AS 9 - Revenue Recognition

1] Scope

AS 9 does not apply to:

i) Rev from const. contracts (AS 7)

ii) —"— lease agreements (AS 19)

iii) —"— govt grants (AS 12)

iv) Gain on sale of PPE, Intangibles (AS 10, 26)

Note: If PPE sale is Busn, then PPE is Inventory, & such Rev from sale of Inventory is covered in AS 9

v) Gain from foreign exch rates (AS 11)

2] Def of Revenue

Revenue is gross inflow of cash or receivable arising from ordinary course of Busn

i) Rev from Sale of Goods

ii) Rev from sale of services

iii) Revenue from other sources like :
- Interest
- Dividends
- Royalties

i) **Revenue Booking in case of Sale of Goods :**

Rev Booked only when :

a) Seller has trf the property in goods to buyer

b) All significant Risk & rewards of ownership trf. to buyer

c) No uncertainty regarding consideration to be rec'd.

ii) **Rev Booking in case of sale of services**

2 Methods

Proportionate completion method	Completed Service contract Method
Rev is recog proportionately by reference to the service completed.	Rev is recog when the final act takes place
eg: Teaching Service	eg : Installation service, repair service etc.
(Normally use this method for continuous service)	(Normally we use this method for one time service)

iii) Rev Booking in case of income from other sources like

a) **Interest**

Rev is recog on Time proportion Basis

b) **Dividend**

Dividend income is recog when owner's right to receive is established (SH approval date)

eg:. Rel ltd shares → propose 14/02

SH approved 24/02

Div money credit 28/02

c) **Royalties**

Recog on Accrual Basis as per terms of agreement.

---

3. Effect of uncertainty on Revenue Recognition

Uncertainty of collection of Revenue existed @ the time of sale

↓

Revenue recog is postponed. It should be booked on cash Basis or when uncertainty is resolved.

eg: AK ltd Co. — sale on 15-04 → lakshya

Nahi dega paisa (∴ Day 1 pe Dont Book Rev)

Uncertainty of collection of Revenue arised subsequent to sale

↓

Do Not reverse the sale already Booked. Create a prov for B.D

eg AK ltd Co. — sale on 15-04 → lakshya : 30 days mein paisa dega

Book Rev on Day 1.

After 7 days Bankrupt hogaya

Create Prov for B.D.

4. Special cases

i) Princ vs Agent (Qs)

→ In case of Princ → Rev is gross amount of goods or services

→ In case of Agent → Rev is only the amount of commission.

(Princ is the party who is responsible for fulfilling the contract)

↳ eg: Domino's.

eg: i) Domino's → 5 large pizza, 10 cold drink, 10 garlic Bread, 20 chocolava → ₹ 2500 → Domino Rev

Zomato → Delivery fees / Platform fees → ₹ 100 → Zomato Rev

GST ₹ 130 → Govt Rev

₹ 2730

ii) Bill & Hold

eg: Croma Co. $\xrightarrow[15.03]{\text{Ipad}}$ Customer (Aayush)

Delivery (after 3 months) on customer's request 15.06

Bill & Hold: Rev Book on 15.03

Here delivery is delayed @ Buyer's request, & Buyer takes title & Billing is done

In such cases Rev is booked on date of Billing even if physical possession is yet to be transferred.

Conditions to be met in case of Bill & Hold:

a) Delivery is delayed @ Buyers request

b) Goods cannot be trf to another customer

c) Goods are ready to be delivered to the Buyer.

iii) Sale on approval Basis

eg: Sarvesh Customer —10 lakhs→ Myntra Co.

30 days return policy

14·03·X1 → Date of sale

↓

13·04·X1 → Last day of Return

14·03	C/B	10L	
	To Adv.		10L
21·03	Adv	7·5	
	To Rev		7·5
13·04	Adv	2·5	
	To C/B		2·5

Refund → C/B

or Sales Book → Rev

21·03·X1 → 75% goods approval → Rev Book on 21·03.

25% goods approval pending → Rev Book on last day 13·04.

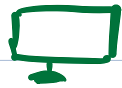
Rev should not be recognised until the goods have formally been accepted by the Buyer or the time period for rejection has lapsed.

iv) Goods sold subject to installation / inspection (Q6)

eg① AK purchase Iphone from apple store (Install" easy)

↳ Book Revenue on the Date of sale.

eg② AK purchased TV 70 inch from croma (Install" difficult)



↓

TV Price = 70000 ⟶ Sale 29.03.X1

Install" = 5000 ⟶ 02.04.X1

TV Rev – Book on 29.03.X1

Instal Rev – Book on 02.04.X1

Note: In some cases if customer accepts the TV only after proper Install", then Book Rev for TV & install" Both on 02.04.X1

Goods subject to install"

- If goods are easy to Instal
  - ↓ Book Rev of goods on date of sale.
- If instal" of goods is complex
  - ↓
  - Book Rev for goods on date of sale
  - Book Rev for instal on date of instal".

v) Sale & repurchase agreement → mortgage

On 01/04/x1

eg. AK Bldg sold → 10 lakhs, Anmol

AK ← Repurchase

AK will repurchase the Bldg from Anmol after 1 yr @ ₹ 11 lakhs

Sale ✗
loan arrangement ✓ (with Bldg kept as collateral)

In the Books of AK

Day ① 01·04·x1	C/B	10 lakhs		loan taken ~~(Sale)~~
	To loan taken		10 lakhs	
Yr end 31·3·x2	Int Exp	1L		Int Exp accrued
	To loan taken		1L	
Yr end	loan taken	11L		Loan repaid ~~(Repurchase)~~
	To C/B		11L	

vi) Trade discounts

(CA Final FR → ₹ 14,999
Trade disc (₹ 3000)
₹ 11,999

P/L

Rev (net off Trade disc) 11,999.

T·D should always be deducted from Revenue.

vii) Cash Discount

CA Final FR 11,999
Less: Cash Disc (500)
Net payment rec'd 11,499

P/L

Exp		Rev	
Cash dis	500	Rev	11,999

Revenue is recog as gross Amt & Cash disc is recorded as an Exp.

viii) Consignment Sale

AK ltd (Tshirt Manufacturer) —1000 Tshirt, 01·03·X1→ (Shoppers stop, Lifestyle) Dealer —300 Tshirt, 31·3·X1→ Customer

Till 31/03/X1 AK ltd Books Rev on 300 Tshirt
Bal 700 Tshirts will be shown as Inventory with dealer.

Revenue should be booked only when the goods have been sold to the ultimate customer

ix) Interdivision sale

This is NOT a sale
∴ No Revenue should be recognised.

AK ltd
Div A Div B Div C
Tsf of goods

Q13

a) 2) Insurance agent commⁿ

eg. Insurance agent 2h

Sold Policy on 1st Feb'x2

Policy duration is 1yr
starts from 1st March'x2 → Ins agent Books rev when policy starts (commencement date)
to
28th Feb'x3

Q23 (LOR)

6m Int = 1.2L

2m | 4m

01.02.24 Date of Sale 9.6L

31/3/24 Give J.E.

01.08.24 Repurchase 10.8L

J.E 01/02/24 CB A/C Dr 9.6L
To Loan taken 9.6L

31/3/24 Int Exp 40K
To loan taken 40K
(Yr end tak 2 m ka Int accrued)

1.2L → 6m
40K → 2m