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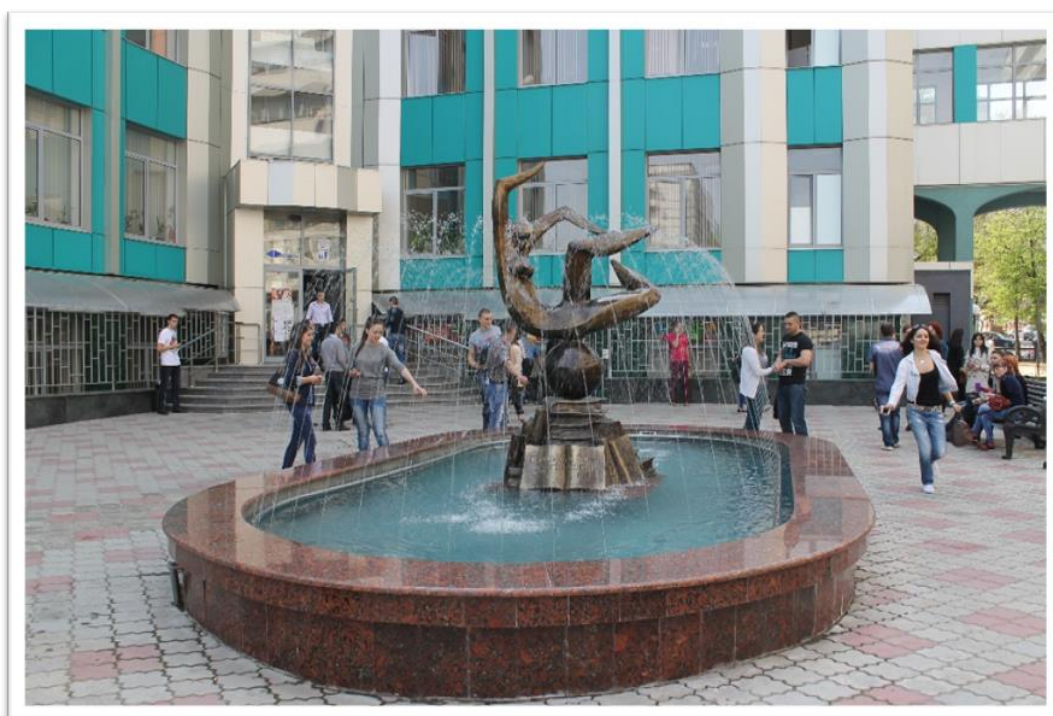
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**ACCOUNTING FOR RETRO DISCOUNTS, BONUSES AND GUARANTEES IN
ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**УЧЕТ РЕТРО-СКИДОК, БОНУСОВ И ГАРАНТИЙ ПО МЕЖДУНАРОДНЫМ
СТАНДАРТАМ ФИНАНСОВОЙ ОТЧЕТНОСТИ**

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Abstract. The article is devoted to the recognition in the accounting and reporting of enterprises of revenue from the sale of goods and services, taking into account the discounts provided for the additional volume of purchases. Emphasis is placed on taking into account in the accounting and reporting prepared according to the requirements of IFRS, the conditions, after the fulfillment of which the enterprise-seller of goods and services has the right to recognize discounts and guarantees in the accounting during the corresponding reporting period. Recommendations are provided, that allow for the uniform recognition of revenue from the sale of goods during the reporting periods, taking into account the retro discounts and guarantees provided in accordance with the requirements of IFRS 15. It is established, that usually discounts and guarantees, that provide for the presence of a commercial component for the seller of goods are expressed in the provision of bonuses to buyers for further purchases. Therefore, the algorithms for the correct recognition in the accounting and reporting of discounts for the volume of purchases, bonuses and guarantees in the form of obligations to be fulfilled are given.

Keywords: discounts, bonuses, guarantees, revenue, evaluation, recognition in accounting.

