

Australian Accounting Standards Board
Rejected Issue – Removed from the UIG Agenda
Inventory Rebates and Settlement Discounts
(September 2005)

The Issue

Accounting Standard AASB 102 *Inventories* (paragraph 11) refers to deducting trade discounts, rebates and similar items from the costs of inventory purchased.

Should all rebates be deducted from the cost of inventories or can some rebates be recognised as reductions in expenses or directly as revenue? For example, some volume rebates may be regarded as a contribution toward qualifying advertising costs incurred under a co-operative advertising arrangement, suggesting that they should be deducted from advertising expenses. Should volume rebates be recognised only once the target volume is reached or proportionately where achievement of the target volume is assessed as probable?

Should settlement discounts received by an entity when purchasing inventory be included (i.e. deducted) in determining the cost of the inventory or recognised instead as revenue, such as interest revenue?

Reasons for Removing the Issue from the UIG's Agenda

The issues were referred in the first instance to the IASB's International Financial Reporting Interpretations Committee (IFRIC), which decided that an IFRIC Interpretation was not required. The IFRIC also published its views on the appropriate accounting in respect of some of the issues (see below). At its September 2005 meeting, the AASB discussed the Urgent Issues Group's proposed Interpretation concerning the issues, and decided that a UIG Interpretation was not necessary in relation to AASB 102 *Inventories*. The Board supported the views expressed by the IFRIC and agreed with the proposed UIG approach to the other issues addressed, as set out below.

The IFRIC reported in *IFRIC Update* (November 2004) its agreement that:

- (a) settlement discounts should be deducted from the cost of inventories; and
- (b) IAS 2 *Inventories* requires only those rebates and discounts that have been received as a reduction in the purchase price of inventories to be taken into consideration in the measurement of the cost of the inventories. Rebates that specifically and genuinely refund selling expenses would not be deducted from the cost of inventories.

The AASB further agreed that:

- (c) when a rebate represents a reimbursement of a specific, incremental, identifiable cost incurred by an entity in selling a supplier's products and the amount of the rebate credited or paid by the supplier exceeds the cost being reimbursed, the excess amount should be deducted from the cost of inventories;
- (d) when there is a binding agreement that requires the supplier to credit or pay a rebate provided the entity completes a specified cumulative level of purchases or remains a

customer for a specified period of time, the rebate should be recognised as a reduction of the cost of purchases, provided the rebate is probable and reliably measurable. The entity should measure the rebate based on the amount expected to be received in relation to the underlying transactions that have occurred during the reporting period and that result in progress by the entity toward achieving the specified requirements for receiving the rebate; and

- (e) rebates that are discretionary should be recognised by the entity at the earlier of (1) when credited or paid by the supplier and (2) when the supplier becomes obligated to credit or pay them.
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