

Recognition of Revenue on Advertising Service

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Introduction

NSJ (Pvt) Ltd is a Limited liability company which provides the services of printing, publishing, packing and as well as marketing solutions. Company cooperates with different types of industries such as medical, IT & telecommunication, apparel and digital media. NSJ (Pvt) Ltd publishes two monthly magazines in collaboration with a major IT firm and Medical Association.

In respect of company's advertising services in its magazine publications, Company offers three months, six months and twelve months advertising packages, for which company enters into agreements with its customers who wish to get their advertisements published in the company's monthly magazines, wherein Company agrees to repeat customers' advertisements over the period as specified in the agreement.

Discussion of the Issue

Company charges an advance of 50% of the total advertising fee for booking advertising space in its magazines which are published monthly. According to the agreement between the customers and the company, customers are required to pay, the balance of 50% of the "advertising fee" to the company before one month whereas the relevant advertisement will be published in the following month, allowing one month credit period to its customers.

Company has received advance payments of 50% of the total advertising fee in respect of the advertisements to be published in the company's magazines, as per the agreements entered into. Moreover, in some cases, Company has also collected the full amount of the advertising fee (100%) from some customers, who have not been proven creditworthy before publishing the particular advertisement.

It is noted in the company's income statement that the Company has incorrectly recognized such advance payments as its revenue from advertising services as the company receives those before publishing the particular advertisement in the monthly magazines and it is **not in line with the paragraph 20 of LKAS 18 - Revenue**.

Implication of the Issue

As a result, Company's revenue over-stated. Subsequently, Company's Income statement and Statement of Financial Position do not give a fair presentation of its operating performance and its financial position respectively.

Conclusion and Recommendation

Magazine advertisement revenues are recognized on the date that the magazines are placed on sale at the advertisement stands. Advance payments received from customers for the advertising services to be rendered in future periods are to be accounted for as “Deferred Income” in the Statement of Financial Position as a liability. Because it refers to revenue that has not been yet earned, but represents services which are owed to the customers. As the service is delivered over time, it is recognized as revenue in the Income Statement.

According to ***the paragraph 20 of LKAS 18 – Revenue***, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the ***stage of completion of the transaction (Percentage Completion Method)*** at the end of the reporting period. The outcome of a transaction can be estimated reliably only when all the following conditions are satisfied:

- a) The amount of revenue can be measured reliably;
- b) It is probable that the economic benefits associated with the transaction will flow to the entity;
- c) The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- d) The cost incurred for the transaction and the costs to complete the transaction can be measured reliably.

Therefore, in order to be in compliance with the above conditions, revenue from advertising services should be recognized by NSJ (Pvt) Ltd., as follows:

1. ***When advances (50% or 100%) are received from the Customers, they should be recognized in the financial statements by;***

Cash/Bank Account	Dr
Deferred Revenue Account	Cr

2. ***When the advertisement is published in the Magazines, revenue should be recognized as follows.***

2.1 If 100% of the advertising fee is received in advance:

Transfer the relevant advance (100%) which is applicable to the advertisement that is now published in the magazines as it is up to now held in the Deferred Revenue Account (leaving the advances received which are applicable to advertisements to be published in the future magazines in the Deferred Revenue Account) by;

Deferred Revenue Account	Dr
Revenue from Advertising Service Account	Cr

2.2. If 50% of the adverting fee is received in advance.

Transfer the relevant advance portion of (50%) which is applicable to the advertisement that is published in the magazines which is up to now held in the Deferred Revenue Income Account by;

Deferred Revenue Account	Dr
Revenue from Advertising Service Account	Cr

Then;

Account for the balance of 50% of the advertising fee which is relevant to the advertisement that is published in the magazines which is yet to be received from the customers in the following month, as the customers have been given one month credit period;

Trade Receivable Account	Dr
Revenue from Advertising Service Account	Cr