MOCK TEST PAPER / RTP / PP

Question 1 - (MTP Oct'2019, May'19, Oct'20)

KK Ltd. runs a departmental store which awards 10 points for every purchase of Rs. 500 which can be discounted by the customers for further shopping with the same merchant. Unutilised points will lapse on expiry of two years from the date of credit. Value of each point is Rs. 0.50. During the accounting period 20X1-20X2, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted. The management expects only 80% will be discounted in future of which normally 60-70% are redeemed during the next year.

The Company has approached your firm with the following queries and has asked you to suggest the accounting treatment (Journal Entries) under the applicable Ind AS for these award points:

(a)	How should the recognition be done for the sale of goods worth Rs. 10,00,000 on a particular day?
(b)	How should the redemption transaction be recorded in the year 20X1-20X2? The Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is Rs. 5,000 lakhs.
(c)	How much of the deferred revenue should be recognised at the year-end (20X1-20X2) because of the estimation that only 80% of the outstanding points will be redeemed?
(d)	In the next year 20X2-20X3, 60% of the outstanding points were discounted Balance 40% of the outstanding points of 20X1-20X2 still remained outstanding. How much of the deferred revenue should the merchant recognize in the year 20X2-20X3 and what will be the amount of balance deferred revenue?
(e)	How much revenue will the merchant recognized in the year ~~20X2-20X3~~ 20X3-X4, if 3,00,000 points are redeemed in the year ~~20X2-20X3~~ 20X3-X4?

(10 Marks)

Solution

(a) Points earned on Rs. 10,00,000 @ 10 points on every Rs. 500 = [(10,00,000/500) x 10] = 20,000 points.

Value of points = 20,000 points x Rs. 0.5 each point = Rs. 10,000

Revenue recognized for sale of goods	Rs. 9,90,099	[10,00,000 x (10,00,000/10,10,000)]
Revenue for points deferred	Rs. 9,901	[10,00,000 x (10,000/10,10,000)]

Journal Entry

		Rs.	Rs.
Bank A/c	Dr.	10,00,000	
To Sales A/c			9,90,099
To Liability under Customer Loyalty programme			9,901

(b) Points earned on Rs. 50,00,00,000 @ 10 points on every Rs. 500 = [(50,00,00,000/500) x 10] = 1,00,00,000 points.

Value of points = 1,00,00,000 points x Rs. 0.5 each point = Rs. 50,00,000

Revenue recognized for sale of goods = Rs. 49,50,49,505 [50,00,00,000 x (50,00,00,000 / 50,50,00,000)]

Question 1 (LDR)

2 P.O. { Day ① → Customer Sale
points (Voucher).

ⓐ ₹10,00,000 (Sales) → Points = 20000 points × ₹0.5 per point = ₹10000 (voucher (Points) value).

[1000000 × 10 points / ₹500]

Transaction Price = ₹10,00,000

	Day ① Sale	Points
S.S.P	₹ 10,00,000	₹ 10,000
Allocation	9,90,099 (10L × 10L / 10.10L)	9901 (10L × 10k / 10.10L)

J.E. CB A/c Dr 10,00,000

Day ① To Revenue 9,90,099

To Adv Liab 9901

(Liab for Customer loyalty points)

(b) Total Sales = ₹5000 lakhs

Total Points = 1,00,00,000 points

× ₹0.50 per point

= ₹50,00,000 (Voucher (Points) value).

Sales	Points
₹ 500	10
5000 lakhs	100 lakhs

Total Transaction Price = ₹5000 lakhs

	Sale of Goods	Voucher (loyalty Points)
SSP	₹5000 lakhs	₹50 lakhs
Allocation	49,50,49,505 (5000L × 5000/5050)	4950495 (5000L × 50/5050)

XI-XL J.E.

C/B A/C Dr	50,00,00,000	
To Revenue		49,50,49,505
To Adv Liab for loyalty points		49,50,495

Validity 2 yrs.

1,00,00,000 (Granted to customers)

82,00,000 ↓ Redeemed C'y.

18,00,000 → (Not Redeemed) × 80% → Co Est. = 14,40,000

Adv Liab - 49,50,495 → ~~1 cr points~~

↳ As per est it is for 96,40,000 points].

(82,00,000 + 14,40,000)

4r 1end (X1-X2) = Adv Liab 4211002

82 lakhs points redeemed

TO Revenue 4211002.

(49,50,495 → 96,40,000

(?) → 82,00,000)

Adv Liab Cls Bal → 49,50,495 - 42,11,002

on 31.03.X2 → 739493 → 14,40,000 Points.

(X1-X2).

(d) In the 4r X2-X3 [Out of 18L → 60% → redeemed → 10.8L points → Proportionate Revenue Book

40% → Not redeemed

Adv Liab 554620

TO Revenue 554620

[739493 → 14,40,000

(?) → 10,80,000]

4r 2end (X2-X3) Adv Liab Cls Bal = 184873

(739493 (-) 554620)

(e) X3-X4 = last 4r of redeeming points (∵ irrespective of points redeemed, Co. will Book full Revenue)

X3-X4 Adv Liab 184873

TO Revenue 184873.

Revenue for points = Rs. 49,50,495 [50,00,00,000x (50,00,000 / 50,50,00,000)]

Journal Entry in the year 20X1

		Rs.	Rs.
Bank A/c	Dr.	50,00,00,000	
To Sales A/c			49,50,49,505
To Liability under Customer Loyalty programme			49,50,495
(On sale of Goods)			
Liability under Customer Loyalty programme	Dr.	42,11,002	
To Sales A/c			42,11,002
(On redemption of (100 lakhs -18 lakhs) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year 18,00,000 x 80% = 14,40,000 points

Total points to be redeemed within 2 years = [(1,00,00,000-18,00,000) + 14,40,000] = 96,40,000

Revenue to be recognised with respect to discounted point

= 49,50,495 x (82,00,000/96,40,000) = 42,11,002

(c) Revenue to be deferred with respect to undiscounted point in 20X1-20X2 = 49,50,495 – 42,11,002 = 7,39,493

(d) In 20X2-20X3, KK Ltd. would recognize revenue for discounting of 60% of outstanding points as follows:

Outstanding points = 18,00,000 x 60% = 10,80,000 points

Total points discounted till date = 82,00,000 + 10,80,000 = 92,80,000 points Revenue to be recognized in the year 20X2-20X3 = [{49,50,495 x (92,80,000 / 96,40,000)} - 42,11,002] = Rs. 5,54,620.

Liability under Customer Loyalty programme	Dr.	5,54,620	
To Sales A/c			5,54,620
(On redemption of further 10,80,000 points)			

The Liability under Customer Loyalty programme at the end of the year 20 X2-20X3 will be Rs. 7,39,493 – 5,54,620 = 1,84,873.

(e) In the year 20X3-20X4, the merchant will recognized the balance revenue of Rs. 1,84,873 irrespective of the points redeemed as this is the last year for redeeming the points. Journal entry will be as follows:

Liability under Customer Loyalty programme	Dr.	1,84,873	
To Sales A/c			1,84,873
(On redemption of remaining points)			

Question 2 - *(RTP Nov'20) (MTP April'22)*

A contractor enters into a contract with a customer to build an asset for ₹ 1,00,000, with a performance bonus of ₹ 50,000 that will be paid based on the timing of completion. The amount of the performance