# REVENUE RECOGNITION

AS 9

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| **Objective** | AS 9 deals with the basis for recognition of revenue in the Statement of P&L. Recognition means timing of recording the revenue in the P&L A/c of enterprise. |
| **Scope** | ❖ Revenue from Sale of goods.<br>❖ Revenue from Rendering of services<br>❖ Revenue from Interest, Royalties and Dividend |
| **Non Applicability** | ❖ Revenue arising from Construction contracts (AS 7)<br>❖ Revenue arising from Hire purchase and lease agreements (AS 19)<br>❖ Revenue arising from Government grants and other similar subsidies (AS 12)<br>❖ Revenue of Insurance company arising under insurance contracts |
| **Other examples of scope exclusions** | Revenue does not include the following:<br>❖ Realized gains on disposal of non-current assets.<br>Example: Gain on sale of fixed assets under AS 10.<br>❖ Unrealized gains on holding of Non- current assets<br>Example: Appreciation in the value of fixed assets under AS 10.<br>❖ Unrealized holding gains resulting from change in value of current assets.<br>❖ Realized/unrealized gains resulting from changes in foreign exchange rates and adjustments arising on translation of foreign currency financial statement (AS11) |
| **Meaning of Revenue** | Revenue is the **gross inflow** of :<br>➢ Cash<br>➢ Receivables or<br>➢ Other consideration<br>arising in the course of ordinary activities of an enterprise from the<br>• Sale of goods,<br>• Rendering of services and<br>• Use by others of enterprise resources yielding interest; royalties and dividends.<br>***Exception*** – In an agency relationship, revenue is the amount of commission and not the gross inflow of cash, receivables or other considerations.<br>***Note***: *Trade Discounts & volume rebates to be deducted while determining revenue.* |
| **Examples** | Entity XY sells a machine being used at its factory at a price of ₹ 2 lakh. The carrying value of the machine is ₹ 1.80 lakh. The sale of the machine does not increase the revenue of XY but is an example of a capital receipt since transaction does not take place in the normal course of business.<br>*Such gain on sale of ₹ 20,000 (₹ 2 lakhs – ₹ 1.80 lakhs) is recognised as a part of profit & loss statement under Gain/(Loss) on disposal of asset.* |

<table>
<tr><td></td><td colspan="2">ST Ltd is a real-estate developer and builder. It is into the business of buying and selling properties. In 2022, ST Ltd purchased a unit of land for ₹ 150 crore. It sold off that land after few months at a price of ₹ 240 crore.<br>In the above case, the sale of land is a transaction that happens in the ordinary course of business (as he is a real estate developer and builder – properties will be an item of inventory in the financial statements) for ST Ltd. Hence, it should recognise a revenue of ₹ 240 crore when the land is sold<br><br>DL Ltd, a pharma company, has been conducting research on new medicine since last 2 years to increase the immunity levels of the people consuming it without any side effects. During the current year, it decides to sell the outcome of the research undertaken so far to another competitor, GH Ltd for ₹ 50 crore. DL has already incurred ₹30 crore on the ongoing research.<br>In the above example, the sale of the research findings does not represent an increase in revenue. This is because DL Ltd's business is not to sell these research findings in the ordinary course of business. The amount of ₹ 50 crore will be a part of Other Income in the profit & loss statement.<br><br>Trip Deal is a website that allows people to book airlines tickets. As a part of the business, it agrees to buys 100 tickets from an airline on a particular date and resells those tickets to customers. However, Trip Deal bears the loss for any unsold tickets.<br>In the above example, the risks and rewards relating to tickets are borne by Trip Deal. Hence, sales made for the tickets will be fully recognized as part of its revenue. Any unsold tickets will be charged as loss by the entity.</td></tr>
<tr><td colspan="3">CONDITIONS FOR RECOGNITION</td></tr>
<tr><td>Sale of goods (PARA 11)</td><td colspan="2">✓ The seller of goods has transferred to buyer the property in goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership.<br>✓ No significant uncertainty regarding consideration</td></tr>
<tr><td>Rendering of services (PARA 12)</td><td colspan="2">✓ Service is performed as per the terms of the contract i.e. either as per completed service contract method (For Eg: Installation of machinery or repair service) or proportionate completion method.<br>✓ No significant uncertainty regarding consideration</td></tr>
<tr><td rowspan="4">Use of resource of the enterprise by others (PARA 13)</td><td>Interest</td><td>On a <u>time proportion basis</u> taking into account the amount outstanding and the rate applicable</td></tr>
<tr><td>Royalty</td><td>On an <u>accrual basis</u> in accordance with the terms of relevant agreement i.e. when the conditions attached have been complied with.</td></tr>
<tr><td>Dividend</td><td>When the owners right to receive payment is established i.e.<br>• In case of Final Dividend, date when it is declared at an AGM<br>• In case of Interim Dividend, date it is declared in Board Meeting</td></tr>
<tr><td colspan="2">Revenue should be recognised when no significant uncertainty as to measurability or collectability exists.</td></tr>
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| SOME IMPORTANT POINTS | |
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| **Delivery is delayed at buyer's request** | When delivery is delayed at buyer's request and buyer takes title and accepts billing, revenue should be recognized when<br>➢ There is every expectation that delivery will be made<br>➢ Item must be on hand, identified & ready for delivery at time sale is recognized. |
| **Delivery subject to installation, inspection etc.** | Revenue should normally not be recognised until the customer accepts delivery and installation and inspection are complete.<br>*However, in case the installation is simple (for example, a refrigerator needs to be plugged to a power connection after delivery to customer's place), revenue is recognized when the customer has agreed to purchase the goods.* |
| **Goods on Approval basis** | Revenue should not be recognized until<br>➢ The goods have been formally accepted by the buyer<br>➢ Buyer has done an act adopting the transaction<br>➢ Time period for rejection has lapsed |
| **Guaranteed Sales** | In the case of retail sales offering a guarantee of "money back if not completely satisfied" it may be appropriate to recognise the sale but to make a suitable provision for returns based on previous experience. |
| **Consignment** | Revenue is to be recognized when goods are sold by consignee to third party |
| **Cash on delivery** | Revenue should not be recognised until cash is received by the seller or his agent |
| **Sale to distributors or others for resale** | Revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale. |
| **Subscriptions for publications** | Revenue should be recognised either on straight line basis over time or, where items delivered vary in value, revenue should be based on sales value of item delivered. |
| **For Advertising agencies** | Amount will be recognized when advertisement appears before the public. |
| **Artistic Performances, banquets, etc.** | Revenue from artistic performances, banquets and other special events should be recognised when the event takes place |
| **Tuition Fees** | Revenue should be recognised over the period of instruction |
| **Insurance Agent Comm.** | Revenue should be recognized on the effective commencement or renewal dates of the related policies. |
| **Installation Fees** | In cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer. |
| **Instalment sales** | When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. The interest element should be recognized as revenue, proportionately to the unpaid balance due to the seller. |

