Query No. 30

Subject: Presentation of Unbilled Revenue under Trade Receivable or Other Current Financial Assets. [1]

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') is in the business of city gas distribution, and distributes gas by way of Compressed Natural Gas (CNG) and Piped Natural Gas (PNG). The Company has 22 lakh customers in the Domestic PNG segment to whom billing is being done. These customers have been distributed in portions for which actual meter reading and invoicing are done on a bi-monthly basis, i.e. once every two months. The Company recognises actual revenue as and when the readings are collected for a particular portion. Due to bi-monthly invoicing, some of the customers remain unbilled at the end of every month, for which the Company recognises revenue on a provisional basis at the end of every month based on previously billed quantity. However, the actual invoice is not raised to the customer at that time. The provisional sale recognised in every month is reversed in the next month; customers are invoiced only when the actual readings are received.

2. *Accounting Treatment*

Presentation done by the Company

The querist has stated that the Company recognises such 'Unbilled Revenue' under the heading of 'Other Current Financial Assets' based on the below provisions of Ind AS 115, 'Revenue from Contracts with Customers':

> "107 If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. …
>
> 108 A receivable is an entity's right to consideration that is unconditional. *A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. …*"

Further, as per the querist, paragraph 8.1.9 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013 (Revised January, 2022 Edition), issued by the Institute of Chartered Accountants of India (ICAI) also concurs with the above as under:

> "A receivable shall be classified as 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business and the company has a right to an amount of consideration that is unconditional *(i.e. if only the passage of time is required before payment of that consideration is due). …*"
>
> (Emphasis supplied by the querist.)

[1] Opinion finalised by the Committee on 26.4.2026.

3. In view of the above, the following facts presented by the Company in relation to the query are relevant:

- The Company follows bi-monthly meter reading and invoicing for its customers, and unbilled revenue is recognised for cases wherein readings were not taken at the end of the month as a part of the billing cycle of the Company.
- The Company recognises unbilled revenue for such cases based on previous billed quantity (i.e., gas supplied) and not on actual readings at the month-end. Further, invoicing is not done for such cases at the month-end.
- The total amount of unbilled revenue as on 31st March 2025 is Rs. 138.76 crores against total revenue of Rs. 16,399.70 crores.
- The actual sales are recognised when the meter readings are taken in the subsequent period, and invoicing is done.
- Since the amount of unbilled revenue is an estimate based on previous billed quantity and also the fact that actual invoicing to customer has not been made, mere recognition of unbilled revenue based on matching principle of accounting *does not provide unconditional right to the Company to receive payment after a passage of time as the actual sales volume will differ from the provisional sale recognised at month end (which is the pre-condition to recognise trade receivable as per paragraph 108 of Ind AS 115). Accordingly, such unbilled revenue cannot be qualified as a trade receivable.*

  (Emphasis supplied by the querist.)

4. *Comptroller and Auditor General of India (CAG) observation during audit of accounts for the financial year (F.Y.) 2024-25*

During the CAG audit for financial year 2024-25, the CAG has issued a Provisional Comment on the aforesaid presentation of unbilled revenue under the heading of 'Other Current Financial Assets'. The Provisional Comment of CAG is as below:

Standalone Balance Sheet as at 31st March 2025

Current Assets

Other current financial assets (Note-14) : ₹ 248.66 crore

The head includes an amount of ₹ 138.76 crore on account of unbilled revenue. However, the unbilled revenue is the part of trade receivable and should be disclosed with ageing of trade receivable as per Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013.

Thus, trade receivable is understated by ₹ 138.76 crore and other current financial assets is overstated by the same amount.

The statutory auditors and the management replied, considering it as a contract asset as per Ind AS 115.

Reply of the management is not acceptable to the C&AG because Ind AS 115 define the term 'contract asset' as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

Thus, the contract asset is different from trade receivable.

Further, Guidance Note on Division II - Ind AS Schedule III, clearly mentioned that unbilled revenue should be disclosed separately and disclosed with ageing of trade receivable.

5. The querist informed that it had assured the C&AG that it would seek an opinion from the Expert Advisory Committee (EAC) of the ICAI regarding the appropriate presentation of 'Unbilled Revenue' in the financial statements and, accordingly, sought the opinion of the Committee in this regard.

B. Query

6. In view of the above facts, the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) is sought on the said matter in determining the appropriate presentation for unbilled revenue recognised by the Company as to whether:

(i) Such unbilled revenue forms part of 'Other Current Financial Assets' in terms of paragraphs 107 and 108 of Ind AS 115; or

(ii) Such unbilled revenue be included under the 'Trade Receivables'; or

(iii) Any other presentation as EAC may consider appropriate in the case.

