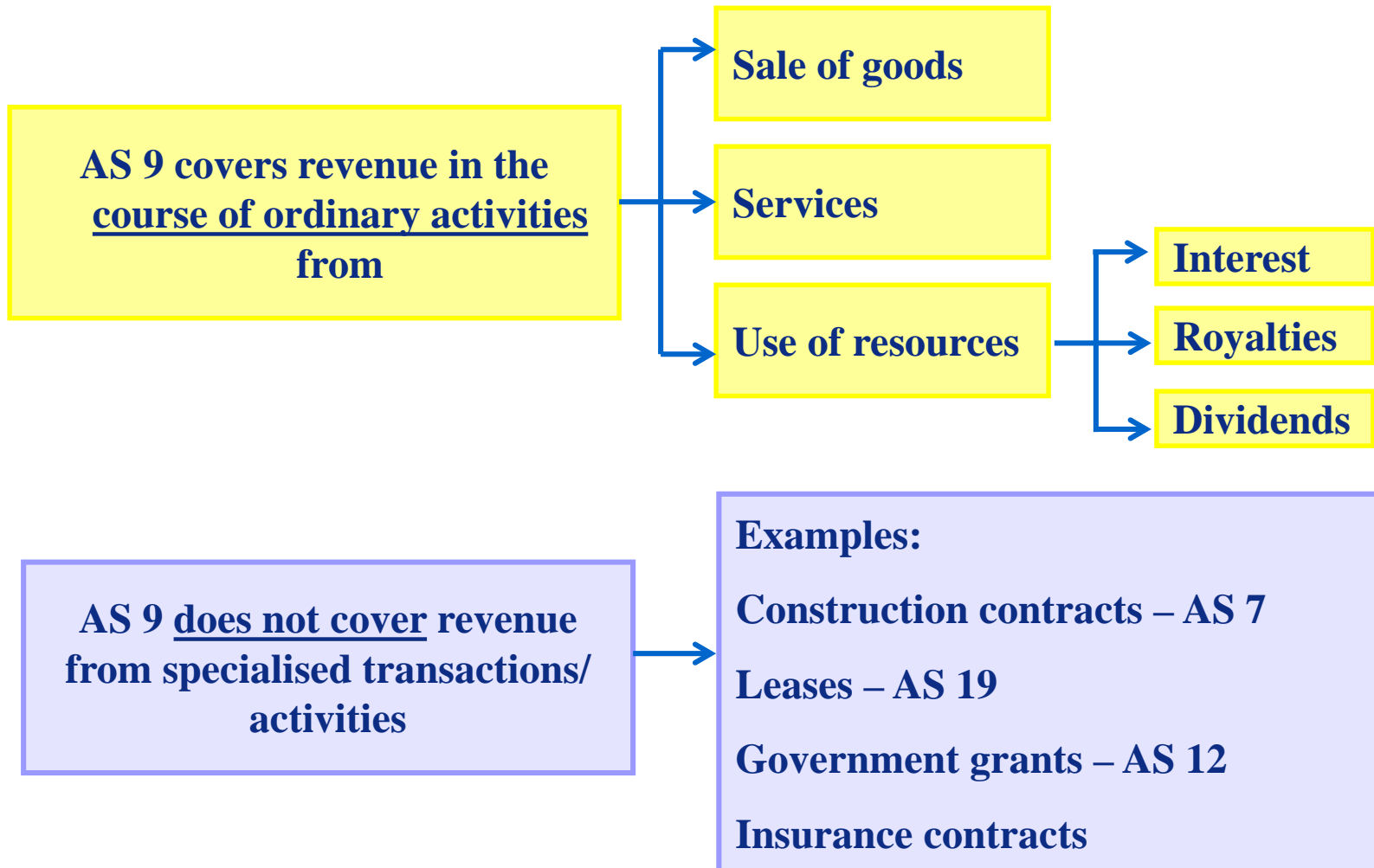


Accounting Standard 9: Revenue recognition

CA Raajnish Desai

When do I apply AS 9?



