



# SICASA E - NEWS LETTER



Tuticorin Branch of Southern India Regional Council of The Institute of Chartered Accountants of India  
(Set up by an Act of Parliament)

*April 2011*

## SICASA Chairman's Writes:



Dear Friends

Greetings!

During the month of March, We have conducted an Interactive session on Union Budget and CA awareness programme in the colleges around Tuticorin. The students were actively participated and their interaction was really good. This shows their interest in their growth with the Nation's development and makes them competent.

Gearing up for the future, we are regularly conducting CA awareness programs in the schools and colleges and creating awareness among the students on the CA Profession. The state of the art infrastructure, expert faculties & highly skilled team and is aimed at attaining internationally competent professionals. To achieve our aim, we decided to conduct crash course for IPCC students in the month of April.

To embark on a journey of success one needs the tools of preparedness, foresight and strategy. These lead to the path of growth and high quality results. As May exams are approaching, realizing the responsibility on your shoulders, you must emphasis on your learning process.

Life is a wonderful gift but it is also challenging and sometimes heart-wrenching. We can all use a little motivation and inspiration from time to time to help us navigate the small and large hurdles we encounter on our journey.

Wish you all success in the forthcoming May exam.

With warm regards,

**CA.G. Manoj Rodrigo**  
SICASA Chairman

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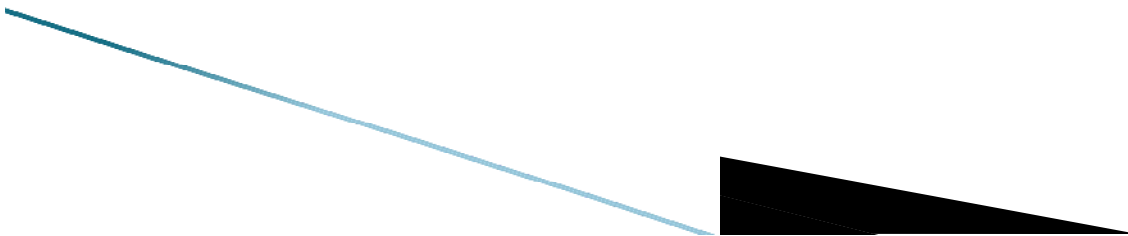
# Revenue Recognition

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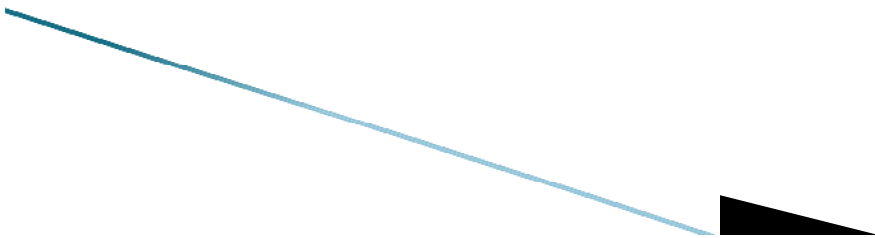
# Intro

- ▶ Concerned with mainly the timing of recognition and also the amount of revenue to be recognized arising in the course of the ordinary activities
- ▶ - Sale of goods
- ▶ - Rendering of services
- ▶ - Use by others of enterprises resources yielding interest , royalties and dividend
- ▶ Uncertainties on assessment and collection.



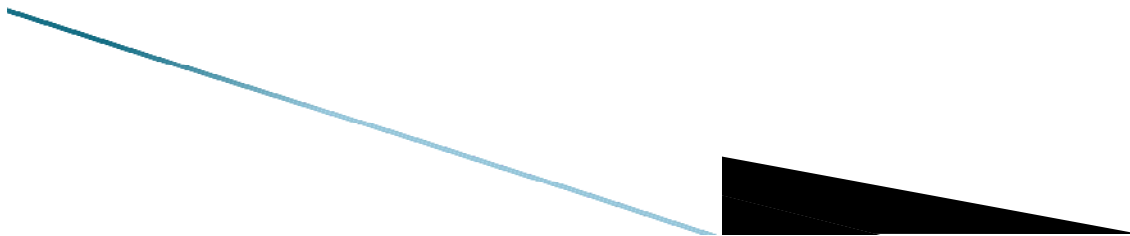
# Out of Scope

- ▶ Revenue arising from construction contracts;
- ▶ Revenue arising from hire-purchase, lease agreements;
- ▶ Revenue arising from government grants and other similar subsidies;
- ▶ Revenue of insurance companies arising from insurance contracts.



