



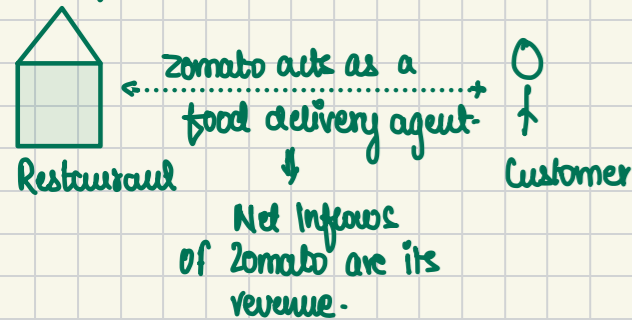
Revenue :- Gross inflow of cash, receivables, other consideration in the ordinary course of business, from

- Sale of goods.
- Rendering of services
- Use by other of enterprise resources yielding interest, rent & dividend.

NOTE :- Trade Discounts, Volume rebates will be deducted while calculating revenue. GST collected is payable to government. It does not form part of revenue. Cash discounts are not deducted from revenue. It is treated as a separate expense altogether.

* Agency business: Net Inflows are considered as revenue and not Gross Inflows for the agent.

Eg:- Zomato, Swiggy.



Revenue Recognition for Sale of Goods

Performance :- Risks and Rewards of ownership are transferred to buyer properly in goods transferred to buyer.

Measurability :- No uncertainty as to measurement of consideration.

Collectibility :- No uncertainty as to ultimate collection of consideration at the time of performance.

* If uncertainty of collection arises after the performance is complete, we will create a provision for doubtful debt.

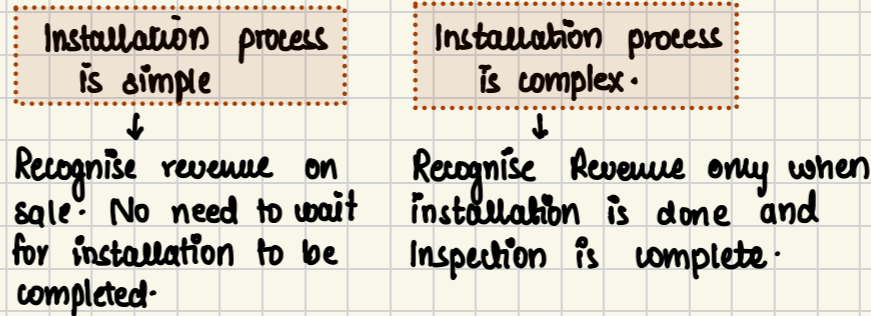
Special Cases for Revenue Recognition for sale of goods.

① Bill and Hold Sales

- Title of goods accepted by buyer.
- Goods are on hand and ready for delivery.
- Every expectation that delivery will be made.
- Delivery is delayed at the buyers request.

All conditions satisfied: Recognise revenue immediately, no need to wait for actual delivery.

2. Goods subject to Installation



7. Sale to Intermediaries

Revenue should be recognised when :-

risks and rewards are transferred to an independent third party.



If R&R are transferred at this point then revenue will be recognised here itself.

3. Sale on Approval

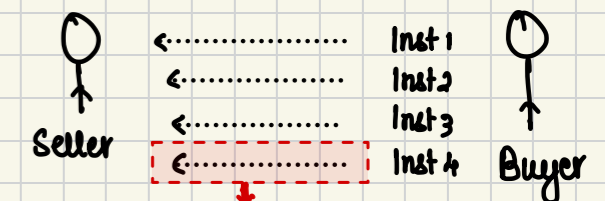
Recognise revenue when any of the following happens :-

- a. Express approval by the buyer.
- b. Buyer does an act adopting the goods
- c. Time period for rejection has lapsed.
- d. Where time period is not fixed - a reasonable time has lapsed.

8. Instalment Payments

Revenue should be recognised when :- goods are delivered to the buyer.

In this case, purchaser makes a series of payments to the seller and on making the final payment goods are delivered by seller to purchaser.



On receipt of final instalment seller will deliver goods to buyer. Revenue will be recognised at this point.

4. Consignment Sales

Recognise revenue when → goods are risks and rewards are transferred to an independent third party.

* When goods are with the agent, risks and rewards of ownership are still with the manufacturer, hence revenue should not be recognised at this point.

5. Cash on Delivery Sales

Recognise revenue when :- 1) seller OR 2) His Agent actually receive cash.

* for return of goods a provision should be recognised based on past experience.

6. Sale And Repurchase Agreement

It is a finance agreement. No revenue should be recognised.

Finance Agreement :- loan agreement.
Effectively :- Money is borrowed against security of goods and after a period the money borrowed is repaid by taken possession of goods.

Example :- Purchase / Sale of residential apt. Builder gives possession to buyer on receipt of final instalment.

* Based on experience, revenue can also be recognised when significant portion of the deposits are received.

9. Instalment Sales

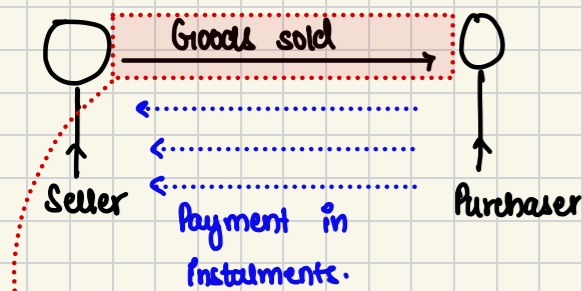
Revenue should be recognised when:-

→ Sale is made.

