AS 9 – REVENUE RECOGNITION

Applicability

This AS lays down fundamental principles of Revenue Recognition. By its name it implies that it is a more of a measurement standard than a disclosure. What and when to credit profit and loss account is determined by this AS. Though the AS is small, many issues evolve therefrom in our day-to-day practice. Hence, part of the issues are covered in this AS and balance issues along with interesting disclosure accounting policies along with notes and auditors report will be taken up in the next issue.

Issue 1:

With which recognition of revenue arising in the ordinary activities of the enterprise is AS 9 concerned?

☞ AS 9, Revenue Recognition, is concerned with the recognition of revenue arising in the course of ordinary activities of the enterprise from:
  - the sale of goods
  - the rendering of services and
  - the use by others of enterprise resources yielding interest, royalties and dividends.

Issue 2:

With which aspects of revenue, AS 9, does not deal with?

☞ AS 9, does not deal with the following aspects of revenue recognition for which specific Accounting Standards are specified. They are,
  (a) Revenue arising from construction contracts (AS 7).
  (b) Revenue arising from hire purchase, lease agreements (AS 19).
  (c) Revenue arising from government grants and other similar subsidies (AS 12).
  (d) Revenue of insurance companies arising from insurance contracts.
  (e) Dividends arising from investments accounted under the equity method in the consolidated financial statements (AS 23).
  (f) Initial recognition of agriculture product and the extraction of mineral ores.

There are examples of items not included within the definition of “revenue” for the purpose of this statement. They are ;

  (a) Realised gains resulting from the disposal of, and unrealised gains resulting from holding of, non-current assets e.g. appreciation in value of fixed assets,
  (b) Unrealised holding gains resulting from the change in value of current assets, and the natural increases in herds and agricultural and forests products,
  (c) Realised or unrealised gains resulting from changes in foreign exchange rates and adjustments arising on the translation of foreign currency financial statements,
  (d) Realised gains resulting from the discharge of an obligation at less than its carrying amount.
  (e) Unrealised gains resulting from the restatement of the carrying amount of an obligation.
Issue 3:

High Returns Ltd., an investment company is finalising its accounts for the year ended 31st March 2005 in July 2005. How will the following income be accounted in books of High Returns Ltd.?

(a) X Ltd. has declared interim dividend on 25th March 05, which is not received till March 31, 2005 but received on 25th April 05.
(b) Y Ltd. has declared dividend on 10th May 05 for year ended 31-03-05, which is approved by shareholders in AGM held on 30th June 05.
(c) Z Ltd., a subsidiary of High Returns Ltd. has declared dividend for year ended 31-03-05 on 25th May 05, the AGM for which is to be held in August 05.

As Per AS 9, Dividend from investments in shares are not recognised in the statements of profit and loss until a right to receive payment is established. The right to receive dividend should be construed as right to receive by the Balance-Sheet date and not till the date when accounts are finalised. In such case, event occurring after Balance Sheet is not considered requiring adjustment to financial statements. Further, in case of interim dividend, the right to receive interim dividend is not established until the dividend is actually received as the board has a power to rescind their decision. As Per notes to part I of Schedule VI, dividends declared by subsidiary companies after the date of the balance-sheet should not be included unless they are in respect of period which closed on or before the date of the balance-sheet.

Based on above, we now turn to answering questions raised in (a), (b) and (c).

(a) Since, interim dividend is to be accounted when dividend is received, High Returns Ltd. should account such dividend in accounting year 05-06 and not in financial year ending 31-3-05.

(b) High Returns Ltd. in this case also will account for the dividend in the financial year 05-06 and not for the year ending 31-3-05, since the right to receive dividend did not exist at the balance-sheet date i.e. as at 31-3-05 but existed only when Annual general meeting of Y Ltd approved the dividend on 10th May, 2005.

(c) In this case, by virtue of the specific requirements of Companies Act, 1956, High Returns Ltd. will account for the dividend declared by subsidiary company, Z Ltd in the year ending 31-03-2005, inspite of the fact that Z Ltd’s Annual General meeting will approve the dividend in August 2005. We have to remember that requirements of Act would prevail over the Accounting Standards and hence in this case also, High Returns Ltd. will have to follow requirements of Schedule VI which is in deferral to treatment mentioned in AS 9.