JEL Classification: M41

Introduction

Ukraine's integration into the global economic space requires more and more companies and organizations to prepare their financial statements in accordance with the requirements of International Financial Reporting Standards (hereinafter referred to as IFRS). This need is not only due to the fact, that foreign financial markets offer better conditions for raising capital compared to domestic lending conditions, but also because the consequences of the Covid-19 pandemic and military aggression in Ukraine show, that diversification of commodity markets allows domestic companies with good research and production potential and favorable offers for goods in demand to survive. Meanwhile, IFRS reporting requires consideration of an alternative methodology to the «traditional fiscal» methodology used in Ukraine. IFRS reporting does not primarily focus on fiscal authorities, which inspect the activities of companies from the perspective of tax revenues to the national budget. These reports are focused on analyzing them from the perspective of business needs. Therefore, IFRS financial statements are subject to even stricter adherence to at least three accounting principles: substance over form, prudence, and simultaneous recognition of income and expenses from different types of activities in the same reporting period. Despite the availability of officially translated IFRS texts on the official website of the Ministry of Finance of Ukraine and numerous

guidelines for accounting and reporting in accordance with IFRS [1], there are still many controversial issues regarding the correctness of the reflection of business transactions in such reports.

Basic Content of the Paper

The theoretical and practical aspects of accounting for discounts, bonuses, and other loyalty programs and the specifics of their reflection in the reporting in accordance with national and international standards and tax rules have been studied by a number of domestic scholars and practitioners.

In 2016, Amalian A. V. prepared and defended his PhD thesis on «Accounting for the sale of goods with discounts and bonuses» [2], where as a result of the study, the author improved, firstly, the methodological support for accounting for transactions for the sale of goods with discounts and bonuses after the date of initial sale based on a 6-step model for analyzing and reflecting transactions; secondly, the provisions for regulating accounting in terms of methods of monetary valuation of individual components of business transactions for the sale of goods with discounts; thirdly, methodological aspects of accounting for elements of financial activity arising in the course of certain types of transactions for the sale of goods with discounts by business entities as separate components of trading operations, which makes it possible to avoid distortions in accounting and reporting data. The peculiarities of accounting for discounts and bonuses under Ukrainian Accounting Standards and IFRS were studied by Kyrietsiv G. [3], Rogoznyi S., Diadiun O. [4], Piskun A. [5], Nosach N. [6], Omelnytska Z. [7], Alyoshkina N. [8].

The tax consequences and nuances of the application of retro-discounts are covered in the works of Karpov L. [9], Voitenko T. [10-11] and experts of the consulting and audit company MGI PSP Audit [12].

Bondarenko O. studied the impact of discounts and returns on the amount of income [13], and experts of the «Golovbukh» publication considered the mechanism of applying pre- and post-sale discounts in the pre-holiday period [13].

In general, we should recognize the significant contribution of predecessor scholars who conducted research in the area of reliable, objective and transparent reflection of discounts, bonuses and other loyalty programs in IFRS financial statements. Meanwhile, many aspects of accounting for these transactions are still relevant and controversial.

The purpose of the study is to characterize the peculiarities of accounting and reporting of discounted sales transactions, bonuses and guarantees in accordance with the requirements of IFRS 15 «Revenue from Contracts with Customers».

In this study, we will focus on the accounting for discounts for additional sales of goods, which are usually used by marketers to stimulate sales to customers. In our opinion, this type of discount is much more difficult to account for than discounts granted at the time of sale (through adjustments to the trade margin), as the granting of a discount for additional volume of goods purchased requires consideration of the likelihood of a number of conditions being met.

The economic essence of providing discounts for additional sales is quite simple: first, you increase the selling price, and then, after the customer fulfills the necessary conditions, you reduce the price. Meanwhile, according to the methodology set out in IFRS 15 [14], there are several accounting aspects, that a person who keeps records of sales and discounts faces. Namely, if a regular customer purchases 1,000 units of goods each month, and purchases these goods at 10 UAH per unit (the transaction price is stated without sales taxes), and if the total volume of goods purchased is, for example, 16,000 units instead of 12,000 units (actually) (planned by us to provide a discount), then we will recalculate the price for the total volume of purchases at 8 UAH instead of 10 UAH, and the question arises - when the customer starts purchasing goods, at what price should we start recognizing revenue. The answer to this question is that since at the beginning of the period under review the customer did not fulfill the condition to purchase the planned volume of sales that the price reduction would have provided, we will recognize revenue based on 10 UAH per unit. Meanwhile, IFRS 15 requires revenue to be recognized on a straight-line basis over the entire period under review, taking

