

## AS 9 → Revenue Recognition

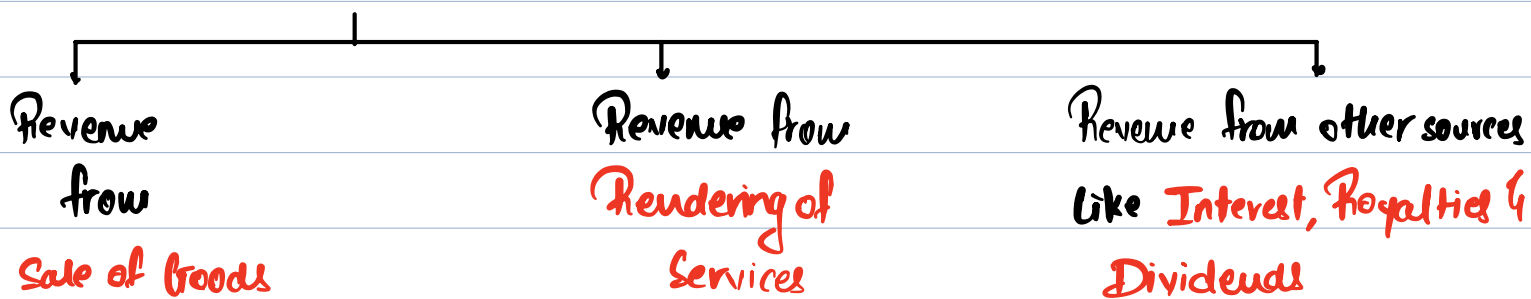
### 1] Scope

AS 9 **does not deal** with the following aspects of Revenue Recognition

- i) Revenue from construction contracts
- ii) ————— lease agreements
- iii) ————— government grants
- iv) Realised / Unrealised gain from sale of Non-current asset (eg PPE, Intangible)  
(note: If Fixed Asset sale karna is Burn, then it is inventory & such such sale in ordinary course of Burn is covered in AS 9).
- v) Realised / Unrealised gain resulting from changes in foreign exchange rates. (AS -11)

### d. Definition of Revenue

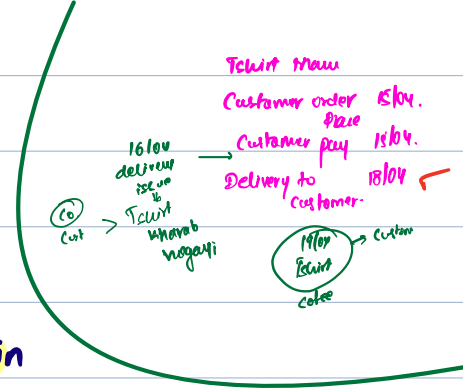
Revenue is gross inflow of cash or receivable arising from ordinary course of activities



## i) Revenue Booking in case of Sale of Goods

In a transaction involving the sale of goods, revenue should be booked only when:

- ① the seller of goods has transferred the property in the goods to the buyer
- ② All significant risks & rewards of ownership have been transferred to the buyer & seller retains no effective control of the goods transferred.
- ③ There is no uncertainty regarding the amount of consideration that will be rec'd from sale of goods.



## ii) Revenue Booking in case of Rendering of Services

↓  
Methods of recognition of Revenue

↓  
Proportionate completion  
method

↓  
Revenue is recognised proportionately  
by reference to the service completed.

eg. Teaching Service

(Normally we use proportionate completion  
method for continuous service)

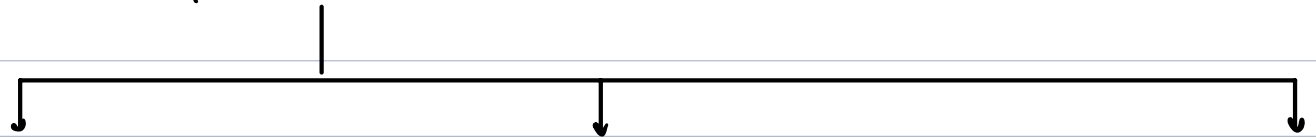
↓  
Completed Service contract  
method.

↓  
Revenue is recognised  
when the sole or final  
act takes place.

eg: Installation service,  
repair service

(Normally we use this  
method when it is a  
one time service)

iii) Revenue Booking in case of income from other sources like Interest, royalties, dividends.



