Date..................

AS - 9
Revenue Recognition

record करना

- mandatory for all entities
- deals with the bases for recognition of revenue in statement of P&L.
- It is concerned with recognition of revenue arises in the ordinary activities of the enterprise from :-
  a) Sales of Goods
  b) Rendering of Services
  c) Interest, Royalties & Dividends.

Revenue is recorded on credit side, in this standard we will learn when revenue is being recorded.

- It doesn't deal with :
  a) construction contracts (covered in AS-7)
  b) Hire Purchase or lease Agreement (AS-19)
  c) Government Grants (AS-12)
  d) Insurance companys Revenue (~~AS~~ IRDA)

- Sale of Goods
  Revenue from sales transaction should be recognised when the requirements as to performance set out below are satisfied :-
  a) the seller of goods has transfered the property to buyer
  b) All significant risks & rewards of ownership have been transfered to buyer

Date....................

(i.e no effective control of goods retain with seller)

c) No significant uncertainity exists regarding the amount of consideration.

2 Rendering of Services

- → Proportionate Completion Method - Revenue is recognised proportionately with degree of completion
- → Completed Service Contract Method - Revenue is recognised only when service is rendered completely

③ Interest - Revenue is recognised on "Time proportion" Basis.
- Accrued interest (

Royalties - charges of use of assets like, Know-how, patents, trade marks, copyrights etc.
- Revenue is recognised on Accrual Basis in accordance with terms of aggrement.

April —— Revenue —— 31st M. —— July (actual transaction)

still it would be recorded in this financial year.

Spiral

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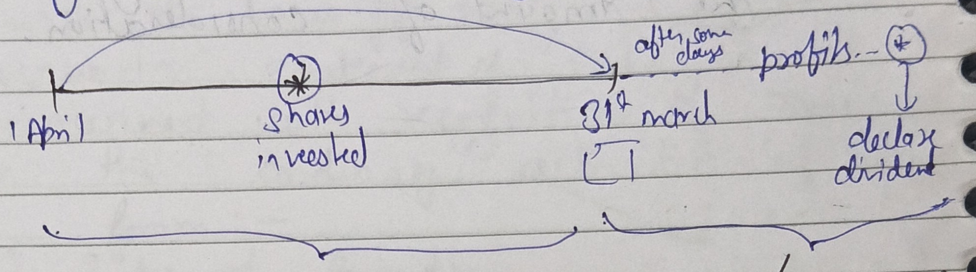
Date..................

Dividend - Rewards from holding investments in shares.

- Revenue is recognised when right to recive payment is established.

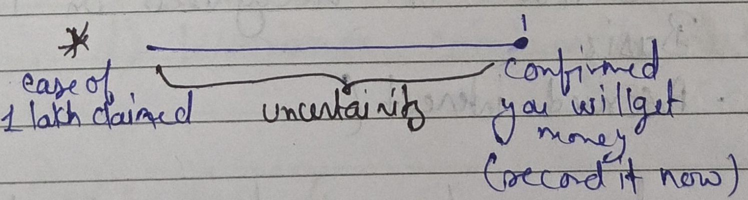


- It is not recorded on the basis of Accrual.

Revenue is recorded in the financial year when it is declared.

* Uncertainities.

- When the ability to assess the ultimate collection with reasonable certainity is lacking at the time of raising any claim, revenue recognistion is postpond to the extend of uncertainity involved.



Measurement of Revenue:

Revenue is recognised at the nominal amount of Consideration Receivable (i.e. Agreed Price)

a) Any trade discounts or rebates shall be deducted and revenue is measured net of these items.

Date..................

b) With regard to exchange of goods or services (barter transactions):
- when goods or services are of similar nature, then the exchange is not regarded as a revenue generating transactions & the revenue cannot be ~~ea~~ recognised.
- when goods or services are of a dissimilar nature, then exchange ~~of~~ is regarded as a revenue generating transaction & the revenue is recognised in amnt of fair value of goods/ services

Case 1. Transaction price (Contract Price) — xxx/x
(—) Trade/ Discount —— xxx
If revenue is in cash => Revenue

Case 2. If revenue is in cash & kind both

Amnt of kind to be recived —— xxxx
+ Fair value of Goods/services) Assets recieved in a dissimilar nature of exchang —— xxx
Revenue

If goods/services exchanged are similar then No Revenue to be Recognised.