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| **Payment in instalments and delivery only when final payment is made** | Revenue from sales where the purchaser makes a series of instalment payments to the seller, and the seller delivers the goods only when the final payment is received, should not be recognised until goods are delivered. However, when experience indicates that most such sales have been consummated, revenue may be recognised when a significant deposit is received. |
| **Membership Fees** | ➢ If the membership fee permits only membership and all other services or products are paid for separately, or if there is a separate annual subscription, the fee should be recognised when received.<br>➢ If the membership fee entitles the member to services or publications to be provided during the year, it should be recognised on a systematic and rational basis having regard to the timing and nature of all services provided |
| **Price revisions** | Income can be recognized when there is certainty of collection |
| **Inter divisional Transfers** | Risks and rewards remain within the enterprise and there is no consideration from the point of view of the enterprise as a whole. Hence, no revenue is recognized in the case of inter-divisional transfers. |
| **Sale and Repurchase Agreement** | For transactions, where seller concurrently agrees to repurchase the same goods at later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.<br><br>**Example**<br>On 1st January 2023, M/s KJ sells goods at invoice value of ₹ 5 lakhs to M/s TH. At the time of sale, M/s KJ has agreed to repurchase these goods back from M/s TH on 31st March at a price of ₹ 6 Lac. You are required to do the accounting for above transactions in the books of M/s KJ. |

→ When the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition should be postponed to the extent of uncertainty involved. **(PARA 10)**

→ When the uncertainty regarding collection arises subsequent to the sale or rendering of services, then provision should be created instead of reducing the amount originally recorded.

# ASSIGNMENT QUESTIONS

## Question 1 – *(ICAI Study Material)*

Zigato runs a food-delivery business. As per the arrangement, Zigato allows customers to order food from local restaurants and is responsible the delivery of the food within stipulated time. During a particular year, it collects the money on orders made online as under:

| | |
|---|---|
| Total price for the food item - | ₹ 200 lakhs |
| Delivery charges - | ₹ 60 lakhs |
| GST - | ₹ 40 lakhs |
| Total - | **₹ 300 lakhs** |

Zigato has received ₹ 300 lakhs for the above orders from customers and the orders were delivered to the customer in stipulated time. How much revenue should be recognised by restaurants and how much revenue should be recognised by Zigato for the year?

**Solution**

The risks and rewards associated with the food item are not with Zigato. When a customer has ordered a food item, whether the item will be prepared or not is the responsibility of the restaurant and not Zigato. Similarly, the responsibility to deliver the food item is with Zigato and the restaurant does not undertake responsibility for the same.

Therefore, the restaurant undertakes the principal's responsibility to prepare the food and ensure its quality. Zigato, on the other hand, is only responsible to deliver the food. Thus, Zigato is acting as an agent. Hence, it can only recognize revenue relating to that activity (which it does in the ordinary course of business). The revenue for Zigato, therefore, is ₹ 60 lakhs, whereas, the revenue for restaurants will be ₹ 200 lakhs.

It may be noted that the GST of ₹ 40 lakhs is a liability payable to the Government (third party), hence it does not form part of revenue.