C. Points considered by the Committee

7. The Committee notes that the basic issue raised by the querist relates to the classification and presentation of unbilled revenue in the financial statements. The Committee has therefore, examined only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, measurement of revenue, appropriateness of systems of meter reading and billing process of the Company, separation of financing component (if any), timing of recognition of revenue or other aspects for revenue recognition/measurement under Ind AS 115 in the contract, etc. Also, the Committee has answered the issue only from an accounting perspective and not from any other perspective, such as specific terms of contracts with customers, etc. Further, the Accounting Standards referred hereinafter are Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS), as amended or revised from time to time.

At the outset, the Committee presumes that the Company in the extant case has an unconditional right to consideration for performance completed (viz., gas supplied) even on termination of the contract by customer before billing to the customer. In other words, if before billing, customer terminates the contract with the Company, the Company still has right to receive payment from the customer for the gas supplied.

8. With regard to presentation of unbilled revenue, the Committee notes the following requirements from Ind AS 115 and Basis for Conclusions (BC) to International Financial Reporting Standard (IFRS) 15, 'Revenue from Contracts with Customers', issued by International Accounting Standards Board:

Ind AS 115

"31 An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an

asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset."

"**contract asset** An entity's right to consideration in exchange for goods or services that the entity has transferred to a **customer** when that right is conditioned on something other than the passage of time (for example, the entity's future performance)."

"107 If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. An entity shall assess a contract asset for impairment in accordance with Ind AS 109. An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of Ind AS 109 (see also paragraph 113(b)).

108 A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with Ind AS 109. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with Ind AS 109 and the corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss)."

Basis for Conclusions (BC) to International Financial Reporting Standard (IFRS) 15

"BC322 When an entity performs first by satisfying a performance obligation before a customer performs by paying the consideration, the entity has a contract asset – a right to consideration from the customer in exchange for goods or services transferred to the customer.

BC323 In many cases, that contract asset is an unconditional right to consideration – a receivable – because only the passage of time is required before payment of that consideration is due. However, in other cases, an entity satisfies a performance obligation but does not have an unconditional right to consideration, for example, because it first needs to satisfy another performance obligation in the contract. The boards decided that when an entity satisfies a performance obligation but does not have an unconditional right to consideration, an entity should recognise a contract asset in accordance with IFRS 15. The boards noted that making the distinction between a contract asset and a receivable is important because doing so provides users of financial statements with relevant information about the risks associated with the entity's rights in a contract. That is because although both would be subject to credit risk, a contract asset is also subject to other risks, for example, performance risk.

BC324 Once an entity has an unconditional right to consideration, it should present that right as a receivable separately from the contract asset and account for it in accordance with other requirements (for example, IFRS 9 or Topic 310). The boards decided that IFRS 15 need not address the accounting for receivables in addition to revenue recognition. Issues such as the measurement (or impairment) of receivables and disclosures relating to those assets are already addressed in IFRS and US GAAP.

BC325 In many cases, an unconditional right to consideration arises when the entity satisfies the performance obligation and invoices the customer. For example, a payment for goods or services is typically due and an invoice is issued when the entity has transferred the goods or services to the customer. However, the act of invoicing the customer for payment does not indicate whether the entity has an unconditional right to consideration. For instance, the entity may have an unconditional right to consideration before it invoices (unbilled receivable) if only the passage of time is required before payment of that consideration is due. In other cases, an entity can have an unconditional right to consideration before it has satisfied a performance obligation. For example, an entity may enter into a non-cancellable contract that requires the customer to pay the consideration a month before the entity provides goods or services. In those cases, on the date when payment is due, the entity has an unconditional right to consideration. (However, in those cases, the entity should recognise revenue only after it transfers the goods or services.)"

9. From the above, the Committee notes that if an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance), whereas a receivable is an entity's right to consideration that is unconditional, i.e. only the passage of time is required before payment of that consideration is due. Thus, when an entity satisfies a performance obligation but does not have an unconditional right to consideration, for example, because it first needs to satisfy another performance obligation in the contract, it should recognise a contract asset, whereas an entity would recognise a receivable if it has a present right to consideration. The Committee further notes from BC325 (reproduced above) that the act of invoicing the customer for payment does not indicate whether the entity has an unconditional right to consideration and that the entity may have an unconditional right to consideration before it invoices (unbilled receivable) if only the passage of time is required before payment of that consideration is due.

