

AS-9 / Ind-AS-18 (Revenue Recognition)

- 1) Revenue is gross inflow of economic benefit during the period arising in course of ordinary activity.
- 2) Sales revenue includes revenue arising from following transactions
 - a) Sale of goods
 - b) Rendering of services
 - c) Use by others of entity asset yielding interest, royalties & dividends.

Note: Amount collected as duties and taxes are excluded from revenue.

- 3) Revenue from sale of goods is recognized if following conditions are satisfied.
 - a) Risk and reward of ownership are transferred.
 - b) Property in goods is transferred.
 - c) Amount of revenue can be measured reliably
 - d) There is reasonable assurance that money will be collected or economic benefits will flow to entity
 - e) Cost incurred with the transaction can be measured reliably

4) Risk and reward of ownership are transferred.

Ex What do you mean by risk and reward if perfect trader sells car worth ₹ 10,00,000 to Keerival.

Ans Risks

- He is responsible for car once he takes the delivery, which means if he crashes the car after taking the delivery he will be responsible for repairs.
- If any fault develops in car which is not covered in warranty then he will have to pay for repairs.

Rewards

- He can drive the car wherever he likes.
- He is free to sell his car to any body.
- Perfect traders have no rights over the car whatsoever.

Ex Shahrukh Khan sold DVD rights of his movie Dilwale to famous distributors. Agreed price was ₹ 3.00 cr which was paid immediately. But condition was that DVD can be sold only after 6 months of release of film.

When should sale of DVD rights be accounted for.?

Ans Revenue from sale of DVD rights should be accounted for only after 6 months because significant risk and reward of ownership are transferred only after 6 months.

Note: If goods are sold on FOB basis then revenue is recognized when goods are actually loaded in ship.

Notes

CIF (Cost + Insurance + Freight)

↓
Beneficiary of insurance
is buyer
↓
Revenue will be recognized
when goods are loaded
in ship.

↓
Beneficiary of insurance
is seller
↓
Recognize revenue when
goods are unloaded at port
of destination.

Note: If goods are sold on approval basis then revenue should be recognized only after goods are accepted by the buyer.

Note: If goods are lying with customer pending approval on balance sheet date then these goods will be shown under closing stock with separate disclosure that these goods are lying with customer pending approval.

Note: If revenue is contingent upon receiving revenue by the buyer from its further sale of goods, then revenue should be recognized only after goods are sold to third party.

Note: If goods are shipped subject to installation which is significant part of contract then revenue should be recognized only after installation of machine.

Note: Any replacement of damaged goods during warranty period by Co should not be recognized as revenue because

- a) revenue was already recognized during sale of original stock of goods
- b) there is no consideration received by entity for damaged goods.

5) Amount of revenue can be measured reliably

e.g P Ltd sells 10,000 mobiles to S Ltd however they are still negotiating the value of mobile phones which are sold.

Ans In this case P Ltd cannot recognize the sales revenue until the value of 10,000 mobile phones is determined.

6) Reasonable assurance that money / economic benefit will flow to entity.

e.g France Ltd is operating in £ and it enters into contract with company in Middle East. Due to political reasons it is uncertain that government of Middle East country will permit the transaction or will allow them to remit the money.

Ans In this case revenue should not be recognized till the time uncertainty is removed from the transaction.

7) Cost incurred can be measured reliably

If it is not possible to measure expenses reliably then any consideration received for sale of goods is recognized as liability.

Note: The matching concept requires matching of revenues and expenses that relate to same transaction or event.

8) Revenue from services: Depends upon whether outcome of a transaction involving rendering of services can be estimated reliably.

a) If outcome can be estimated reliably, revenue from services rendered is recognized using stage of completion method.

b) If outcome can not be estimated reliably, revenue should be recognized only to the extent of expenses recognized and recoverable.

→ Criteria to decide whether outcome can be reliably estimated.

a) Amount of revenue can be measured reliably

b) It is expected that revenue will flow to entity

c) Stage of completion of transaction at balance sheet date can be measured.

d) The cost of transaction and to complete the transaction can be measured reliably

9) Basis of recognition of other revenue

