

**ACCOUNTING TREATMENT FOR COMMERCIAL DISCOUNTS
ON GOODS PURCHASED FOR RESALE**

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Introduction

In the specialized literature there are two major categories of discounts applied between business partners: trade discounts and financial discounts. In terms of accounting, the method of calculation of interest is commercial and financial cuts, especially the tax treatment of them. Trade discounts are applied prior to financial services, and both types of discounts are calculated on the net earlier. Discounts are calculated after applying discounts and special an issue is to know the level of rebates, which are determined periodically based on the turnover.

1. General terms of trade discounts on goods purchased for resale

Goods purchased for resale are goods purchased outside the entity to be sold in the same state without any further processing. They are treated as goods:

- inventories purchased for own use (raw materials, inventory, etc.) and who subsequently changed their destination and offered for sale to third parties;

- inventories from own production, which are sold through stores (semi-finished products, etc.).

According to the Minister of Public Finance Order no. 3.055 / 2009 approving the Accounting Regulations compliant with European directives, trade discounts granted or received after billing are recorded in any case, in accounts 709 „Trade discounts offered” and 609 „Trade discounts received”. In this article we intend to analyze, through practical examples, changes in accounting for sales rebates to new accounting regulations in the „Order of Public Finance Minister no. 1.802 / 2014 approving the Accounting Regulations on the annual individual and consolidated annual financial statements.”

The Order no. 1.802 / 2014 provides:

Trade discounts can be, for example:

a) the discounts - are accepted for quality defects and practice on the selling price;

b) remises - is getting higher volume in sales agreed or if the buyer has preferential status; and

c) Rebates are calculated on the total price reduction of transactions with the same third party, during a given period (pt. 76 para. (7)).

Financial reductions take the form of discounts granted by sellers to buyers who pay their obligation on time or before maturity. Basically discounts have no connection with when billing for goods and services but only upon receipt or payment of fees.

Trade discounts granted by the supplier and included in the purchase invoice adjusted downwards acquisition cost of goods. When purchasing products and receiving the rebate are combined commercial, commercial discounts received subsequently adjusted billing also the acquisition cost of goods (pt. 76 para. (1)).

However, according to art. 137 par. (3) a) of the Fiscal Code, rebates, discounts and other price reductions are not included in the taxable amount of tax if they are granted by the supplier/provider direct benefit upon delivery/provision and does not constitute, in fact, remuneration for a service or delivery.

To analyze accounting treatments on commercial reductions on goods purchased for resale, we use the following examples:

A buyer has negotiated with its supplier of raw materials a 10% discount when purchasing a larger quantity of 100 pieces in a single command. The unit price of raw materials is 100 lei/ piece. The buyer command 500 pieces. For the supplier, the goods are finished products. The VAT rate is 20%.

Therefore, this reduction is draw.

VAT rate will be applied to the net amount:

The basic price cuts = $500 \times 100 \text{ lei / piece} = 50,000 \text{ lei}$

Rebate (10%) stated on the invoice = $50,000 \times 10\% = 5,000 \text{ lei lei}$

Net worth 45,000 lei =

VAT = $45,000 \times 20\% = 9,000 \text{ lei lei}$

Accounting records are:

a) At the buyer, purchase of raw materials:

%	=	401	54.000
301		„Suppliers”	45.000
„Raw materials”			
4426			9.000
„Input VAT”			
b) At the seller, selling finished products:			
4111	=	%	54.000
„Customers”		701	45.000
		„Sales of finished goods”	
		4427	9.000
		„Output VAT”	

The society buys goods purchased for resale worth 20,000 lei. Subsequently receives an invoice reduction in the amount of 5% commercial invoice related to the first purchase, stating the invoice reduction the goods purchased for resale that are reduced. On receipt of the invoice reduction in freight exist stock worth 7,000 lei, other products, worth 13,000 lei, VAT share being sold is 20%.

We account for the buyer, according to Order no. 1802/2014:

- goods purchased for resale acquisition;
- Reducing commercial invoice received later on.

Order no. 1.802 / 2014 provides that trade discounts received subsequently corrected invoice cost of inventories covered, whether they are in management. If stocks which were received subsequent reductions are no longer in management, they are distinctly recorded in the accounts (account 609 „Trade discounts received”) on account of third party accounts.

Thus:

- Reduction for cargo which was in stock: 7.000 lei x 5% = 350 lei
- Reduction for goods sold: 13,000 x 5% = 650 lei lei
- Total reduction = 350 lei + 650 lei = 1.000 lei
- VAT on reduction = 1,000 x 20% = 200 lei
- goods purchased for resale acquisition:

%	=	401	54.000
371		„Suppliers”	45.000
„Goods purchased for resale”			
4426			9.000
„Input VAT”			
- further invoice on reducing commercial received:			
%	=	401	550
371		„Suppliers”	350
„Goods purchased for resale ”			
609			-650
„Trade discounts received”			
4426			200
„Input VAT”			

There are sold finished products worth 20,000 lei. An invoice subsequent reduction in the amount of 5% commercial invoice related to the first delivery, invoice stating the reduction goods are reduced.

We account for the seller under Order no. 1802/2014:

- a) sale of products;
- b) reducing subsequently granted commercial invoice.

Order no. 1.802 / 2014 provides that where the sale of commercial products and granting reduction are combined, trade discounts granted after invoicing adjusted income from sale (pt. 76 para. (3)).

Therefore, as stated on the invoice discount related goods are reduced invoice from the first delivery, we conclude that the sale and reduction are combined and then we will adjust the income from the sale.

