

Accounting of discounts, acquired by an enterprise when purchasing production inventories

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Abstract. Different types of discounts for the price of a product are quite common in transactions. They are frequently used by industrial enterprises as well: they receive discounts when they purchase production inventories; they offer discounts when they sell the finished product. Industrial enterprises strive to minimize costs when purchasing raw materials necessary for manufacturing and therefore it is interested in acquiring a discount from supplier. Acquiring a discount is a fact of economic life and must be registered in financial accounts of an enterprise, however nowadays the patterns of accounting of such operations are not regulated by any special normative documents and traditionally applied accounting patterns do not contain information on the amounts of received discounts. It is happening because they comply with the current rules of accounting, according to which inventories are accounted only after deduction of the received discount (so the discount is granted in form of verbal agreement). This is a precursor to the lack of data on the received discounts in financial accounting system of an industrial enterprise, to the impossibility of creating the information base for analyzing the effectiveness of the received discounts on its basis, to the violation of the principle of completeness and continuity of registering all the economic life events in accounting. The article offers the already existing variants of financial accounting of the received discounts, analyzes its advantages and disadvantages from the point of view of compliance with the current legislative system and economic contents of discount operation. Proprietary technology of financial accounting of discounts, received by an industrial enterprise when purchasing production stock, is offered. This technology allows solving the stated methodological issues.

1 Introduction

Self-cost of the finished industrial products has a direct correlation with the purchase price of the materials used for manufacturing it. The lower the cost, the wider are the possibilities of an enterprise either to get more profit without lowering the selling price, or to raise its competitive ratio by lowering the price of the finished goods. That is why managers of an industrial enterprise usually face with the task to obtain the discount from the raw materials suppliers. This discount would lower the purchase value and this issue becomes quite crucial under the conditions of an economic crisis.

In the case of acquiring a discount for purchase items an enterprise's accountant needs to record this operation, because a commercial discount influences the financial result of a discount-receiving enterprise [1] by lowering the contract price. Therefore its acquisition is an economic event and, as any other economic event performed by an industrial enterprise should be accounted. But at present times patterns of financial accounting of the operations with commercial discounts are not regulated by any normative document. Those are the reasons why the researchers of corresponding fields and practicing accountants still haven't reach a single

opinion on how to record the acquired discount in the accounts without ruining their methodology.

2 Thematic justification and the aim of the research

Nowadays official notion of a discount has still not been captured in any branches of law [2, 3], the handling procedures of accounting documents when conducting transactions with discounts has not been regulated [4-9], and there are no legislative consolidated patterns of accounting the discounts [8, 10, 11], despite the long-term experience of using the commercial discounts in practice. So the accountant of an industrial enterprise documents and accounts the discounts, which they've got from the raw materials supplier, according to the traditional ways, which, unfortunately, don't exclude the methodological errors.

The main methodological issue of financial accounting of the acquired discounts is in the fact that actually happened and documented fact of economic life – the acquisition of a discount by an industrial enterprise for fulfilling the terms of the contract on supplying the materials – is not recorded in financial accounts of the discount-receiving organization. This violates the

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principal of the continuous recording of all the facts of economic life of an enterprise and denies it an opportunity to form an authentic base for analyzing the effectiveness of the acquired discounts. At present times the information, created within the frames of financial accounting of an industrial enterprise, is the source of data for analyzing the gathered discounts. This information is often less credible than the one that is being formed within the frames of financial accounting (the reason behind that is that accounting is not being regulated legally, responsibility of officials is not so high, the principal of continuous recording and method of information collecting can be violated, etc. It can cause the distortion of the reported data). That's why it is more preferable to use the data of the financial accounting as the source, however the traditional pattern of financial accounting of the discounts, which could solve the stated methodological issue and save from the negative consequences mentioned above, is a critical objective.

The aim of this research is in the devising the method for accounting the discounts, acquired by the industrial enterprise when purchasing materials, that would enable documenting such operations in financial accounting records.

3 Analysis of the existing variants of accounting the acquired discounts

Most researchers, for instance [10, 11], believe that there is nothing difficult in accounting the acquired discounts, but they agree on the idea that their accounting depends on the time of acquiring the discount and finally comes down to documenting several simple accounting records.

The 1st variant. If the discount is granted to an enterprise directly while purchasing the goods and materials the following happens: the account of goods and materials is recorded on the debit side, and the account, intended for payables – on the credit side. At that, purchased goods and materials enter the records with already reduced cost by the amount of the discount, as required by the section 11 of the International Accounting Standards (IAS) 2 “Inventories” and section 6 of Russian Accounting Standards 5/01 “Accounting for inventories”.