Date..................

Recognise Revenue from Services Rendered
(extended notes)

Step 1. - Check final outcome will be available or not? (Service ka final outcome niklega ki nahi)

① Transaction price should be measured reliably

② Probability of collection of consideration

③ Cost of services can be measured reliably

④ Progress of service can be measured reliably

(agar progress ko achhe se measure kr pa rhe to outcome niklega)

Step 2 : - If final outflow is probable Then recognise the revenue as per "% of completion of Services" method.

$$\% \text{ of completion} = 100 \times \frac{\text{Cost incurred till date}}{\text{Total est. cost}}$$

Revenue ⇒ Transaction price × "% of completion"

Note : In case of short term service contract Revenue can be recognised 100 % after completion of service i.e No need to calculate % of completion.

ex. Auditing Service
Consultancy service
Teaching "

Date..................

Step 3 – If find outcome is not probable Then :-

Revenue = Cost incurred on the contract till date of which recovery is probable (i.e No profit No Loss)

In recognition of revenue gross inflows is considered revenue but the exception is Agency business, here net inflows are considered revenue and not gross inflows for the agent.

Gross inflow – A person gives teaching service & earned Rs 10,000/- and after deducting expenses (8000/-) he has only 2000/-).
Now he will record 10,000 as revenue not 2000.

Net inflow – refers to total amnt of money, resources or assets entering an entity minus any outflows during a specific period.
Net inflow = Total inflows – Total outflows.

eg Zomato charges 100% from its customer & takes comission of 30% & give 70% to Restaurants. Here Zomato income is not 100% gross inflow, it is 30% comm charges which is Net inflow.
This is Agency business.

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Note - Trade discount & volume rebates will be deducted while calculating revenue.
GST collected is payable to gov. It doesn't form part of revenue.
Cash discounts are not deducted from revenue. It is treated as a separate expense altogether

Special cases for Revenue Recognition for sale of goods

① Bill & hold Sales
Revenue Recognised when these cases are there :-
→ title of goods accepted by buyer
→ Delivery is delayed at buyer's req.
- Goods are on hand & ready to delivery.
→ every expectation that delivery will be made

If all the conditions satisfied : Recognise revenue immediately, no need to wait for actual delivery.

② Goods are subject to installation.

Installation process is simple	Installation process is complex
Recognise revenue on sale. No need to wait for installation	Recognise revenue only when installation is done & inspection is complete.

③ Sale on Approval
Recognise revenue when any of the following happens:-
a. express approval by the buyer.
b. buyer does an act adopting the goods
c. Time period for rejection has lapsed.

d. when time period is not fixed - a reasonable time has lapsed.

4. Consignment Sales.

• Agent sales goods to customer on behalf of Owner

Revenue is recognised when goods are risks and rewards are transferred to an independent third party.

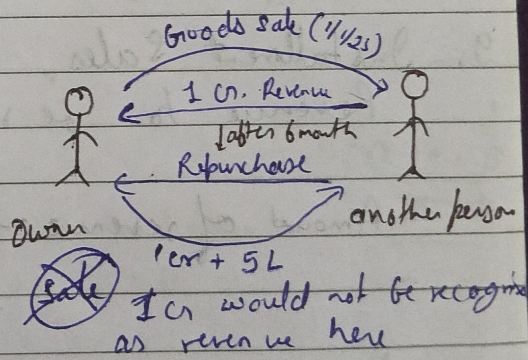
* when goods are with agent, risks & rewards of ownership are still with the manufactures, hence revenue should not be recognised at this point.

5. Cash on delivery Sales.

Revenue recognised when :- i) seller or 2) His agent actually receive cash.

For return of goods a provision should be recognised based on past experience.

6. Sale & Repurchase Agreement.



It is a finance agreement.
No revenue should be recognised
Finance Aggrement: Loan Aggreement
Effectively: Money is borrowed against security of goods & after a period ~~of~~ the money borrowed is repaid by taken possesion of goods.

Agent - Risk & Reward is not transfered to agent
Dealer - Risk & Reward is transfered. & Owner will recognise revenue when sold to dealer.