## Question 2 *(RTP May 2018)*

A manufacturing company has following stages of production & sale in manufacturing Fine paper rolls:

| Date | Activity | Cost to Date (₹) | Net Realisable Value (₹) |
|---|---|---|---|
| 15.1.20 | Raw Materials | 1,00,000 | 80,000 |
| 20.1.20 | Pulp (WIP 1) | 1,20,000 | 1,20,000 |
| 27.1.20 | Rough & Thick Paper (WIP 2) | 1,50,000 | 1,80,000 |
| 15.2.20 | Fine paper Rolls | 1,80,000 | 3,50,000 |
| 20.2.20 | Ready for Sale | 1,80,000 | 3,50,000 |
| 15.3.20 | Sale Agreed and invoice raised | 2,00,000 | 3,50,000 |
| 02.4.20 | Delivered and paid for | 2,00,000 | 3,50,000 |

Explain the stage on which you think revenue will be generated and state how much would be net profit for year ending 31.3.2020 on this product according to AS-9.

**Solution**

As per AS 9 "Revenue Recognition", in a transaction involving sale of goods, performance should be regarded as being achieved when following conditions have been fulfilled:

a) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

b) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Thus, sales will be recognized only when following two conditions are satisfied:
(i) The sale value is fixed and determinable.
(ii) Property of the goods is transferred to the customer.
Both these conditions are satisfied only on 15.3.2020 when sales are agreed upon at a price & goods are allocated for delivery purpose through invoice. The amount of net profit ₹ 150,000 (3,50,000 – 2,00,000) would be recognized in the books for the year ending 31st March, 2020.

## Question 3 *(ICAI Study Material)*

During the year ended 31st March 2023, ZX Enterprises has recognized ₹ 100 lakhs on accrual basis income from dividend on units of mutual funds held by it. The dividends on mutual funds were declared on 15th June, 2023. The dividend was proposed on 10th April, 2023. Whether the above treatment is as per the relevant Accounting Standard?

**Solution**

Dividends from investments in shares are not recognized in the statement of profit and loss until a right to receive payment is established. In the given situation, the dividend is proposed on 10th April, 2023, while it is declared on 15th June, 2023. Thus, the right to receive the payment of dividend gets established on 15th June, 2023.
The recognition of ₹ 100 lakhs on accrual basis in the financial year 2022-2023 is not correct as per AS 9 'Revenue Recognition'.

## Question 4

M/s Umang Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 12% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2020 interest due from agent (because of delay in payment) amounts to ₹ 1,72,000. The accountant of M/s Umang Ltd. booked ₹ 1,72,000 as interest income in the year ended 31st March, 2020. Discuss the contention of accountant with reference to Accounting Standard-9.

**Solution**

As per AS 9 "Revenue Recognition", "Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made".
In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of ₹ 1,72,000 should not be recognized in the books for the year ended 31st March, 2020. Thus, the contention of accountant is incorrect.

## Question 5 *(ICAI Study Material)*

AB sells goods to CD on 1st March 2023. CD is having significant cash flows issues since last few months. However, it is trying to raise funding through bank loan to be able to run its operations in future. On 5th of May 2023, CD is able to seek the funding and is expected to be able to pay for the goods in future. At the time of sale, it is difficult for AB to ascertain whether it will be able to collect the amount from CD due to poor financial conditions. Explain how the recognition of revenue be done by AB?

**Solution**

In the above case, AB should not recognise any revenue on 1st of March and until that uncertainty of recovery is clear. Hence, the revenue can only be recognised by AB on 5th of May 2023. The inventory transferred to CD until that date is required to be shown as its own inventory [inventory lying with customers].

## Question 6 – *(ICAI Study Material)*

AB sells goods to CD on 1st January 2023 for ₹ 2 lakhs. After the sale was made, CD is having significant cash flows issues. It is trying to raise funding through bank loan to be able to run its operations in future. However, it is unable to do so and has gone under liquidation on 15th of March 2023. At the time of sale, there was no reason for AB to believe that it will not be able to collect the amount from CD in future.
Explain how the recognition of revenue be done by AB for the year ended 31st March 2023?

**Solution**

In the above case, at the time of sale, it was not unreasonable for AB to expect ultimate collection from CD. Therefore, AB should recognise the revenue of ₹ 2 lakhs on 1st of January 2023 and recognise a receivable for the same amount. Later, since CD went into liquidation, AB should write off the receivables and book a loss in his books.

**Accounting in the books of AB**

## Question 7 *(RTP May 2020) / (ICAI Study Material)*

The following information of Meghna Ltd is provided:-

a) Goods of ₹ 60,000 were sold on 20-3-2020 but at the request of the buyer these were delivered on 10-4-2020.
b) On 15-1-2020 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2020.
c) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2019. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2020 & no approval or disapproval received for remaining goods till 31-3-2020.
d) Apart from the above, the company has made cash sales of ₹ 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of Meghna Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9.

**Solution**

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

**In case (a):**

The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ₹ 60,000 for the year ended 31$^{st}$ March, 2020.

**In case (b):**

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,20,000 (80% of ₹ 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

**In case (c):**
In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the ₹ 90,000 upon receipt of approval on 31-01-2020 and for the balance ₹ 30,000 on 01-03 2020 as the time period for rejecting the goods had expired.

**In case (d):**
Trade discounts given should be deducted in determining revenue. Thus ₹ 39,000 should be deducted from the amount of turnover of ₹ 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be ₹ 7,41,000.