into account discounts. In addition, the question arises: if the interim and annual reports have already been prepared and the client has fulfilled the conditions set for him, should the revenue figures in the reports that have already been prepared be adjusted? The answer to this question can be found in the interpretation of IAS 10 «Events After the Reporting Period». That is, we will make such an adjustment prospectively, since at the balance sheet date we were not aware of the existence of such an event and, on the other hand, there was no reliable confirmation of its fulfillment. Therefore, in the next interim reporting or in the next reporting period (if the event is likely to occur in the next year), we will make an adjustment to net revenue and will not restate the figures in the already prepared reporting for the previous period. Also, the presence of the element of probability of fulfillment or occurrence of certain conditions raises two additional questions: who among the management personnel makes the professional judgment to establish quantitative criteria for considering the probability of events occurring; what should be considered the probability of an event occurring in order to take it into account and recognize revenue adjusted for it and thereby not overstate revenue in the financial statements, and then form a provision for expected credit losses (if the conditions are not met). First, the quantitative criterion for taking into account the probability of events occurring in the reporting is 90% and above. Secondly, the accountant does not express his or her professional opinion on the probability of occurrence of the relevant events, but uses the assurances provided by the company's management.

Here is a conditional example of accounting for a discount for an additional volume of goods purchased.

On January 1, 2023, a company entered into an agreement with a buyer for the supply of goods at a price of 12 UAH per unit (the price is exclusive of VAT). The agreement stipulates that the price per unit will decrease with an increase in sales as follows (Table 1).

Table 1. Terms of sales

Price per unit (excluding VAT)	Sales volume in physical terms
12 uah	0 - 1 000 000 pcs
10 uah	1 000 001 – 3 000 000 pcs
9 uah	3 000 001 шт та більше

Sources: own development of the authors

Volume is determined based on sales during the calendar year. Marketers anticipate, that total sales to this customer will be 2.8 million units based on their experience and sales forecasts for this customer. The question arises, as to how the company's accounting department will determine the transaction price on the basis of which net revenue will be recognized in the financial statements (the calculation is presented in Table 2).

Based on a 95% probability, the Company concludes, that there will be no significant decrease in net revenue. Accordingly, the transaction price, i.e., the price at which we should recognize the transaction, will be recognized at 10.71 UAH.

Table 2. Calculation of the transaction price

Sales analytics	Sales volume in monetary terms
12 uah x 1 000 000 pcs	12 000 000 uah
10 uah x 1 800 000 pcs	18 000 000 uah
Average price per unit	30 000 000 uah / 2 800 000 pcs = 10,71 uah

Sources: own development of the authors

Meanwhile, based on the requirements of IFRS 15, we note that we should recognize net revenue not immediately at UAH 12,000,000, but evenly on a straight-line basis over the calendar year, which will result in a situation where we will invoice the buyer based on UAH 12 (excluding VAT), and recognize revenue in accounting and reporting at 10.71. UAH. That is, we have to make a cumulative adjustment to revenue and the difference of 1.29 UAH per unit (12.0 UAH – 10.71 UAH) is our contractual obligation, i.e., our obligation to return the money to the buyer either in the form of cash or in the form of bonuses for future purchases. This contractual obligation will arise in respect of cash

received in excess of the transaction price of 10.71 UAH per unit and will accrue until sales in kind exceed 1,000,000 units. The contractual liability will start to decrease when we invoice the buyer based on the price (excluding VAT) of 10 UAH, and recognize net revenue in our accounting and reporting based on 10.71 UAH per unit. In this case, our liability will be closed by the amount of net revenue that we did not recognize before.

There may also be cases of overestimation of the calculated discounts on sales. Thus, continuing with our notional example, we note that during the first quarter of 2023, the company sold only 450,000 units of products and reduces its initial estimate of total sales to 2 million units at the end of the corresponding quarter of 2023. The question arises as to, how to account for the change in accounting estimate.

It is necessary to recalculate the transaction price taking into account the adjustments in the estimated total sales during the quarter. Thus, the change in the transaction price will be calculated in Table 3.