7. Sale to intermediaries.
Revenue should be recognised when :- risk & rewards are transfered to an independent third party.

[Manufacturer] → [Distributor/Dealer] → [Retail Customer]

8. Installment Payments.
Revenue should be recognised when :- goods are delivered to the buyer.

In this case, purchaser makes a series of payments to the seller & on making the final payment goods are delivered by seller to purchaser

On receipt of final installment seller will deliver goods to buyer. Revenue will be recognised at this point.

9. Installment Sales.
Revenue to be recognised when sale is made.

Amount of revenue :- Total consideration - Interest = Cash price → Recognise immediately

In this case, seller transfer goods & its risk & rewards on day 1 of sale to the buyer & then buyer pays in installments.

Interest will be recognised as revenue in proportion to the amount due

Date....................

10. Subscription Revenue

Revenue recognised on straight line Basis.

If goods vary in value :- revenue recognised in proportion to sales value.

Date..................

AS 2

- Valuation of Inventory.

(1) Inventories.
- → Raw materials – held for consumption
- → Work in progress (semifinished goods)
- → Finished goods – held for sale
- → Stock in Trade – held for sale
- → Loose tools, Stores & Spares

(2) This AS is not Applicable:
- Natural produce like forests etc
- → Live stock (animals)
- → Coals, Iron mines etc.
- → Financial Instruments like shares, debentures AS-13
- → Construction of Building AS-7

(3) Basis of Valuation of Inventory.

Cost or Net Realisable Value (NRV)

whichever is lower on individual basis

* Cost = Purchase Price + cost of Conversion (like direct labour or overheads) + other cost.

* NRV = Estimated selling Price – Expected Cost completion.

4 Imp

Date..................

Inventory

Work in progress & finished goods.	Raw Materials.	
Cost or NRV whichever is LOWER	Whenever finished goods in which such raw mater. are incorported, is enpected to be sold ≥ cost ↓ Raw material is valued at COST	whenever finished goods in which such raw materials is incorporated is expected to be sold < cost ↓ Raw material is valued at COST or Replacement price, whichere is lower. Rep. price → Market price of similar Raw Mater

* Fixed variable per unit — $\dfrac{\text{Fixed variable}}{\text{Actual or Normal Unit whichere is HIGHER}}$

* Storuage & Administation cost is not calculated in Clositng stock.

Ex. Purchased ~~cost~~ Inputs = 1000 units
Normal Loss = 100 units — पता होता है (unavoidable)
Labour Cost = Rs 7000
Material cost = Rs 10000
Abnormal loss = 200 units — पता नहीं होता
Production O/H = Rs 42000
Find value of closing stock (700 units)

Sol:- Inputs purchased = 1000 units
(−) Normal loss = 100 units
900 units

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900
(−) Abnormal loss 200 units
700 units.

Now Material Cost p.u. $\left[\frac{₹10,000}{900 \text{ units}}\right]$ = ₹11.11

(+) Labour cost p.u. $\left[\frac{₹7000}{700 \text{ units}}\right]$ = ₹10

(+) production O/H p.u. $\left[\frac{₹42,000}{700 \text{ units}}\right]$ = ₹60

Cost p.u. = 81.11

Closing inventory = ₹81.11 × 300 units
= ₹24,333

eg 7. Purchase = 85,000
Opening stock = 15,000
sales = 105,000
Gross Markup = 25% on cost / 20% on sales
Find closing stock

Sol Gross Markup = $105,000 \times \frac{20}{100}$
= 21,000

COGS = Sales − Gross markup
105000 − 21000
= 84,000

COGS = op. stock + purchases + Direct exp − cl. stock

Closi. stock = 15000 + 85000 − 84000
= 16,000

Sol COGS = x   Gross profit = 0.25x
COGS + GP = Sales
x + 0.25x = 105000
1.25x = 105000
x = 84000

with formula of Gross markup cost & sale

Note → gross markup is 25% of cost, it means that selling price is 25% higher than cost

Selling price = cost price (CP) + (25% × cost price)

gross markup − percentage to which the cost price of a product is increased to determine its selling price.

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AS 10 – Property, plant & Equipment (P.P.E.)

