

2-3 times write & practice.

WR

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

x 0.50 = 55

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, if 3,00,000 points are redeemed in the year 20X2-20X3?

(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

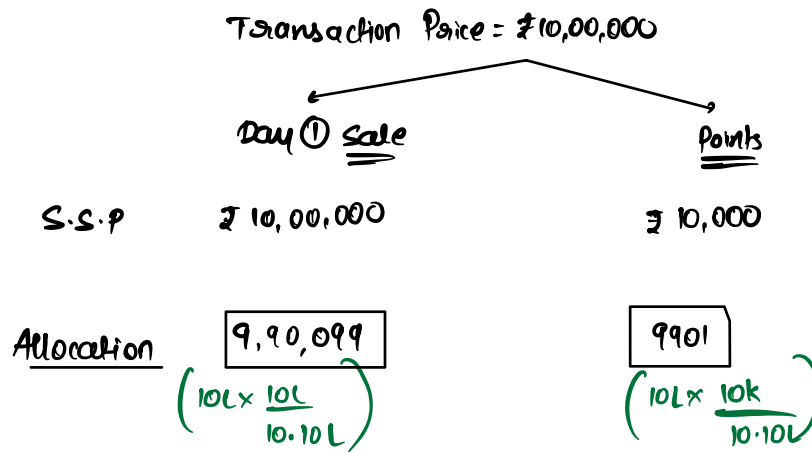
Revenue recognized for sale of goods = Rs. 49,50,49,505 [50,00,00,000 x (50,00,00,000 / 50,50,00,000)]

Question 1 (LDR)

2 P.O. } Day ① → Customer sale  
           } points (Voucher).

② ₹10,00,000 (Sales) → Points = 20000 points × ₹0.5 per point = ₹10000 (Voucher (Points) value).

$$\left[ \frac{1000000 \times 10 \text{ points}}{₹ 500} \right]$$



J.E. CB Dr 10,00,000  
 Day ① TO Revenue 9,90,099  
           TO Adv Liab 9901  
                   (Liab. for Customer  
                   loyalty points)

② Total Sales = 5000 lakhs

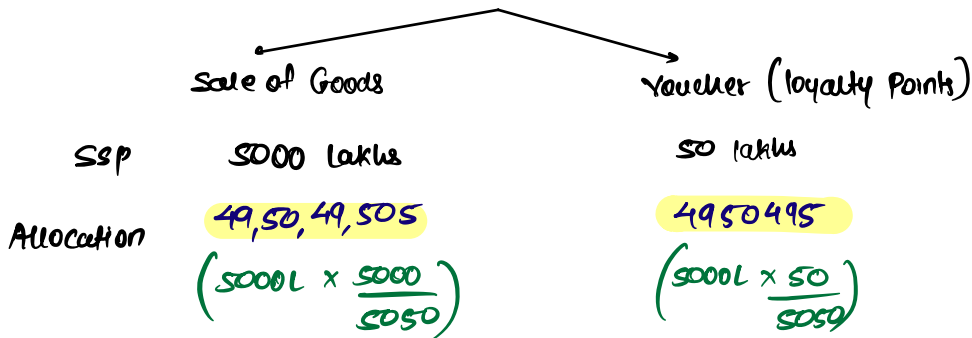
Total Points = 1,00,00,000 points

× ₹ 0.50 per point

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

$$\left( \begin{array}{l} \text{Sales} \\ ₹ 500 \\ \text{5000 lakhs} \end{array} \times \begin{array}{l} \text{Points} \\ 10 \\ \text{100 lakhs} \end{array} \right)$$

Total Transaction Price = 5000 lakhs



XI-XL  
J-E.

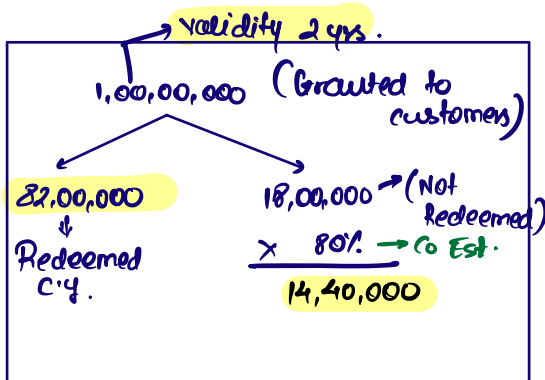
ClB AC Dr 50,00,00,000

TO Revenue

49,50,49,505

TO Adv Liab for loyalty points

49,50,495



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 end (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 31.03.22 (X1-X2). → 739493 → 14,40,000 Points.

(d) In the yr X2-X3 [out of 18L] 60% → redeemed → 10.8L points → Proportional Revenue Book  
 40% → Not redeemed

Adv Liab 554620  
 TO Revenue 554620  
 [739493 → 14,40,000]  
 [ ? → 10,80,000 ]

4r 2 end (X2-X3) Adv Liab Cls Bal = 184873  
 (739493 (-) 554620)

(e) X3-X4 = last yr 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  $18,00,000 \times 80\% = 14,40,000$  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

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

(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 =  $18,00,000 \times 60\% = 10,80,000$  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 =  $[(49,50,495 \times (92,80,000 / 96,40,000)) - 42,11,002] = \text{Rs. } 5,54,620$ .

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  $\text{Rs. } 7,39,493 - 5,54,620 = 1,84,873$ .

(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