Issue 4:

Quick Foods Ltd. is in FMCG sector. Its marketing director is very aggressive in innovation. For increasing sales, the marketing director during financial year 04-05 entered into a Swap / barter transaction with A Ltd, a leading newspaper. Under the deal, Quick Foods Ltd was to supply free of cost, 10,000 units (average selling price Rs.100 per unit) of its product for which it was to get 20 colour advertisement insertion in front page of A Ltd. Since, no sales invoice was raised, Quick Foods Ltd did not report any transaction in its financial statements for year 04-05. Is any accounting entry required to be recorded for such swap / barter transaction?

The National Accounting Standard, AS 9, is silent on such kind of transaction. However, one can refer to IAS 18 which deals with Revenue. As per IAS 18, a transaction is not regarded as generating revenue if goods or services are exchanged for goods or services of a similar nature and value. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfill demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. In such circumstances, the revenue is measured at the fair value of the goods and services rendered or receivable, adjusted by the amount of any cash or cash equivalents transferred. When the Fair value of goods and services received cannot be measured reliably, the revenue is measured by reference to the fair value of the goods sold or services provided.
Thus, in the given case, Quick Foods Ltd. should recognise the revenue at the fair value i.e. at the rate / price at which the deal is negotiated with A Ltd. In absence of any rate/price for which the deal is negotiated than at Rs.10 lakhs (10,000 X Rs.100 per unit) being the fair value of goods sold/ provided by Quick Foods Ltd. to A Ltd. Thus both revenue and expense is required to be recognised even though the Indian Accounting Standard is silent on such issue.

**Issue 5:**

Smart Ltd. is an engineering company manufacturing high-grade pumps. It has manufactured a particular pump costing Rs.100 lakhs for X Ltd, the sales value for which is Rs. 140 lakhs. As per the terms of contract, the pump was ready and to be delivered to X Ltd. on 21st March 2006, but for specific reasons from A Ltd. the delivery was postponed beyond 31st March 2006. Should smart Ltd account the same as sales or hold it as inventory for year ending 31st March 2006?

☞ As per AS 9, revenue is recognised when the seller has transferred the property in goods for consideration. The transfer of property in goods, in most cases results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. However, there may be situations where transfer of property in goods does not coincide with transfer of significant risks and rewards of ownership.

In the given case, it is not clear as to X Ltd. has asked Smart Ltd. to make billing and accepted the title. If it so, than sale would be complete and Smart Ltd. should account sales at Rs.140 lakhs and show X Ltd. as debtors for Rs.140 lakhs. If X Ltd. has merely postponed the delivery without accepting the title or invoicing, than in that case Smart Ltd. will have to value pump as Inventory and as per AS 2, the valuation will have to be at Rs.100 lakhs.

**Issue 6:**

Evergreen Ltd., a biochemical company, to promote sales offers various schemes to its distributors in form of trade discounts and volume rebates. However, such trade discount, volume rebates, etc is offered through credit notes and not as a deduction from Invoice. Should such discounts, rebates etc. be shown as expense or deducted from sales at time of presenting financial statements?

☞ As per Appendix given along with AS 9, trade discounts and volume rebates should be deducted in determining revenue. Evergreen Ltd. at the time of presenting the financial statements, should show revenue net of such rebate, discounts and should show revenue net of such rebate, discounts and not show them as an expense in profit and loss statements separately.

The accounting policy should also spell out that trade discounts and volume rebates given are deducted in determining revenue.

Further, items such as commission to sole selling agents, commission to other selling agents and brokerage and discount on sales (other than usual trade discounts) are to be shown as expenditure in profit and loss statement. This is requirement of part II of schedule VI to The Companies Act, 1956.

**Issue 7:**

High Turnover Ltd. has three divisions a, b, and c. a division sells goods directly to outsiders as well as transfer to b, which becomes a raw material for b. b’s finished product are sold to outsiders as well as sold to c division. The company High Turnover Ltd. shows inter-divisions /unit sales as turnover on the argument that sales are made at market rate and excise is also paid on such sales. Is accounting disclosure made by High Turnover Ltd. correct?

☞ The Institute of Chartered Accountants of India in April 05 have issued announcement to its members, wherein they have explained as under:

“Revenue is the gross inflow of cash, receivables, or other consideration arising in the course of the ordinary activities of an enterprise”
Para 10 of the AS further states “Revenue from sales or services transactions should be recognised when the requirements as to performance set out in para 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

Para 11 reads: In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

(i) the seller of the goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership and,

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Since in case of inter-divisional transfers, risks and rewards remain within the enterprise and also there is no consideration from the point of view of the enterprise as a whole, the recognition criteria for revenue recognition are also not fulfilled in respect of inter-divisional transfers.