Property, plant & Equipment

① Definition

Condition 1 (+) Condition 2

held for :-
- production or supply of goods or services
- rent
- administrative purposes (wider sense) — selling, distribution, accounting, finance etc

expected use for more than 12 months

② Recognition criterion

$\boxed{\text{Cost}}$ of PPE should be recognised as an asset only if :-

a) it is probable that future economic benefit associated with the item will flow into enterprise

b) Cost of the item can be measured reliably

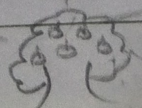
③ This AS is not applicable :-

a) Biological Assets – living Animals

b) Wasting assets – coal ores, iron ores etc

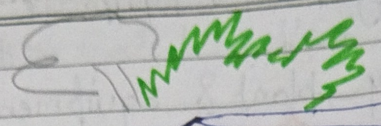
* $\boxed{\text{Bearer plants}}$ – exception, AS 10 is applicable

used in production or supply of agricultural produce	Expected produce for more than 12 months	has remote chance of being sold as agricultural produce



eg lichi trees, grapevines

Date..................



← Bush

if it is Apple ~~tree~~ → Bearer plant ✓	Trees grown as Lumber (cost) → Not Bearer plant ✗	Trees grown as fruit & lumber both → Not Bearer plant ✗	Crops (wheat maize etc) → Not Bearer plants ✗

(4) An item of PPE that qualifies for recognition as an asset shall always be recognised at its Cost

* COST

Purchase Price (+) Directly attributable cost
i.e installation expenses
site preparation expense
erection charges
Professional fees
(+) Restoration & other liabilities (Related)

Excludes from Cost – Refundable taxes or duties, Inaugration cost, Advertisement cost, Business promotion expense, Administration overhead etc.

(5) Treatment of Spare Parts

If it ~~need~~ meets the recognition criteria of PPE then it is PPE (AS-10) ✓

If it does not meet the recognition criteria of PPE then AS-2 (Invetory)

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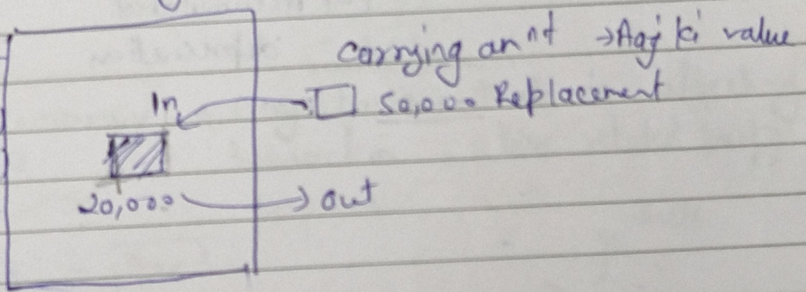
SC
day to day · Replacement

Date...................

⑥ Treatment of Replacement of Parts / Inspection

When major inspection (replacement) is performed its cost is recognised in carrying amount of the item of PPE as replacement (if recognition criteria is satisfied)
Any remaining carrying amount of cost of previous inspection is derecognised.

(Carrying amount)
10,00,000
+50,000 (Recognised)
-20,000 (derecognised)
10,30,000 (New carr. amount)



⑦ Treatment of Subsequent Cost.
↓
Repair

[Not recognised as PPE]

It is debited in P&L A/c

⑧ Revaluation of PPE

i) Increase
• PPE (↑)
• Revaluation Reserve (SHF ↑)

Asset A/c Dr. ...
To R. Reserve Cr.

ii) Decrease
• PPE (↓)
• Dr in P&L A/c

P&L A/c Dr. ...
To asset

iii) Subsequent decrease
• PPE (↓)
• Adjust revaluation reserve and then charge to P&L A/c

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iv) Subsequent Increase
- PPE (↑)
- Firstly Cr in P&L A/c, then Revaluation reserve (↑)

(9) Measurement of PPE at Balance sheet Date

COST Model :-

cost	xxx
(-) Accumulated depreciation	(xx)

Revaluation Model

Revalued value	xxx
(-) Subsequent depreciation	xxx
Carrying amount	----

(10) Exchange of Assets (Monetary or Non Monetary

exchanged asset is measured at FAIR VALUE

(exception - exchange transaction lacks commercial substance, In this case value will be taken as book value of Asset given