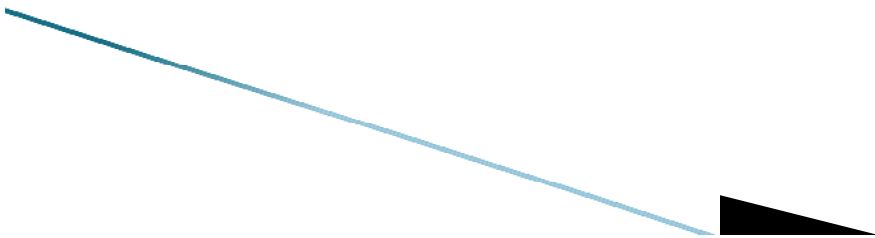
# Revenue excludes

- ▶ Non Current Assets- Realized and Unrealized gain
- ▶ Current Assets - Unrealized gain
- ▶ Foreign exchange - Realized and Unrealized Rate change gain
- ▶ Obligation less than carrying amount and unrealized(restated) - Realized(discharged)



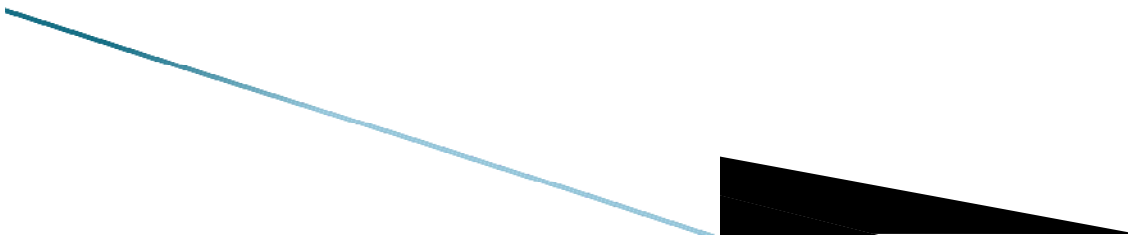
# Notable Points

- ▶ Revenue- Gross inflow of cash ,receivables,& other consideration
- ▶ Agency- only the amount of commission and not as said above.
- ▶ Determination of amount of revenue – usually by the terms b/ w both the parties.
- ▶ Timing as follows.



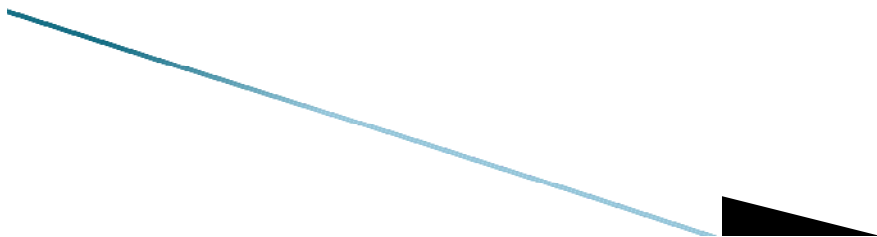
# Sale of goods (Para 6.1)

- ▶ Key criterion- transfer of significant risk and reward of the property.
- ▶ Transfer of property itself usually coincides with above but not all the time.
- ▶ Then the former point alone will be your clue.
- ▶ Further, the parties agreement regarding risk and reward may come into the play sometimes.