Table 3. Calculation of the adjusted transaction price

Sales analytics	Sales volume in monetary terms
12 грн x 1 000 000 pcs	12 000 000 UAH
10 грн x 1 000 000 pcs	10 000 000 UAH
Average price per unit	22 000 000 UAH / 2 000 000 pcs = 11,0 UAH

Source: authors' own development

Accordingly, we see that in the first quarter of 2023, we counted 450,000 units sold at 10.71 UAH, and with the adjustments made, we should count them at 11.0 UAH. That is, we should additionally accrue net revenue in the amount of 130,500 UAH (450,000 units x (11.0 UAH - 10.71 UAH)) (assuming that the performance obligation has been fulfilled). Note, that we shall recognize this additional revenue in the period, when we make the revaluation, and if the first quarter reporting has already been submitted, we will make the adjustment in the second quarter reporting. We can see, that the cumulative adjustment reflects the revenue, that the seller would have recognized if it had the following information available at the inception of the contract.

The conditional example we have provided with the accounting for discounts for additional sales volume shows that such agreements contain a performance obligation, which, as we have already noted, means that we guarantee to pay the customer the difference in price for fulfilling the terms of the agreement either in cash or in the form of bonuses for future purchases. In this case, revenue recognition in accordance with IFRS 15 requires accounting for guarantees to fulfill our obligation to the customer. It should be noted that this does not mean a standard warranty provided by the manufacturer of the goods, which assures the buyer that if the goods are defective, they will be either repaired or replaced (such a warranty is accounted for as a provision in accordance with IAS 37 «Provisions, Contingent Liabilities and Contingent Assets» and is accounted for as Dt Expenses (23, 91, 93) Ct Provision (473)). In conformance with IFRS 15, we are talking about guarantees, that provide for commercial remuneration for their provision – for example, when a customer is offered an additional guarantee from a store for money. In other words, the customer must pay to obtain such a guarantee, and the company will receive additional revenue as it fulfills its performance obligation. In the practice of any business, an additional performance obligation can be defined as bonuses, that the customer can use when the store provides such conditions. In this case, the store assumes an obligation and the transaction price will need to be allocated to the agreement to sell the goods and the obligation to provide a purchase discount.

In the most generalized form, the accounting for guarantees in the form of bonuses can be represented as follows:

A customer buys goods in a supermarket and, according to receipt No. 1, must pay \$100, and in doing so, he will receive a bonus of \$1 (equivalent to 1 point) and can use it in future purchases. After 2 weeks, the bonus can be redeemed.

Accordingly, the supermarket's accountant will make the following entries:

Dt Cash - \$100

Ct Revenue - \$99

Ct Liabilities to be fulfilled (Advance received) - \$1

After 2 weeks, the customer comes to the supermarket and makes purchases and the amount of receipt №2 is \$200 and for this purchase he will receive bonuses in the amount of \$2 (2 points). Then the accounting entries will be as follows:

Dt Cash - \$200 Ct Revenue - \$198

Dt Liabilities to be fulfilled - \$1 Ct Liabilities to be fulfilled - \$2.

The example above shows that, in terms of IFRS 15, a warranty is a liability, that indicates, that the store guarantees that the next time the customer buys a product at a lower price, we will recognize the advance as revenue the next time the customer buys the product.

Here is an example that will show in more detail how to account for warranty liabilities in accordance with IFRS 15.

A company owns a retail store. For the year ended 31.03.2023, sales revenue amounted to \$40 million. When selling, the store provides the following guarantees: a guarantee for free repair of the purchased goods within two years from the date of sale; a guarantee for a refund to the buyer, when returning the goods within a year; a 10% discount on all subsequent purchases. When preparing its 2023 financial statements, the company estimates that: 4% of the goods sold will require warranty repairs. The cost of warranty repairs is 30% of the selling price; 3% of the goods sold will be returned within the next year; 60% of customers will use the discount when purchasing goods in the future. The amount of future discounts from the price of goods is estimated at \$1.5 million. As at 31.03.2022, the company recognized a provision for warranty repairs in the amount of \$ 350 thousand in the balance sheet. The company uses a 25% markup when selling goods in the store.