In view of what is stated above, High Turnover Ltd. should not show/present inter divisional transfer as sales/revenue in its published financial statements.

Issue 8:

Quick Foods Ltd. shows turnover including excise duty in its published financial statements. Excise duty as an expenditure is shown as a manufacturing expense under the head expenses. Is presentation of Quick Foods Ltd. in consonance with requirements of AS 9.

Here again, the Institute of Chartered Accountants of India have come out with Accounting Standards Interpretation (ASI 14) in February 2004. According to interpretation turnover should be disclosed in the following manner on the face of the statement of profit and loss.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Turnover (gross)</td>
<td>XX</td>
</tr>
<tr>
<td>Less: Excise duty</td>
<td>XX</td>
</tr>
<tr>
<td>Turnover (net)</td>
<td>XX</td>
</tr>
</tbody>
</table>

The reasoning given is a uniform accounting disclosure will facilitate inter company comparison in a better way.

Further ICAI has also come out with an exposure draft for the same ASI 14, wherein it is sought to be explained that excise duty to be deducted should be the amount that is included in the amount of turnover (gross) i.e. the total excise duty for the year except the excise duty related to the difference between the closing stock and opening stock. The excise duty related to the difference between the closing stock and opening stock should be recognised separately in the statement of profit and loss, with an explanatory note in the notes to accounts to explain the nature of the two amounts of excise duty.

Thus, Quick Foods Ltd. should show sales inclusive of excise duty and on face of profit and loss statement deduct excise duty paid on sales only. The net turnover will be depicted on the front page of profit and loss statement. Further, excise duty difference arising out of adjustments from opening and closing stock should be shown separately, (not required to be showing on face but as an item in schedule.)
Issue 9:
Aggressive Metals Ltd, an engineering company operates throughout India. With the introduction of Value Added Tax (VAT) with effect from 1st April 05 in many states, Aggressive Metal Ltd. for the year ended 31st March 2006, has decided to present sales inclusive of VAT, and show VAT paid as an expense under the head selling expense. The finance director’s argument is, in the past for sales tax they have been following the same accounting treatment and would like to continue the same for VAT. Is contention of the finance director of Aggressive Metals Ltd. appropriate?

The Institute of Chartered Accountants of India (ICAI) has come out with a Guideline Note on “Accounting for State level Value Added Tax”. As per the guidance Note, output tax or VAT payable on sales is an indirect tax which is ultimately borne by the final consumers but is collected at each stage of distribution chain.

VAT is collected from the customers on behalf of the VAT authorities and, therefore its collection from the customers is not an economic benefit (Income as defined in the framework for the preparation and presentation of financial statements) for the enterprise and it does not result in any increase in the equity of the enterprise. Accordingly, it should not be recognised as an income of the enterprise. Similarly, the payment of VAT should not be treated as an expense in the financial statements of the enterprise.

The guidance note, concludes “it is recommended that the amount of tax collected from customers on sale of goods should be credited to an appropriate account say, “VAT Payable Accountant”. Where the enterprise has not charged VAT separately but has a composite charge, it should segregate the portion of sales which is attributable to tax and should credit the same to “VAT Payable Account” at periodic intervals. The amounts of VAT payable adjusted against the VAT Credit Receivables (input) Account or VAT Credit Receivable (Capital Goods) Account and amounts paid in cash will be debited to this account. The credit balance in VAT payable Account at the year-end, should be shown on the “liabilities” side of the balance sheet under the head “Current Liabilities”.

In views of above, Aggressive Metals Ltd, would be advised to follow the guidance note as recommended by the Institute of Chartered Accountants of India. The same treatment is mentioned in IAS 18, Revenue. One may observe that the treatment for excise and VAT, though both are indirect tax are different in accounts as per ICAI.

Issue 10:
Best Cool Ltd, is in sales and servicing of Air Conditioners. It sells air conditioners which includes a free twelve months service as well as five years warranty on compressor. The invoice amount so raised on customer is credited to sales. The cost related to free servicing for next twelve months and replacing compressor during next five years is treated as expense as and when incurred. Is refinements in accounting treatment called for?

