AS 9 Revenue Recognition

CA. Anand Banka

Definition

- Revenue is the **gross inflow** of cash, receivables or other consideration arising in the course of the **ordinary activities** of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

Summary

- Covers
  - Sale of goods
  - Rendering of services
  - Interest, royalties and dividends
- Sale of goods
  - Transfer of significant risks and rewards
  - No effective control retained
  - No significant uncertainty regarding the consideration
- Rendering of services
  - Proportionate completion method
  - Completed service contract method

Summary

- Interest
  - Time proportion basis
- Royalties
  - Accrual basis
- Dividend
  - Right to receive payment

Rack your brains # 1

- Reliable Retail Ltd is a retail shop. It also sells Gift Vouchers to be redeemed against its own goods. As at March 31, 2014, the Company has sold gift vouchers worth 20 lacs. It has recognised this as income since it is non-refundable.
- Is the treatment correct?

Rack your brains # 2

- A gift voucher worth Rs. 10,000 was redeemed on 28 March 2014.
- The Company has a policy “money back if not completely satisfied”.
- Past experience: 2% money back cases
- Hence, company has recognised full sales and created a provision of 2% on sale amount
- Is the treatment correct?

Rack your brains # 3

- A retail shop gives Gift Voucher of Rs. 1,000 on purchase of Rs. 10,000
- The Company creates a provision of Rs. 10,000 against this
- Is the treatment correct?
  - Whether provision to be created
  - Amount of provision

Rack your brains # 4

- Accounting for sale on CIF basis
- Company accounts for sale as and when the goods are shipped
- Is the treatment correct?

Rack your brains # 5

- A Sky Shop Company sells goods to its agent/ distributor for Rs. 90 to be paid immediately
- It then does advertisement for the goods
- Customers call Company to order goods
- These goods are delivered by the agent/ distributor to the customers and cash is collected (COD basis) of Rs. 100
- This Rs. 100 is retained by the agent
- The Company records sale of goods at Rs. 90 on the date it sells to the agent.
- Is the treatment correct?

Missing Guidance…

- Cash Discounts
- Barter transactions
  - Similar nature
  - Dissimilar nature
- Customer loyalty Schemes
- Multiple Element Arrangements
- Service concession arrangement

AS 7 Construction Contracts

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Summary

- Applies to CONTRACTORS
- A construction contract is a contract specifically negotiated for the **construction of an asset or a combination of assets** that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use
- Construction contracts include contracts for the **rendering of services** which are **directly related** to the **construction of the asset**

Summary

- Outcome can be estimated reliably
  - Expected Revenue
    - On the basis of stage of Completion
  - Expected Loss (Onerous)
    - Immediately
- Outcome not reliably estimated
  - Contract cost expensed out immediately
  - Recoverable, revenue = incurred costs
  - Not recoverable, revenue = nil

Is this AS applicable to builders?

- Interpretation of the standard
- Guidance Note

Case Study

Particulars	Amount
Estimated Revenue	20,000
Estimate Costs	16,000
Actual so far	9,000
Cost includes materials not yet installed	1,000

- As per survey, 60% of work is completed
- As per physical proportion, 70% of work is completed
- Revenue Recognition as per
  - cost completion method
  - survey method
  - physical proportion method

Cost Completion Method	
Cost incurred (9,000-1,000)	8,000
Revenue to be recognised (8,000/16,000*20,000)	10,000
Survey Method	
Cost incurred	8,000
Revenue to be recognised (60% of 20,000)	12,000
Physical Proportion Method	
Cost incurred	8,000
Revenue to be recognised (70% of 20,000)	14,000

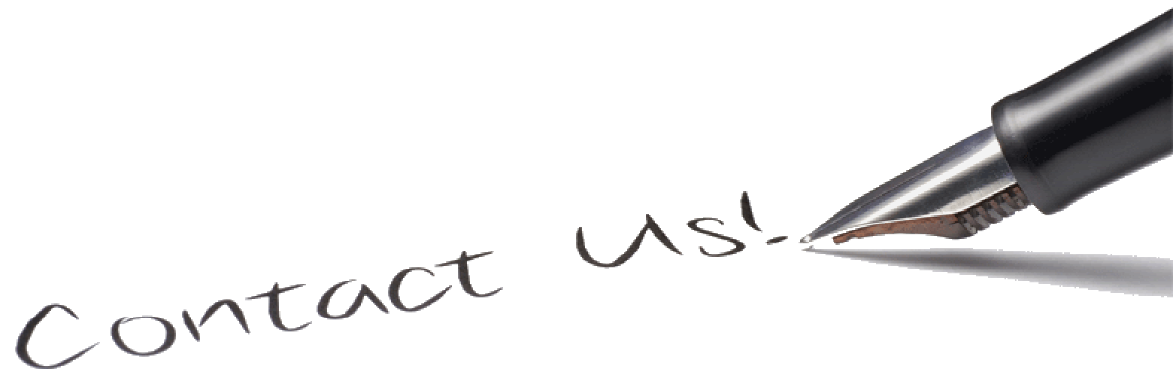
Rack your brains # 1

- Contractor PQR believes that it will not be able to recover the retention money after completion of the contract.
- Can bad debts be added to the contract cost?

Rack your brains # 2

- As per the contract, PQR will receive additional 5 lacs if the contract is completed within 24 months
- PQR wants to recognise this revenue on Percentage Completion basis since in the past it has been able to meet such targets
- Is the treatment correct?

ThanQ?



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