



ACCOUNTING AND TAX ISSUES CONCERNING COMMERCIAL DISCOUNTS

SAVA Raluca

Lucian Blaga University of Sibiu, Romania

Abstract:

Commercial discounts accounting presents a particular importance because, on the one hand, of their widely spread on a large scale in the commercial activity and on the second hand, due to the influence of the accounting and reporting method over the value added tax. The paper theoretically addresses commercial reductions and also their reflection in the accounting according with the latest regulations in force.

Key words: *accounting, tax, commercial discounts*

1. Introduction

Discounts encountered in trade relations between enterprises can be divided, according to their nature, into two broad categories: commercial discounts and financial discounts.

In the category of **the commercial discounts** we include rebate, remission and discount. **The rebate** represents the price reduction that is granted for quality or non-compliance defects of the commercialized goods and is practiced on the selling price previously agreed between supplier and customer. **The remission** represents a discount granted over the sale price agreed between supplier and customer, in case of higher sales from the volume agreed, but may also be granted where the customer has a preferential status. **The discount** represents the price reduction calculated over the total transactions made with the same buyer within a specified period, in order to reward his loyalty towards the products of the supplier. **Financial discounts** take the form of settlement reductions granted for the payment of the debts before the normal exigibility term.

Another criterion for the classification of price cuts is **the time when they are granted**, respectively, at the time of the initial sale, or later. The delimitation of price reductions according to the two criteria (that of the nature and time of grant) has a special importance because their recording method in the accounting system and their

presentation in the annual financial discount reductions differ according to the category that they belong to.

Commercial and financial discounts are negotiated by the counterparties as a percentage of the sale price and are detailed in the commercial contracts, based on the conditions agreed upon (the quantity to which it applies, the delivery term, the payment term, and the billing term).

In practice we can **see discounts in order to achieve some volume acquisitions and discounts for activities that promote the products** by the merchants (store advertising, catalogs and advertising in magazines, preferential positioning in the racks) called **bonuses**. These two types of discounts (respectively discounts versus bonuses) are distinguished both in terms of billing and in the method of calculation etc.). Thus, only the reduction for achieving some acquisition volume is considered commercial reduction, while promotional bonuses are assimilated to the publicity or promotional services. This distinction (commercial reduction versus bonus) is very important and should be performed from the start in order to apply the adequate accounting and tax treatment.

In terms of the accounting treatment of the commercial discounts, OMPF 1802/2014 states that: commercial discounts granted by the supplier and included in the purchase invoice adjust downwards the acquisition cost of goods. When the purchase of products and the receipt of the commercial rebate are treated collectively, the commercial discounts received subsequently to the invoice date also adjust the acquisition cost of goods.

The commercial discounts received subsequently to the invoice date correct the cost of the stocks to which it refers to, if they are still in management. If the stocks for which the subsequent reductions were received are no longer in management, they are distinctly recorded in the accounting system (account 609 "Received commercial discounts"), on behalf of third-party accounts.

When selling products and providing commercial discount are combined, the commercial discounts granted subsequently to the invoice adjust the incomes from sales.

The trade discounts granted after invoicing, regardless of the period to which they relate to, are distinctly highlighted in the accounts (account 709 "Granted commercial discounts"), on behalf of third-party accounts.

The commercial discounts related to services, received after the invoice, respectively granted after invoicing, regardless of the period to which they refer to, are distinctly highlighted in the accounts (account 609 "Received commercial discounts" and Account 709 "Granted commercial discounts") on account of third-party accounts.

If the commercial discounts represent subsequent events to the date of the balance sheet that lead to the adjustment of the annual financial situations, they are recorded at the date of the balance sheet in the account 408 "Suppliers –un- received invoices" and Account 418 "Clients - invoices to be issued" and are reflected in the financial statements of the exercise for which the reporting is made, based on the justifying documents. The reductions that are going to be received, recorded at the

date of the balance sheet in the account 408 "Suppliers –un-received invoices", correct the cost of inventories to which they refer to, if they are still in management.