IAS 18, deals with such a situation. As per para 13 of IAS 18, “The recognition criteria in this standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed”. Accordingly, Best Cool Ltd. should not account for the entire revenue as sales but should identify the revenue for subsequent servicing. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services.

Similarly para 19 of IAS 18, States “Revenues and expenses that relate to the same transaction or other event are recognised simultaneously; this process is commonly referred to as the matching of revenues and expenses. Expenses, including warranties and other costs to be incurred after the shipment of the goods can normally be measured reliably when the other conditions for the recognition of revenue have been satisfied”. Further, AS 29 dealing with provisions, current liabilities and current assets would also deal with such a situation. Thus, Best Cool Ltd, will have to make a provision for the expenses to be incurred in replacing compressor over the next five years in respect of sale of air conditioner. This estimate will be based on past experience and future expectations.
Issue 11:

High Exports Ltd., is one division is export oriented. On such exports, the company is entitled for duty credit certificate equivalent to 5% of the FOB value of exports for each licensing year. The last date for filing single consolidated application for the duty credit entitlement certificates against exports made through one port is 31st December. The certificate can be used for imports of inputs or goods including capital goods, as may be notified. Imports from a port other than the port of export are allowed as per the terms and conditions notified. The certificate and the items imported are freely transferable. The duty credit entitlement certificate is valid for a period of 24 months. High Exports Ltd., intends to use such certificate for import of Raw materials used by other divisions, which are involved in local sales. For the year ended 31st March 2005, the company’s export turnover was Rs.30 crores and its entitlement for such certificates was Rs.1.50 crores. However, as certificates were not received nor the company has imported raw materials without duty (which is to take place in 05-06) the company has not recognised export certificates entitlements of Rs.1.50 crores in financial statements of 04-05, but intends to recognise when it utilizes such certificates for import of raw material in 05-06. Is accounting approach of High Exports Ltd., appropriate?

Such an identical issue was raised before the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India, in 2000. The findings of the committee are enumerated here under:

The committee is of the view that for deciding when credit for DEPB (Duty Entitlement Pass Book) scheme should be recognised as income would broadly be based on the principles similar to the recognition of revenue. The committee is further of the view that the performance related to DEPB credit should be considered to be complete when the relevant exports have been made against which the credit has been granted, provided the other criteria for recognition of revenue are fulfilled viz. those laid down in AS 9, ‘Revenue Recognition’, which inter alia provides that revenue should be recognised when there is no significant uncertainty regarding the amount of the consideration that will be derived and when there is no uncertainty as to its ultimate collection. The committee further stated that where the company applies for DEPB credit on post-export basis on realisation of export proceeds and the credit is utilised towards payment of custom duty on imports, there seems to be a reasonable certainty of ultimate collection. Also as per the DEPB scheme, there seems to be no uncertainty as to the amount of duty entitlement.

The committee further noted that the cost of inventories constituting of the materials imported by utilisation of DEPB credit should be the actual cost incurred to make the purchase whether by way of cash or by way of adjustment against the DEPB credit. The closing stock constituting of such imported materials should also be valued at the actual cost of purchase in terms of AS2.

In case, the DEPB credit is held for sale, the committee was of the view that the treatment of DEPB credit would be similar to the treatment when it is intended to be utilised for imports. However, significant uncertainty regarding the amount of consideration realisable or uncertainty regarding its ultimate collection would be taken into account. The company would also take into consideration ‘events occurring after the balance sheet date’ in terms of AS 4.

In terms of what is stated herein above, High exports Ltd., would be advised to account for export incentive income of Rs.1.50 crores in accounting year ending 31-3-05, unless there exists significant uncertainty regarding the amount of the consideration that will be derived and that it would not be unreasonable to expect ultimate collection.
**Issue 12:**

Poor Health Ltd., has turned into a sick company due to adverse market conditions. Its net worth is eroded but still continues to prepare the financial statements as a going concern, based on the assumption that promoters and Banks will lend financial support to the company. The term loans granted by banks have become NPA. However in Feb.2006 Poor Health Ltd., has entered into a one-time settlement (OTS) with its Bankers, wherein it is agreed that the company will repay the principal equally over next twelve months. 50% of the interest will be waived and balance 50% will be paid over next twelve months. If time schedule is not adhered to, the banks will cancel the OTS and have powers to charge penal interest also. Such waiver of interest comes to Rs.10 crores. At the time of finalising accounts for year ending 31-3-2006, the company wants to take credit i.e. write back Rs.10 crores as income. Can Poor Health Ltd., do so in year 31-3-06?