The approaches for evaluating the cost of purchased inventories of international and Russian accounting rules are the same and that's why the variants of their recording in accounting will be reviewed on the example of Russian chart of accounts.

The example (on the basis of this example other following patterns of accounting will be reviewed). Industrial enterprise placed a request on purchasing materials – 100 tons of metal. The supplier agreed to offer one-time discount in the amount of 3% from the usual price of the price list for the big amount of purchase: 48500 rubles for a ton instead of 50 000 rubles for a ton (without the value-added tax). As the result of the deal discount-receiving enterprise had a full set of documents: sale and purchase contract, containing the conditions for receiving a discount, waybill, sales

invoice, and invoice for payment with separate line for registering the discount amount. The fact of non-cash settling of the presented bill is confirmed by a payment order marked with the bank as executed. The following recordings were made in financial accounting of an industrial enterprise when placing in purchased metal in stock records:

- The raw materials delivered by supplier has entered the records (metal, 10 tons), Debit 10 – Credit 60, amount sum 485000 rubles
- The value-added tax has entered the records (18%), Debit 19 – Credit 60, amount sum 87300 rubles
- Settlement with metal supplier has been performed, Debit 60 – Credit 51, amount sum 572300 rubles
- The sum of value-added tax is presented to deduction, Debit 68 – Credit 19, amount sum 87300 rubles

In the given example all the stages of applying the discount has been adhered, the discount is duly registered: it is provided by the supply contract terms and marked out with a separate entry in the waybill, sales invoice, and invoice for payment, the fact of its granting is obvious. But according to the current rules of financial accounting (international and Russian) discount-receiving purchaser does not record the received discount in it, and states the cost of raw materials already reduced by the amount of discount. Therefore actually happened and documented fact of economic life – the acquisition of a discount by an industrial enterprise for fulfilling the terms of the contract on supplying the materials (in this case the purchase amount) – is not recorded in financial accounts of the discount-receiving organization.

The 2nd Variant. The discount is granted after accounting raw materials, in other words retro discount is applied. First, the purchased materials and goods are being recorded in the financial accounting books traditionally – by the actual value without a discount. According to the information from the example given above, the following recordings must be made:

- The raw materials delivered by supplier has entered the records (metal, 10 tons), Debit 10 – Credit 60, amount sub 500000
- The value-added tax has entered the records (18%), Debit 19 – Credit 60, amount sum 90000 rubles
- Settlement with metal supplier has been performed, Debit 60 – Credit 51, amount sum 590000 rubles
- The sum of value-added tax is presented to deduction, Debit 68 – Credit 19, amount sum 90000 rubles

Then financial accounts are being corrected after actually receiving the retro discount. However, how this correction should be performed is still a debated issue.

Some researchers [12-15] believe that the sum of received discount should be included in the miscellaneous revenues of an organization. They justify it with the idea that actual value of inventory stocks, in which they are recorded, cannot be changed or corrected (according to section 12 of Russian Accounting Standards 5/01 “Accounting for inventories”), or with the idea that the discount is seen as writing down of debt of a purchaser. In such cases the following accounting record must be made:

The amount of the discount without the value-added tax is recorded among the miscellaneous revenues, Debit 60 – Credit 91/1, amount sum 15000 rubles

Authors cannot agree with the offered approach. Firstly, such way of accounting the retro discounts does not reflect their economic meaning. Acquired discounts are not the revenue of a discount-receiving enterprise, despite the fact that they indirectly facilitate the small positive economic effect because they help an enterprise to save on expenditures connected with purchasing of material values. Inherently, the offered discount should lower the initial cost of the purchased assets, works and services, but in the reviewed case their cost would not be changed. Secondly, in the researches, conducted before, the authors of the article justified the reasons why the discount and writing out of debt are not the same [16]. It makes their business accounting mismatch, too. Thirdly, tax consequences of applying the retro discount that would lower the initial cost of assets, works and services and so-called discount, which is recognized as miscellaneous revenues of an enterprise, would differ significantly [16].

In this case the opinion of other group of researchers [17-19] presents to be more justified. They adhere to different way of correcting the financial accounting of receiving the retro discount by a discount-receiver. As it was fairly pointed out before, the section 12 of Russian Accounting Standards 5/01 “Accounting for inventories” does not allow changing the actual value of inventory stock, in which they are recorded. However, in the same section the following is stated: “except the cases, emphasized by the Russian federation legislation”, and such possibility is directly supported by the section 2 of article 424 of the Civil Code of Russian Federation. Besides, the possibility of applying discounts is described in International Financial Reporting Standards IFRS “Contractual revenue” Therefore the following pattern of accounting records is believed to be legally justified:

- The initial cost of metal is lowered by the sum of the offered discount (reversing entry), Debit 10 – Credit 60, amount sum 15000 rubles
- Value-added tax that falls on the debit sum is restored (reversing entry), Debit 19 – Credit 60, amount sum 2700 rubles

It is positive that this means of correcting the financial accounting of the discount-receiving enterprise, due to the acquiring the retro discount, fully correlate with the current rules of financial accounting. But the same as in the first variant the retro discount itself is not presented in the accounts. This is more about the accounting of made correction due to the fact of receiving a discount than about the accounting of the discount itself.

