What is Revenue?

Income arises in the course of entity’s ordinary activities.

5 Steps to recognize Revenue

1. Identify the contract with the customer.
2. Identify separate performance obligation (SPO) in the contract.
3. Determine the transaction price (TP) (Contract price).
4. Allocate the TP to each SPO.
5. Recognize revenue when PO is satisfied.

Issues related to revenue recognition

1. Warranty:-
   - If it’s for assurance that the product will function as intended then we should make a provision for warranty expenses.
   - If it’s an option for the customer to buy the warranty then it’s revenue.

2. Variable consideration:-
   - When there is a variable transaction price or consideration then entity must estimate the amount it will be entitled to.
   - EX: Company A provide service to a customer for 10M $ company A is entitled to an extra 2 M $ if the number of mistakes made falls below a certain threshold.
   - Answer: If Company A’s experience is that the number of mistakes will fall below the acceptable threshold then the Revenue recognized is 12M $.
     If Company A’s experience is that number of mistakes will not fall below the acceptable threshold then the Revenue recognized is 10M $.

3. Refunds:-
   - When the customer has the refund right under some reasons like if the product wasn’t good enough then, Refund Liability should be recognized to show the present obligation if the customer refunded his money back. And Right to recover asset is also recognized.