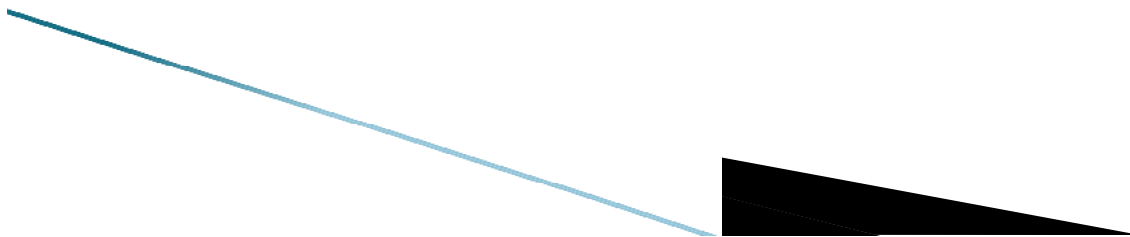
# Sale of Goods (Para 6.2)

- ▶ In case of a forward contract ,government guarantee,or where negligible risk of failure to sell the goods – often valued at NRV and before the execution of the transaction generating revenue.
- ▶ Harvesting of crops
- ▶ Extraction of minerals



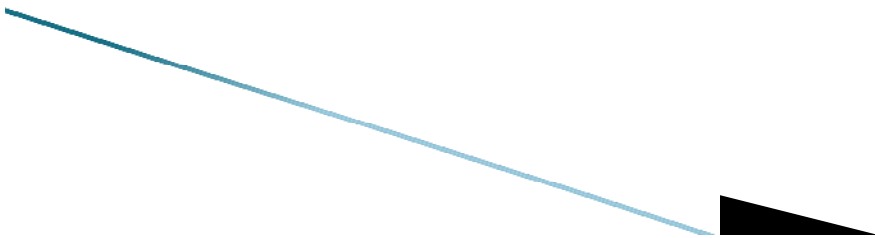
# Rendering of services(Para 7)

- ▶ Key criterion- performance of the service.
- ▶ Proportionate Completion Method-
  - - - Performance consists of more than one act
  - - - Recognized proportionately by reference to the performance of each act.
  - - - Indeterminate number of act over a specified number of time- SLM



# Rendering of services (Para 7)

- ▶ Completed Service contract method-
  - - - Performance consists of single act
  - - - Alternatively, more than single act and services yet to be performed are so significant as a whole, then performance of those act becomes mandatory for recognition of revenue.

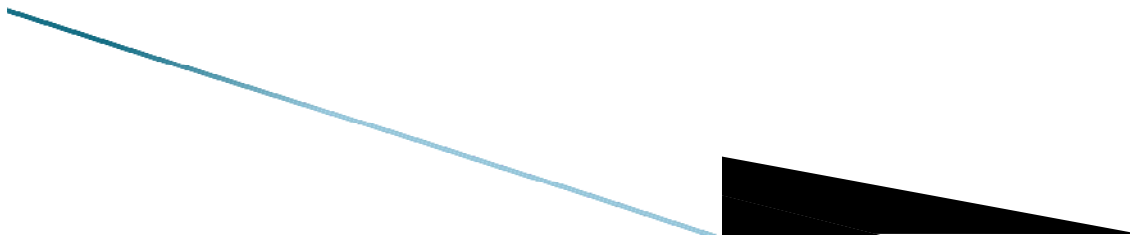


# Use of resources by others(Para 8) (Interest,Royalty,Dividend)

▶ Interest - Cash resource - Time basis

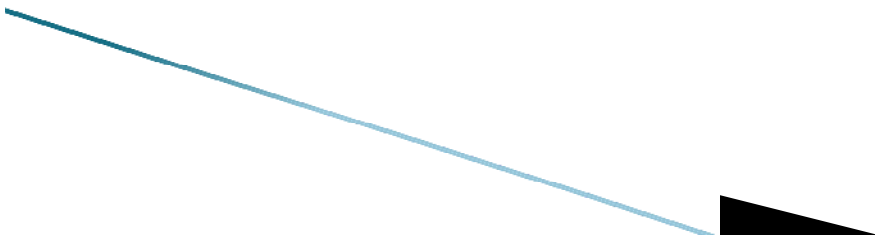
▶ Royalties - Intangibles - accrual basis  
on terms of relevant agreement