⑥ Interest

Interest Revenue is recognised on time proportion Basis

⑥ Royalties

Recognised on accrual Basis in accordance with the terms of the relevant agreement

⑥ Dividends

Dividend income is recognised when the owner's right to receive is established.  
Generally right to receive div is established when div is declared by the Comp<sup>y</sup>.

eg: Rel Hd proposed div 15/04.  
Div declared 15/06.  
Money trf 30/06.

For Shareholders right to receive is established on 15/06  
∴ Book Dividend Income.

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### 3. Effect of uncertainty on Revenue Recognition (Refer illus 2 & 3)



Uncertainty of collection of revenue existed @ the time of sale

↓  
Revenue recog is postponed & in such cases revenue should be booked on cash Basis. or when the uncertainty is resolved.

Uncertainty of collection of revenue arises subsequent to sale

↓  
Do Not Reverse the sale already Booked.

Create a provision for Bad debts.

J.E. eg Sale 01/04.  
uncertainty is 10%.

01/04 → Debtors xx  
    To Sales (Revenue) xx

15/04 → ~~Sales Reverse~~  
    Prov for Bad debts xx  
    To Debtors xx

### 4. Special cases

#### i) Principal vs Agent (Refer illus 1)

In case of Princ & Agent relationship, the revenue of the princ is the gross Amt of goods or service.

But revenue of agent is only the amt of commission.

(Princ is the person who is primarily responsible to fulfill the contract)

eg Med is responsible to prepare food - ∴ Princ.

AK Sir is responsible to give teaching service → ∴ Princ.

eg ① Customer food order from <sup>Princ.</sup> McD.

(through Zomato) → Agent

i) Burger | fries | Coke  $\rightarrow$  \$200

2] Delivery fees & Platform fees → ₹ 25

3) GST	₹10
	<u>₹235</u>

Prin MCD Revenue ?  $\rightarrow$  £200  
Agent Tomato Revenue ?  $\rightarrow$  £25

GST  $\rightarrow$  Is Amt collected from customer & paid to Govt. It should not form part of Revenue.

eg: ② Students order's closed of At Sir → Princ  
through Princ (Franchise) → Agent

AK Sis classed 9000  $\longrightarrow$  AK Sis Revenue

Agent fees 1000  $\rightarrow$  Prince (Agent) Rev.

Qst  $\frac{1800}{11800} \rightarrow$  Cost (Not a part of Rev for Prin or Agent)

## ii) Bill & Hold

(Delivery is delayed at buyer's request & buyer takes title & billing is done)

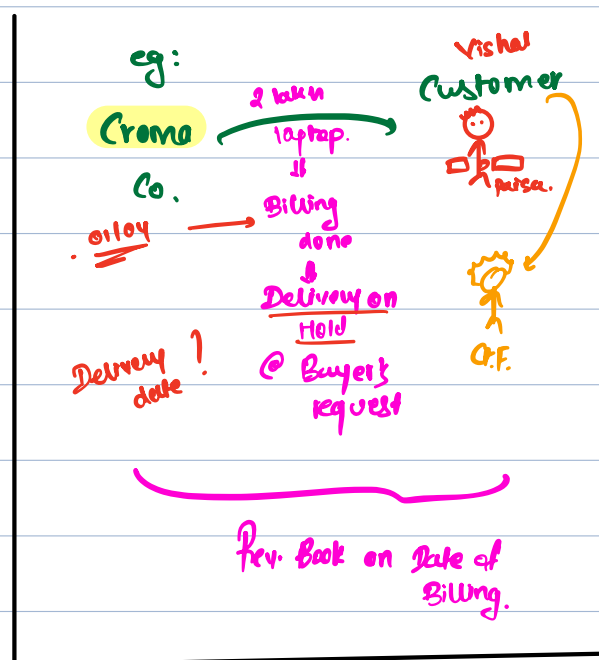
↓

The Buyer may purchase goods & ask the seller to hold the delivery for some reason: eg lack of storage or transportation delays etc.

In such cases revenue can be booked on the date of billing even if physical possession has not been til.