Thus total revenue amounting ₹ 10,41,000 (60,000 + 1,20,000+ 1,20,000+7,41,000) will be recognized for the year ended 31st March, 2020 in the books of Meghna Ltd.

## Question 8

Victory Ltd. purchased goods on credit from Lucky Ltd. for ₹ 250 crores for export. The export order was cancelled. Victory Ltd. decided to sell the same goods in the local market with a price discount. Lucky Ltd. was requested to offer a price discount of 15%. The Chief Accountant of Lucky Ltd. wants to adjust the sales figure to the extent of the discount requested by Victory Ltd. Discuss whether this treatment is justified.

**Solution**

Lucky Ltd. had sold goods to Victory Ltd on credit worth for ₹ 250 crores and the sale was completed in all respects. Victory Ltd.'s decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Lucky Ltd. The price discount of 15% offered by Lucky Ltd. after request of Victory Ltd. was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. It is the special discount which is being allowed at the request of the buyer. Therefore, it would be appropriate to make a separate provision rather than to adjust the amount of revenue originally recorded. Therefore, such discount should be written off to the profit and loss account and not shown as deduction from the sales figure.

## Question 9

X Limited sold goods worth ₹ 13 Lakhs to Mr. Y. Mr. Y asked for a Trade Discount amounting to ₹ 1,06,000 and the same was agreed to by X Limited. Such discount was allowed in the ordinary course of business. The sale was effected and goods were dispatched. On receipt of goods, Mr. Y has found that goods worth ₹ 1,34,000 are defective. Mr. Y returned defective goods to X Limited and made payment amount to ₹ 10,60,000. The Accountant of X Limited booked the sale for ₹ 10,60,000. Discuss the contention of the Accountant with reference to relevant Accounting Standard.

**Solution**

As per AS 9, "Revenue Recognition" is the inflow of cash, receivable or other consideration arising in the course of ordinary activities of an enterprise from the sale of Goods. However, the above is subject to trade discount and volume rebates received in the course of carrying on business which shall be deducted in ascertaining revenue since they represent a reduction of cost.

In the given case, trade discount is to be deducted from ₹ 13,00,000 and gross sale shall be recognized at (₹ 13,00,000 - ₹ 1,06,000) = ₹ 11,94,000 and goods returned ₹ 1,34,000 are to be recorded in the form of sales return. Thus, the contention of Accountant to book sale of ₹ 10,60,000 is not correct.

## Question 10

Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2020 issue was made in February 2020. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2020 and ₹ 60,000 on 10.4.2020 for the March 2020 issue. Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2020.
What will be the treatment if the publication is delayed till 2.4.2020?

**Solution**

As per para 12 of AS 9 'Revenue Recognition', 'In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished'.

In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is seen by public and hence revenue is recognized on that date. In this case, it is 15.03.2020, the date of publication of the magazine.

Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2020. The terms of payment are not relevant for considering the date on which revenue is to be recognized. ₹ 60,000 is treated as amount due from advertisers as on 31.03.2020 and ₹ 2,40,000 will be treated as payment received against the sale.

However, if the publication is delayed till 02.04.2020 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized for the year ended 31.03.2021 after the magazine is published on 02.04.2020. The amount received from sale of advertising space on 10.03.2020 of ₹ 2,40,000 will be considered as an advance from advertisers for the year ended 31st March, 2020.

## Question 11 *(RTP May 2019)*

Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account. Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9.

**Solution**

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

## Question 12 *(RTP Nov 2019) / (ICAI Study Material)*

The Board of Directors decided on 31.3.2020 to increase the sale price of certain items retrospectively from 1st January, 2020. In view of this price revision with effect from 1st January 2020, the company has to receive ₹ 15 lakhs from its customers in respect of sales made from 1st January, 2020 to 31st March, 2020. Accountant cannot make up his mind whether to include ₹ 15 lakhs in the sales for 2019-2020. Advise.

**Solution**

Price revision was effected during the current accounting period 2019-2020. As a result, the company stands to receive ₹ 15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2020. If the company is able to assess the ultimate collection with reasonable certainty, only then additional revenue arising out of the said price revision may be recognized in 2019-2020.

If the company is not reasonably certain on ultimate collection ₹ 15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2020, it shall postpone recognition of revenue and disclose it in financial statements for year 2019-2020.

## Question 13 *(ICAI Study Material)*

A claim lodged with the Railways in March, 2018 for loss of goods of ₹ 2,00,000 had been passed for payment in March, 2020 for ₹ 1,50,000. No entry was passed in the books of the Company, when the claim was lodged. Advise P Co. Ltd. about the treatment of the following in the Final Statement of Accounts for the year ended 31st March, 2020.

**Solution**

AS 9 on 'Revenue Recognition' states that where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is certain to be collected. In this case it may be assumed that collectability of claim was not certain in the earlier periods. This is supposed from the fact that only ₹ 1,50,000 were collected against a claim of ₹ 2,00,000. So this transaction cannot be taken as a Prior Period Item. Hence receipt of ₹ 1,50,000 shall be recognized as revenue in year ended 31st March, 2020

In the light of AS 5, it will not be treated as extraordinary item. However, AS 5 states that when items of income and expense within profit or loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Accordingly, the nature and amount of this item should be disclosed separately.