Amount of revenue :-

Total Consideration - Interest = Cash price
↓
Recognise immediately

Interest will be recognised as revenue in proportion to the amount due.



Revenue recognised at this moment
Amount = Cash Price.

10. Subscription Revenue

Revenue recognised on straight line basis.
If goods vary in value :- revenue recognised in proportion to sales value.

11. Special Order

Revenue recognised when :-

1. Goods are manufactured, identified & ready for delivery.

* Even though advance payment may be received, revenue will be recognised only when the above condition is satisfied.

REVENUE RECOGNITION FOR RENDERING OF SERVICES

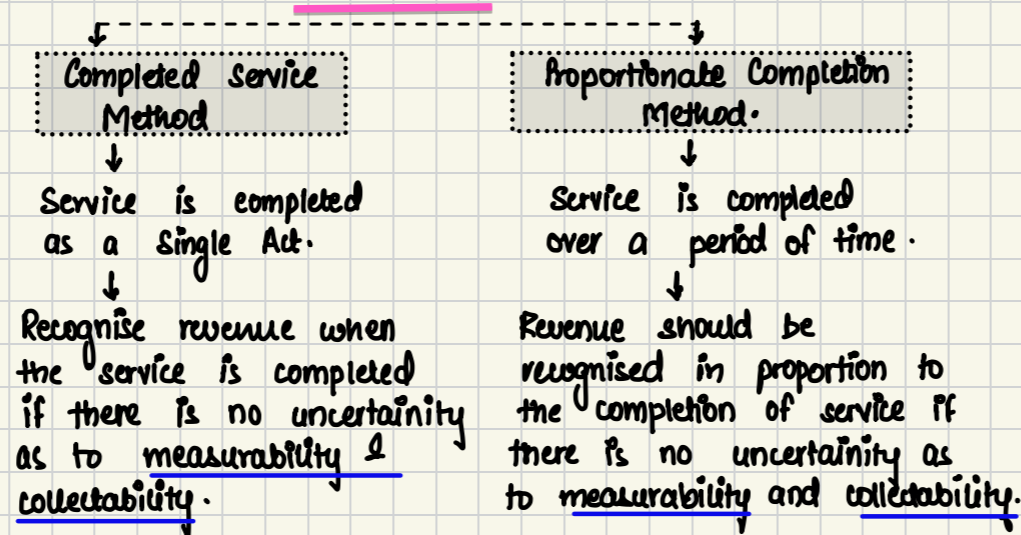
Check for the same three criteria :-

1. Performance
2. Measurability
3. Collectibility

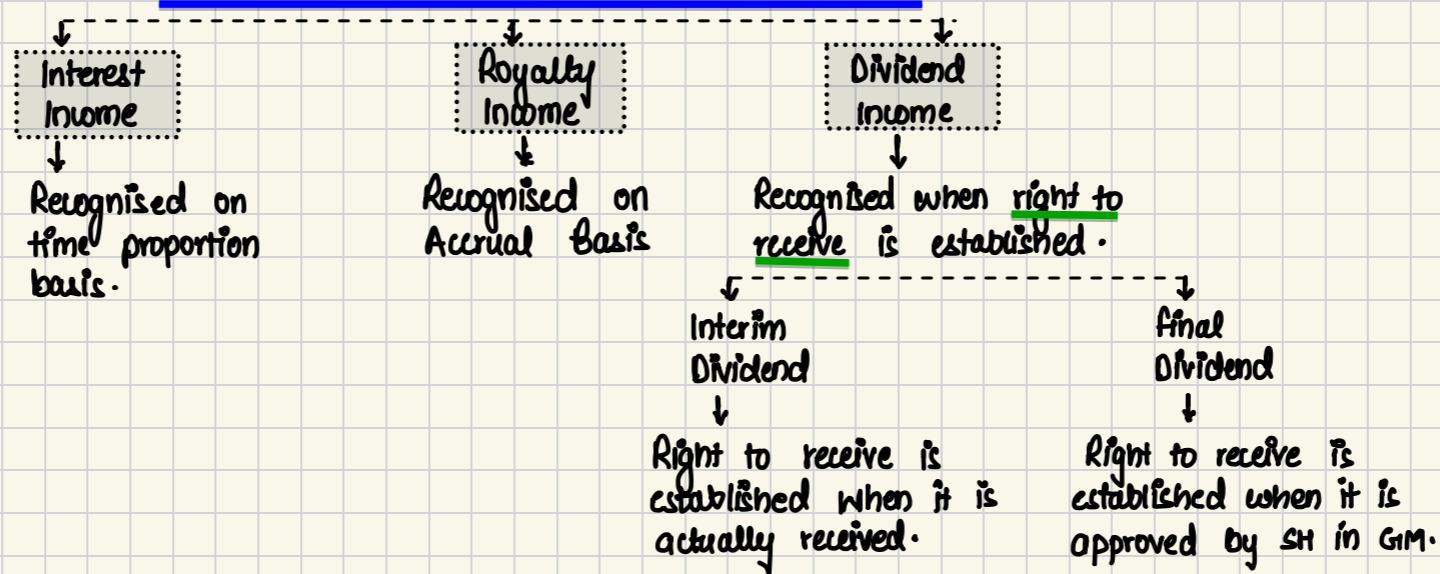


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PERFORMANCE



USE BY OTHERS OF ENTERPRISE RESOURCES



When uncertainty arises as to its measurability or collectibility then revenue recognition is postponed.

Eg :- Interest Income receivable from a foreign country.
RBI imposes repatriation restrictions from that country.
We will not recognise revenue until there is certainty as to its ultimate collection.