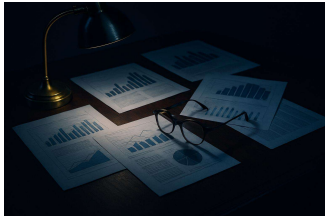


AS 9: Revenue Recognition

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The Standard at a Glance


What is AS 9?

AS 9 — Revenue Recognition — Issued by the Institute of Chartered Accountants of India (ICAI) and notified under the Companies Act, lays down the principles for recognising revenue arising in the course of ordinary activities of an enterprise. It applies to:

- Sale of Goods
 - Transfer of property in goods from seller to buyer
- Rendering of Services
 - Performance of contractually agreed tasks over time
- Use of Enterprise Resources
 - Interest, royalties, and dividends earned by the enterprise

Scope Exclusions

- Revenue from construction contracts (AS 7)
- Revenue from hire-purchase, lease agreements (AS 19)
- Government grants (AS 12)
- Revenue of insurance companies



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Core Principle

The Concept of Revenue Under AS 9

Revenue is defined as 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.

① Revenue is measured at the **consideration received or receivable**. Trade discounts and volume rebates are deducted. Amounts collected on behalf of third parties (e.g., GST/taxes) are NOT revenue.

Gross Inflow

Only the enterprise's own economic benefit qualifies as revenue — agency collections are excluded

Ordinary Activities

Gains from incidental transactions (e.g., asset disposal) are NOT revenue under AS 9

Measurability

Revenue must be capable of reliable measurement before recognition

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Core Principle

Recognition: Sale of Goods

Revenue from the sale of goods shall be recognised when the following five cumulative conditions are satisfied:

- 1 Transfer of Property**
The seller has transferred to the buyer the **property in the goods** for a price — i.e., significant risks and rewards of ownership have passed
- 2 No Effective Control**
The seller retains **neither continuing managerial involvement** to the degree usually associated with ownership, nor effective control over the goods sold
- 3 Reasonable Certainty**
No significant **uncertainty** exists regarding the amount of consideration that will be derived from the sale
- 4 Measurability**
The revenue can be **reliably measured** based on the agreed
- 5 Collectability**
It is not unreasonable to expect ultimate **collection** of the consideration

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Core Principle

Recognition: Rendering of Services

Revenue from service transactions shall be recognised by reference to the **stage of completion** of the transaction at the reporting date — this is the **proportionate completion method**. The following conditions must be met:

- 1 Performance is the act of completing the service**
Either as a single act or on a continuous basis as per the contract terms
- 2 Revenue is proportionate to the degree of completion**
Where performance consists of more than one act, revenue is recognised on the basis of completed acts
- 3 Significant uncertainty precludes recognition**
Where outcome cannot be estimated reliably, revenue is recognised only to the extent of recoverable costs

☑ **Completed Service Contract Method** — Revenue is recognised only when the service is fully rendered (single act). Example: A CA's audit fee — recognised on completion of audit.

④ **Proportionate Completion Method** — Revenue is recognised as service is progressively rendered. Example: Annual retainerhip — recognised on a time-proportion basis.

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Core Principle

Interest, Royalties & Dividends

Interest

Recognised on a **time proportion basis** taking into account the amount outstanding and the rate applicable. Includes interest on fixed deposits, debentures, and loans given.


Royalties

Recognised on an **accrual basis** in accordance with the terms of the relevant agreement — generally as they fall due under the contract.

Dividends


Recognised when the owner's **right to receive payment** is established — i.e., when dividend is declared by the investee company at its Annual General Meeting.

⚠ Where uncertainty of collection arises **after** recognition, a separate provision for the doubtful amount is made — revenue already recognised is **NOT** reversed under AS 9.



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Core Principle
Disclosure Requirements



Mandatory Disclosures (Para 14)

- The accounting policies adopted for recognition of revenue including methods used to determine the stage of completion of service transactions
- The amount of each significant category of revenue recognised during the period — goods, services, interest, royalties, dividends

Royalties


- AS 5 (Net Profit or Loss): Extraordinary items to be distinguished from revenue
- AS 4 (Contingencies): Events after balance sheet date affecting revenue recognition
- Schedule III of Companies Act: Revenue disclosure format requirements

Effect of Uncertainties

- Where recognition of revenue is postponed due to uncertainties, the enterprise should disclose the nature and extent of such uncertainties
- Revenue recognised on completion of cash recovery must be separately disclosed

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Practical Issue
Bill-and-Hold Arrangements



Case Reference — Sayam Computer Services Ltd. (2009) While primarily an Ind AS case, the Sayam fraud highlighted that bill-and-hold revenues being recorded without actual delivery. ICAI's guidance note post-Sayam clarified that under AS 9, physical or constructive delivery combined with transfer of risk is mandatory. Audit committees were directed to scrutinise warehouse receipts and buyer confirmations in bill-and-hold cases.

