

AS 9 - Revenue Recognition

1) Revenue is a **Gross inflow** Charged from Customer.

For principal \Rightarrow Revenue is Amt. Charged from Customer by Agent.

For Agent \Rightarrow Revenue is a Commission Amt Charged from principal

2) Revenue may be in Cash or in Kind, arising from **Ordinary Business activity**.

3) If amt of Cash is Invested in shares regularly for Trading purpose it **may be** Considered as "Ordinary Business activity"

\hookrightarrow Hence Dividend Income from such Regular Trading can be treated as Revenue.

4) Revenue Can be in form of :-

Should be
Ordinary
Business
Activity

- Sale of Goods
- Rendering of Services
- Interest / Dividend / Royalty arising from Use of Entity's Resources by others

↓
Assets
Cash, PPE
Intangible
Assets

5) Important Examples :-

a) Sale of Land/Building by Real estate Developers or Builders → it is a Revenue

b) In a principal-Agent relationship, Principal bears the Risk of loss on Unsold Inventory & not the agent.

Hence, if we need to identify that Entity is principal or agent, then we have to check that "is Entity bearing the Risk of Unsold Inventory?"

if yes then Entity is principal & it shall recognize Gross Revenue not the Commission.

c) Sale of any PPE (which is not Inventory for Entity) then it is not a Revenue.

d) Sale of Research findings to another party by a pharma Company cannot be treated as Revenue.

6) Measurement of Revenue (Cash or Kind)

Case-1

Transaction price
(Contract price) ————— XXXX

(-) Trade Dis Count ————— (XXX)

(-) Rebates

If Revenue is in Cash \Rightarrow Revenue

Case-2 If Revenue is in Cash & Kind Both.

Amnt of Cash to be

Received ————— XXXX

(+) FV of Goods/Services/Assets
Received in a

dissimilar nature of

Revenue

If Goods/Services Exchanged are Similar then
No Revenue to be Recognised

7) When to Recognise Revenue From Sale Of
Goods? (Timing of Revenue Recognition)

All 5 Conditions should be fulfilled
to Recognise the Revenue

a) Seller must have transferred Significant Risk
& Rewards over Goods to Buyer.

Ex:- Agar Sale Home
K baad goods
Damage hue
to Buyer ka
Loss.

b) Seller does not retain any Control over the
Sold goods or should not apply its decision
making over Sold goods.

Ex:- If agreement to sale is done with one party
But delivery of goods not yet passed & Seller has

Right to sell such goods to another party.

It means seller has retained the control over goods. Seller should not recognise Revenue from 1st party.

c) Revenue (Transaction price) should be measured reliably.

↳ eg:- If Transaction is in kind then Fair Value should be reliable

↓
Jis Value pe Bharosa Kiya Ja Sake.

d) It is probable that amount will be collected (or) Probability of Collection of Consideration

eg:- As soon as I sold goods I realised that I may not get Consideration from Customer

↓
I should not recognise Revenue till the actual amt is received.

eg:- On the date of sale of goods, Probability of Collection was good Hence Sale was recognised. But after sometime seller expects not to get Consideration

(Q8)

Because of Bad-debt

Till there is Certainty
of Collection.



No need to Reverse
the Sale.

Bad-debts should
be Recognised.

e) Cost of goods sold should be measured
Realistically.

