



Revenue Recognition Accounting Standard -9

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Our focus will be on the following topics

- 1. Definition of revenue**
- 2. Features of revenue**
- 3. Measurement of revenue**
- 4. Recognition of revenue**
- 5. Objectives of revenue recognition**
- 6. Meaning and concept of expenses**
- 7. Recognition of expenses**
- 8. Illustrations**

Revenue



Revenues are inflows of assets and / or settlement of liabilities resulting from operating activities of an entity.

Accounting standard 9 (AS-9) deals with revenue recognition.

FEATURES

The features of revenue are as following:-

- It is measured at the fair value of the consideration received or receivable.
- It arises from inflow of economic benefits.
- It arises in the course of the ordinary activities of an entity.
- It has to be related to an accounting period.
- It results in increasing equity (other than increases relating to contribution from equity participants).

Measurement of Revenue

Revenue shall be measured in the following ways:-

- Revenue shall be measured at the “fair value” of the consideration received or receivable.
- Usually a consideration is in the form of cash or cash equivalent and the amount of revenue is the amount of cash and cash equivalents received or receivable.
- Where the consideration is deferred, it should be discounted to the present value.

Recognition of Revenue

Recognition of revenue is the process of formally recording for incorporating an item into the financial statements of an entity as an asset, liability, revenue, expenses, or the like.

Revenue can be recognised in the following ways:-

- 1. From the sale of goods**
- 2. From the services rendered**
- 3. From the use of resources of the enterprise by others.**

Recognition of revenue from the sale of goods

Revenue from sale of goods is recognised on fulfillment of all these three following conditions:-

- 1. The seller transfers the property in the goods to the buyer for a consideration and all the significant risks and rewards of ownership have been transferred to the buyer.**
- 2. Seller does not retain any effective control of ownership which have been transferred to the buyer.**
- 3. No significant uncertainty exist as regards the sale consideration.**

Special Cases of Revenue Recognition- Sale of Goods

Transaction

1. Cash on Delivery (COD) sales
2. Sale on approval basis
3. Consignment sale
4. Special order
5. Guaranteed sale

Timing of Revenue Recognition

1. When the delivery is made and cash is received by the seller or its agent.
2. When confirmation from the buyer is received or approval time has expired.
3. Revenue is recognised by the consignor and when the consignee sells goods to customers.
4. When the goods identified and ready for delivery.
5. As per the substance of the agreement of sale or expiry of reasonable period.

Recognition of revenue from the services rendered

Revenue from services is usually recognised when the service is performed through either of the following methods which are discussed below:-

- 1. Complete Service Contract Method-** This method of revenue recognition of tendering service is applicable when the performance of service consist of the execution of a single act
- 2. Proportionate Completion Method-** This method of revenue recognition of rendering services applicable in the performance of service consist on the execution of more than one act.

Special Cases of Revenue Recognition- Rendering Of Services

Transaction

1. Entry fees to special events
2. Tuition fees
3. Installation fees
4. Advertising agency commission
5. Insurance agency commission
6. Entrance fees
7. Membership fees

Timing of Revenue Recognition

1. Recognise when the event takes place.
2. Revenue is recognised over the period of instruction.
3. Installation is completed and accepted by the client.
4. When the advertisement appears before the public.
5. Commencement for renewal date of the policies.
6. Generally capitalised.
7. It is generally recognised as under:-
 - a. If membership fee provides only membership benefit- Recognised when it is received
 - b. If membership fee provides other benefits along with membership benefit- Recognised in a systematic and rational basis.

Recognition of Revenue from the use of Enterprise Resources by Others

Revenue receivable from the use of enterprise resources by others represents interest, royalties or dividend.

Revenue is recognised, in such cases, when no uncertainties exist as regards to measurement determinability and collection of revenue in form of interest, royalties or dividend.

In case, if revenue recognition is postponed due to effect of any uncertainty, then revenue is recognised in the year in which it is competent of being properly recognised.

Objectives of Revenue Recognition

As mentioned earlier, **AS-9** deals with **Revenue Recognition**, so there are certain factors which objectify the recognition of revenue. The objectives of revenue recognition are noted below:-

- To ascertain the true financial result of an entity for every accounting period.
- To identify and ascertain proper revenue on during a particular accounting period.
- To identify an asset in actual revenue on during an accounting period to be credited into the income statement for that period.
- To identify and segregate the portion of revenue earned during the current accounting period and the future accounting period.

Expenses



There is always an introduction of inflows and outflows within a business. Among all these, the transactions for which ultimately cash goes out of the business and the effect of which does not last long are called **Expenses**.

Expenses can earn revenue for one accounting period at the most. So, the longest duration of an expense is only the period of accounting.

Recognition of Expenses

Expenses are outflows (and/or using up of other resources, and/or incurrance of liabilities) which result in benefits that are fully consumed/used/enjoyed during a particular accounting period. Thus, the term 'Expense' refers to 'expired cost'.

For proper income ascertainment, revenues are first recognised and then expenses are required to be matched with those revenues, according to the "**Matching Principle of Accounting**".

ILLUSTRATIONS

Beta company limited meet the following treatment in the financial statements for the year ended 31-3-2020. Claim lodged with the railways in March 2017 for the loss of goods of Rs. 2,50,000 and that has been passed for payment in March 2020 to the extent of Rs. 1,75,000. No entry passed. Advise what to do.

No entry for the claim lost for damages of Rs. 2,50,000 was passed in the books in the year of lodging claim (i.e. 2016-17).

According to Accounting Standard 9, Revenue Recognising, it says, “Revenue Recognition is postponed if there is any uncertainty regarding its ultimate collection”.

Such claim for damages is settled in the year 2019-20 for Rs. 1,75,000. Hence the revenue derived from the claim of Rs. 1,75,000 is to be recognised in the year 2019-20.

Advice AKMB Project Pvt.Ltd. about the treatment of the following in the financial statements for the year ended 31-3-2019. As a result of a recently announced price revision granted by the govt. of India w.r.f 1-7-2018, the company stands to receive Rs. 5,00,000 from its customers in respect of sales made in 2018-19.

As per Accounting Standard 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 etc, revenue recognition is postponed to the extent of uncertainty involved.”

Here is no uncertainty regarding ultimate collection of revenue of Rs. 5 lacs on or after 1-7-2018 as govt. of India has already granted price revision w.r.f. 1-7-2018. Accordingly the right to receive payment was established on 1-7-2018. hence the revenue derived by way of price revision granted by the govt. is to be recognised in the year 2018-19.

ID runs tutorial centre for teaching maths for CPT course of 5 months. He charges Rs. 12,000 per student at the time of admission. He started a batch of 400 students on 1-1-2019. Discuss how he will recognise income.

As per AS-9, Revenue in the form of tuition fees is to be recognised over a period of instruction. In this case, the period of instruction is 5 months (1-1-2019 to 31-5-2019); out of which 3 months fall in the accounting period of 2018-19 and the balance 2 months in the F.Y. 2019-20. Total fees collected = Rs. 12,000 × 400 = Rs. 48,00,000 the revenue is to be recognised as under:-

- **In 2018-19, Rs. 48,00,000 × $\frac{3}{5}$ = Rs. 28,80,000**
- **In 2019-20, Rs. 48,00,000 × $\frac{2}{5}$ = Rs. 19,20,000**

THANK YOU

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