Practical Tip for CAs: Obtain written buyer confirmation of title transfer and physical segregation of goods in warehouse records. Review debtors aging for "delivered but not dispatched" line items as a red flag indicator.

Revenue recognition is permissible only if:

- It is probable that delivery will be made
- The item is on hand, identified, and ready for delivery
- The buyer specifically acknowledges the deferred delivery instructions
- The usual payment terms apply

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Practical Issue 2
Channel Stuffing & Year-End Sales Push

Channel stuffing occurs when a manufacturer ships excess goods to distributors or dealers beyond their immediate requirements, typically near the financial year-end, to inflate reported revenues. This is a pervasive issue in India's FMCG, pharmaceutical, and automobile sectors.

Under AS 9, revenue should NOT be recognised if the seller grants the buyer a right of return that is so significant that the risks and rewards of ownership have NOT effectively transferred. Key indicators of non-transfer:


- High volume of goods returned post year-end
- Side letters granting unconditional return rights
- Consideration linked to onward sales by the channel partner

Case Reference — Ranbaxy Laboratories (SEBI Examination, 2013) SEBI's examination of Ranbaxy's financials noted instances where sales to distributors near year-end were followed by disproportionately high return rates in Q1 of the subsequent year. Auditors were advised to verify post-balance sheet date return patterns as evidence of premature revenue recognition.

AS 9 Guidance: Where right of return exists and quantum cannot be estimated reliably, revenue recognition must be deferred until the return period lapses or a reliable estimate is available.

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Practical Issue 3
Real Estate Revenue Recognition



Real estate developers in India have historically applied AS 9 to recognise revenue either at the point of agreement to sell (on execution of agreement), or on completion (on possession/registration). This ambiguity led the ICAI to issue a **Guidance Note on Accounting for Real Estate Transactions (Revised 2012)**.

Key Principles from the Guidance Note (AS 9 framework):

- Revenue recognised when all significant risks and rewards transferred — typically on handing over possession
- Where construction is substantially complete and agreement is enforceable, the percentage of completion method may apply
- Upfront non-refundable booking amounts — recognised only when conditions of AS 9 are met

Case — DLF Ltd. (SEBI Order, 2014): SEBI examined DLF's revenue recognition practices noting inconsistent application across projects. The order reinforced that disclosure of the accounting policy adopted (completion vs. percentage of completion) is mandatory and must be consistently applied year on year.

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Practical Issue 4
Segmenting Contract Arrangements

Indian IT and telecom companies frequently enter into arrangements involving the bundling of goods and services — for example, supply of hardware along with Annual Maintenance Contracts (AMCs), or software licences with implementation services. AS 9 requires that each **separable component** be accounted for independently.

<p>Hardware / Licence Supply</p> <p>Recognised on delivery when risks and rewards transfer. Consideration allocable to this element based on relative fair value</p>	<p>AMC / Support Services</p> <p>Recognised over the service period on a time-proportion or stage-of-completion basis as per AS 9 service principles</p>	<p>Implementation Services</p> <p>Recognised by reference to stage of completion — milestones achieved or proportionate to costs incurred</p>
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Practical Tip: Where the arrangement does not permit reliable bifurcation of consideration, the entire arrangement is accounted for using the method most appropriate to the dominant element. CAs should ensure the accounting policy note in financial statements clearly discloses the method adopted.

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Practical Issue 5
Consignment Sales & Agency Arrangements

Under a **consignment arrangement**, the consignee holds goods on behalf of the consignor — the risks and rewards remain with the consignor until the consignee sells the goods to an end customer. Revenue must be recognised by the consignor only when the consignee effects the sale.

Similarly, in **agency arrangements**, only the net commission/fee earned is revenue for the agent — the gross receipts collected on behalf of the principal are not revenue of the agent under AS 9.

