

# TREATMENT OF REVENUE IN COST STATEMENTS (CAS 24)

# 9. Effective Date

Effective from 1<sup>st</sup> April 2017

## 3. Scope

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

# 4. Definitions

- 4.2 **Defectives:** Materials, products or intermediate products that **do not meet quality standards**. This may include reworks or rejects.
- 4.3 **Intermediate product:** An intermediate product is a product that **requires further processing** before it is saleable.
- 4.5 **Net Sales Realization:** is the revenue from operations net of **discounts and indirect taxes**.
- 4.6 **Other Income:** is the income that **cannot be classified as revenue from operations**.
- 4.9 **Revenue from operations:** is the income arising **in the course of the ordinary activities of an entity** from the sale of goods or rendering of services.

# 4. Definitions

Other Operating Revenue is the **incidental income arising in the course of ordinary activities of an entity but not arising from the sale of main goods or services**, and it does not include Other Income.

Examples:

- Sale of By-products;
- Sale of manufacturing scrap;
- Export incentives received from Government; and
- Product related subsidies or grants received from Government.

# 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**.
- 5.2 Revenue from sale of joint products shall be **measured separately for each main product or service sold**.
- 5.3 Revenue from sale of goods or services shall be measured separately for **each unit or location** of an entity for each **type of goods** sold or **service** provided. It shall be **sub-classified into revenue from exports, domestic sales, manufactured goods, operations, and trading activities**.
- 5.4 Revenue from sale of goods or services shall be measured **separately for sale of each type of by-products, defectives, second grade products, rejects, scrap, spoilage, or wastes**.

# 5. Principles of Measurement

5.5 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.

Particulars	Rs.
Sales price of by-product	3.00
(-) further processing cost	1.00
<b>Net Sales realisation</b>	<b>2.00</b>
Cost of Production of main product	50.00
Net sales realisation of by-product	2.00
<b>Net Cost of Production of main product</b>	<b>48.00</b>

# 5. Principles of Measurement

- 5.6 **Net Sales realization of defectives, second-grade products, rejects, scrap, spoilage, and waste products shall be adjusted against the cost of production of related goods sold.**
- 5.7 Revenue from **sale of inputs, utilities, intermediate products,** and shared or support services shall be adjusted **against the cost of purchase or cost of production** of the related input, utility, intermediate product and shared or support service.
- 5.8 Other income shall not be considered in determining profit or loss as per cost accounts.

# 5. Principles of Measurement

5.9 **Revenue** generated from utilization of **assets created under the CSR** program shall **not be considered** in determining profit or loss as per cost accounts.

**Explanation:** Rule 6(2) of the Companies (Corporate Social Responsibility Policy) Rules, 2014. Future economic benefits from a 'CSR asset' would not flow to the company as any surplus from CSR cannot be included by the company in business profits.

5.10 **Product or service related subsidies, grants, or incentives, received or receivable on sale of goods or rendering of services shall be part of revenue from operations and shall be identified with each product sold or service rendered.**

**Example:** The subsidy portion of fertilizers (ranges from 30% to 70% of the cost of the fertilizers) is given to the companies, so as to make available fertilizers for the farmers at subsidized MRPs.



# 5. Principles of Measurement

5.11 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 **5.10** above shall be treated as **reduction in the related cost**.

## Examples:

Capital Grant: The subsidy available on the installation of grid-connected solar rooftop power plants is 30% of the benchmark cost.

Generation-based incentives (per unit of electricity generated).

Sell the excess of electricity

# 7. Presentation

- 7.1 Net sales realization for **each product or service** shall be indicated separately for **exports, domestic sales, manufactured goods, operations and trading activities** and matched against the cost of sales (net of duties) and margin of respective product or service.
- 7.2 The **quantity** of goods sold or services provided, where applicable, and selling price **per unit** shall be presented under each product or service.

# 8. Disclosures

- 8.1 The cost statements shall disclose the following:
1. Revenue from sale of goods or services made to each **related party** with basis of determining the selling price;
  2. Revenue from **by-products** and costs of further processing after split-off point, reduced from cost of relevant product;
  3. Amount and nature of any **subsidy, grant or incentive** received or receivable and included in the revenue.

*Thank you*