Definition of revenue

- **Gross inflow** of cash, receivables or other consideration
- Arising in the course of the **ordinary activities**
- During the period from the **sale of goods, rendering of services** and from the use by others of enterprise resources yielding **interest, royalty or dividends**

*In an agency relationship, revenue is amount of commission and not the gross inflow
e.g. sale of airline tickets by a airline agent*

Revenue recognition criteria - Sale of goods

Revenue should be recognised when all the 3 conditions are met

1. Transfer

A. Transfer of property in the goods to the buyer for a consideration

OR

B. When significant risk and rewards of ownership are transferred AND

The seller retains no effective control to a degree usually associated with ownership

(This may be earlier than transfer of property)

2. No significant uncertainty exists regarding the amount of consideration

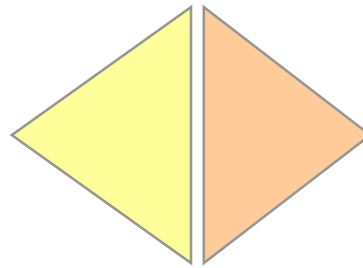
3. It is not unreasonable to expect ultimate collection of consideration

Rendering of services

Performance: Work accomplished should be related to revenue

Proportionate completion method

- Performance consists of execution of more than one act
- Revenue is recognised proportionately by performance of each act
- When indeterminate number of acts over a period of time, straight line recognition



Completed service contract method

- Performance consists of execution of a single act
- Revenue is recognised only when services are completed or substantially completed
- If performance consists of more than one act and the act to be completed is **very significant**