In the situation of a commercial transaction both the buyer and the seller must analyze several aspects of the transaction.

Found in the situation of procuring some goods, the **buyer** must perform an analysis regarding:

- *The way the products purchase should be treated and receiving the commercial discount: together or separately.* If the two operations are treated together, the commercial discounts received after invoicing adjust the acquisition cost of the goods.
- *If the goods to which the reductions are related to are still in management or not.* The commercial discounts received subsequently to the invoice correct the cost of the inventories to which they refer to, if they are still in management. If the stocks for which the subsequent reductions were received are no longer in management, they are distinctly highlighted in the accounts in the account 609 "Received commercial discounts", based on third party accounts.

The seller examines the initial transaction and the discount granted *from a single point of view, namely that if the two operations are treated together.* When selling the products and providing commercial discount are treated together, the commercial discounts granted after the invoice adjust the income from sales.

2. Case study

The Alfa company sells goods in February 25, 2015 in value of 30,000 lei + VAT 24%, to the Beta company. On March 20, 2015 the Alfa company grants a commercial discount of 10%, as evidenced on a separate invoice. The discount invoice mentions both the sum over which the discount is granted and the goods for which is granted and the initial invoice of their sale.

To the buyer (company Beta), from the merchandise purchased until the date of receiving the discount invoice, merchandise in the amount of 17,500 lei was sold. At the date of receiving the discount there is stock merchandise in the amount of 12,500 lei.

The Alfa Company (seller) will record in the accounting system the followings:

Recording the sale of goods in February 25

4111 Clients	=	%	37.200
		707 Incomes from selling goods	30.000
		4427 VAT collected	7.200

Recording the discount granted in March 20

4111 Clients	=	%	-3.720
		707 Incomes from selling goods	-3.000
		4427 VAT collected	-720

The Beta Company (buyer) will record in the accounting system the followings:

Recording the goods acquisition in February 25

%	=	401 Suppliers	37.200
371 Goods			30.000
4426 VAT deductible			7.200

Recording the discount invoice in March 20

- for the merchandise sold in value of 17.500 lei, the afferent discount is of $17.500 \times 10\% = 1.750$ lei, it will be recorded in account 609.
- for the merchandise existing in the stock in value of 12.500 the afferent discount is of $12.500 \text{ lei} \times 10\% = 1.250$ lei, it will be recorded as a diminish of the stock costs.

401 Suppliers	=	%	3.720
		371 Merchandise	1.250
		609 Received commercial discounts	1.750
		4426 VAT deductible	720

The commercial discounts related to services, received after the invoice, regardless of the period to which they relate to, are highlighted separately in accounting in account 609 "Received commercial discounts", based on third parties accounts, and at the seller they are separately highlighted in the accounting system in the account 709 "Granted commercial discounts", based on third party accounts.

The company Gama, which provides services for maintenance of facilities, annually invoices the maintenance of some equipment of the Sigma company, amounting to 7,000 lei + VAT 24%. The invoice is issued in March 2015. In April of the same year it is invoiced a rebate of 5%.

Registering the invoice for services in March **in the accounting system of the Gama company (seller)**

4111 Clients	=	%	7.680
		704 Incomes from services provided	7.000
		4427 VAT collected	1.680

Registering the discount granted in April, 7.000 lei x 5% = 350 lei. The VAT reduction corresponding to 350 x 24% = 84 lei **in the accounting system of the Gama company (seller)**

%	=	4111 Clients	434
709 Commercial discounts granted			350
4427 VAT collected			84

Registering the acquisition invoice in March in the accounting system of the Sigma company (**buyer**)

%	=	401 Suppliers	7.680
628 Expenses with other services provided by third parties			7.000
4426 VAT deductible			1.680

Registering the discount received in the month of April in the accounting system of the Sigma company (**buyer**)

401 Suppliers	=	%	434
		609 Received commercial discount	350
		4426 VAT deductible	84

The innovation elements brought by the Minister of Finance Order 1802 compared with the previous regulations (OMPF 3055/2009) are presented in the following table:

