-DAY SEMINAR ON INTERNATIONAL TAXATION  
BY CA COTHA S SRINIVAS AND CA SUCHIN KUMAR B P**





**THE MONTH GONE BY DECEMBER 2025**

**HALF-DAY SEMINAR ON CYBER SECURITY  
BY CA VIKAS KAMATH.**



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**DISA COURSE**



## **EDITORIAL BOARD**



**CA. Prashanth Pai K**



**CA. B Krishnananda Pai**

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**Feedback on this e-bulletin can be sent to the editorial team at [mangaluru@icai.org](mailto:mangaluru@icai.org) .**

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