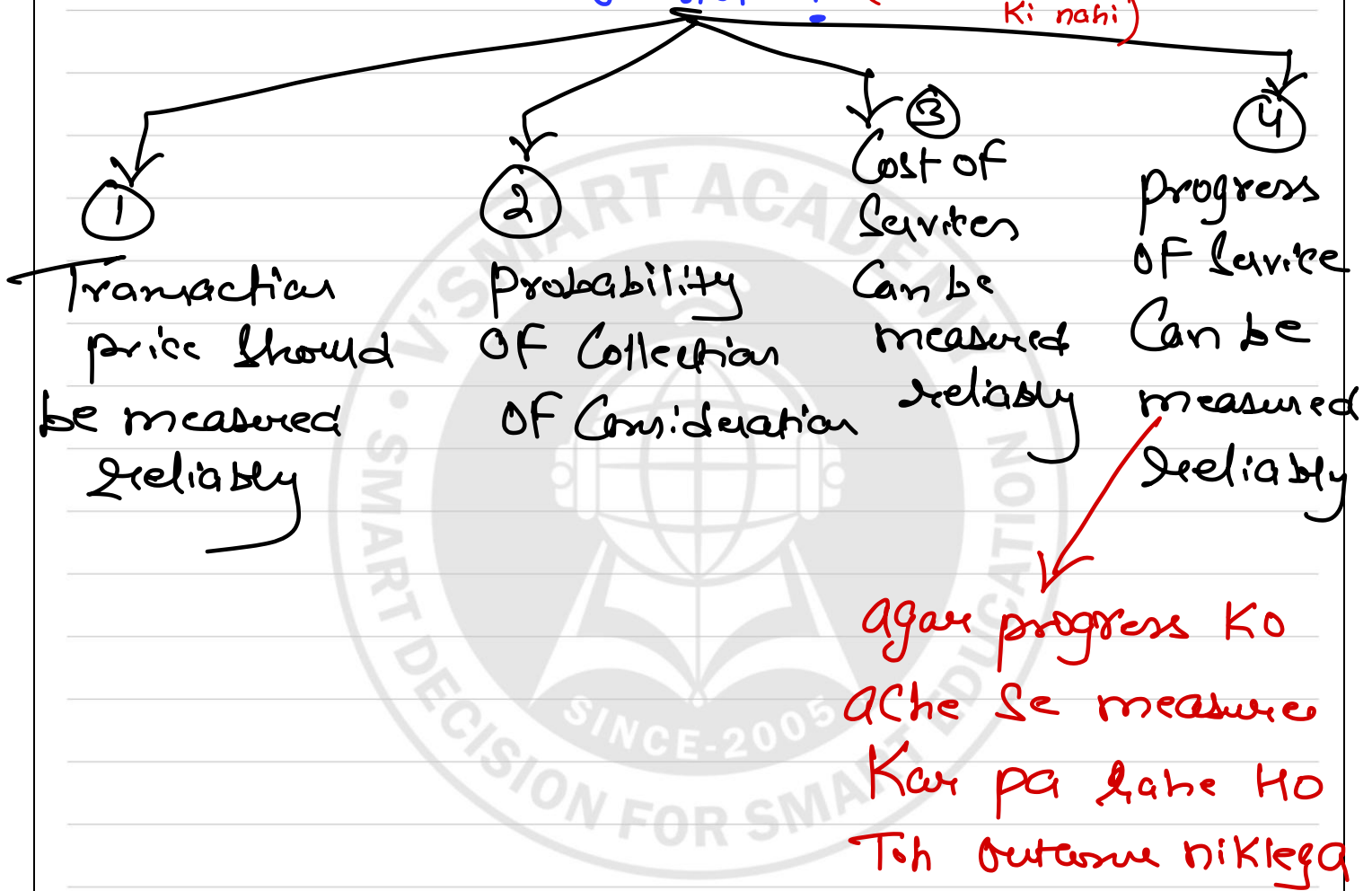
8) Delivery is postponed at Buyer's request
(i.e. Goods sold But Physical Inventory still
with Seller)

Seller can Recognise Revenue if it does
not have any Control over such goods.

(Seller has to keep such goods separately
from other Inventory) (Q3(S))

g) When to Recognise Revenue from Services rendered? (Timing of Revenue Recognition)

Step 1:- Check final outcome will be available or not? (Service ka final outcome niklega Ki nahi)



Step 2:- If final outcome is probable then recognise the revenue as per " % of completion of services" method

$$\% \text{ OF Completion} \Rightarrow \frac{\text{Cost incurred till date}}{100 \times \text{Total est. Cost}}$$

$$\text{Revenue} \Rightarrow \text{Transaction price} \times \% \text{ OF Completion}$$

Note:- In Case of Short Term Service Contract Revenue can be recognised 100% after completion of service i.e. No need to calculate % of completion

Eg. :- Auditing Service
Consultancy Service
Teaching Service

Step 3:- If Final outcome is NOT probable
Then :-

Revenue = Cost incurred on the Contract till date of which delivery is probable
(i.e. No profit No Loss)

10) When to Recognise Revenue From :-

Interest



When Interest is accrued & due on

"Time proportion Basis"

