

IND-AS 18/ IAS 18 – REVENUE

- Anand Banka

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REVENUE – WHAT? HOW MUCH? WHEN?

- Readymade Garments Shop
 - Returnable
 - Only Exchange
- Flight Tickets
- Sales on CIF basis

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SUMMARY

- Multiple element arrangement
- Deferred settlement terms
- SIC 31 - Barter Transactions involving Advertising Services
- IFRIC 13 - Customer Loyalty Programmes
- IFRIC 12 Service concession arrangements

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FACTS

IAS 18

- Issued 1982 – Revenue Recognition
- Revised 1993 – Revenue

AS 9

- Issued 1985 – Revenue Recognition
- Ind-AS 18 – Revenue



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WHAT IS REVENUE

- GROSS inflow of ECONOMIC BENEFITS
 - 1. Discounts?? 2. Taxes??
- Arising in the course of ORDINARY activities
- Resulting in INCREASE in EQUITY (other than contribution from equity participants)
 - Sales tax/ Service tax collected
 - VAT collected
 - Agent's collections on behalf of its principal

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CASE STUDY

- An undertaking sells canned food and has 100 customers
- The delivery of the goods is made on the last day of each month. Standard payment terms require settlement within 45 days of delivery
- The undertaking's policy is to grant a settlement discount of 2% to customers that pay within 15 days of delivery
- Past experience shows that 45% of the customers normally pay within 15 days, while the remaining 55% pay after the early settlement period

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SOLUTION

Trade receivables	1,000	
To Revenue		991
To Provision for discounts (1000*45%*2%)		9

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INCOME VS. REVENUE

- Income
 - Sale of PPE
 - Sale of investments
- Revenue
 - Sale of goods
 - Rendering of services
 - Use of assets yielding interest, royalty and dividend

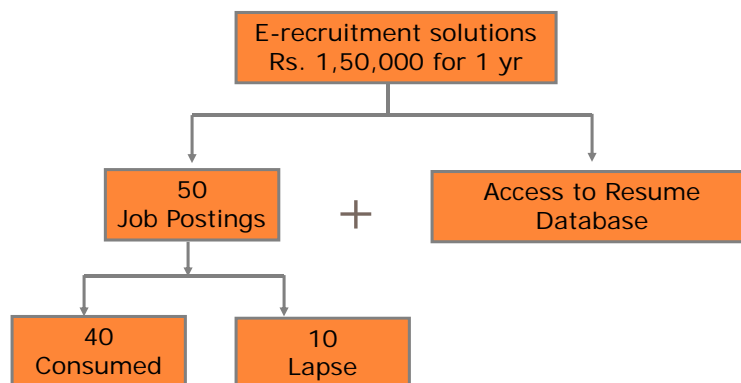
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SEGMENTED TRANSACTIONS

- Segmented Transactions
 - separately identifiable components
 - e.g. Vodafone magic box!

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CASE STUDY



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BARTER TRANSACTIONS

- Similar nature and value
 - No sales
- Dissimilar nature and value
 - the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred
 - else, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred

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MEASUREMENT

- At FAIR VALUE of consideration received or receivable
- Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction

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DEFERRED SETTLEMENT TERMS

- Entity R is a retailer and offers interest-free credit to a customer as part of its marketing strategy. The interest-free credit is provided by a finance company.
- The legal form of the transaction is that R sells the goods to the customer at 100 and simultaneously the customer enters into a finance arrangement with the finance company.
- This arrangement results in the finance company settling the customer's account with R and receiving 100 from the customer over two years.
- The terms of the finance arrangement provide for R to receive 82 from the finance company.
- The finance company does not have any recourse to R for bad or slow payment by the customer.
- How much revenue should R recognise and when?

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IMPUTED INTEREST RATES

- a rate of interest that discounts the nominal amount to the current cash sales price of the goods or services
- the rate of a similar instrument of an issuer with a similar credit rating can be used if it is more clearly determinable

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CASE STUDY

- Company XYZ takes Rs. 10 lakh loan from Bank ABC
- The loan is repayable in 10 equal annual installments
- Interest Rate @ 7% p.a.
- Processing Fees paid - Rs. 12,500

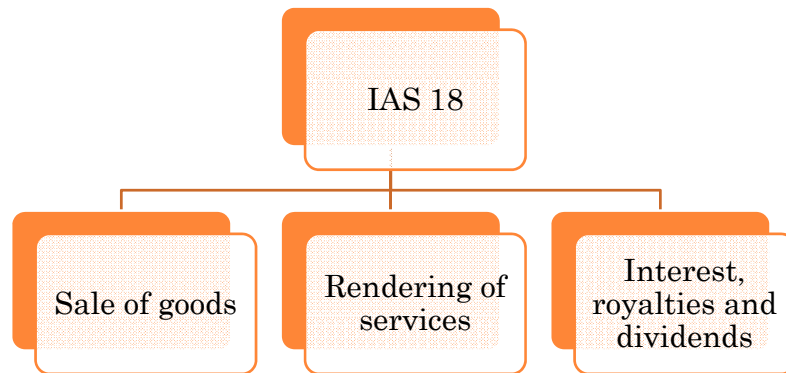
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CASE STUDY ANSWER

