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AS-9: Revenue Recognition

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Timing of Revenue Recognition

Revenue :- Gross Inflow →
- Cash
- Receivables
- Other consideration

Arising in the course of ordinary business activities

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from

- Sale of Goods
- Rendering of service
- Use by other of enterprise resources yeilding :-
  1. Interest.
  2. Dividend.
  3. Royalty.

* Trade discounts & Volume rebates are deducted while calculating revenue.
* GST / Excise Duty will be deducted from the amount of revenue.

Exception to Gross Inflow :- Agency business

Owner of goods/ Consignor/ Principle → Agent/ Consignee --goods sell--> Third Party

Third Party → Agent: full cash received by agent

Agent → Principle:

full cash
\- commission
xxx
↓
Transferred to Principle

Agent: Retains the commission (Net Inflow)
↓
Revenue for the agent.

Sale of Goods

Performance :- 1. Risk & Rewards transfer, effective control → ownership transfer Complete

Measurability :- 2. Measurement of consideration → certainity.

Collectibility :- 3. Ultimate collection → certainty : at the point of performance.

CASES :- Sale of Goods

Bill and Hold Sales :-
1. Delivery delayed at buyers request.
2. Buyer accepts the title of goods.
3. Goods are on hand, identifiable and ready for delivery.
4. Every expectation that delivery will be made.

When all conditions are satisfied, revenue will be recognised.

Goods subject to Installation :-

1. Installation is simple :-

Recognise revenue immediately on sale.

2. Installation is complex :-

Defer revenue ; installation is complete & inspection is done by customer.

Sale on Approval :- Recognise revenue when anyone condition is satisfied;

1. Formal acceptance.
2. Act of adopting the goods.
3. Fixed time to return - expired / elapsed.
4. Where no fixed time is mentioned - reasonable time elapsed.

Consignment Sale :- Revenue will be recognised when ;

1. Goods are transferred by the agent to an independent third party. This is because the risks & rewards as well as effective control get transferred at this point of time.

Revenue will not be recognised when principal sends goods to the agent.

Principal books :- Amount of revenue :- Gross Inflow - Commission.

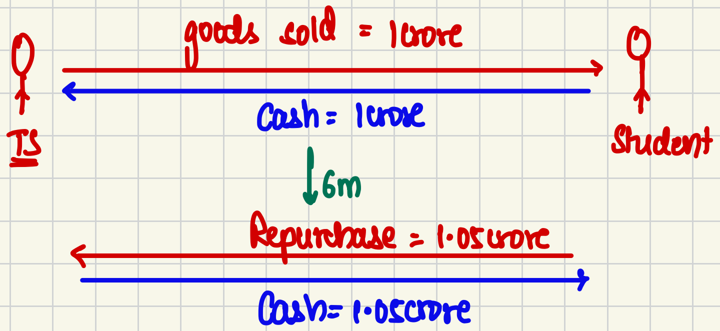
Agents books : Net Inflow :- Commission

Cash on Delivery Sales :- Revenue will be recognised when cash is received by the agent or the seller himself.

Sales Return :- Defer revenue in respect of sales return.

Sale & Repurchase Agreement

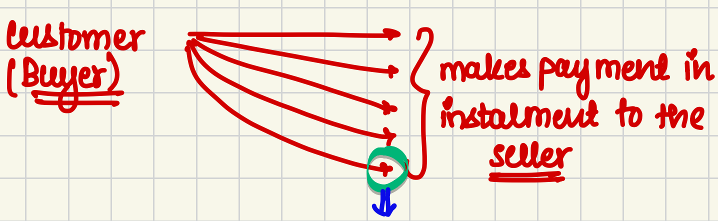
No revenue should be recognised.
This is a finance transaction where goods are given as security.
When amount is received by the seller, it should be recorded as a Loan
When amount is paid it will be considered as loan repaid.
The extra amount paid during repurchase will be considered as interest.



Sale to Intermediaries :- If the risks and rewards and effective control is transferred to the intermediaries, then revenue will be recognised at this point itself.

If however R&R and effective control is transferred straight to the customer (third party), then revenue will be deferred until goods are transferred to the customer.

Installment Payment :-

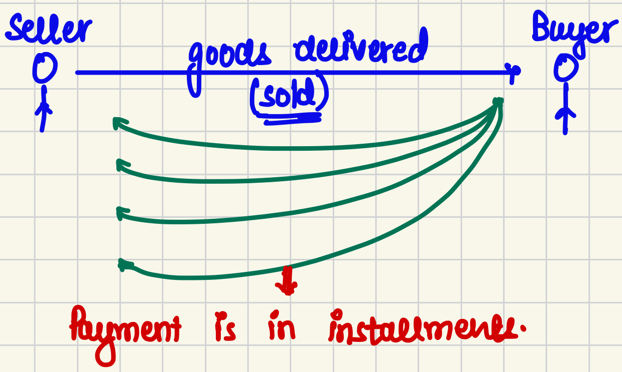


On receipt of the final instalment seller will deliver the goods.

When goods are delivered by seller he will recognise revenue.

Based on prior experience, seller may recognise revenue when significant portion of the deposits are received.

Installment Sales :-



Cash price = 100000
Instalment price = 110000
Interest = 10000

Immediately recognise the revenue for sale of goods of amount equal to cash price of the goods.

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

Subscription Revenue :-

1. Either recognise on Straight Line Basis.
2. If the sales value varies, then in proportion to the sales value.

Special Order :-

Revenue will be recognised when goods are manufactured, identifiable and ready for delivery.

Any advance payment received will be recognised as a liability.