Monthly
Quarterly
Yearly

Royalty



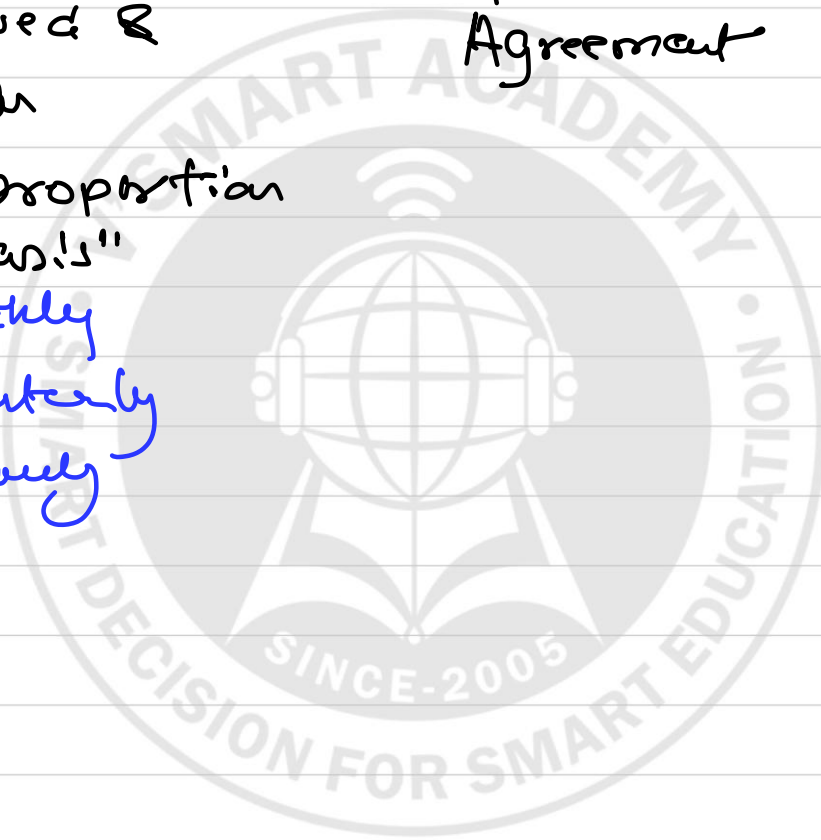
Accrual Basis

as per Agreement

Dividend



When it is Declared by paying Company.



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Summary of Important Questions

1) If at the time sale, No Revenue is recognised because of Uncertainty of Collection then Inventory with Customer is the Inventory of Seller only. (Q101)

2) When Seller arrange any Transit Insurance while delivering the goods at Customer's place.

In Case of any damage or loss of goods before they reached Customer's Location, it means Seller doesn't transfer Significant Risk & Rewards of Ownership of goods.

Seller shall recognise Revenue only when goods will reach Customer's place. (Q102)

3) In Case of "Principal - Agent", Principal shall recognise Revenue only when Agent will sale the goods to Ultimate Customer. (Q104)

4) Goods sold to Customer Subject to Approval

Customer approved the goods before expiry

Recognise Revenue

Period of Approval lapsed

Recognise Revenue after such period

Customer not yet approved & period of approval not yet lapsed

Do not recognise Revenue

Show Inventory with Customer as an Asset

5) If seller is charging **Interest on delay payments** from Customer then such Interest will form part of Revenue.

6) Installation :-

Case 1!- It is very simple, Customer can also do the same → Recognise the Revenue immediately

Installation.

Case 2:- Installation is Complicated & requires Significant assistance of Seller

→ Recognise Revenue only when Installation is Completed

7) Subscription Income ⇒ Revenue Recognise Over the period of Contract

SLM Basis
if Services/products
delivery
in same
Quantity

If Variable
delivery of
Services
or products
then Deferred
in proportion
to Goods
or Service
Value

8) Advertisement Commission

Recognise Revenue on accrual Basis when Advertisement is published

Any amt. Collected from Customers

But advertisement is not yet published

Such amt is liability.

Q202

Case 1:- Adv. is published in march

March Bank 240000
Customer 60000
To Revenue 300000

April Bank 60000
To Customer 60000

Case 2:- Adv. is published on 2/4/14
(i.e next year)

March:- Bank 240000
To Advance 240000

April 2/4 Advance 240000
Customer 60000
To Revenue 300000

10/4 Bank 60000
To Customer 60000

9) In Case of Retrospective Price Revision, If Seller has right to recover the additional amt. from Customer then Revenue shall be recognised only when there is Certainty of Ultimate Collection of such amt.



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Sep'24

1) Sequence with no. of Hrs.

2) Must Do Questions

3) playlist

→ RR

→ Aryan

→ As in 10-20 minutes

4) Mca

5) ABC

6) Any Marathon?

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