

ACCOUNTING AND TAXATION OF TRADE AND FINANCIAL DISCOUNTS

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Abstract: *In this paper we sought of synthesizing the accounting and fiscal aspects related to trade and financial discounts. Trade discounts are accounted for when they are granted. Thus we can distinguish: trade discounts granted in the delivery invoice, and trade discounts invoiced subsequently. Trade discounts granted in the delivery invoice or subsequently, but treated together with the delivery of the products, adjust the incomes from the sale (in the seller's accounting records), and the purchase cost (in the buyer's accounting records). In the case of trade discounts granted subsequently, they are recorded in the trade discount accounts, both in the seller's and in the buyer's accounting records, if the goods are no longer in stock. Financial discounts constitute the object of records in the financial income and expenditure accounts.*

Key words: *trade discounts, financial discounts, delivery invoice, tax, VAT*

INTRODUCTION

In the business practice, trade discounts are granted as rebates, volume discounts and drawbacks.

Rebates are granted for quality defects and are applied to the selling price. Volume discounts are granted in the case of sales exceeding the volume set, or if the beneficiary (the buyer) has a preferential status. Drawbacks are price reduction calculated on the whole set of transactions with the same third party, during a certain period. [Order no. 1802/2014 of the Minister of Public Finance, Section 3.1.]

Financial discounts take the form of settlement discounts and are granted for debt factoring, in their quashing before their normal maturity date. [Order no. 1802/2014 of the Minister of Public Finance, Section 3.1.]

MATERIALS AND METHODS

The general valuation rules, provided for in Order no. 1802/2014, are related to different cases of granting/receiving trade discounts.

The accounting treatment is influenced by criteria related to the moment when trade discounts are granted (at delivery or after the delivery), the interdependence between the delivered goods and the trade discounts, on finding in the records the goods for which trade discounts are granted.

In the seller's case, the trade discounts that are granted in the delivery invoice, or which can be treated together with the delivered products adjust the incomes from sales by reducing them.

The synthesis of the aspects related to the accounting treatment of trade discounts is presented in Table no. 1 below.

In our opinion, the first case included in Table no. 1, taken from the regulatory text, is related to two distinctive cases: the first case, where a trade discount is granted in the delivery invoice, and the second case, when the trade discount is granted after the invoice is issued, in a separate invoice that is nevertheless, related to the original invoice, in such away as to have the delivery and the discount <<treated together>>.

Table 1

Seller – Trade discounts granted

It. No.	Explanations	Trade discount effect
1.	The product sale and the granting of the trade discount are treated together.	They adjust the incomes from sales
2.	Trade discounts granted after issuing the invoice:	Regardless of the period to which they are related, they are recorded distinctively in the accounting records (account 709 "Trade discounts granted"), on behalf of the third party accounts.

Source: Order no. 1802/2014 of the Minister of Public Finance, Section 3.1. it. 76 (3)

In the buyer's accounting, trade discounts adjust the purchase cost of stocks or are subject to records in trade discount accounts. The synthesis of the aspects related to the accounting regime are presented in Table no. 2.

Table 2

Buyer – Trade discounts received

It. No.	Explanations	Trade discount effect
1.	Trade discounts recorded on the purchase invoice:	Adjust the goods purchase cost by reducing it
2.	Trade discounts recorded subsequently, when the purchase of the products and the reception of the trade discount are treated together	Adjust the goods purchase cost too.
3.	Trade discounts received after the issue of the invoice.	If the stocks are still managed by the seller, the trade discounts received adjust the cost of the stocks they are related to; If the stocks are no longer managed by the seller, the bookkeeping of the trade discounts received is made separately (account 609 "Trade discounts received"), on behalf of the third party accounts.

Source: Order no. 1802/2014 of the Minister of Public Finance, Section 3.1. Items 76 (1) and (2)

Table 3

Peculiar cases related to trade discounts

It. No.	Explanations	Trade discount effect
1.	Trade discounts related to service provisions, granted/received after the issue of the invoice:	Their bookkeeping is made separately (account 609 "Trade discounts received", and in account 709 "Trade discounts granted") respectively, on behalf of the third party accounts.
2.	When trade discounts represent events following the date of the balance sheet which lead to the adjustment of the annual financial statements	They are recorded on the day of the balance sheet in account 408 "Trade receivables - invoices to be received", or in account 418 "Trade receivables - invoices to be issued", and are accounted for in the financial statements of the accounting period for which they are submitted, based on supporting documents. They adjust the cost of the stocks to which they are related, if they are still managed by the seller.

Source: Order no. 1802/2014 of the Minister of Public Finance, Section 3.1. Items 76 (5) and (6)

Trade discounts influence turnover.

Financial discounts received from a supplier are incomes of the accounting period regardless of the accounting period they are related to (account 767 "Discounts received"). At the supplier, these discounts granted are expenses of the accounting period, regardless of the accounting period they are related to (account 667 "Discounts granted"). [Order no. 1802/2014 of the Minister of Public Finance, Section 3.1. It. 77].

From the fiscal point of view

Under art. 53 of the Fiscal Code, as approved by Law no. 227/2015, when the tax on the income of the microenterprise is calculated, trade discounts granted are excluded from the tax base, and trade discounts received are included in the tax base.

In relation to VAT, according to art. 286 of the Fiscal Code, trade and financial discounts are excluded from the tax base, on the VAT maturity date.

RESEARCH RESULTS

Trade discounts

For the application of the rules described hereinabove, we will analyse the case of a company that buys raw materials from a supplier, at the purchase cost of 1,800 RON, and a 20% VAT rate. After the purchase, a 10% trade discount is received 10%.

Table 4

Accounting for trade discounts received afterwards

It. No.	Explanation	D	=	C	Amount
1.	Purchase invoice:	%	=	401	2,160 RON
		301			1,800 RON
		4426			360 RON
2.	Consumption:	601	=	301	1,800 RON
3.	Trade discount invoice:	%	=	401	-216 RON
		609			-180 RON
		4426			-36 RON

Source: Own work

Financial discounts

The data in the previous example are maintained, the chance being that the trade discount is 10%.

Table 5

Accounting for trade discounts received afterwards

It. No.	Explanation	D	=	C	Amount
1.	Purchase invoice:	%	=	401	2,160 RON
		301			1,800 RON
		4426			360 RON
2.	Consumption:	401	=	5121	1,944 RON
2.	Trade discount invoice:	%	=	401	-216 RON
		767			-180 RON
		4426			-36 RON

Source: Own work

CONCLUSIONS

- Trade discounts adjust the selling price/purchase cost if they are accounted for together with deliveries;
- Trade discounts are recorded in the income/expenditure accounts related to trade discounts, if they are invoiced subsequently;
- Financial discounts are recorded in financial income/expenditure accounts;
- Trade and financial discounts are excluded from the VAT tax base.

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