## Question 14 *(RTP Nov 2021)*

Shipra Ltd., has been successful jewelers for the past 100 years and sales are against cash only (returns are negligible). The company also diversified into apparels. A young senior executive was put in charge of Apparels business and sales increased 5 times. One of the conditions for sales is that dealers can return the unsold stocks within one month of the end of season. Sales return for the year was 25% of sales. Suggest a suitable Revenue Recognition Policy, with reference to AS 9.

**Solution**

As per AS 9 "Revenue recognition", revenue recognition is mainly concerned with the timing of recognition of revenue in statement of profit and loss of an enterprise. The amount of revenue arising on a transaction is usually determined by the agreement between the parties involved in the transaction. When uncertainties exist regarding the determination of amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

**Effect of Uncertainty**- In the case of the jewelry business the company is selling for cash and returns are negligible. Hence, revenue can be recognized on sales. On the other hand, in Apparels Industry, the dealers have a right to return the unsold goods within one month of the end of the season. In this case, the company is bearing the risk of sales return and therefore, the company should not recognize the revenue to the extent of 25% of its sales. The company may disclose suitable revenue recognition policy in its financial statements separately for both Jewelry and Apparels business.

## Question 15 *(RTP May 2021)*

Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year 2019-20:

a) On 31st December, 2019 shoes worth ₹ 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2020.

b) On 10th January, 2020, Tonk Tanners supplied shoes worth ₹ 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April. 2020.

c) On 21st March, 2020 shoes worth ₹ 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April2020

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2019 -20 in above cases in the context of AS 9

**Solution**

a) Shoes sent to Mohan Shoes (consignee) for consignment sale:

In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer. In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2019-2020, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for ₹ 3,20,000 x 75% = ₹ 2,40,000.

b) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date.

For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2019-2020. Hence, sale of ₹ 4,50,000 to Shani Shoes should not be recognized as revenue.

c) Delivery is delayed at buyer's request

On 21st March, 2020, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer. In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in the year 2019-2020 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.

## Question 16 *(RTP May 2022)*

A infrastructure company has constructed a mall and entered into agreement with tenants towards license fee (monthly rental) and variable license fee, a percentage on the turnover of the tenant (on an annual basis). Chief Finance Officer wants to account/recognize license fee as income for 12 months during current year & variable license fee as income during next year, since invoice is raised in the subsequent year. Comment whether the treatment desired by the CFO is correct or not.

**Solution**

AS 9 on Revenue Recognition, is mainly concerned with the timing of recognition of revenue in the Statement of Profit and Loss of an enterprise. The amount of revenue arising on a transaction is usually determined by agreement between the parties involved in the transaction. However, when uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.
Further, as per accrual concept, revenue should be recognized as and when it is accrued i.e. recorded in the financial statements of the periods to which they relate.
In the present case, monthly rental towards license fee and variable license fee as a percentage on the turnover of the tenant (though on annual basis) is the income related to common financial year. Therefore, recognizing the fee as revenue cannot be deferred simply because the invoice is raised in subsequent period. Hence it should be recognized in the financial year of accrual. Therefore, the contention of CFO is not in accordance with AS 9.

## Question 17 *(ICAI Study Material)*

For the year ended 31st March 2023, KY Enterprises has entered into following transactions.
On 31 March 2023, KY supplied two machines to its customer ST. Both machines were accepted by ST on 31 March 2023. Machine 1 was a machine that was routinely supplied by KY to many customers and the installation process was very simple.
Machine 1 was installed on 2 April 2023 by ST's employees.
Machine 2 being more specialised in nature requires an installation process which is more complicated, requiring significant assistance from KY. Machine 2 was installed between 2 and 5 April 2023. Details of costs and sales prices are as follows:

| | Machine 1 | Machine 2 |
|---|---|---|
| Sale Price | 3,20,000 | 3,00,000 |
| Cost of production | 1,60,000 | 1,50,000 |
| Installation fee | Nil | 10,000 |

How should above transactions be recognized by KY Enterprises for the year ended 31st March 2023?

**Solution**

**Machine 1:** As the installation process is simple, revenue from Machine 1 will be recognized on 31 March 2023.

| | | | |
|---|---|---|---|
| Revenue (Machine 1) | ₹ 3,20,000 | Cost of Goods Sold | ₹ 1,60,000 |
| Profit during the period | ₹ 1,60,000 | | |

Since the question specifies that the machine is already accepted by ST on 31 March 2023, the revenue arising from sale of the machine needs to be recognized for the year ending 31 March 2023. This is because acceptance of the machine indicates that the risks and rewards pursuant to the ownership are transferred to ST.

**Machine 2:** Installation process for Machine 2 is more complicated, requiring significant assistance from KY Ltd. However, question specifies that the machine is already accepted by ST on 31 March 2023. Assuming that there is no further approval/acceptance required from the buyer for the Machine sold, revenue from sale of Machine 2 can be recognized for the year ending 31 March 2023.

| | | | |
|---|---|---|---|
| Revenue (Machine 2) | ₹ 3,00,000 | Cost of Goods Sold | ₹ 1,50,000 |
| Profit during the period | ₹ 1,50,000 | | |

However, installation fee which is for rendering installation services cannot be recognized until the installation is complete. Since the machine is pending installation, the revenue in respect of installation charges ₹10,000 needs to be recognized on 5 April 2023 once the installation process gets completed.

