

ACCOUNTANCY TRAVELOGUE : GALLERY OF AS-9

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We have traveled extensively the vast "**Land of Opportunities**". It is sine qua non in view of the fact that 'Revenue' determines the top line of the business. We have seen that there are so many accounting practices comparable with as many opportunities available. In this Gallery let's see a few disclosure practices followed by various entities. Names of companies are not given, but in appropriate cases identity of industry is spelt. I am not offering any comments leaving it for you to relish and follow them with suitable adaptations. These are in addition to disclosure practices given in "Gallery of AS-1" (in August 2007 Newsletter).

Sale of Goods:

" Domestic and Export Sales are recognized on transfer of significant risk and rewards to the customer which take place on dispatch of goods from the factory/ stockyard/ storage area and port respectively.

" Turnover includes sale of goods, services, sales tax, service tax, excise duty and sales during trial run period, adjusted for discounts (net), Value Added tax and gain/ loss on corresponding hedge contracts.

" Export sales are accounted on the basis of dates of Bill of Lading or Mate's Receipt, whichever is later.

" Sales are inclusive of income from services, excise duty, export incentives and exchange fluctuations on export receivables and are net of trade discount.

" Scrap is accounted on sale basis.

" Claims for return or breakages, date expiry and damaged goods have been adjusted to sales by the Company as and when the same are accepted/ settled.

(Pharmaceutical Co.)

" Power Production Co.

o Revenue from Power Supply is accounted for on the basis of billing to consumers and is inclusive of Fuel Adjustment charges. Generally all consumers are billed on the basis of recording of consumption of Energy by installed meters. Where meters have stopped or are faulty, the billing is done based on past consumption for such period.

o Revenue from sale of power is also accounted for on the basis of billing to bulk customer on the basis of "deemed generation" (whenever applicable) as provided in the Power Purchase Agreement (PPA) with the customer.

" Public Sector Oil Co.

o Adjustments pertaining to purchase of raw material/ finished products, sales and others admissible under the Administered Pricing Mechanism are accounted as "net claim from/ (surrender to) Industry Pool Accounts.

o Claims on Oil Coordination Committee/ Government arising on account of Administered Pricing Mechanism are booked on acceptance in principle thereof. Such claims and provisions are booked on the basis of available instructions/ clarifications subject to final adjustment as per separate audit.

o Other claims (including interest on outstandings) are accounted:

" When there is certainty that the claims are realizable

" Generally at cost.

Export Incentives:

" Export incentives are accounted on accrual basis and include estimated realizable values/ benefits from special import licenses and Advance licenses.

" Export incentives under Duty Exemption Pass Book Scheme are treated as income in the year of export, at estimated realizable value/ actual credit earned on exports made during the year.

Rendering of Services:

" An Entertainment Co.

o Revenue is recognized on accrual basis on the handing over of video tapes and performance of services on reasonable expectation of ultimate realization.

o In respect of Long Term Service Contracts, involving substantial volume of revenues with a contractual duration beyond twelve months, the proportionate completion method is employed to recognize progressive accrual of revenue, which is shown under Other Current Assets in the Balance Sheet.

o For this purpose, gross revenue is apportioned on an estimated basis up to the specific stage of performance of the service contract and is matched against the expenditure actually incurred up to that stage.

o Considering the specialized nature of services, involving artistic and creative inputs, the costs to completion are not amenable to reasonable estimation. The proportionate revenue is recognized on the footing that no significant uncertainty exists regarding its actual realization.

" Power Production Co. - for Execution of Power Projects:

o In respect of construction contracts, revenue is recognized on the stage of completion of a contract up to reporting date.

o The stage of completion of a contract is determined on the basis of the proportion that progress billings raised up to the reporting date bear to the total contract value.

o Profit is recognized when the outcome of the contract can be estimated reliably. Profit proportionate to value of work done is arrived at by deducting cost of work done plus cost estimated by the Management to complete the work from the agreed contract value, after deduction of contingency.

" Revenue in respect of basic telephony services is recognized on completion of provision of services. Provision for doubtful debts on telephony revenue is made for period-end dues outstanding for more than 90 days in case of active subscribers and complete dues from the customers who have been deactivated on the date of finalization of financial statements are written off, other than those covered by security deposit and on other revenue is made as and when determined as doubtful of recovery by the management. **(Communications Co.)**

" Revenue from long distance telephone services are recognized at the end of each month based upon minutes of incoming and outgoing traffic completed in such month. Revenues from leased channels and frame relays are recognized over the lease period based on contracted fee schedules. Revenue from internet services are recognized based on usage. Substantial portion of revenues are on account of recoveries from Foreign Telecommunication Administrations for incoming traffic and recovery from domestic carriers for delivery of calls on foreign networks. **(Another Communications Co.)**

" Software Co.

o Revenue from software development on the time and material basis is recognized based on software developed and billed to clients as per the terms of specific contracts in the case of fixed-price contracts, revenue is recognized based on the mile stones achieved as specified in the contracts or on the percentage of completion basis. Provision for estimated losses on incomplete contract is regarded in the period in which such losses become probable based on the current estimates.

o Revenues from product licenses and related revenues are recognized as follows:

" Licence fees, on delivery and subsequent milestone schedule as per the terms of the contract with the end user.

" Product maintenance revenues, over the period of the maintenance contract.

o Revenue from annual maintenance or technical services are recognized on pro-rata basis over the period of the time for which such services are contracted.

o In respect of software trading activities, the income is recognized as and when the goods are dispatched.

" Another Software Co.

o Revenues from contracts priced on a time and materials basis are recognized when services are rendered and related costs are incurred.

o Revenues from turnkey contracts, which are generally time bound fixed price contracts, are recognized over the life of the contract using the proportionate completion method, with contract costs determining the degree of completion. Foreseeable losses on such contracts are recognized when probable.

o Revenues from sale of equipment are recognized upon delivery, which is when title passes to the customer.

o Revenue from Business Process Outsourcing (BPO) services are recognized on time and material, fixed price and unit priced contracts. Revenue on time and material, Unit priced contracts is recognized as the related services are rendered.

" TV/ Entertainment Co.

o For advertisements, the commission is recognized when the related advertisement or commercial appears before the public i.e. on telecast.

o Fees are recognized over the period of instructions.

o Lease Rentals are recognized as revenue as per the terms of the lease agreements.

o TV programmes production and acquisition costs are net of recoveries.

Others:

" To account for income from investments on an accrual basis, inclusive of related tax deducted at source.

" Interest income on the deployment of surplus funds is recognized in proportion to the time of investment and rates implicit in the transaction.

" Dividend income is accounted for when right to receive is established.

" Insurance claims are accounted for as and when admitted by the concerned authority.