▶ Dividend - reward for holding shares - Right to receive the dividend



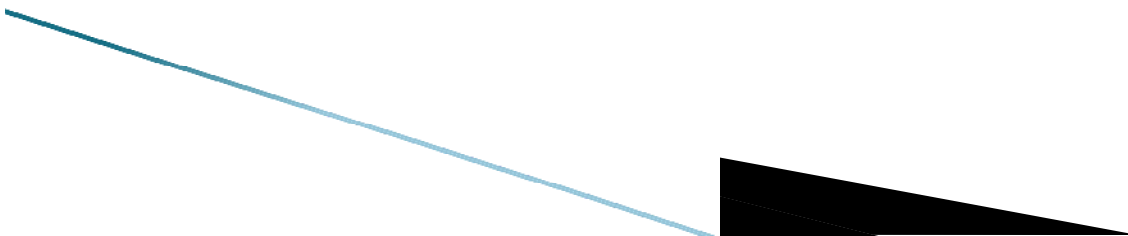
- ▶ From foreign countries – requires exchange permission  
(Int, Roy, Div)

Recognition must be postponed if uncertainty is anticipated.



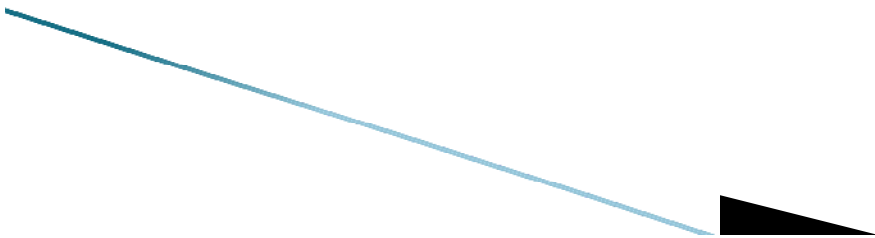
# Effect of Uncertainties

- ▶ Certainty over the amount and the collectability is the essential criterion for the recognition of revenue.
- ▶ Expectation has no role to play here.
- ▶ Uncertainty over amount: postponed to the extent of the uncertainty involved. e.g. Escalation of prices, Exp. Incentives, interest.
- ▶ Uncertainty over collectability: Same as above



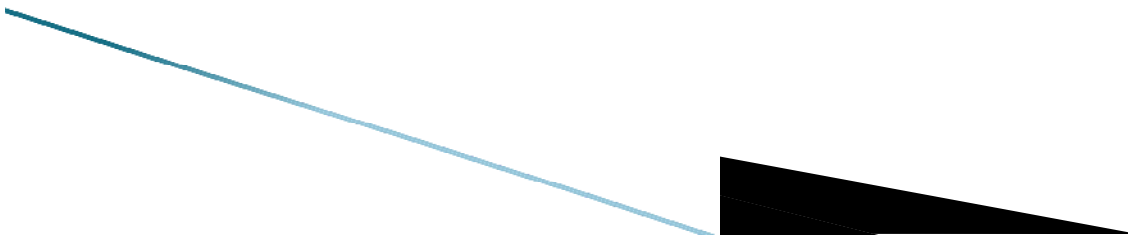
# Finally

- ▶ If uncertainty arises after the recognition of revenue, it's better to make provisions rather than adjusting the amount of revenue.
- ▶ Postponed revenue due to uncertainties, it is considered to be the revenue of the particular period in which it is properly recognized.



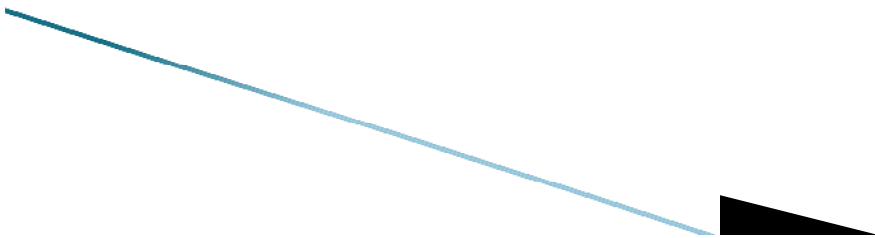
# Disclosures

- ▶ Circumstances in which revenue recognition has been postponed.
- ▶ Uncertainties involved in it.