		Repayment Schedule			Amortisation Schedule		
Date	Cash Outflows	Interest Expense @7%	Principal Amount	Outstanding Balance	Interest Expense @7.28%	Principal Amount	Carrying Amount
1/1/2009				1,000,000			987,500
31/12/2009	142,378	70,000	72,378	927,622	71,822	70,556	916,944
31/12/2010	142,378	64,934	77,444	850,178	66,690	75,688	841,256
31/12/2011	142,378	59,512	82,866	767,312	61,186	81,192	760,064
31/12/2012	142,378	53,712	88,666	678,646	55,280	87,098	672,966
31/12/2013	142,378	47,505	94,873	583,773	48,946	93,432	579,534
31/12/2014	142,378	40,864	101,514	482,259	42,150	100,228	479,306
31/12/2015	142,378	33,758	108,620	373,639	34,860	107,518	371,788
31/12/2016	142,378	26,155	116,223	257,416	27,041	115,337	256,451
31/12/2017	142,378	18,019	124,359	133,057	18,652	123,726	132,725
31/12/2018	142,378	9,321	133,057	0	9,653	132,725	0
Total		423,780	1,000,000		436,280	987,500	

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REVENUE RECOGNITION



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SALE OF GOODS

- ➔ The significant risks and rewards of ownership of the goods have been transferred from the seller to the buyer
- The seller does not retain continuing managerial involvement to a degree usually associated with ownership or effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that economic benefits associated with the transaction will flow to the seller
- The costs incurred or to be incurred can be measured reliably

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CONDITION 1: RISKS AND REWARDS

- Generally risks and rewards transfer with
 - the transfer of the legal title
 - the passing of possession to the buyer
- Example:
 - Goods sold on CIF basis

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INSTALLATION AND INSPECTION

- Revenue recognized on delivery, if
 - Installation process is simple in nature
 - the inspection is performed only for purposes of final determination of contract prices
- Else, recognized when the buyer accepts delivery, and installation and inspection are complete

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GOODS NOT HELD IN INVENTORY

- Mr. X went to a mobile shop to buy latest technology mobile
- The mobile was not available in the shop but the shopkeeper promised to order one and deliver it to Mr. X in 15 days time
- Total cost was Rs. 30,000 and Mr. X gave an advance of Rs. 10,000
- When should the shopkeeper book revenue?

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DELAY IN DELIVERY

- The mobile shop orders the mobile and receives it after 15 days
- Shopkeeper calls Mr. X and requests him to accept the delivery
- Mr. X was not in town and hence requested the shopkeeper to hold the delivery for a month, on his behalf.

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CONTINGENT REVENUE

- Mr. Y sells goods to customers for Rs. 150 payable after a month
- The goods are purchased from Entity X for Rs. 100
- However, in case of any bad debts, Mr. Y pays to Entity X in proportion of its own realization rate i.e. if it is able to collect 90% of the debtors, it will pay Rs. 90 per item

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RIGHT TO RESCIND

- Entity A purchases 100 Blackbexxy mobile phones from the dealer
- The contract term says that if the government bans the Blackbexxy services in India within a year from the purchase, Entity A has right to return back all the mobile phones

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LEGAL TITLE

- Mr. Y sells a residential premises to Mr. X for Rs. 50 lakhs
- Mr. X pays 30 lakhs immediately and asks for 3 months to pay the remaining amount
- Mr. Y grants 3 months credit period for the remaining amount on condition that the legal title will pass to Mr. X only on payment of sale consideration in full

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ACCOUNTING FOR VARIOUS SCHEMES

- Isse sasta mile to difference ka double wapas
- Call drop toh paise wapas
- BOSE speaker worth Rs. 5,000 free on purchase of Nokia Mobile worth Rs. 25,000
 - Agent vs. principal

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CONDITION 2: MANAGERIAL INVOLVEMENT

- Entity A sells goods to Dealer B
- Dealer B sells those goods to customers
- All the decision making vests with Entity A
 - Selling price
 - Target market
 - Advertising
 - Number of salesman

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CONDITION 3: REVENUE CAN BE MEASURED RELIABLY

- Entity A is into printing business
- In an assignment given by Entity B to Entity A, some of the pages were not printed properly
- Contract value was Rs. 15,000
- Entity A believes Rs. 10,000 will still be received, but is not sure
- How much revenue to be booked?