Please provide an explanation of how these transactions will be reflected in the financial statements as of 31.03.2023.

1. The warranty for free repairs is a standard warranty, and it is not countable for the buyer. Therefore, there is no need to separate it from the contract. It is only necessary to accrue a provision = 40 million \$ x 0.3 x 0.04 = \$ 480 thousand. However, as of the beginning of 2023, a provision for warranty repairs in the amount of \$ 350 thousand had already been made. Therefore, \$ 480 thousand is the amount of the required reserve as of the end of 2023. Therefore, we will additionally accrue a provision for warranty repairs – Dt Expenses Ct Reserve in the amount of 130 thousand \$.

2. The refund guarantee is an unfulfilled promise by the store's management, so the accountant cannot recognize revenue for the full amount of \$40 million. It is advisable to distinguish between these funds as follows: the refund liability of 3% and 97% is revenue. Also, it is advisable to create inventories for the amount of 3% of \$40 million. Short-term refundable liability = \$40 million x 0.03 = \$1200 thousand. Therefore, it is advisable to reduce revenue by \$ 1200 thousand.

Stocks to be returned (as part of current assets) will be reflected in the reporting at the production cost of \$ 960,000 (\$1,200,000 / 1.25 = \$960,000), since the trade markup is 25% of the sale price. The right to receive a discount in the future is an obligation to be fulfilled by the store, and part of the received funds must be allocated to it, and we show it in the balance sheet as a current obligation = \$1,500,000. Therefore, the revenue for 2023 will be 37,300 thousand = 40,000 – 1,200 – 1,500. The cost of the purchase of sold goods = \$960,000 (1,200 x 100 / 125 = \$960,000). Accordingly, gross profit = 1200 – 960 = \$240,000 (provided that the gross profit is at the level of 25%).

Accordingly, the extract from the company's balance sheet as of March 31, 2023 is as follows:

Current assets:

Reserves to return \$960,000

Current liabilities:

Reserve for warranty repairs \$480,000

Obligations to buyers:

- possibility of returning goods to the store \$1,200,000
- discounts on future sales of \$1,500,000

3. Discounts on subsequent sales are, in fact, a statement of the fact that we have now taken some amount of money from the buyer and will show the received advance in the accounting, and then we will reduce this obligation as it is fulfilled. Therefore, taking into account the 60% probability that buyers will take advantage of the discounts, we take into account the recognition of the amount of discounts in the amount of \$1.5 million and adjusting the net revenue from the sale of goods to this amount. So, in the Statement of Comprehensive Income, the net revenue will be equal to \$37,300 000 (40,000 - 1,200 - 1,500). The cost of the sold goods will be determined by us based on the fact that the trade margin is 25% and therefore: (\$40,000 thousand / \$1.25 – \$960 thousand) = \$31,040 thousand.

So, the gross profit will be \$ 6,260,000.

Costs for creating a reserve for warranty repairs are \$130,000 (\$480,000 - \$350,000).

Conclusions

Thus, the above algorithm allows for the accurate reflection of discounts for additional sales volumes, bonuses and guarantees in IFRS reporting in accordance with the requirements of IFRS 15 «Revenue from Contracts with Customers». The key aspects in the accounting of these transactions are that: the recognition of revenue from sales of goods, taking into account the provision of retro-discounts, is reflected in the accounting evenly. For this, the average transaction price per product unit is determined, according to which revenue is recognized in the corresponding reporting periods. The difference between the price at which the customer is billed and the average price of the transaction, which is recognized in the accounting only after the customer fulfills the relevant conditions regarding the volume of goods purchased for the discount, is a performance obligation. Which will be closed in the accounting for the corresponding amount of revenue after the time of fulfillment of the specified obligation. The fulfillment of the obligation to the contract before the client is usually done in the form of bonuses and guarantees for future purchases of goods. At the same time, in accordance with IFRS 15, the separation of the price of the transaction (the amount of money received) into the part for which we recognize revenue in the current period and the part that corresponds to the guarantee obligation is carried out only when the provision of guarantees involves a commercial component for the seller of goods. Further research will be devoted to accounting for repurchase transactions.

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