The third Variant. The completely different opinion concerning the accounting of the discounts acquired by an enterprise belongs to those [9, 20], who believe that purchased goods can be accounted straight away according to the purchased cost and with discount. If a discount-receiver fulfills the terms of acquiring the discount, then there will be no corrections in financial accounting. If after the stated period of discount validity

it won't be acquired than the additional accounting records will be made concerning the sum of the lost discount. Therefore in such case the following recordings in the accounts must be made firsthand:

- Purchase cost of metal is recognized including the discount, Debit 10 – Credit 60, amount sum 485000 rubles
- Value-added tax on metal acquired at a discount is accounted, Debit 19 – Credit 60, amount sum 87300
- Settlement with metal supplier has been performed, Debit 60 – Credit 51, amount sum 572300 rubles
- The sum of value-added tax is presented to deduction, Debit 68 – Credit 19, amount sum 87300 rubles

Then, if the requirements for acquiring a discount are met and the discount has been granted, the accounting should not need to be corrected. In the case if the discount has not been granted, the corrections must be made:

- Purchase cost of metal is increased by the sum of a lost discount, Debit 10 – Credit 60, amount sum 15000 rubles
- Valued-added tax from the sum of lost discount has entered the records, Debit 19 – Credit 60, amount sum 2700 rubles
- The metal has been paid in the sum of a lost discount, Debit 68 – Credit 19, amount sum 17700 rubles.
- The value-added tax, connected with the lost discount, has entered the books, Debit 68 – Credit 19, amount sum 2700 rubles.

When this variant of recognizing of the acquired discounts for industrial enterprise is used, the situation can appear in which the discount is yet not been documented, the fact of its granting has not yet been accomplished and, moreover is still in ambiguous, but it has already been registered in enterprise's records as a successful economic event. Such history of events does not comply with the Federal Law “On accounting”, which strictly define the sequence of actions: firstly the fact of economic life must actually happen, which must be duly documented with primary document at the moment or immediately after its ending (section 3 of article 9 of the law within named), later on the basis of the primary documents this fact of economic life needs to be recognized in the accounting records. At that, the principle of prudence, stated in section 6 of Russian Accounting Standards 1/2008 “Accounting policy of an organization” is also been violated. Besides, the offered pattern of accounting recording of the received discount is designed not for lowering the initial cost of the assets (works, services) as it is demanded by the term “discount”, but for raising it in case if discount-receiver won't fulfill the conditions of the terms of transaction.

4 The reasons behind the issues of financial accounting of acquired discounts

The analysis of the offered variants of accounting of the discounts acquired by the industrial enterprise has shown that each of them has its own serious disadvantages, and this fact wears out the widespread opinion, that offered

discounts are “the easiest items for accounting and taxation” [11]. Even the traditionally employed patterns of accounting operations, corresponding with the current legislation, which from the first sight seem to be plain and simple, has one serious drawback – the impossibility of collecting, registering and keeping the information on the gathered discounts in the system of financial accounting and therefore the lack of credible data for conducting the analysis of the effectiveness rate of the applied discounts.

The inability of the financing accounting system to form the information bank on the gathered discounts is conditioned not only with the requirements of International Financial Reporting Standard 2 “Inventories” and Russian Accounting Standards 5/01 “Accounting for inventories”, instructing to deduct discounts when defining the costs for inventory acquisition, but also with the compliance with the requirements of section 6.5 of the Russian Accounting Standards 10/99 “Organization’s expenditures” according to which all the expenditures is defined “with regard to all the discounts granted to an enterprise under the discount agreement”. According to this document discounts are granted *viva voce* and are not mentioned in the records. This provision is acknowledged by the researcher [10], who believes, that bookkeeping of the granted discounts is not imperative in the business accounting.

