

Query No. 37

Subject: Disclosure of the revenue as per AS 9.¹

A. Facts of the Case

1. A company (hereinafter referred to as the ‘company’) is primarily engaged in the business of owning and running hotels and resorts. The company receives bookings for the hotel and resort rooms and related facilities from individuals, corporates and travel agents. The company’s primary revenue streams are:

- (a) Revenue from sale of rooms (rent),
- (b) Revenue from sale of food,
- (c) Revenue from other facilities at resort (Departmental stores, health club, laundry, telephone, local tours and sport activities), and
- (d) Revenue from running ayurvedic treatment centre.

2. The company has a tariff card (rate list) for all the room types which is inclusive of all taxes. Ideally, when a customer approaches the company, he is offered the tariff rate.

(i) However, the company has been using various marketing strategies to attract guests. As a strategy, the company offers discounts to the guest discretionally, based on various factors. The company has observed that when the guest is given discount, he feels happy about it and becomes a loyal customer of the resort. This strategy has given to the company an edge over its competitors and thereby helped the company to increase its turnover year on year.

(ii) Revenue recognition policy adopted:

¹ Opinion finalised by the Committee on 6.6.2014.

Revenue from sale of rooms, food, facilities and services is recognised as and when the services are rendered.

(iii) Billing method adopted :

Currently, the billing method used is as follows:

Particulars	Amount (Rs.)
Rack rate	9,000/-
Less: discount	<u>2,000/-</u>
Net rate	7,000/-
Add: taxes	1,000/-
Total bill value	Rs. 8,000/-

(iv) Accounting entry :

Particulars	Debit (Rs.)	Credit (Rs.)
Discount	2,000	
Guest Account	8,000	
Room revenue (rack rate)		9,000
Taxes payable		1,000
	10,000	10,000

3. The querist has stated that as per Accounting Standard (AS) 9, 'Revenue Recognition', notified under the Companies (Accounting Standards) Rules, 2006, revenue has been defined as follows:

“4.1 *Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.”*

Further, the disclosure of sales transaction is mentioned in the Explanation to paragraph 10 of AS 9 as follows:

“Explanation:

The amount of revenue from sales transactions (turnover) should be disclosed in the following manner on the face of the statement of profit and loss:

<i>Turnover (Gross)</i>	<i>XX</i>
<i>Less: Excise Duty</i>	<i>XX</i>
<i>Turnover (Net)</i>	<i>XX</i>
<i>... ”</i>	

4. The querist has further stated that the company is currently recognising revenue at rack rate and is treating discount as an expense. The company intends to disclose the revenue in the following manner on the face of the statement of profit and loss:

XYZ Limited

Statement of Profit and Loss for the year ended 31st March, 2013

Particulars	Note No.	For the year ended 31st March, 2013	For the year ended 31st March, 2012
I. Gross Revenue from operations		2,00,000	1,75,000
Less : Duties & taxes		20,000	17,500
Revenue from operations net of taxes	21	1,80,000	1,57,500
Less : Discounts		30,000	23,000
Net Revenue from operations		1,50,000	1,34,500
II. Other Income	22	17,500	10,250
III. Total Revenue (I +II)		1,67,500	1,44,750

B. Query

5. The querist has requested the Expert Advisory Committee to clarify whether the above disclosure of the revenue would be in compliance with the disclosure required in AS 9.

C. Points considered by the Committee

6. The Committee notes that the basic issue raised by the querist is the accounting treatment of the discount(s) allowed by the company and its presentation in the statement of profit and loss as per AS 9. Accordingly, the Committee has considered this issue only and has not considered any other issue that may arise from the Facts of the Case, such as, timing of recognition of discount and related revenue, presentation of duties and taxes in the financial statements, etc.

7. The Committee notes that in order to determine the accounting treatment of the discount(s) allowed and presentation requirements, the nature of discount being allowed in the

extant case needs to be determined. For this purpose, the Committee notes the following definitions given in the Guidance Note on Terms Used in Financial Statements, issued by the Institute of Chartered Accountants of India (ICAI):

“3.13 Cash Discount

A reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated period.”

“16.04 Trade Discount

A reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.”

8. In accordance with the above definitions, any discount allowed on invoice price for prompt payment or for payment within stipulated time is cash discount and any other discount allowed on invoice price is trade discount. The Committee notes that in the extant case, the basic objective of providing discount is to use it as a marketing strategy to attract guests so as to give the company an edge over its competitors and thereby helping the company to increase its turnover year on year. The Committee is of the view that as the discount is not allowed for prompt payment, rather it is allowed for increasing its turnover, therefore, the nature of the discount being allowed by the company is that of a trade discount.

9. With regard to accounting and presentation of trade discount, the Committee notes that Appendix A illustrating the application of AS 9, notified under the Companies (Accounting Standards) Rules, 2006, *inter alia*, provides as follows:

“9. Trade discounts and volume rebates

Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.”

The Committee notes from the above that trade discount is not encompassed within the definition of revenue since it represents a reduction of cost and accordingly, the revenue is determined and recognised after deducting the trade discount. Further, the Committee also notes the definition of ‘revenue’ as reproduced in paragraph 3 above. From this, the Committee is of the view that the revenue is the charge made to customers which in case of trade discount is the amount net of discount. Accordingly, the Committee is of the view that the proposed presentation of the company to present the revenue on gross basis and then to present the trade discount as deduction from the revenue is not correct and is not in accordance with the requirements of AS 9.

D. Opinion

10. On the basis of the above, the Committee is of the opinion that the proposed presentation of the company to present the revenue on gross basis and then to present the trade discount as deduction from the revenue is not correct and is not in accordance with the requirements of AS 9. The amount of the revenue to be presented in the Statement of Profit and Loss should be net of the discount, as discussed in paragraph 9 above.