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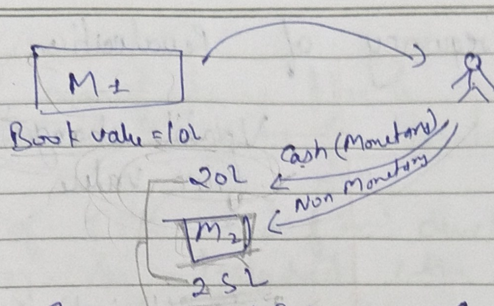
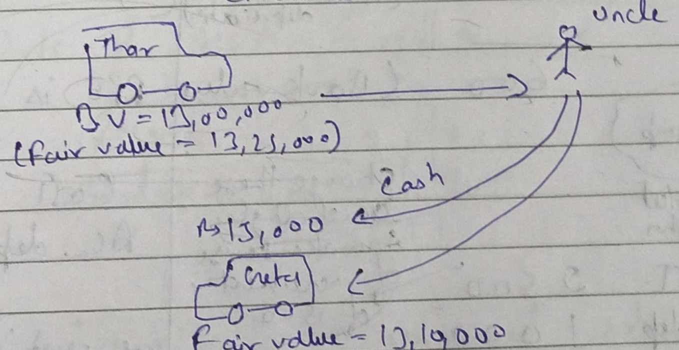
eg 1. commercial substance is there



Value of M2 in books = 25L
(Value of Asset received)

Total Fair Value − Cash received
= 45L − 20L
= 25L

eg. 2 No commercial substance ← Any factor that is affecting the transaction, like related party, emotions



Value of Car received = Total fair Value − Cash received

= ~~13,25,000~~ − 15,000

B.V. of asset given

= 13,00,000 − 15,000

= 12,85,000

(11) Revaluation of entire class of PPE

if an item of PPE is revalued, the entire class of PPE to which that asset belong should be revalued.

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(12) Frequency of Revaluation

→ Volatile changes in fair value : Annual

→ Insignificant changes in fair value : 3 or 5 years

(13) Revaluation Techniques

PPE	1000	(cost)	PPE	1000	(cost)
(−)	400	(Accumulated depreciation)	(−)	400	(Acc. dep.)
	600	(Book value)		600	Book value

PPE is revalued 150% Jump

150% Jump

because market value is higher

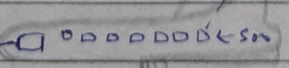
COST	2500	Cost 1500
(−) Acc dep	1000	Acc. dep. Nil
	1500	1500

change these accordingly to make sense of increment of 1500

we just imagine that we bought machine today.

(14) Depreciation because of → wear & tear, → obsolete, → time

A. Each part of an item of PPE with a cost that is significant in relation to total cost of the item should be depreciated separately.



depreciated separately (X)

← 20,00,00,000

depreciated engine separately 5,00,00,000

Aeroplane

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exception

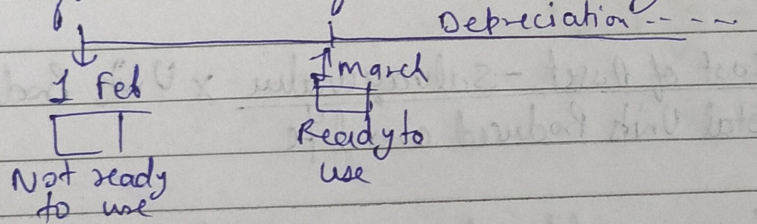
- Depreciation of manufacturing plan & equipment is included in the cost of inventory
AS - 2

- Depreciation of PPE used for development activities may be included in the cost of intangible asset (AS - 26)

B. Depreciable amount = COST - Residual value

↳ amnt that should be allocated over the useful life in systematic manner.