# PRACTICE QUESTIONS

## Question 1 *(ICAI Study Material)*

Y Co. Ltd., used certain resources of X Co. Ltd. In return X Co. Ltd. received ₹ 10 lakhs and ₹ 15 lakhs as interest and royalties respective from Y Co. Ltd. during the year 2019-20. You are required to state whether and on what basis these revenues can be recognised by X Co. Ltd.

**Solution**

As per para 13 of AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognised when no significant uncertainty as to measurability or collectability exists. These revenues are recognised on the following bases:

a) Interest: on time proportion basis taking into account amount outstanding & rate applicable. Therefore X Ltd. should recognise interest revenue of ₹ 10 lakhs.

b) Royalties: on an accrual basis in accordance with the terms of the relevant agreement. Therefore X Ltd. should recognise royalty revenue of ₹ 15 lakhs.

## Question 2 *(Inter May 2019) (5 Marks) / (RTP Nov 2023)/ (Nov 2018)/ (Nov 2020) (Sim.)*

Given below are the following information of B.S. Ltd.

(i) Goods of ₹ 50,000 were sold on 18-03-2020 but at the request of the buyer these were delivered on 15-04-2020.

(ii) On 13-01-2020 goods of ₹ 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2020.

(iii) ₹ 1,00,000 worth of goods were sold on approval basis on 01-12-2019. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2020 and no approval or disapproval received for the remaining goods till 31-03-2020.

You are required to advise accountant of B.S. Ltd., with valid reasons, amount to be recognized as revenue for the year ended 31st March, 2020 in above cases in the context of AS-9

**Solution**

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

**Case (i)**

The sale is complete but delivery has been postponed at buyer's request. B.S. Ltd. should recognize the entire sale of ₹ 50,000 for the year ended 31st March, 2020.

**Case (ii)**

In case of consignment sale revenue should not be recognized until the goods are sold to a third party. 20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,00,000 (80% of ₹ 1,25,000).

**Case (iii)**

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 1,00,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹ 2,50,000 (50,000 + 1,00,000+ 1,00,000) will be recognized for the year ended 31st March, 2020 in the books of B.S. Ltd.

## Question 3

In the year 2020-21, XYZ supplied goods on Consignment basis to ABC – a retail outlet worth ₹ 10,00,000. As per the terms, ABC will only pay XYZ for the goods which are sold by them to the third party. Rest of the goods can be returned back to XYZ and ABC will not have any further liability for these goods. During the year 2020-21, ABC has sold goods worth ₹ 5,50,000 only and rest of the goods are still lying in its store which may get sold by next year. Advise XYZ, how much revenue it can recognize in its books for period 2020-21

**Solution**

As per AS 9, For consignment risk and rewards are not transferred to the customer on just delivery of the goods and no revenue should be recognized until the goods are sold to a third party. Therefore, XYZ can recognize revenue of ₹ 5,50,000 only.

## Question 4

Khetan Ltd. has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 4,500 for which they will be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for the current year. Comment

**Solution**

As per AS 9 'Revenue Recognition', revenue received or billed should be deferred and recognised either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription.

Accordingly, in the given case the accounting treating adopted by Khetan Ltd. to treat the entire amount as revenue for the current year is not in accordance with AS 9. The revenue should be recognized on a straight line basis over the period of 3 years.

## Question 5 *(Inter Nov 2019) (5 Marks)/ (RTP May 2022)*

Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.

(1) Trade discount and volume rebate received.
(2) Where goods are sold to distributors or others for resale.
(3) Where seller concurrently agrees to repurchase the same goods at a later date.
(4) Insurance agency commission for rendering services.
(5) On 11-03-2019 cloths worth ₹ 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request, clothes were delivered on 12-04-2019.

**Solution**

(1) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.
(2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.
(3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.
(4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(5) On 11.03.2019, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers. Revenue should be recognized for year ended 31st March, 2019 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

## Question 6 *(Inter Dec 2021) (5 Marks)*

Given the following information of Rainbow Ltd.

(i) On 15th November, goods worth ₹ 5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.

(ii) On 31st March, goods worth ₹ 2,40,000 were sold to Bright Ltd. but due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.

(iii) Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.

(iv) Dew Ltd, used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹ 7.5 lakhs and ₹ 12 as interest and royalties respectively from Dew Ltd. during the year 2020-21.

(v) On 25th December, goods of ₹ 4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year-end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9.

**Solution**

(i) As per AS 9 "Revenue Recognition", in case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 5,00,000 as the time period for rejecting the goods had expired.

(ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ₹ 2,40,000 for the year ended 31st March.

(iii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date, such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue. Hence no revenue to be recognized in the given case.

(iv) Revenue arising from the use by others of enterprise resources yielding interest & royalty should be recognized when no significant uncertainty as to measurability or collectability exists. The interest should be recognized on time proportion basis taking into account the amount outstanding and rate applicable. The royalty should be recognized on accrual basis in accordance with the terms of relevant agreement.