Strictly speaking this is a case of reversal of liability (extinguishment of an existing obligation) and not accounting of income. Poor Health Ltd., has already provided for interest in its books. The question under consideration is reversal of such liability. However, one can fall back or draw inference from AS 9 as well as AS 12. In such case AS 12, Government Grants requires that Government Grants should not be recognised until there is reasonable assurance that (i) the enterprise will comply with the conditions attached to them, and (ii) the grants will be received.

In the instant case, the amount waived under the settlement is clearly known and as such there is no uncertainty about the measurability of the amount of income. The condition regarding collectability does not apply as no collection is involved. However, the agreement executed by the company with the Banks which has given rise to the income envisages compliance with certain conditions as to repayment of principal and interest as per an agreed time frame. If these conditions are not adhered to, the banks shall have a right to revoke the settlement by restoring the liability. Under, such circumstances, the amount waived by Banks should not be recognised as income until there is reasonable assurance that the company will comply with the conditions as to repayment of principal and payments of interest as per the terms of the settlement.

Such assurance can be available when company has honoured more than say 50% or 60% of its commitment towards OTS payments. If company is finalising accounts say in June 06 and if only 30-40% of commitments are honoured, it would not be prudent for Poor Health Ltd., to consider Rs.10 crores as income of 05-06. Such write-back in that case, should take place in 06-07.

**Issue 13:**

Inflammable Ltd., had fire in its factory in March 06 as a result of which finished goods worth Rs.50 lakhs and plant and machinery worth Rs.100 lakhs was gutted. The company lodged claim with Insurance Co. for Rs.60 lakhs for finished goods and Rs.200 lakhs for plant and machinery. As per the Auditors of the company, insurance claim should be accounted as income only when received by the company whereas company’s contention is to take credit in year ending 31-3-06. Whose contention is right?

Insurance claims as such do not fall within the definition of ‘revenue’ as given in AS 9. However, recognition of insurance claims also requires that the amount realisable is measurable and it is not unreasonable to expect ultimate collection. If the amount realisable is measurable and it is not unreasonable to expect ultimate collection at the time of lodging of claims, the insurance claim should be recognised at that time. On the other hand, if at the time of lodging a claim, the amount recoverable under the claim or its ultimate collection cannot be assessed with reasonable certainty, recognition of claim should be postponed until the time the amount thereof can be measured reliably and ultimate collection is reasonably certain.

In view of above, accounting of insurance claim on receipt basis would not be appropriate nor accounting of insurance claim merely on lodgment without assessing as to its measurement or to its collection without reasonable certainty would also not be appropriate. Merely lodging claim of excess amount and recognising revenue on that basis would be against principles of revenue recognition. Under such circumstances, Inflammable Ltd., will have to measure the claim on some reasonable basis as well as should ascertain at the time of lodgment that such collection is also not unreasonable.
However, a note to financial statements should be made stating the amount considered or not considered as insurance claims and if not considered, clearly bring out the circumstances involved in the uncertainty.

**Issue 14:**

Fast Moving Containers Ltd., is engaged in the business of handling and transportation of containerised cargo. The main source of income of the company is freight and transportation income charged from the customers, handling of the containers, as well as income from ground rent and wharfage as parking charge for a container after the expiry of permissible free time limit. Freight and handling income are accounted for at the time of booking of the containers. Whereas ground rent and wharfage is accounted for at the time of release of containers on ‘Completed Service Contract Method’. Is accounting followed by Fast Moving Containers Ltd., appropriate?

The issues involved are recognition of revenue of freight and handling income and ground rent and wharfage charges recovered from customers. As per AS 1 and also as per Section 209 of the Companies Act, 1956 accounts are required to be maintained under accrual basis. Accounting of Freight and handling income on booking basis would not be in consonance with generally accepted accounting principles, much so when services are not rendered or are yet to be rendered. Booking of such income would very much defeat the purpose of “Accrual”. In such cases, Income should be recognised when services i.e. transportation of goods/ handling of containers, is complete or substantially complete.

Recognising revenue at the time of booking cannot be construed as a completion or substantial completion of rendering of services. Similarly, accounting for ground rent and wharfage charges at the time of release of containers on basis of completed service contract method would also be inappropriate. Parking of containers is only one of the acts to be performed in the rendering of the service. In the context of the overall rendering of services, services yet to be performed are not so significant in relation to the transaction taken as a whole that performance cannot be deemed to have been completed until the actual release of the containers.

