EXPOSURE DRAFT FOR
COST ACCOUNTING STANDARD ON
TREATMENT OF REVENUE FOR COST STATEMENT

The following is the COST ACCOUNTING STANDARD on “TREATMENT OF REVENUE FOR COST STATEMENT”(CAS__) issued by the Council of the Institute of Cost Accountants of India. In this Standard, the standard portions have been set in *bold italic* type. These are to be read in the context of the background material which has been set in normal type.

1. Introduction

This standard deals with the principles and methods of measurement, treatment and assignment of revenue and its presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods for treatment of revenue in cost statements with reasonable accuracy.

3. Scope

This standard shall be applied to cost statements which require measurement, treatment, assignment, presentation and disclosure of revenue including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified. Any term not defined in this Standard shall have the same meaning and expression as set out in the Glossary of Terms issued by the Council.

4.1 By-product: Product with relatively low value produced incidentally in the manufacturing of the product.

4.2 ***Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.***

4.3 ***Equity:*** **a residual interest in the assets of an entity after deducting all of its liabilities.**

4.4 Income: is the increase in economic benefits during the reporting period, which results in increase in equity, other than those relating to contributions from equity participants.

Income includes revenue from operations and other income.

4.5 *Net Sales Realization: is the amount derived from the sale of goods and services provided, in the course of ordinary activities of the entity, after deduction of return of goods, trade discounts, value added tax, and any other taxes and duties.*

Net sales realisation is a component of revenue from operations.

4.6 *Other Income: is income that cannot be classified as revenue from operations.*

Examples:

- Profit on sale of fixed assets and investments;
- Interest from investments or deposits outside the business;
- Insurance claims received, not adjusted against an item of cost;
- Rent from properties leased (unless the primary activity itself is leasing);
- Credits for previous years' adjustments;
- Dividend income on investments;
- Gain on foreign currency transaction and translation (other than considered as finance cost);
- Excess provisions written back;
- Credits on account of revaluation of capital assets;
- All items of abnormal revenue such as recoveries from book debts written off in the previous period; and
- Prior period income.

4.7 *Reporting Period: is the period for which the cost statement is prepared*.

4.8 *Revenue from operations: is the income arising in the course of ordinary activities of the entity.*

Revenue from operations represents income from sale of goods or services provided and other operating revenue, such as government subsidy and incentives on export of goods. Revenue from operations is recognised at gross amount excluding indirect taxes, such as excise duty levied on manufactured goods and service tax levied on service provided. Sometime, revenue is presented at the amount including excise duty paid and excise duty paid is presented as deduction from the revenue (including excise duty).

4.9 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.10 Waste: Material lost during production or storage and discarded material which may or may not have any value

5. Principles of Measurement

5.1 ***Revenue from sale of goods or services provided during a reporting period shall be measured based on the net sales realization. It shall be measured separately for each unit or location of an entity for each type of goods sold or service provided. It shall also be measured separately for sale of each type of by-products, defectives, second grade products, scrap or wastes.***

Example of waste is hard waste and soft waste in textile industry.

5.2 ***If a by-product is further processed before sale, sales realisation of such by-product shall be net of further processing cost. Its net sales realisation shall be adjusted against the joint cost of production of relevant main products.***

5.3 ***Net sales realization for each type of goods sold or services provided shall be determined at fair value of the consideration received or receivable.***

Fair value is usually the invoice value excluding duties and taxes net of trade discounts and volume rebates allowed by the entity***.***

If there is a significant lag between the date when goods are delivered or services provided and the consideration receivable, time value of money is taken into consideration to determine the fair value. The discount rate used should be whichever of the following is more clearly determinable:

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

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

Time value of money shall be considered only if it is considered in recognizing revenue in financial statements.

Net Sale realization of defective, second-grade products and waste products shall be adjusted against the cost of production of related goods sold.

5.4 ***Revenue from services provided for a contract not completed during the period of reporting shall be determined with reference to the stage of completion on the fulfilment of all the following criteria:***

- ***Amount of revenue can be measured reliably;***
- ***Economic benefits will flow to the service provider;***
- ***Stage of completion at the end of the reporting period can be measured reliably.***

When any of the above criterion is not met, revenue from the services provided shall be recognized only to the extent of the expenses recognized that are recoverable.

5.5 ***Other income shall not be considered in determining profit or loss as per cost accounts.***

5.6 ***Export incentives, subsidies received or receivable on sales shall be part of revenue from operations and shall be identified with each product sold or service provided.***

5.7 ***Any Subsidy, Grant, Incentive or any such payment received or receivable to support the current operations of the entity other than those in the nature of capital grant and other than items referred in paragraph 5.6 above shall be treated as reduction in the related cost. Where it is not related to cost incurred, it shall be treated as revenue from operations in cost accounts.***

5.8 ***Any penalties, damages (including liquidated damages) received shall not form part of the revenue from operations in the cost accounts unless those relate to sales transactions.***

5.9 ***Any change in the cost accounting principles applied for the determination of the revenue should be made only if it is required by law or for compliance with the requirements of a cost accounting standard or a change would result in a more appropriate preparation or presentation of cost statements of an entity.***

6. Assignment of Revenue:

Revenue for each type of product or service shall be assigned directly to that product or service to the extent it is economically feasible.

Economic feasibility implies that it is practically feasible to assign the revenue to a particular product or service with reasonable cost and efforts. Reasonable cost and efforts are matters of judgement.

7. Presentation:

7.1 ***Net sales realization for each product or service shall be indicated separately for exports and domestic sales and matched against the cost of sales (net of duties) and margin of respective product or service.***

7.2 ***The revenue, quantity, where applicable, and selling price per unit shall be presented under each product or service under net sales realisation, cost of sales and margin.***

8. Disclosures:

1.1 The cost statements shall disclose the following:

1. ***Sales to each related party with basis of determining the selling price ;***
2. ***Duty-free imports against each product or service exported;***
3. ***Revenue from by-products and costs of further processing after split-off point, reduced from cost of relevant product;***
4. ***Export incentives, subsidies received or receivable on sales;***
5. ***Penalties and damages received and excluded from revenue;***
6. ***Any Subsidy, Grant, Incentive and any such payment added to revenue.***

1.2 Any change in the cost accounting principles and methods applied for the measurement and assignment of revenue during the period covered by the cost statement which has a material effect on the revenue shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

1.3 Disclosures shall be made only where material, significant and quantifiable.

1.4 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.

9. Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or 1st April,_____ for being applied for the preparation and certification of Cost Accounting Statement for goods sold and services provided.

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