No significant uncertainty exists regarding the amount of consideration

It is not unreasonable to expect ultimate collection of consideration

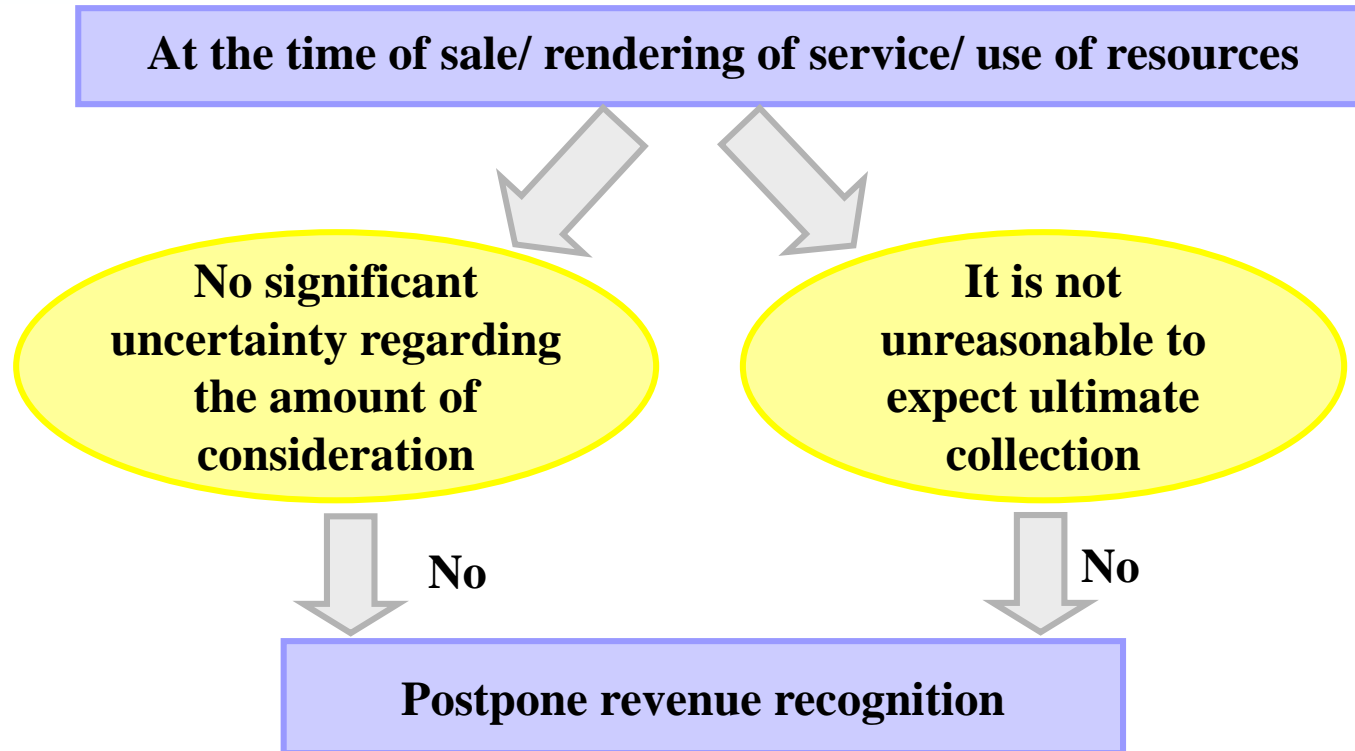
Interest, royalties and dividends

Interest	Charge for use of cash resources or amounts due to the enterprise	Accrues on time proportion basis <i>Discount or premium on debt securities: Generally over the period to maturity</i>
Royalties	Charge for use of assets such as know how, patents, trade marks and copyrights	Accrual basis in accordance with the agreement (unless another basis is more systematic and rational)
Dividends	Rewards from the holding of investments in shares	When the right to receive dividend payment is established i.e. on declaration