(v) 40% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 2,40,000 (60% of ₹ 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

## Question 7 *(RTP Nov 2022)*

When revenue will be recognized in the following situation:

(1) Where the purchaser makes a series of installment payments to the seller and the seller deliver the goods only when the final payment is received.

(2) Where seller concurrently agrees to repurchase the same goods at a later date.

(3) Where goods are sold to distributors, dealers or others for resale.

(4) Commissions on service rendered as agent on insurance business

**Solution**

(1) Revenue from sales where the purchaser makes a series of instalment payments to the seller, and the seller delivers the goods only when the final payment is received, should not be recognised until goods are delivered. However, when experience indicates that most such sales have been consummated, revenue may be recognised when a significant deposit is received.

(2) For sale where seller concurrently agrees to repurchase the same goods at a later date, such transactions are in substance a financing agreement. In such a situation, the resulting cash inflow should not be recognised as revenue.

(3) Revenue from sales of goods to distributors, dealers or others for resale can generally be recognised if significant risks of ownership have passed. However, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(4) Commissions on service rendered as agent on insurance business should be recognised as revenue when the service is completed. Insurance agency commissions should be recognised on the effective commencement or renewal dates of the related policies.

## Question 8

XY Ltd sells goods worth ₹ 50 lakh on 20 February 2023 to AB Ltd. AB Ltd is facing storage capacity constraints at their warehouse. AB Ltd instructs XY Ltd to hold the goods at XY Ltd's warehouse and arrange for delivery on 15 March 2023. However, all the risks and rewards associated with the sold goods are deemed transferred to AB Ltd. When XY Ltd. can recognise the revenue?

**Solution**

In the current scenario, delivery of goods sold is delayed at the request of buyer. XY Ltd can recognize revenue for sale of goods to AB Ltd on 20 February 2023 provided that goods sold to AB Ltd are held in XY Ltd's warehouse separately and are not clubbed with other inventory.

## Question 9 *(ICAI Study Material)*

GH manufactures and sells televisions. The televisions are shipped to the customer by sea. In order to transfer risk related to the shipment of the televisions, GH also gets an insurance coverage for the goods while they are in transit from the factory to customer's location. The insurance policy will reimburse GH for the value of the goods in the event of loss or damage arising anytime up to these goods reaching customer's location. The legal title passes when the goods arrive at the customer's premises one month later.

When should Entity GH recognize revenue in its books?

**Solution**

GH should recognize revenue for the sale when the goods arrive at the customer's premises. GH has not transferred the televisions' significant risks and rewards of ownership to the customer when the goods depart from the factory. This is evidenced by the fact that any insurance proceeds received from the goods' damage or destruction will be repaid to GH. Further, the legal title does not pass until the goods arrive at the customer's premises.

## Question 10 *(Inter Nov 2022) (5 Marks)*

Indicate whether revenue can be recognized and when it will be recognized as per AS-9.

a) Delivery is delayed at buyer's request but buyer takes title and accepts billing.
b) Instalment Sales.
c) Trade discounts and volume rebates.
d) Insurance agency commission for rendering services.
e) Advertising commission.

**Solution**

a) **Delivery is delayed at buyer's request and buyer takes title and accepts billing** : Revenue should be recognized notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made. However, the item must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized rather than there being simply an intention to acquire or manufacture the goods in time for delivery.

b) **Instalment sales**: When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. The interest element should be recognized as revenue, proportionately to the unpaid balance due to the seller.

c) **Trade discounts and volume rebates**: Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

d) **Insurance agency commissions for rendering services**: Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

e) **Advertising commission**: Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed.

Question 11 ***(Inter May 2023) (5 Marks)*** *Pg no.______*

Toy Ltd. is engaged in manufacturing toys. They provide you the following information as on 31st March, 2023:

a. On 15th January, 2023, Toys worth ₹ 5,00,000 were sent to A Ltd. on consignment basis of which 25% Toys unsold were lying with A Ltd. as on 31st March, 2023.

b. Toys worth ₹ 2,25,000 were sold to S Ltd. on 25th March, 2023 but at the request of S Ltd., these were delivered on 15th April, 2023.

c. On 1st November, 2022, toys worth ₹ 3,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods upto 31st December, 2022 and no approval or disapproval received for the remaining goods till 31st March, 2023.

You are required to advise the accountant of Toy Ltd., the amount to be recognised as revenue in above cases in the context of AS-9.

**Solution**

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

**Case (i)** 25% toys lying unsold with consignee should be treated as closing inventory and sales should not be recognized for ₹ 1,25,000 (25% of ₹ 5,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Sales for ₹ 3,75,000 (75% of ₹ 5,00,000) should be recognized for the year ended 31st March, 2023.

**Case (ii)** The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ₹ 2,25,000 for the year ended 31st March, 2023.

**Case (iii)** In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 3,50,000 as the time period for rejecting the goods had expired.

## Question 12 *(ICAI Study Material)*

PQR Ltd., sells agriculture products to dealers. One of the conditions of sale is that interest is at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2023-24 the company wants to recognize the entire interest receivable. Do you agree?

