Cashbacks and Discounts
Treatment under AS and Ind AS

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Background

1. With the increased use of technology in the modern era, mode of sales and purchases has changed. The number of online purchases and sales has been constantly growing and so has the techniques to retain clients online. Unlike sales promotion schemes in case of offline sales, the promotion schemes are different in online sales. Sellers offer cashback rewards, discount coupons and reward points.

Many entities, like Flipkart, Amazon, Myntra, Big Bazaar and UrbanClap, etc., provide various incentives to retain their loyal customers. The incentives may include cash coupons, discount coupons, cash discount, cashback and credit points, etc. These incentives affect the amount of revenue to be recognised by an entity in the financial statements.

Ever thought how does the accounting happen for these schemes? Whether cashback should be reduced from sale or shown as an expense, how the discount coupons are to be accounted for some of the questions which keep on coming in an accountants mind.

Under Ind AS regime, Ind AS 18, *Revenue* or Ind AS 115, *Revenue from Contracts with Customers* states that revenue shall be measured at the fair value of the consideration received or receivable. The fair value is measured after taking into account the amount of various incentives provided to the customers.

Under AS regime, AS 9, *Revenue Recognition* states that the amount of revenue shall be measured at the gross inflow of cash, receivables or other considerations received. There is no concept of fair valuation in AS 9.

The treatment and effect on revenue of the following incentives are discussed here from AS and Ind AS perspective:

1. Trade and cash discounts;
2. Volume based discounts;

3. Cash and discount coupons;
4. Cashback; and
5. Reward points.

2. Trade and Cash Discount

2.1 ***Trade Discount***

Generally, trade discount is provided by manufacturer on the retail price of a product when it sells its product to a reseller. It is deducted from the price at the time of sale and reseller pays the net amount. Trade discount reflects the profit margins of the reseller because it sells the product to the end consumer at retail price. So, under both Ind AS 18 and AS 9, if trade discount is provided by an entity, revenue should be recognised at the net amount, i.e., retail price less amount of trade discount.

2.2 ***Cash Discount***

Certain entities or sellers use cash discount to incentivise customers for making the payment before due date. Customers make the payment after deducting the amount of cash discount if eligible for availing of the same as per the agreement between the entity and customer. Under Ind AS 18, revenue is measured at consideration receivable less estimated cash discount. The amount of cash discount is estimated on the basis of most likely outcome approach or expected outcome approach. Application of both approached depend on case to case basis.

Under AS 9 the revenue is recognised at gross amount and cash discount is recorded as an expense when the seller receives the payment net of discount.

Example:

A Ltd. has sold certain goods to B Ltd. for ₹ 10,000 on 90 days credit period. But, if B Ltd. would pay within 20 days, a cash discount of 5% shall be provided by A Ltd. It is reasonably certain that B Ltd. will pay the amount within 15 days.

In this case, if A Ltd. follows Ind AS, estimated cash discount is ₹ 500. So, revenue should be measured at ₹ 9,500 under Ind AS 18.

If A Ltd. follows AS, then revenue should be recorded at ₹ 10,000 and when B Ltd. will pay ₹ 9,500, the amount of cash discount of ₹ 500 will be recognised as an expense.

Volume Based Discounts

3. Generally, wholesalers give volume based discounts to those buyers who purchase the goods in bulk. For example, a volume based discount can be a scheme such as 10% discount shall be offered on purchase of an item between 5,000 units and 10,000 units and 15% discount shall be offered on purchases of more than 10,000 units in a year.

Under Ind AS 18, the estimated amount of discounts that may be availed by the customers is deducted from the gross amount of revenue. In the above example it is assumed that payments received on sale of item upto 4,999 units includes certain amount of advance for subsequent units. Therefore, such advance is required to be recognised as deferred revenue while recognising revenue till 4,999 units. Subsequently, the balance of deferred revenue should be amortised. On the other hand, under AS 9, the revenue is recognised at the gross amount received or receivable from customers. Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

Example:

A Ltd. is engaged in the business of manufacturing of soap. On 1st April, 2018 it entered into agreement with a wholesaler to sell soap at ₹ 100/piece. As per the agreement, A Ltd. shall provide volume based discounts on sale price as follows:

(*i*) On purchase of 1,00,000 units to 10,00,000 units- 2% discount;

(*ii*) On purchase of 10,00,001 units to 20,00,000 units- 3% discount; and

(*iii*) On purchase of more than 20,00,000 units- 5% discount.

A Ltd. estimated that the wholesaler will purchase 15,00,000 units of soap during the year. On 15th April, 2018, it has sold 50,000 units of soap to the wholesaler. How should revenue be recognised on these 50,000 units?

Solution:

1. According to Ind AS 18:

Total amount realised= 50,000 units * ₹ 100 = ₹ 50,00,000

Amount expected to be realised= (50,000 * ₹ 100) + (9,00,000 * ₹ 98) + (5,00,000 * ₹ 97)

= ₹ 14,17,00,000

Average price= (₹ 50,00,000 + ₹ 14,17,00,000)/15,00,000 units = ₹ 97.80

So, according to principles of Ind AS 18, the fair value of sale price per piece of soap will be ₹ 97.80, hence, revenue should be recognised at ₹ 97.80/piece.

Accounting entries:

(*a*) On sale of first 50,000 units

Bank/ B Ltd's A/c (50,000 * ₹ 100)	Dr.	50,00,000
To Revenue A/c (50,000 * ₹ 97.80)		48,90,000
To Deferred Revenue A/c		1,10,000

(*b*) On sale of next 50,000 units

Bank/ B Ltd's A/c (50,000 * ₹ 100)	Dr.	50,00,000
To Revenue A/c (50,000 * ₹ 97.80)		48,90,000
To Deferred Revenue A/c		1,10,000

(*c*) On sale of next 9,00,000 units

Bank/ B Ltd's A/c (9,00,000 * ₹ 98)	Dr.	8,82,00,000
To Revenue A/c (9,00,000 * ₹ 97.80)		8,80,20,000
To Deferred Revenue A/c		1,80,000

(*d*) On sale of last 5,00,000 units

Bank/ B Ltd's A/c (5,00,000 * ₹ 97)	Dr.	4,85,00,000
Deferred Revenue A/c	Dr.	4,00,000
To Revenue A/c (5,00,000 * ₹ 97.80)		4,89,00,000

2. According to AS 9

According to the principles of AS 9, revenue will be recognised at ₹ 100, ₹ 98 and ₹ 97 for first 1,00,000 units, next 9,00,000 units and last 5,00,000 units respectively.

4. Cash and Discount Coupons

4.1 *Cash Coupons*

Cash coupon entitles holder to receives the amount stated on the coupon from its issuer in cash. In this case, under Ind AS 18, it is assumed that the seller has already received the amount of cash coupon to be reimbursed at the time of making sale. So, the amount of revenue is measured after deducting the estimated amount that could be refunded to the holder of cash coupon. A provision should also be created for the estimated amount that could be refunded in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.Under AS 9, the revenue is recognised at gross inflows of the consideration and the amount to be refunded to the holder of cash coupon is recognised as provision in accordance with AS 29, *Provisions, Contingent Liabilities and Contingent Assets*.

Example:

A manufacture of hair oil sells its products in container to distributors. Each container carry a cash coupon, which is placed inside the container. A batch of containers is sold to a distributor at ₹ 10,00,000 which have cash coupons of ₹ 65,000. The manufacturer estimated that the distributor will present only 90% cash coupons for refund of stated amount.