Exposure Draft

Accounting Standard (AS) 18
Revenue

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Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 18, *Revenue*

(The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February, 2015, have been applicable to the specified class of companies. Accounting Standards are applicable to entities other than those to whom Ind AS are applicable. However, the Ministry of Corporate Affairs has requested the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) to update Accounting Standards, as notified under Companies (Accounting Standards) Rules, 2006, to bring them nearer to Indian Accounting Standards. Accordingly, the Accounting Standards Board, ICAI, initiated to update these standards which will be applicable to all entities to whom Ind AS are not applicable. While formulating these Accounting Standards, the Accounting Standards Board, ICAI, decided to maintain the consistency with the paragraph numbers and with the numbering of Standards of the Indian Accounting Standards.)

As per the Approach Paper for upgradation of existing Accounting Standards to bring them nearer to the Ind AS as finalised by the ICAI, AS on Construction Contracts, and Revenue Recognition, based on Ind AS 11, *Construction Contracts*, and Ind AS 18, *Revenue*, respectively are required to be upgraded and not based on recently issued new standard on Revenue, viz., Ind AS 115, *Revenue from Contracts with Customers*. However, revenue measurement shall be based on concept of transaction price. In this direction, following is the Exposure Draft of the updated Accounting Standard (AS) 18, *Revenue*, issued by the Accounting Standards Board of the ICAI, for comments. Major differences between draft AS 18 and Ind AS 18 are given in Appendix 1 of draft AS 18. Similarly, major differences between draft AS 18 and AS 9 are given in Appendix 2 of draft AS 18. AS 18 refer to the following standards which are under formulation:

(i) AS 17, *Leases*
(ii) AS 28, *Investments in Associates and Joint Ventures*
(iii) AS 41, *Agriculture*

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted using one of the following methods so as to receive not later than ***February 4, 2019.***

Electronically: *click on* ***http://www.icai.org/comments/asb/*** *to submit comments online*

Email: *Comments can be sent at commentsasb@icai.in*

Postal: *Secretary, Accounting Standards Board,*
The Institute of Chartered Accountants of India,
ICAI Bhawan, Post Box No. 7100,
Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

(This Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles).

Objective

Income is defined in the *Framework for the Preparation and Presentation of Financial Statements* issued by the Institute of Chartered Accountants of India as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.

The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

Scope

1. The Standard shall be applied in accounting for revenue arising from the following transactions or events:
   (a) the sale of goods,
   (b) the rendering of services, and
   (c) the use by others of entity resources yielding interest, royalties and dividends.

1A This standard deals with recognition of interest. However, following are dealt in accordance with AS 109, *Financial Instruments:*

(a) measurement of interest charges for the use of cash or cash equivalents or amounts due to the entity; and

(b) [Refer Appendix 1].

1B The impairment of any contractual right to receive cash or another financial asset arising from this standard shall be dealt in accordance with AS 109, *Financial Instruments*.

2. Refer Appendix 1

3. Goods include goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale.

4. The rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Some contracts for the rendering of services are directly related to construction contracts, for example, those for the services of project managers and architects. Revenue arising from these contracts is not dealt with

in this Standard but is dealt with in accordance with the requirements for construction contracts as specified in AS 11, *Construction Contracts*.

5. The use by others of entity assets gives rise to revenue in the form of:

   (a) interest—charges for the use of cash or cash equivalents or amounts due to the entity;

   (b) royalties—charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights and computer software; and

   (c) dividends—distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

6. This Standard does not deal with revenue arising from :

   (a) lease agreements (see AS 17, *Leases*);
   (b) dividends arising from investments which are accounted for under the equity method (see AS 28 *Investments in Associates and Joint Ventures*);
   (c) insurance contracts entered into by insurance companies.
   (d) changes in the fair value of financial assets and financial liabilities or their disposal (see AS 109, *Financial Instruments*);
   (e) changes in the value of other current assets;
   (f) initial recognition and from changes in the fair value of biological assets related to agricultural activity (see AS 41, *Agriculture*);
   (g) initial recognition of agricultural produce (see AS 41);
   (h) the extraction of mineral ores; and
   (i) construction contracts.

Definitions

7. The following terms are used in this Standard with the meanings specified:

***Revenue* is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.**

Fair value* is the value as defined under AS 113, *Fair Value Measurement.