**Solution**

As per AS 9 'Revenue Recognition', where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g. for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of service even though payments are made by instalments.

Thus, PQR Ltd. cannot recognise the interest amount unless the company actually receives it. 10% rate of recovery on overdue outstanding is also an estimate based on previous record and is not certain. Hence, the company is advised to recognise interest receivable only on receipt basis.

## Question 13 *(RTP May 2024)*

Following information of BS Products Ltd. is given:

(i) Goods of ₹ 2,00,000 sold to Den Ltd. on 20-03-2023 but at the request of the buyer these were delivered on 10-04-2023. ·

(ii) On 15-01-2023 goods of ₹ 3,00,000 were sent on consignment basis, of which 20% of the goods unsold are lying with the consignee as on 31-03-2023.

(iii) ₹ 4,00,000 worth of goods were sold on approval basis on 01-12-2022. The period of approval was 3 months after which they were considered as sold. Buyer sent approval for 75% goods upto 31-01-2023 and no approval or disapproval received for the remaining goods till 31-03-2023.

(iv) Apart from the above, BS Products Ltd. sells goods to dealers also. One of the conditions of sale is that interest is payable @ 2% p.m. for delayed payments by dealers. The percentage of interest recovery is only 10% i.e. ₹ 50,000 on such overdue outstanding due to various reasons. During the year 2022-23, the company wants to recognize the entire interest receivable of ₹ 60,000.

You are required to advise the accountant of BS Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS 9 and also determine the total revenue to be recognized for the year ending 31-03-2023.

**Solution**

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

**Case (i)**

The sale is complete, but delivery has been postponed at buyer's request. BS Products Ltd. Should recognize the entire sale of ₹ 2,00,000 for the year ended 31st March, 2023.

**Case (ii)**

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹2,40,000 (80% of ₹ 3,00,000). In the case of consignment sale revenue should not be recognized until the goods are sold to a third party.

**Case (iii)**

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting to ₹ 4,00,000 as the time period for rejecting the goods had expired.

**Case (iv)**

As per the standard, "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, interest should be recognized only if the ultimate collection is certain and the company expects to realize interest for the delayed payments for ₹ 50,000 only. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is certain only to the extent of this amount and not ₹ 60,000. Therefore, interest income of ₹ 50,000 should be recognized in the books for the year ended 31st March, 2023.

Thus, total revenue amounting ₹ 8,90,000 (2,00,000 + 2,40,000 + 4,00,000 + 50,000) will be recognized for the year ended 31st March, 2023 in the books of BS Products Ltd.

## Question 14 *(RTP Sep 2024)*

When will the revenue be recognized in the case of inter divisional transfers?

**Solution**

The Accounting Standard Board of ICAI has come up with an announcement in the earlier years wherein it clarified that the inter- divisional transfers/sales are not revenue as per AS 9 "Revenue Recognition". According to it, in case of inter-divisional transfers, risks and rewards remain within the enterprise and also there is no consideration from the point of view of the enterprise as a whole. Therefore, the recognition criteria for revenue recognition are also not fulfilled in respect of inter-divisional transfers. Hence, no revenue is recognized in the case of inter-divisional transfers.

## Question 15 *(RTP Jan 2025)*

Mithya Ltd. entered into agreement with Satya Ltd. for sale of goods costing ₹ 8 lakh at a profit of 20% on cost. The sale transaction took place on 1st February, 2024. On the same day, Satya Ltd. entered into another agreement with Mithya Ltd. to resell the same goods at ₹ 10.80 lakh on 1st August, 2024. State the treatment of this transaction in the financial statements of Mithya Ltd. as on 31.03.2024. The pre- determined re-selling price covers the holding cost of Satya Ltd. Give the Journal Entries as on 31.03.2024 in the books of Mithya Ltd.

**Solution**

In the given case, Mithya Ltd. concurrently agreed to repurchase the same goods from Satya Ltd. on 1st February, 2024. Also the re-selling price is pre-determined and covers purchasing and holding costs of Satya Ltd. Hence, the transaction between Mithya Ltd. and Satya Ltd. on 1st February, 2024 should be accounted for as financing rather than sale. The resulting cash flow of ₹ 9.60 lakh received by Mithya Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition".

**Journal Entries in the books of Mithya Ltd.**

| | | | ₹ in lakh | |
|---|---|---|---|---|
| 1.2.2024 | Bank Account | Dr. | 9.60 | |
| | To Advance from Satya Ltd* | | | 9.60 |
| | (Being advance received from Satya Ltd. amounting [₹ 8 lakh + 20% of ₹ 8 lakh = 9.60 lakh] under sale and re-purchase agreement) | | | |
| 31.3.2024 | Financing Charges Account | Dr. | 0.40 | |
| | To Satya Ltd. | | | 0.40 |
| | (Financing charges for 2 months [(10.80 – 9.60) x 2/6] | | | |
| 31.3.2024 | Profit and Loss Account | Dr. | 0.40 | |
| | To Financing Charges Account | | | 0.40 |
| | (Being amount of finance charges transferred to P& L Account) | | | |

* The balance of Satya Ltd.'s account will be disclosed as an advance under the heading liabilities in the balance sheet of Mithya Ltd. as on 31st March, 2024.