However, getting a discount is an operation that influences the financial result of economic entity’s activities and so, according to section 8 and article 5 of the Federal Law on Accounting”, getting a discount is a fact of economic life, and therefore an object of accounting and should be reflected in its records. Besides, accounting of the acquired discounts is necessary for complying with the requirement of completeness, stated in section 6 of Russian Accounting Standards 1/2008 “Accounting policy of an organization”. So it is clear that the documents listed above contain the controversial provisions: some dictate to act in a way that ignores the fact of acquiring a discount (Russian Accounting Standards 10/99 “Expenditures of an organization” and 5/10 “Stock accounting”, International Financial Reporting Standards 2 “Inventories”), others call for its accounting (Federal law “On Accounting” and Russian Accounting Standard 1/2008 “Accounting policies of an organization”).

Some authors, for instance [8] are fair to point out that discounts accounting is not regulated enough by the plan of bookkeeping account (Russian and international as well) – they lack universal designated accounts, meant for accounting of the discounts within the frames of any other settled civil contracts.

Therefore, all the circumstances mentioned above – controversies in documents that regulate the organization and bookkeeping process, inconsistency of the existing variants of accounting from the point of view of the immediate discount accounting, the absence of the specific accounts in the plan of accounts, which is intended for registering the applied discount – speak of the fact that methodology of the financial accounting is in the arrears of the modern practice of widespread

application of the discounting system in different fields of business activity.

5 Proprietary technology of the acquired discounts

Narrowly-specialized account named “Acquired discounts” must be included in the working chart of accounts for bookkeeping to form the separate information pool on discounts acquired by the industrial enterprise and to record the facts of acquiring discounts in the accounts of financial accounting. As opposed to Russian standards, international standards of financial reporting does not prescribe how the chart of accounts should look like, so, based only on the structure of Russian Chart of accounts for bookkeeping, we assign number 64 to newly opened account. This account is related to section 6 “Calculations” of Russian chart of accounts, because discounts do not exist solely all by themselves. They appear only when conducting some payments and tied closely to them. It is worth mentioning that account 64 can not only reflect accounts, gathered by an industrial enterprise from suppliers when paying for goods and materials – this account is universal, in other words any acquired discounts can be registered in it.

Method of financial accounting of the discounts acquired by the industrial enterprise is in the following: firstly, the purchased assets (materials, goods, permanent assets, works, services) are being taken to accounting without deducing the discount, and then, if the discount is given, the fact of its acquisition is recorded and after that the initial cost of the accounts (works, assets) entered the books. Let’s not forget that accounting standards allow to do so when the price of the contract is being changed, and that’s what’s happening in this case.

The sequence of recording the operations on including materials and goods purchased with a discount in accounts, depends on the time of getting a discount. If it is granted immediately when purchasing with a discount, then the sequence of accounting records is the following:

- The raw materials delivered by supplier has entered the records (metal, 10 tons), Debit 10 – Credit 60, amount sum 500000 rubles
- The discount from supplier is acquired in the amount of 3%, Debit 60 – Credit 64, amount sum 15000 rubles
- Value-added tax is recognized (18%), Debit 19 – Credit 60, amount sum 87 300 rubles
- Settlement with metal supplier has been performed, Debit 60 – Credit 51, amount sum 572300 rubles
- The sum of value-added tax is presented to deduction, Debit 68 – Credit 19, amount sum 87300 rubles

If the retro discount is applied, than the sequence if accounting records is the following – firsthand the metal entered the records with the purchased cost without a discount:

- The raw materials delivered by supplier has entered the records (metal, 10 tons), Debit 10 – Credit 60, amount sum 500000 rubles

- Value-added tax is recognized (18%), Debit 19 – Credit 60, amount sum 90000 rubles
- Then, when all the terms of the contract have been fulfilled and retro bonus granted, the following records are added:
- The discount from supplier is acquired in the amount of 3%, Debit 60 – Credit 64, amount sum 15000 rubles
- The cost of the metal is lowered by the sum of the granted discount, Debit 64 – Credit 10, amount sum 15000 rubles
- The value-added tax is corrected reversing entry, Debit 19 – Credit 60, amount sum 2700.

In case if the settlement with the supplier has already been performed and the sum of value-added tax presented to deduction, the corrections must take place.

6 Practical value of the method of accounting the acquired discounts

The devised method allows solving the main methodological issue of financial accounting of the acquired discounts. It records the fact of acquiring the discount for fulfilling the supply contract terms as a fact of economic life of an industrial enterprise in financial accounting and this restores the principle of completeness and continuity of recording all the facts of economic life of an enterprise in accounting. Also, this method has practical value: it gives opportunity to form the credible base for conducting economic analysis of effectiveness of the received discounts on the basis of financial accounting data.

7 Conclusion

This project makes a scientific contribution in the field of development methods for accounting the discounts, received by an enterprise from raw materials suppliers and this allows shifting from verbal agreements, never reflected in the discounts accounting, to registering such operations in the financial accounts, which later will give opportunity to make the right management decisions.

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