No significant uncertainty exists regarding the amount of consideration

It is not unreasonable to expect ultimate collection of consideration

Effect of uncertainties on revenue recognition

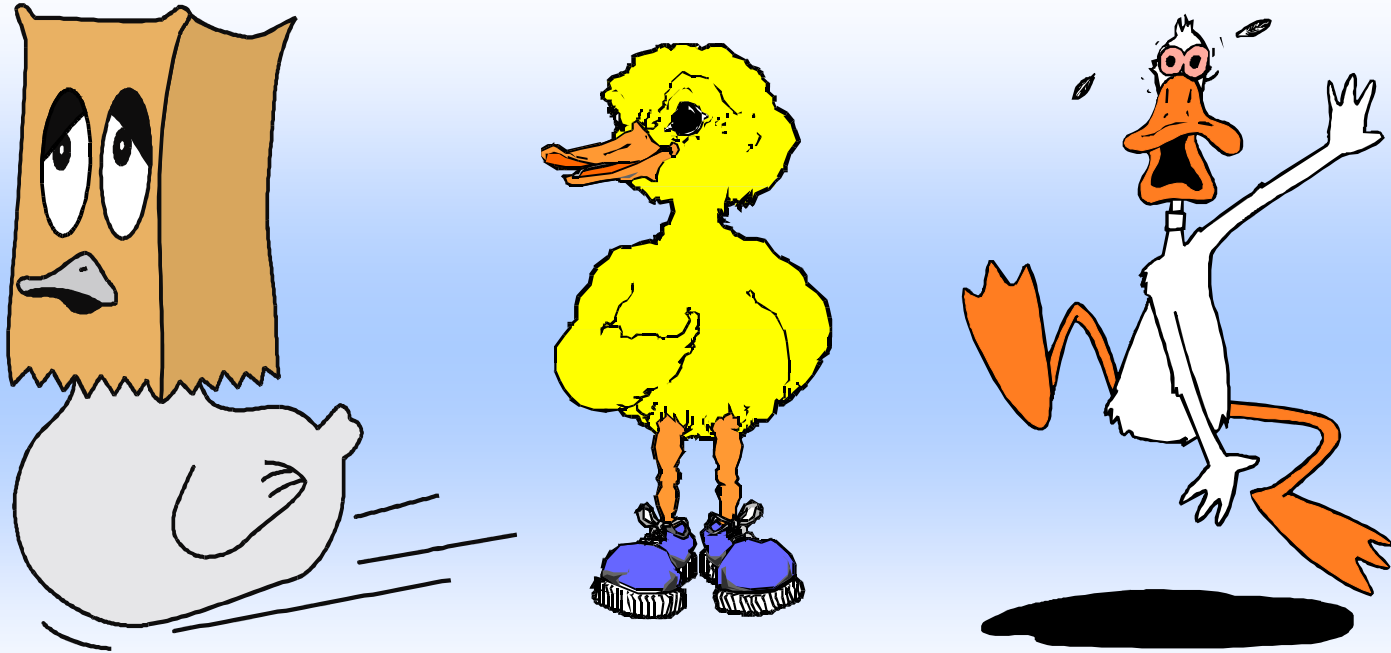


- If uncertainty arises after recognising revenue, create a provision
- Revenue realised, which was postponed due to uncertainties, is considered as revenue of the period in which it is properly recognised

Cut-offs

**Cut-off procedures are essential for
determining revenue**

Substance over form



If something looks like a duck, walks like a duck and quacks like a duck, then it should be accounted for like a duck even if it is documented like a hen...

Disclosures in the financial statements

- **Accounting policies for revenue recognition**
- **Circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties**

Illustrations

where

consideration is determinable and

ultimate collection of revenue is reasonably certain

Delivery delayed at buyer's request...

Situation

Delivery delayed at buyer's request

Buyer takes title and accepts billing

Physical delivery not completed



**RECOGNISE
REVENUE**

Conditions

Expectation that delivery will be made

Item must be on hand, identified and ready for delivery

Also known as 'Bill and Hold' sales

Delivered subject to conditions...

...installation and inspection

Recognise revenue when delivery and installation are complete **unless** the process is very simple in nature

...on approval

Recognise revenue when goods are accepted OR buyer does an act adopting the transaction OR time period (fixed or reasonable) has elapsed

...guaranteed sales (unlimited right to return)

Revenue recognition depends on substance of agreement

- Is it sale on consignment?
- If not, recognise sale but make a provision for expected sales returns

...consignment sales

Recognise revenue when goods are sold to a third party

...cash on delivery sales

Recognise revenue when cash is received by seller/agent

Some specific situations...

Sale and repurchase agreements

Instalment payments with delivery at time of final payment

Special order or shipment for goods (presently not in stock) directly to the customer by the third party

Trade discounts and volume rebates

A financing arrangement in substance

Cash inflow is not revenue as defined

Recognise revenue when goods are delivered

Recognise revenue when goods are manufactured, identified and ready for delivery

Not part of definition of revenue

Deducted in determining revenue

Some specific situations...

**Sales to
intermediate
parties for resale**

**Recognise revenue
when significant
risks of ownership
have passed unless
the buyer is an
agent consignment
sales**

**Subscriptions for
publications**

**Recognise on
straight line or
based on
proportionate
value of items
delivered**

Installment sales

**Revenue to exclude
interest element**

**Interest to be
recognised
proportionately to
the unpaid balance**

Rendering of services

Financial service commission

Depends on:

- Is the service 'once and for all' or on 'continuing' basis
- Incidence of related costs
- Receipt of payment

Admission fee

- **For special events:** when the event takes place
- **For subscription to number of events:** Allocate fee to each event on a systematic and rational basis

Installation fee (not incidental to sale of goods)

When equipment is installed and accepted

Rendering of services

Advertising and insurance agency commission

On completion of service

- **Advertising:** when the ad appears before the public
- **Insurance:** on effective commencement or renewal dates of policies

Entrance & membership fee

Depends on nature of service

- **Entrance fee** capitalised
 - **Membership fee** when received
- If it entitles member to other services: recognise on a systematic and rational basis

Tuition fee

Recognise over the period of instruction

Thank you

Questions ?