Reducing commercial granted = 20,000 x 5% = 1,000 lei

VAT on reduction = 1,000 x 20% = 200 lei

- a) the sale of finished products:

4111	=	%	24.000
„Customers ”		701	20.000

		„Sales of finished goods,,	
		4427	4.000
		„Output VAT”	
b) commercial reducing given after invoices:			
4111	=	%	1.200
„Customers,,		701	1.000
		„Sales of finished goods,,	
		4427	200
		„Output VAT”	

On 8 December 2015 customer supplier sells finished products worth 20,000 lei. On 21 December 2015 it shall issue an invoice to the customer to reduce the amount of 1,000 lei for all sales for the year 2015. The share of VAT is 20%.

We account for the seller under Order no. 1802/2014:

a) sale of products;

b) reducing subsequently granted commercial invoice.

Order no. 1802 2014 stipulates that if the sale of commercial products and granting reduction are combined, trade discounts granted after invoicing adjusted income from sale (pt. 76 para. (3)).

Trade discounts granted after invoicing, regardless of the period to which it relates is distinctly recorded in the accounts (account 709 „Trade discounts offered”) on account of third party accounts.

In this case, the sale of commercial products and granting reduction are not treated together, the reduction being highlighted in account 709 „Trade discounts offered”.

- the sale of finished products:

4111	=	%	24.000
„Customers,,		701	20.000
		„Sales of finished goods,,	
		4427	4.000
		„Output VAT”	

- commercial reducing given after invoices:

4111	=	%	1.200
„Customers,,		709	1.000
		„Trade discounts offered,,	
		4427	200
		„Output VAT,,	

On January 10, 2016 is received/billed an invoice in value of 20,000 lei on repairing a machine. On 15 February 2016 the society received / given a commercial invoice subsequent reduction of 1,000 lei. The VAT rate is 20%.

According to Order no. 1,802 2014 will account for:

a) receipt of invoice on the repair and reducing trade buyer received subsequent billing;

b) invoice on reducing repair and given after commercial billing vendor.

According to Order no. 1802 2014 reductions in trade-related services, received after invoicing, respectively granted after invoicing, regardless of the period to which it relates is distinctly recorded in the accounts (account 609 „Trade discounts received” and account 709 „Trade discounts granted”) based on the accounts of third parties.

Therefore, the buyer will have the following records:

- receipt of invoice repair:

%	=	401	24.000
611		„Suppliers”	20.000
„Maintenance and repair expenses,,			
4426			4.000
„Input VAT,,			

- commercial reducing given after invoices:

%	=	401	200
609		„Suppliers”	-1.000
„Trade discounts received”			
4426			200
„Input VAT,,			

The seller will record:

- the repair invoice:			
4111	=	%	24.000
„Customers,,		704	20.000
		„Services rendered,,	
		4427	4.000
		„Output VAT,,	
-commercial reducing given after invoices:			
4111	=	%	1.200
„Customers,,		709	1.000
		„Trade discounts offered,,	
		4427	200
		„Output VAT,,	

On 15 January 2016, a company receives an invoice from a supplier of commercial related reduction in the volume of goods traded last quarter of 2015 amounting to 1.000 lei, VAT 20%.

We will emphasize according to Order no. 1802/2014:

a) the accounting records made by the two companies on 31 December 2015;

b) accounting entries made by the two companies on January 15, 2016.

Subsequent elements are those events, favorable and unfavorable, that occur between the balance sheet date and the date the annual financial statements are authorized for issue. Events after the balance sheet date include all events occurring up to the date when the financial statements are authorized for issue, even if those events occur after the public announcement of profit or of other selected financial information.

If events after the balance sheet adjusting annual financial statements, the entity shall adjust the amounts recognized in its financial statements to reflect events after the balance sheet date.

If commercial discounts are events after the balance sheet adjusting annual financial statements, they are recorded at the balance sheet account 408 „Suppliers - invoices to be received” and account 418 „Customers - invoices to be issued” and reflected in the financial statements for the year for which the report is based on supporting documents. the reductions to be received, recorded at the balance sheet account 408 „Suppliers - invoices to be received” correct cost of inventories covered if they are in management.

Therefore, the accounting records on December 31, 2015 are:

- commercial reducing premium to the fourth quarter (without invoice) to the buyer:			
%	=	408	200
609		„Suppliers - invoices to be received”	- 1.000
„Trade discounts received”			
4428			200
„VAT under settlement,,			
-at the supplier, reducing trade related triestrului IV granted in 2015 (with invoice):			
418	=	%	1.200
„Customers - invoices to be issued”		709	1.000
		„Trade discounts offered,,	
		4428	200
		„VAT under settlement,,	

Accounting records on January 15, 2016 are:

To the buyer:

- The reversal of initial registration:			
%	=	408	200
609		„Suppliers - invoices to be received”	- 1.000
„ Trade discounts received”			
4428			200
„VAT under settlement,,			
- Reduction bill:			
%	=	401	200
609		„Suppliers”	-1.000
„ Trade discounts received”			
4426			200
„Input VAT,,			

At the seller:

- The reversal of initial registration:				
418	=	%		1.200
„Customers - invoices to be issued „		709		1.000
		„Trade discounts offered,,		
		4428		200
		„VAT under settlement,,		
- Reduction bill:				
4111	=	%		1.200
„Customers,,		709		1.000
		„Trade discounts offered,,		
		4427		200
		„Output VAT,,		

Conclusion

From the methodological standpoint, the reductions are calculated in cascade, ie the percentage of reduction applies each time on the net above and T.V.A. the last net. The difference between sale price and net reductions called commercial trade, and the difference resulting from the settlement discount deduction called financial net.

Sometimes the sales-purchases on credit term settlement is possible situation where the buyer to request early payment due date, provided to receive a discount. On this basis supplier invoice drawn further price reduction.

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