The *transaction price* is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

***Stand-alone selling price* is the price at which an entity would sell a promised good or service separately to a customer.**

8. Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

Measurement of revenue

9 **Revenue shall be measured at the transaction price.**

10. The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset taking into account the amount of any trade discounts and volume rebates allowed by the entity. When uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

11. In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or entity with a significant benefit of financing the transfer of goods or services to the customer. For example, an entity may provide interest-free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement provides a significant benefit of financing, the transaction price is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or

(b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the transaction price and the nominal amount of the consideration is recognised as interest revenue in accordance with AS 109.

11A As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

12.. When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfil demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. 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. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

12A. Sometimes, as part of a sales transaction, an entity grants its customer a loyalty award that the customer may redeem in the future for free or discounted goods or services. In this case, the entity shall account for the award credits as a separately identifiable component of the initial sales transaction. The entity shall allocate the transaction price between the award credits and the other components of the sale on a relative stand-alone selling price basis. If the stand-alone selling price for a customer's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the customer would obtain when exercising the option, adjusted for both of the following:

(a) any discount that the customer could receive without exercising the option; and

(b) the likelihood that the option will be exercised.

Identification of the transaction

13. The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

Sale of Goods

14. Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) [Refer Appendix 1];

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

15. The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

16. If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

    (a) when the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;

    (b) when the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the buyer from its sale of the goods;

    (c) when the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and

    (d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

17. If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognised. For example, a seller may retain the legal title to the goods solely to protect the collectibility of the amount due. In such a case, if the entity has transferred the significant risks and rewards of ownership, the transaction is a sale and revenue is recognised. Another example of an entity retaining only an insignificant risk of ownership may be a retail sale when a refund is offered if the customer is not satisfied. Revenue in such cases is recognised at the time of sale provided the seller can reliably estimate future returns and recognises a liability for returns based on previous experience and other relevant factors.

18. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. For example, it may be uncertain that a foreign governmental authority will grant permission to remit the consideration from a sale in a foreign country. When the permission is granted, the uncertainty is removed and revenue is recognised. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

19. Revenue and expenses that relate to the same transaction or other event are recognised simultaneously; this process is commonly referred to as the matching of revenues and expenses. Expenses, including warranties and other costs to be incurred after the shipment of the goods can normally be measured reliably when the other conditions for the recognition of revenue have been satisfied. However, revenue cannot be recognised when

the expenses cannot be measured reliably; in such circumstances, any consideration already received for the sale of the goods is recognised as a liability.

Rendering of Services

20. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the transaction will flow to the entity;

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

21. The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognised in the accounting periods in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period. AS 11 also requires the recognition of revenue on this basis. The requirements of that Standard are generally applicable to the recognition of revenue and the associated expenses for a transaction involving the rendering of services.

22. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

23. An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

(a) each party’s enforceable rights regarding the service to be provided and received by the parties;

(b) the consideration to be exchanged; and

(c) the manner and terms of settlement.

The entity reviews and, when necessary, revises the estimates of revenue as the service is performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be estimated reliably.

24. The stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:

   (a) surveys of work performed;

   (b) services performed to date as a percentage of total services to be performed; or

   (c) the proportion that costs incurred to date bear 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.

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

25. For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

26. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

27. During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the transaction costs incurred. Therefore, revenue is recognised only to the extent of costs incurred that are expected to be recoverable. As the outcome of the transaction cannot be estimated reliably, no profit is recognised.

28. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognised in accordance with paragraph 20 rather than in accordance with paragraph 26.

Interest, Royalties and Dividends

29. **Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised on the bases set out in paragraph 30 when:**

   (a) it is probable that the economic benefits associated with the transaction will flow to the entity; and

   (b) the amount of the revenue can be measured reliably.

30. **Revenue shall be recognised on the following bases:**

   (a) interest shall be recognised using the effective interest method as set out in AS

109;

(b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement;

(c) dividends shall be recognised when the shareholder's right to receive payment is established.

31. [Refer Appendix 1]

32. [Refer Appendix 1]

33. Royalties accrue in accordance with the terms of the relevant agreement and are usually recognised on that basis unless, having regard to the substance of the transactions, it is more appropriate to recognise revenue on some other systematic and rational basis.

34. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Disclosure

35. An entity shall disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) the amount of each significant category of revenue recognised during the period, including revenue arising from:

(i) the sale of goods;

(ii) the rendering of services;

(iii) interest;

(iv) royalties;

(v) dividends; and

(c) the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

36. An entity discloses any contingent liabilities and contingent assets in accordance with AS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise from items such as warranty costs, claims, penalties or possible losses.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 18 and the corresponding Indian Accounting Standard (Ind AS) 18, Revenue.

Comparison with Ind AS 18, *Revenue*

1. AS 18 require to recognise contract revenue at transaction price, whereas Ind AS 18 required that contract revenue shall be measured at fair value of consideration received/receivable (paragraph 9). Accordingly, definition of transaction price has been included in AS 18 and paragraphs 9 and 11 have been modified and paragraph 11A has been added in AS 18.

2. Ind AS 18 provides that recognition and measurement of dividend shall be dealt in accordance with Ind AS 109 whereas AS 18 deals with recognition and measurement of dividend. Accordingly, paragraphs 1A, 29, 30(c) and 35(b)(iii) & (v) of Ind AS 18 have been modified.

3. Ind AS 18 excludes insurance contracts within the scope of Ind AS 104. Accounting Standard (AS) corresponding to Ind AS 104, *Insurance Contracts,* will not be formulated. In order to clarify the position in this regard, revenue arising from insurance contracts entered into by the insurance companies has been specifically excluded from the scope of AS 18. Consequently, paragraph 6(c) of Ind AS 18 has been modified.

4. Paragraph 6(i) has been added in AS 18 to specifically provide that the standard does not deal with construction contracts.

5. Paragraph 14(b) of Ind AS 18 has not been included in AS 18 since it was felt that it is not relevant for entities to whom Ind AS are not applicable.

6. Appendix A, *Revenue—Barter Transactions Involving Advertising Services,* Appendix B, *Customer Loyalty Programmes Disclosures*, and Appendix C, *Transfers of Assets from Customers* of Ind AS 18 have not been included since it was felt that these are not relevant for entities to whom Ind AS are not applicable. However, paragraph 12A and definition of stand-alone selling price have been added in AS 18 to provide guidance on customer loyalty programmes.

7. The following paragraph numbers appears as 'Deleted' in Ind AS 18. In order to maintain consistency with paragraph numbers of Ind AS 18, the paragraph number is retain in AS 18.
   (i) paragraph 2
   (ii) paragraphs 31-32

Appendix 2

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 18, *Revenue*, and Accounting Standard (AS) 9, *Revenue Recognition*.

Comparison with AS 9, *Revenue Recognition*

1. Definition of 'revenue' given in AS 18 is broad compared to the definition of 'revenue' given in AS 9 because it covers all economic benefits that arise in the ordinary course of activities of an entity which result in increases in equity, other than increases relating to contributions from equity participants.

2. Definitions of Completed service contract method and Proportionate completion method of AS 9 have not been included in AS 18.

3. AS 18 requires to recognise contract revenue at transaction price, whereas AS 9 requires that contract revenue to be measure at consideration received/receivable. Accordingly, definition of transaction price has been included in AS 18.

4. Paragraph 1A of AS 18 requires interest to be recognised using the effective interest method in accordance with AS 109, *Financial Instruments*. AS 9 requires the recognition of revenue from interest on time proportion basis.

5. Paragraph 1B has been added in AS 18 to provide that the impairment of any contractual right to receive cash or another financial asset arising from this Standard shall be dealt in accordance with AS 109, *Financial Instruments.*

6. AS 18 provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. (paragraph 9). AS 9 does not specifically deal with the same.

7. AS 18 specifically deals with the exchange of goods and services with goods and services of similar and dissimilar nature. In this regard specific guidance is given regarding barter transactions involving advertising services (paragraph 12). This aspect is not dealt with in the AS 9.

8. Paragraph 12A has been added in AS 18 to provide guidance on customer loyalty programmes.

8. AS 18 specifically provides guidance regarding revenue recognition in case the entity is under any obligation to provide free or discounted goods or services or award credits to its customers due to any customer loyalty programme. AS 9 does not deal with this aspect.

9. AS 9 specifically deals with disclosure of excise duty as a deduction from revenue from sales transactions. AS 18 does not specifically deal with the same.

10. Disclosure requirements given in the AS 18 are more detailed as compared to AS 9.

11. Illustrations on Sale on Goods and Rendering of Services of AS 9 have not been included in AS 18.