Key Distinguishing Factors — Principal vs. Agent:

- Who bears the inventory risk?
- Who has discretion in setting the selling price?
- Who bears the credit risk on collections?


Case — Cement Industry Practice (ICAI Technical Guide): Several cement companies in India had been recognising revenue on dispatch to CAF (Carrying and Forwarding) agents who did not bear inventory risk. ICAI's Guidance Note clarified that until the CAF agent effects the sale to dealers, the goods remain the property of the company and revenue recognition is premature.

Audit Focus: Verify the legal agreement to determine the true nature of the arrangement — consignment notes, risk of loss clauses, and pricing authority are key evidence.

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Practical Issue

Uncertainty of Collection & Doubtful Debts



AS 9 requires that revenue be recognised only when there is no **unreasonable uncertainty** regarding collectability at the time of recognition. However, where uncertainty arises **after** the revenue has been legitimately recognised, AS 9 mandates a **separate provision** — the original revenue entry is not reversed.

At Time of Sale

If collectability is in doubt at inception — DO NOT recognise revenue. Recognise only on actual collection.

Post-Recognition Uncertainty

If doubt arises after revenue is recognised — CREATE a provision for bad/doubtful debts. Do not reverse revenue.

Practical Illustration: A pharmaceutical company sells goods worth ₹50 lakhs to a distributor. Revenue is duly recognised. Subsequently the distributor enters insolvency. Under AS 9, the ₹50 lakh revenue stands — a separate provision of ₹50 lakhs is created under "Provision for Doubtful Debts." This distinction is critical for correct P&L presentation and tax deductibility analysis under the Income Tax Act.

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Practical Issue 7

Excise Duty, GST & Gross vs. Net Presentation

A longstanding practical issue under AS 9 has been whether **excise duty / GST** collected from customers should be presented as part of revenue (gross) or netted off. The treatment has significant implications for top-line reporting.

Post-GST (w.e.f. July 2017):

- GST collected is a **liability payable to government** — the enterprise is merely a collecting agent
- AS 9 principle: amounts collected on behalf of third parties are not revenue — hence GST is deducted from gross receipts
- Revenue is presented **net of GST** in the Statement of Profit and Loss

Pre-GST — Excise Duty (AS 9 Guidance):

- Excise duty is a liability of the manufacturer — it forms part of the **cost of production**
- Revenue from sale of goods includes excise duty — show gross revenue and deduct excise duty as an expense on face of P&L
- Required by Schedule III of Companies Act 2013 (pre-GST era)

MCA Clarification (2017): The Ministry of Corporate Affairs clarified via a circular that post-GST implementation, revenue shall be presented net of GST in financial statements of companies following AS (not Ind AS), aligning with the AS 9 principle of revenue being measured at consideration receivable by the enterprise for its own account.

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Key Takeaways for Practising CAs

AS 9 — Audit & Compliance Checklist


<p>Verify Transfer of Risks & Rewards</p> <p>For sale of goods — confirm physical delivery, title documents, dispatch records, and buyer acknowledgement. Particularly scrutinise bill-and-hold, channel stuffing, and consignment scenarios.</p>	<p>Assess Stage of Completion for Services</p> <p>Obtain management's basis of completion — timesheets, milestones, cost-to-cost analysis. Challenge the reliability of estimates especially for long-term contracts.</p>	<p>Perform Robust Year-End Cut-Off Testing</p> <p>Review goods dispatched around 31 March — match dispatch records, invoices, and GRNs. Test post-balance sheet date credit notes and returns as reverse evidence.</p>
<p>Review Accounting Policy Disclosures</p> <p>Ensure Notes to Accounts clearly disclose the revenue recognition policy, the method used for services, treatment of advances, and net vs. gross presentation rationale for GST.</p>	<p>Note Differences from Ind AS 115</p> <p>For companies transitioning or with group reporting requirements — the five-step model under Ind AS 115 differs significantly. AS 9 entities are NOT required to follow Ind AS 115, but CAs advising on transitions must be aware of the divergence.</p>	

AS 9 remains the applicable standard for all companies not required to follow Indian Accounting Standards (Ind AS). Mastery of its principles and awareness of practical pitfalls is essential for every practising CA engaged in audit, accounting advisory, and financial reporting under the Companies Act.

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Thank you

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