The company should not consider completion of the service on actual release of containers. In respect of ground rent and wharfage which is not collected on the balance sheet date the principles enumerated in AS 9 related to the effect of uncertainties on revenue recognition should be applied. The revenue from ground rent should be recognised on straight line basis over the period during which a container remains parked after the expiry of permissible free time limit.

The principles enunciated above would equally apply to service sectors such as Tour and Travels, Insurance, etc as regards recognising income more particularly commission income.

**Issue 15:**

Best Computer Training Institute (P) Ltd., is in training of computer courses itself as well as appointed some franchisee centres over the country. The duration of different computer courses is three, six, nine, twelve, eighteen and twenty-four months. Training fees for courses are payable either in lumpsum or in installments. Training fees for courses relating to more than one accounting year is treated by the company as advance training fees and deferred to the next financial year. Such income is recognised on completion of courses. As regards franchise fees, the company allocates the total amount of registration fees over the period of franchise agreements e.g. if the franchise agreement is say for five years and agreement is signed in April 05 or March 06, 1/5th of the registration fees is considered as revenue for the year ended 31-3-06 and balance 4/5th of the registration fees is treated as registration fees received in advance and deferred to next year to be accounted as income over the next four years. Is accounting treatment followed by Best Computer Training Institute (P) Ltd., for training fees received in advance or for registration fees justified?

In respect of different courses run by Best Computer Training Institute (P) Ltd., the work is accomplished, over the period of instruction. Therefore, for recognition of revenue in respect of these courses, the proportionate completion method would be appropriate i.e. if the duration of a particular course is, say 9 months and on 31st March 2006, 3 months training is imparted, the revenue to be recognised for the period up to 31st March 2006 would be 1/3rd of the total tuition fees received. The balance 2/3rd of the tuition fees should be treated as tuition fees received in advance and be recognised as revenue in next year.
The registration fees received by the company is in the nature of royalty for use of its resources. As per AS 9, royalty income is recognised on an accrual basis in accordance with the terms of the relevant agreement. Thus, revenue from registration fee should be recognised on a time proportion basis over the period of agreement unless having regard to the substance of the transaction, it is more appropriate to recognise revenue on some other systematic and rational basis. Thus, if franchise agreement is say entered on 1st January 2006, the revenue to be recognised for the year ending 31st March 2006, should be proportionate to registration fee for a period of 3 months and not one-fifth of the total registration fee as is being done by the company.

FROM PUBLISHED ACCOUNTS.
Schenectady Herdillia Ltd., (04-05).
Notes to the Accounts
Note No. 8 to Notes to Accounts

The company, based on its past experience, has recognised exports benefits upon the submission / final acceptance of the application under the DFCE scheme which was finalised vide notification dated June 4, 2005. As regards the export benefits for the year 2004-05 under the Target Plus Scheme, the notification finalising the scheme was issued on June 4, 2005 and application under the scheme is yet to be made. Considering the nascent stage of the scheme and the uncertainty of ultimate acceptance, the export benefit would be accounted in the year in which it is receivable.

Auditors’ Report (dated 27-6-2005)

As referred to in Note 8 of Schedule 18 (B) to the financial statements, the Company has not accrued for the eligible export benefit entitlement for the year 2004-05 under the Target Plus Scheme introduced by the Government of India in the Foreign Trade Policy 2004-09 in August 2004. This scheme replaced the Duty Free Credit Entitlement Scheme applicable for the year ended 31 March 2004 under which, based on administrative and procedural guidelines issued during the current year, the company has accrued export benefits of Rs.202.44 lakhs eligible in respect of exports made during the financial year ended 31 March 2004. Further, in respect of the export benefit entitlement for the financial year ended 31 March, 2005 under the Target Plus Scheme, based on notifications issued by the Government of India subsequent to the balance sheet date clarifying the requirements to avail the benefits, the Company is eligible for export benefits in respect of the exports made during the year 2004-05. According to the information and explanations provided, in our opinion there are no significant uncertainties that exist to preclude recognition of such export benefits on the exports made during the financial year ended 31 March 2005 and therefore non-accrual of such benefit is not in conformity with accounting standards issued by the Institute of Chartered Accountants of India. Management has not provided us with the amount of estimated export benefit entitlement. However, based on information readily available, a preliminary estimate of the benefit not accrued for by the Company is Rs.475 lakhs. Had this income been recognised, net profit for the year after tax, reserves and surplus and net current assets would have been higher by Rs.301 lakhs.