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RENDERING OF SERVICES

- Revenue can be measured reliably
- Economic benefits will flow to the entity
- Stage of completion can be measured reliably
- Costs incurred and the costs to complete can be measured reliably

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DETERMINING STAGE OF COMPLETION

- Surveys of work performed
- Services performed to date as a percentage of total services to be performed
- The proportion of costs incurred to date to the estimated total costs of the transaction
 - Only costs that reflect services performed to date are included in costs incurred to date
 - Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction

i.e. Progress payments and advances received from customers often do not reflect the services performed

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CASE STUDY

- Entity A provides loan syndication services to Entity B
- Total fee = Rs. 10 lakhs
- Necessary documents were prepared till March 31 and filed with the Bank
- Management of Entity A wants to recognise revenue of 8 Lakhs (i.e. 80% of total revenue) on the basis that it has already incurred 80% of total costs
- Is the contention of the management correct?

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SALE OF GOODS VS. RENDERING OF SERVICES VS. CONSTRUCTION CONTRACT

- Sale of Goods
 - No Managerial involvement of buyer
- Rendering of Services
 - Managerial involvement of buyer
 - Raw materials purchased by the buyer
- Construction Contract
 - Managerial involvement of buyer
 - Raw materials purchased by the seller
- New Guidance Note for Construction Contracts

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INTEREST, ROYALTY AND DIVIDENDS

- It is probable that economic benefits associated with the transaction will flow to the entity; and
- The amount of revenue can be measured reliably

- Dividends: When the shareholder's right to receive payment is established
- Interest: Using the effective interest method as set out in IAS 39
- Royalties: On an accrual basis in accordance with the substance of the relevant agreement

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REVENUE RECOGNITION IN SPECIFIC CASES

- Initiation, entrance, and membership fees
- Franchise fees

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INITIATION, ENTRANCE, AND MEMBERSHIP FEES

- Fee permits only membership, and all other services or products are paid for separately
- Fee entitles the member to services or publications to be provided during the membership period, or to purchase goods or services at prices lower than those charged to non members

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FRANCHISE FEES

- Franchise fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how
 - Example: Franchise agreement of a vada-pav has the following offerings for Rs. 1 crore
 - Tangible assets worth Rs. 50 lakhs
 - Charges for use of brand/ logo - Rs. 10 lakhs in the first year + 30% of revenue for subsequent years
 - Know-how charges – Rs. 30 lakhs
 - One-time fee – Rs. 10 lakhs
 - Consultation at nominal rates
 - Supply of materials at cost

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SIC 31 - BARTER TRANSACTIONS INVOLVING ADVERTISING SERVICES

- Exchange of dissimilar advertising services
- Impracticable to reliably measure at fair value of services received
- Revenue – FV of advertising services provided, by reference to non-barter transactions that
 - Do not involve the same counterparty
 - Involve similar advertising services
 - Occur frequently
 - Represent a predominant number of transactions and amount
 - Involve cash and/or another form of consideration that has a reliably measurable fair value

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CASE STUDY

- Entity A, an internet undertaking, provides advertising on its website for a football club.
- The football club promotes A on the players' shirts in return
- No cash is exchanged
- The fair value of the advertising A provides is 50,000.

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IFRIC 13 - CUSTOMER LOYALTY PROGRAMMES

- Customer award credits / points as part of sales transaction
- Redemption - Free or Discounted goods or services
- Fair value estimation, after considering
 - FV of goods/ services that will be given/ provided
 - Some points may lapse
- Allocate the sale consideration to the points
- Defer the revenue to the extent of those points
- Onerous contract if the unavoidable cost is more than allocated revenue

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CASE STUDY

Year	Particulars	Amount
2008	Airfare	\$5,000
	(5 round trips)	
	Points Earned (FV= \$ 500) (cost = \$ 450)	100
2009	Redeem	50
2010	Redeem	50

- 2008: 80 points expected to be redeemed
- 2009: another 50 points expected to be redeemed

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IFRIC 12 SERVICE CONCESSION ARRANGEMENTS

- Applicable to PPP transactions
- Maha Govt. asks ABC company to construct sea link. The sea link will be transferred to Govt. immediately for free. However, ABC company reserves right to collect toll @ Rs. 75 per car for 30 years.
- What accounting treatment should be given in the books of ABC company?
- What will happen to the borrowing costs?

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IFRIC 12 SERVICE CONCESSION ARRANGEMENTS

- Infrastructure – PPE of the Govt.
- Construction costs – IAS 11 *Construction Contracts*
- Financial asset to the extent of unconditional right to receive cash/ another financial asset
- Intangible asset - the right to receive toll – measured at cost incurred
- Borrowing costs shall be capitalized as intangible asset

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ThanQ?

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