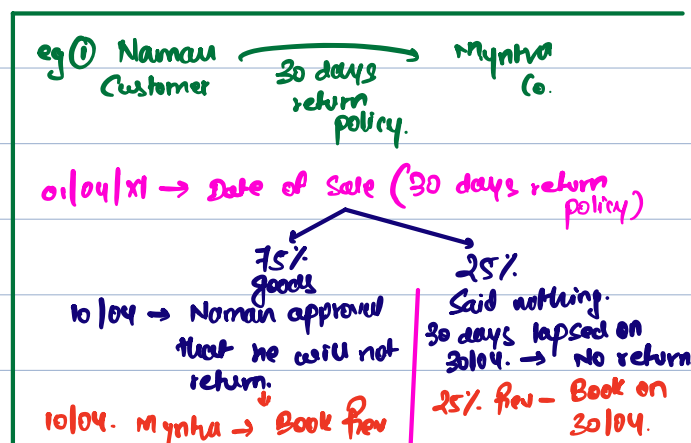
Conditions to be met to recognise sale in case of Bill & hold

- (a) Goods delivery is delayed @ Buyer's request.
- (b) Goods cannot be til to another customer.
- (c) Goods are ready to be delivered to the buyer.



## iii) Sale on approval Basis

Revenue should not be recognised until the goods have been formally accepted by the buyer (or) the time period for rejection has lapsed.



iv) Goods sold subject to inspection / installation (Refer illus 10)

If Goods are easy to

install

||

Book Revenue of Goods  
on Date of Sale

If installation of Goods is  
complex

If customer  
does not accept  
the goods until  
installation is  
complete

↓  
Recognise revenue of  
sale & revenue of  
installat<sup>n</sup> after  
installat<sup>n</sup> is complete

If customer accepts  
the goods before  
installation

↓  
Recognise revenue  
of sale of goods  
on date of acceptance  
of goods  
But recognise revenue  
from installation after  
install<sup>n</sup> is complete.

eg AK purchase Iphono from Apple (Install<sup>n</sup> easy) → Apple Revenue Book Karega on date of Sale.

AK purchased TV 70 inch (Install<sup>n</sup> difficult)

AK Accepts Before install<sup>n</sup> → TV Revenue - Book Now  
Install<sup>n</sup> Rev - Book after install<sup>n</sup>.

AK Accepts ownership only after install<sup>n</sup> → TV Price & Install<sup>n</sup> Rev both - Book After install<sup>n</sup>.

## v) Sale & repurchase agreement

Point of view

Ak

loan taken

01/04

Bldg sale → 10 lakhs., Dhruv

Ak repurchase this same Bldg after 1 year

@ 11 lakhs.

Sale x

loan arrangement

(with Bldg kept as collateral)

### AK Books

2-E 01/04/x1 → ClB Alc Dr 10 lakhs  
~~Sale~~  
 loan To loan taken (lab) 10 lakhs

31/3/x2 Int Exp Alc Dr 1 lakh  
 Int Accrue TO loan taken 1 lakh

31/3/x2 loan taken 11 lakhs  
 To ClB 11 lakhs

Financing / loan arrangement.

## vi) Trade discounts

It should always be deducted from Revenue.

(S.P → Adv Acc Batch 15000  
 Trade disc (5000) → Sabko dene wala disc.  
 Net Price 10000

PL

Sales 10000  
 (net of Trade disc)

## vii) Cash discount

Revenue is recognised at Gross Amount & Cash discount is recorded as an Expense.

Adv Alr's Batch 10000  
 Cash disc (500) → Jaldi paisa dene wala  
 Net payment 9500

PL

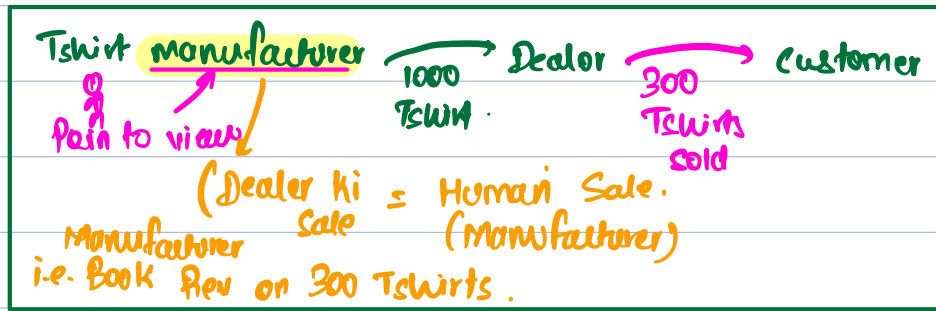
Exp Cash disc 500 | Revenue 10000



viii) Consignment Sale

Revenue should be

booked only when the goods have been sold to ultimate customer.



ix) Interdivision Sales

This is Not a Sale

∴ No Revenue should be Recognised