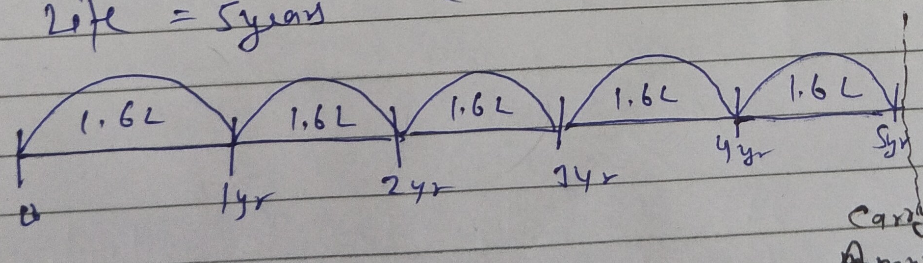
C. Commencement of charging depreciation should be from Date of Assets Ready to use.



D. Depreciation [ceases] to be charged when Residual value > Carrying Amnt.

Cost = 10 L Scrap val (Residual val) = 2L

Life = 5 years



Carrying Amnt = 2L

Stop depreciating.

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E. land is Not depreciated (useful life is unlimited)

F. Methods

- SLM $= \dfrac{\text{Cost of Asset} - \text{Salvage Value}}{\text{Useful Life}}$

  eg cost of M = 1,00,000 Salvage val = 10,000 Useful life = 5 yrs

  Annual dep $= \dfrac{1,00,000 - 10,000}{5} =$ ₹ 18,000

- WDV Diminishing Balance
  = Book value at the begining of Year × Rate of Dep.

  ex. Cost of M = 1,00,000 Rate = 20%.

  Yr 1 : 1,00,000 × 20% = 20,000

  Yr 2 : 80,000 × 20 = 16,000

- Production units method,
  Unit of Production

  $= \dfrac{\text{Cost of Asset} - \text{Salvage value}}{\text{Total Units Produced over life}} \times$ Units Produced in Period

G. Depreciation method applied should be ~~revieve~~ reviewed atleast at the end of financial year. In case of change in estimate account it as per AS-5

Accounting Ratios

Date..................

Ratio – Relationship b/w two figures in airthmetical terms.

Ratio
- Proportion or Pure Ratio i.e 2:1, 3:1
- Rate or times i.e 4times, 6times
- Percentage i.e 10%
- fraction $\frac{1}{2}, \frac{1}{4}$

Analysis
- Cross Sectional: our data vs other firm
- time Series: our data — Past data vs Present data

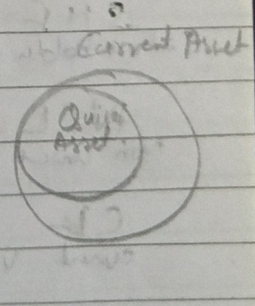
Types of Ratios

Liquidity	Solvency	Turnover	Profitability
To check company's performance of short time period	to check longer (2 to 5 years) performance	to check sales, loan paid of time, etc.	to check diff. profit.

① Liquidity Ratio

Current Ratio/ working capital ratio : $\frac{\text{Current Assets}}{\text{Current liabilities}}$

$$CR = \frac{CA}{CL}$$



CA → Assets which give benefit within one year

CL – Liabilities whose payment should be made within 1 yr.

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CA = Cash + Bank + Debtor + BR + Stock + o/s Income + Prepaid exp + Marketable securities + Short term Loans & Advances

fast in CA is QA (cash in next deal)

QA (Quick Asset) = Cash + Bank + Debtor + BR + o/s Income + Marketable Sec. + STLA

* ideal current ratio is 2:1

* imp points.
items to be excluded from CA -
- loose tools, stores & spares
- provision for doubtful debts

Quick Ration/Liquid Ratio/Acid test Ratio

$$= \frac{\text{Quick Assets}}{\text{Current liab.}}$$

Quick Assets = Current Assets - PPA (Prepaid exp) - Advance tax - Inventory

$$QR = \frac{\text{Cash + Marketable Securities + Net receivable debtors}}{CL}$$

$\boxed{\text{ideal Ratio} = 1:1}$

Balance sheet

Liabilities		Asset	
SHF (share holder funds)	xxx	NCA (Non Current Assets)	xxx
NCL Non current liability	xxx	CA (Current Assets)	xxx
CL current liability	xxx		xx
	x+x		

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Working Capital = Current Asset − Current Liability