Mukand Ltd. (03-04)
Auditors’ Reports (dated 29-5-2004)

Note No. B 9 (e) to 9(j) relating to One Time Settlement (OTS) made with lenders, resulting in waiver of Interest for the year, whose benefit has been credited by the Company to the Profit and Loss Account prior to the fulfillment of the conditions of the Settlement. Taking of such credit which has not yet accrued to the Company, has translated the Loss to the extent of Rs.426,252,511 into Profit and its equivalent effect on the Reserves and Surplus of the Company;
Notes to the Accounts:
No. 9 (e) to (j)

(e) The company has finalised One Time Settlement (OTS) of its debts with ABN Amro Bank N.V. for a total sum of Rs.175,000,000/- payable in 18 months installments commencing from April, 2004. Although the OTS is subject to the approval of the monitoring committee overseeing the restructuring package finalised by the CDR Cell and it provides for reinstatement of all the rights of the bank in case of default in payment of any two installments by the Company, the Company yet considers it appropriate to take credit for the said waiver amounting to Rs.264,767,573/- and reverse the current year’s charge of interest costs of Rs.39,830,635/-.  

(f) The Company has finalised One Time Settlement (OTS) of its debts with BNP Paribas for a total sum of Rs.145,000,000/- payable on or before 30th June, 2004. The OTS is subject to the approval of the monitoring committee overseeing the restructuring package finalised by the CDR Cell and is subject to the Company discharging Rs.145,000,000/- toward the settlement. The Company yet considers it appropriate to take credit for the said waiver amounting to Rs.157,660,153/- and reverse the current year’s charge of interest costs of Rs.39,387,128/- since it expects to fulfill the conditions of settlement before the due date of 30th June, 2004.

(g) The Company has finalised One Time Settlement (OTS) of its debts with Allahabad Bank for a total sum of Rs.870,900,000/- payable on or before 30th June, 2004. The OTS is subject to the approval of the monitoring committee overseeing the restructuring package finalised by the CDR Cell and is subject to the Company discharging Rs.870,900,000/- toward the settlement. The Company yet considers it appropriate to take credit for the said waiver amounting to Rs.522,954,346/- and reverse the current year’s charge of interest costs of Rs.153,833,056/- since it expects to fulfill the conditions of settlement before the due date of 30th June, 2004.

(h) The Company has finalised One Time Settlement (OTS) of its debts with Punjab National Bank for a total sum of Rs.709,237,784/- payable on or before 30th June, 2004. The OTS is subject to the approval of the monitoring committee overseeing the restructuring package finalised by the CDR Cell and is subject to the Company discharging Rs.709,237,784/- towards the settlement. The Company yet considers it appropriate to take credit for the said waiver amounting to Rs.506,743,254/- and reverse the current year’s charge of interest costs of Rs.133,000,386/- since it expects to fulfill the conditions of settlement before the due date of 30th June, 2004.

(i) The Company has finalised One Time Settlement (OTS) of its debts with HDFC Bank Ltd., for a total sum of Rs.145,000,000/- payable on or before 30th June, 2004. The OTS is subject to the approval of the monitoring committee overseeing the restructuring package finalised by the CDR Cell and is subject to the Company discharging Rs.145,000,000/- toward the settlement. The Company yet considers it appropriate to take credit for the said waiver amounting to Rs.169,998,840/- and reverse the current year’s charge of interest costs of Rs.59,031,128/- since it expects to fulfill the conditions of settlement before the due date of 30th June, 2004.

(j) In case of two Debenture holders holding 112,517 debentures, OTS has been concluded and the balance amount is payable in twelve monthly installments of Rs.300,000/- commencing from May,2004 onwards. Total waiver of interest obtained under these OTS amount to Rs.2,079,528/- (including interest for the year Rs.1,170,178/-).

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Note No.9(e) to 9(j) relating to One Time Settlement (OTS) made with lenders, resulting in waiver of Interest for the year, whose benefit has been credited by the Company to the Profit and Loss Account prior to the fulfillment of the conditions of the Settlement. Taking of such credit which has not yet accrued to the Company, has translated the Loss to the extent of Rs.426,252,511 into Profit and its equivalent effect on the Reserves and Surplus of the Company.