- the accounting of the commercial discounts at the buyer

OMPF 1802/2014	OMPF 3055/2009
Commercial discounts when purchasing goods	Commercial discounts when purchasing goods
<ul style="list-style-type: none"> The commercial discount received from the supplier and shown on the purchase invoice reduces the acquisition cost of goods 	<ul style="list-style-type: none"> The commercial discount received from the supplier and shown on the purchase invoice reduces the acquisition cost of goods
<ul style="list-style-type: none"> <i>Commercial discounts that are received subsequently to the invoice of the goods correct the cost of the stocks if they are still in the accounting system. If they are not, then they are registered separately in the accounting system in account 609 - Commercial discounts received based on the account of third party accounts.</i> 	<ul style="list-style-type: none"> <i>Commercial discounts that are received subsequently to the invoice of the goods are registered distinctly in the accounting system in account no. 609 – Commercial discounts received, based on the account of third parties accounts.</i>
Commercial discounts when providing services	Commercial discounts when providing services
<ul style="list-style-type: none"> <i>Commercial discounts when providing services received after the invoice, regardless of the period to which they relate to, are highlighted separately in the accounting system in account 609- Commercial discounts received, based on the account of third parties accounts.</i> 	<ul style="list-style-type: none"> <i>Commercial discounts when providing services received after the invoice, regardless of the period to which they relate to, are highlighted separately in the accounting system in account 609- Commercial discounts received, based on the account of third parties accounts.</i>

- **the accounting of the commercial discounts at the seller**

OMPF 1802/2014	OMPF 3055/2009
Commercial discounts when selling goods	Commercial discounts when selling goods
<ul style="list-style-type: none"> Commercial discounts, if are treated together, will adjust the sales revenues, regardless if they are granted once which the acquisition invoice or later 	<ul style="list-style-type: none"> Commercial discounts granted at invoicing of goods adjust the incomes from selling the merchandise.
<ul style="list-style-type: none"> Commercial discounts granted after invoicing the goods, regardless of the period to which they relate to, will be highlighted distinctly in account 709 – <i>Commercial discounts</i> granted, based on third party accounts 	<ul style="list-style-type: none"> Commercial discounts granted after invoicing the goods, regardless of the period to which they relate to, will be highlighted distinctly in account 709 – <i>Commercial discounts</i> granted, based on third party accounts

As it regards the VAT, according to the Tax Code, the taxable basis for providing goods and services made within the country or intra community, does not include rebates, discounts and other price reductions granted from the suppliers directly to customers at the date the tax becomes chargeable. If the rebates, discounts and other price reductions are granted after the delivery of goods or services, the taxable basis of the VAT will be reduced.

Concerning the reporting of the operations in terms of tax value added, **the commercial and financial reductions will be highlighted in:** Journal of purchases or sells distinctly where they are granted after invoicing; The Value added tax return (code 300) distinctly if they are granted after invoicing; The informative declaration regarding deliveries / providing and acquisitions carried out on national territory (code 394) for the reductions received/given to the Romanian trading partners; The recapitulative statement regarding deliveries / acquisitions / supplies of community services (code 390) for the reductions received / given to the trading partners in the European Union. In the case of price reductions granted later by a supplier in the EU, if such a price reduction can be attributed to a prior intra-community identifiable acquisition, the reporting of such a reduction shall be made by correcting value of the initial intra-community acquisition in the Recapitulative Statement regarding intra-community deliveries/acquisitions/ supplies. This correction will be made by submitting a corrective declaration.

In conclusion, in order to apply the right treatment, both in accounting and tax terms, it must be examined from the beginning if the reduction is indeed a commercial/ financial reduction or is actually a provided service.

References:

- ORDIN nr. 1802 din 29 decembrie 2014 - Partea I pentru aprobarea Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile financiare anuale consolidate
- ORDIN nr. 3055 din 29 octombrie 2009 pentru aprobarea Reglementărilor contabile conforme cu directivele europene