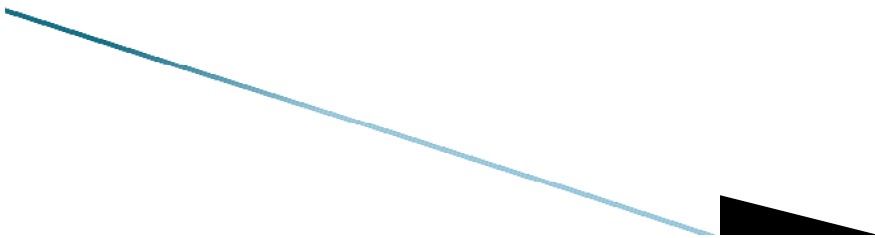
# Illustration 1

- ▶ Delivery is delayed at buyer's request and buyer takes title and accepts billing.



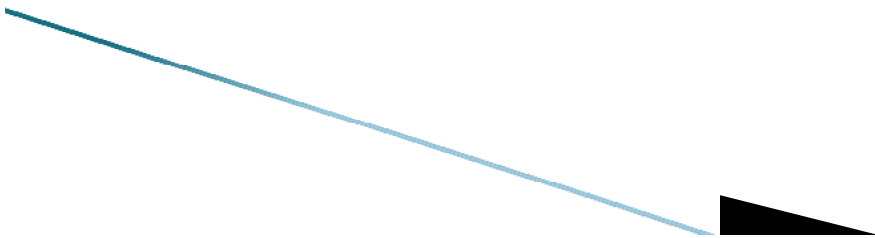
# Illustration 2

- ▶ Delivered subject to conditions.
  - a) Installation and Inspection
  - b) On Approval
  - c) Guaranteed Sales
  - d) Consignment
  - e) Cash on delivery



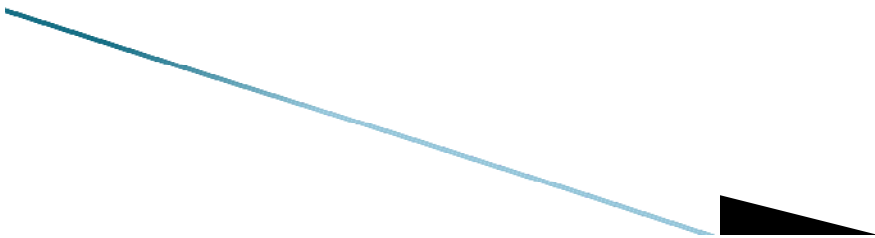
# Illustration 3

- ▶ Sales where the purchaser makes series of installment payments to the seller and the seller delivers the goods only on the final payment.



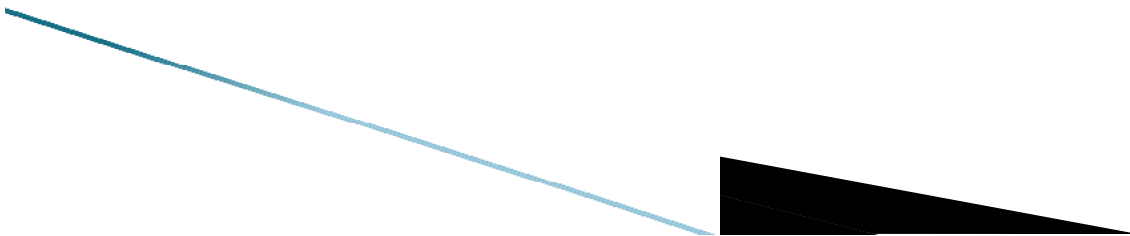
# Illustration 4

- ▶ Special order and Shipments: where payment or partial payment is received for goods not presently held in stock ,for e.g. the stock still to be manufactured or is to be delivered directly to the customer from a third party.



# Illustration 5

- ▶ Sale / repurchase agreement
- ▶ Sale to intermediate parties e.g. distributor
- ▶ Installment sale
- ▶ Trade discounts and Volume rebates



# Rendering of services

- ▶ Installation fees
- ▶ Ad and insurance agency commissions
- ▶ Financial service commissions
- ▶ Artistic performance admission fees
- ▶ Tuition fees
- ▶ Entrance & membership fees