③ Cash Ratio = $\frac{\text{Cash + Marketable securities}}{\text{CL}}$

② Solvency Ratios

Debt Equity Ratio	Total Asset to Debt Ratio	Proprietary Ratio	Interest Coverage Ratio	Debt to Capital Employed Ratio
$\frac{\text{Debt (long)}}{\text{equity}}$	$\frac{\text{Total Asset}}{\text{Long term debt}}$	$\frac{\text{Equity}}{\text{Total Assets}}$	$\frac{\text{PBIT}}{\text{Fixed int. charges}}$	$\frac{\text{Debt}}{\text{Capital employed [Net Asset]}}$
2:1 Safe; more than this is risky			→ calculated in times → 6 to 7 times is safe	

~~Data~~ Debt Equity :- Shows relation that how much debt & how much equity is in a capital structure
कितना पैसा कर्जे में लिया है कितना खुद लगाया है

$\frac{\text{Debt (long term)}}{\text{equity}}$

Safe = 2 : 1

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Total Asset to Debt Ratio – how much Asset is made from debt in a capital/corp.

$$\frac{\text{Total Assets} \rightarrow [NCA + CA]}{\text{long term Debt} \rightarrow [\text{Total Debt} - CL]}$$

No Safe criterion

Proprietory Ratio – How much Asset a company has made from there own funds.

$$\frac{\text{Equity}}{\text{Total Assets}}$$

equity = Shareholder's funds
[Share capital + Reserve & surplus]
R/S

Interest Coverage Ratio – It shows If a comp. takes loan, will they able to pay it or not? if yes how much?
It is calculated in times

$$\frac{\text{Profit Before Interest \& Tax}}{\text{Fixed interest charges}}$$

PBIT	= xxx
−Int.	= (xx)
PBT	xxx
−tax	= (xx)
PAT (Pro. after tax)	= xxx

6 to 7 times is considered safe.

$$\boxed{PBT = PAT \times \frac{100}{100 - tax}}$$

Debt to Capital Employed

$$\frac{\text{Debt}}{\text{Capital Employed [Net Asset]}}$$

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Capital Employed

Asset Side — NCA + Working Capital

Liability Side Approach → Shareholder fund + Non Current Lia.

(5) Turn Over

Turnover

- ITR = Cost of

  Inventory turnover Ratio

- TRTR

  Trade Recievable

Teacher's Sign ....

Date.......

Profitability Ratio.

- Return on Capital Employed or Return on Investment.

  - useful when company overall performance of company.

$$ROI = \frac{\text{Profit Before interest, Tax \& Dividend}}{\text{Capital Employed}} \times 100$$

Capital Employed → total amnt of capital that a company uses to generate profits.

capital empl. = fixed assets net of depreciation + working capital.

- Return on Equity shareholder's fund
  relationship b/w net profit & equity shareholder's funds.

$$ROE = \frac{\text{Net Profit after Tax \& All types of Preference dividend}}{\text{Avg equity shareholder's funds}} \times 100$$

Equity shareholder funds = share capital (paid up) + Reserve & surplus − fictitious assets.

This is also called Return on ordinary share Capital & Return on equity.

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R.O.E.S.F $= \frac{\text{Net profit after tax} - \text{Preference divided}}{\text{Share capital} + \text{Reserve \& surplus} - \text{fictitious assets}} \times 100$

- Return on Total Asset (ROTA)
  - measures effectiveness of assets invested in the business
  - express in % or decimal.
  - follow higher the better.

$$ROTA = \frac{\text{Earning before Interest \& Tax}}{\text{Total Net Assets}} \times 100$$

- may be affected by depreciation as total.

Profitability ratio: related to taxes.

- Gross Profit ratio.
  - shows relationship b/w gross profit to net sales.
  - expressed in %.

$$\text{Gross Profit Ration} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

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Net Sales = total amnt of cash & credit sales – sales return
= Gross Sales – Sales Return

Gross profit = Revenue – Cost of Goods Sold.

– Net Profit Ratio
  - Ratio of profits after net sales.
  - expressed as %

$$\text{Net Profit Ratio} = \frac{\text{Net Profit After tax}}{\text{Net sales}} \times 100$$

Net Profit after tax = Total revenue – all expenses including operating costs, interest, taxes & other expenses.