The Committee notes that, in the extant case, the Company has supplied gas to its customers up to the reporting date and has recognised revenue for such supply (based on estimated consumption as per previously billed quantity), consistent with the principle of satisfaction of performance obligation as envisaged in Ind AS 115. To the extent that such supply has already been made (and no further performance by the Company is to be made), the Committee is of the view that the Company has, in substance, satisfied its performance obligation and earned the right to consideration for the goods transferred to the customers. Therefore, as per paragraph 108 of Ind AS 115 read with paragraph BC325 of IFRS 15, an unconditional right to consideration exists even before invoicing, and only the passage of time is required before

payment becomes due. Accordingly, in the extant case, even if the amount is unbilled at the reporting date, it will still qualify to be presented as a receivable (unbilled).

10. The querist has contended that unbilled revenue in the extant case is only an estimate. In this regard, the Committee wishes to mention that although the measurement of unbilled revenue is based on estimates and is subject to adjustment upon actual meter reading in the subsequent period, such estimation uncertainty, in itself, does not preclude the existence of an unconditional right to consideration. The Company has satisfied its performance obligation (supply of domestic gas), although the quantum of gas supplied has not been determined. Since the uncertainty relates merely to the determination of the amount (and not with regard to performance risk), it does not affect the underlying right to receive consideration for the supply already made. In other words, even though the exact amount that the Company shall receive will be known at a later date, it does not affect the Company's right to consideration, as there is no uncertainty about the same.

11. With regard to presentation of receivable as trade receivables, the Committee notes the following requirements of Division II of Schedule III to the Companies Act, 2013 and the Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 (Revised January, 2022 Edition), issued by the ICAI:

Division II of Schedule III to the Companies Act, 2013

"GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET:

…

4. A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.

…

6. A company shall disclose the following in the Notes:

A. Non-Current Assets
I. Property, Plant and Equipment:

…

VII. Trade Receivables:

(i) Trade Receivables shall be sub-classified as;

(a) Trade Receivables considered good - Secured;

(b) Trade Receivables considered good - Unsecured;

(c) Trade Receivables which have significant increase in Credit Risk; and

(d) Trade Receivables – credit impaired.

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

…

Unbilled dues shall be disclosed separately;

…

B. Current Assets

I. Inventories:

…

III. Trade Receivables

(i) Trade Receivables shall be sub-classified as;

(a) Trade Receivables considered good - Secured;

(b) Trade Receivables considered good - Unsecured;

(c) Trade Receivables which have significant increase in Credit Risk; and

(d) Trade Receivables – credit impaired.

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

…

Unbilled dues shall be disclosed separately;"

Guidance Note

"8.1. Assets

On the face of the Balance Sheet, Ind AS Schedule III requires the following items to be presented under non-current assets and current assets as below:

Non-current assets

(a)…

…

(h) Financial assets

(i) Investments

(ii) *Trade Receivables*

(iii) …

…

(j) Other non-current assets

Current assets

(a) Inventories

(b) Financial Assets

(i) Investments

(ii) *Trade receivables*

(iii)…

…

(vi) Others (to be specified)

…

(d) Other current assets"

"8.1.9. Non-current Trade Receivables

Non-current Trade Receivables, shall be sub-classified as:

(i) (a) Considered good – Secured;

(b) Considered good – Unsecured;

(c) Trade Receivables which have significant increase in credit risk

(d) Trade Receivables – credit impaired

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

…

(iv) For trade receivables outstanding, following ageing schedule shall be given:

…

Unbilled dues shall be disclosed separately.

A receivable shall be classified as 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business and the company has a right to an amount of consideration that is unconditional (i.e. if only the passage of time is required before payment of that consideration is due). …"

"8.1.15. Current Trade Receivables

(i) Trade receivables shall be sub-classified as:

(a) Trade receivables – Considered Good Secured;

(b) Trade receivables – Considered Good Unsecured;

(c) Trade receivables which have significant increase in credit risk

(d) Trade receivables – Credit impaired

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

…

Unbilled dues shall be disclosed separately.

A trade receivable will be treated as current, if it is likely to be realized within twelve months from the date of Balance Sheet or within the operating cycle of the business.

…

All other guidance given under Non-Current Trade Receivables to the extent applicable, are applicable here also."

(Emphasis supplied by the Committee.)

Accordingly, the Committee is of the view that the unbilled receivables in the extant case shall be presented as 'Trade Receivables' under the head 'financial assets' under current or non-current assets, depending upon whether they meet the definition and criteria for classification as current or non-current assets. Further, unbilled receivables should be disclosed separately as per the requirements of Schedule III to the Companies Act, 2013.

D. Opinion

12. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 6 above:

(i) and (ii) The unbilled receivables in the extant case shall be presented as 'Trade Receivables' under the head 'financial assets' under current or non-current assets, depending upon whether they meet the definition and criteria for classification as current or non-current assets. Further, unbilled receivables should be disclosed separately as per the requirements of Schedule III to the Companies Act, 2013, as discussed in paragraphs 9 to 11 above.

(iii) Refer (i) and (ii) above.

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