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dReport: October 2019

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Contents

Discounts in Czech Accounting

Discounts, prompt payment discounts, percentage discounts and bulk discounts are business tools used by both small and large companies in marketing in various industry sectors. We have become used to discounted prices and encounter discounts in stores on a daily basis.

We could argue whether the use of a discount relates to the quality of provided products and services and whether it is reflected in customer psychology. However, we will leave this very interesting topic aside for now and focus purely on the accounting perspective, which is not as straightforward after an in-depth analysis as it might appear at first glance. In a figurative sense, even here "discount is not for free". An accounting professional needs to train his/her judgement in how to recognise the discount correctly, whether it has an impact on valuation, what its tax implications are, etc.

What types of discounts can be used, what legal regulations stipulate the issues of discounts and how to correctly account for discounts from the perspective of a provider and recipient of the discount – we will focus on this topic in the following paragraphs of the article. The article discusses purely the accounting perspective in terms of the presentation and valuation of selected types of discounts, it does not address the requirements of tax regulations for documentation and tax treatment of discounts.

Where we can read about discounts in Czech legal regulations

Even though there are so many discounts around us, do not bother trying to find comprehensive and exhaustive legal guidance on accounting for discounts in Czech regulations. Actually, the only regulation which at least mentions discounts is Czech Accounting Standard for Businessmen No. 019 "Expenses and income". More precisely, this standard offers a very general definition of the discount, in paragraph 4.1.1. as "*all items regardless of whether a customer was entitled to the discount in advance, or whether it is an additionally granted discount, for example due to poor quality*". At the same time, it provides a vague guideline on how to connect discounts to a specific accounting transaction: *"Discounts and deductions are part of sales for a supplier, however separate sub-ledger accounts may be established for them.*" It is possible to say that this definition does not reflect a large range of discounts that are currently available on the market, it is also one-sided – based on the attitude of the supplier, i.e. the one who generates income from performed supplies and then provides a discount from that income.

For this reason, we will have to do with generally applicable accounting principles and experience with their application in practice. We mean primarily the prudence principle, i.e. is the customer actually entitled to receive a discount, or what is the likelihood of meeting the criteria for recognition of turnover bonus, as well as the accruals principle, i.e. recognise discounts in accounts in which the primary transaction was recognised to which the discount relates, and in the period in which the primary discount was made.

Discount, percentage discount, bulk discount or prompt payment discount?

- When we say discount, any price reduction comes in mind which is provided by a supplier to a customer, or a seller to customers.
- Percentage discount is a deduction from the selling price, but unlike a discount, it is usually expressed in percentage terms.
- Bulk discount is perceived as a price reduction for the purchase of a larger than standard quantity in one or several supplies, typically for a certain time period or on a cumulative basis for a historical period.
- Prompt payment discount is a financial benefit based on the condition of early or timely payment.

For all the above terms, there is no clearly defined link of the discount type to the manner of its recognition. Each of the above discussed type of price reduction must be assessed based on specific circumstances when an entitlement for the discount originated. A very important issue in determining the correct accounting entry is the reason for which the price was reduced, link to the primary transaction from which the price is adjusted, and the period in which the transaction was made.

In general, we can assume that it is appropriate to account for all types of discounts in the same manner as the item, to which the relevant discount relates, was accounted for. If the discount relates to an item that was accounted for through the profit and loss account, in certain expense or income accounts, then it is necessary to account for the discount as a decrease in certain expense or income items. If the discount relates to the acquired asset which has not yet been "used" (usually inventory or assets), it is necessary to recognise the discount as reduction in the value of a particular asset. Situations may also occur where the discount is not simply included in expenses or income but instead it is for example accrued.

Let us discuss the most frequent types of transactions that generate an entitlement for discount, from the perspective of the provider and the recipient of the discount.

Methods of accounting

The most common method of price reduction is a discount from the originally announced price. For example, a discount from the price stated in a price list of sold material based on an agreement between a supplier and a customer that resulted from poor quality of the supply or late supply. It is recognised in income of a customer, or in expenses of a supplier, to which it relates and in the period in which the transaction was made.

In the event of a purchase of a larger quantity of material, a bulk discount is provided. The costs of the purchase of material are recognised by the customer, i.e. recipient of the discount to the debit side of account 501 and therefore the provision of the discount decrease these costs to which the discount relates, i.e. The discount is recognised in debit 321/credit 501. If the discount related to items of material in stock, the value of material is directly decreased - debit 321/credit 112. Or there can be a potential concurrence when the discount relates partially to the already used material and partially unused material (in stock) – then it is necessary to divide the discount. The supplier, i.e. the provider of the discount, makes an accounting entry debit 60x / credit 311 due to the provided discount.

The second case may be the provision of a bulk discount for exceeded the purchased quantity for a certain time period, in practice referred to as turnover bonus. Upon the meeting of defined conditions that are known to the seller and the buyer at the time of the transaction, but the likelihood that they will be met is assessed for a certain time period, the accounting treatment as in the previous case, follows the accounting treatment of the primary transaction.

In practice, there are situations when the turnover bonus can be determined only after the end of the reporting period and according to the fulfilment of the criteria, the bonus is either granted or not. In this case, it is necessary to note the necessity of accounting for estimated payables or reserves pursuant to the likelihood of the discount, upon the meeting of the conditions for such bonuses.

A typical example is a turnover bonus for purchased quantity in a certain time period which exceeds the current reporting period of the company and is consequently assessed only in the following reporting period. In such a situation, if it is likely that the company will meet the condition for being granted the bonus, an accounting estimate is recognised for the anticipated amount of the bonus relating to the current reporting period. For the provider of the discount, it is an outflow of funds, i.e. recognised in debit 60x/credit 389 (or through reserves debit 554/credit 459). For the recipient of the discount, it is an anticipated inflow of funds, i.e. recognised in debit 388/credit 50x (or credit 112). We apply the accrual principle and the prudence principle in order to reflect the impact of the provided bonus in the relevant period, i.e. The current reporting period in which the primary transaction was made to which the bonus relates. If we are unsure about the entitlement for the bonus, we estimate only an adequate part. Or, if we know that we did not meet the limit and we will not be entitled to the bonus, we do not account for an estimated amount. In any event, a company must have its assumption and likelihood of achieving the discount appropriately documented by way of arguments and calculations.

Another case is the price reduction when the payment condition is met, prompt payment discount for a timely payment. If I pay an invoice, as a customer, before the due date, and it is agreed with the supplier, I can reduce the original price by a certain percentage, or an amount known in advance. In this case, we know about the condition for the discount in advance and we use the discount if we meet the conditions for the discount. In practice, these discounts are often accounted for as a financial expense or financial income. An alternative perspective says that prompt payment discounts are neither financial expense nor financial income, they are simply a manner of determining the total amount of supplies on which the buyer agreed with the seller depending on certain contractual conditions determined in a variable manner and then prompt payment discounts are accounted for as other discounts in the operating part of the profit and loss account, as discussed above (or by a decrease in the valuation of fixed assets or inventory). Where is the boundary regarding which procedure should be used? the purchase/selling practice in various industry sectors currently works with discounts in a targeted manner, discounts are reflected in calculations, and systematic interest in discounts is noticeable, rather than an ad-hoc use upon payments. Increased systematic interest evokes work as with other discounts, if it is an ad-hoc use of a prompt payment discount, the presentation of prompt payment discounts in the financial section of the profit and loss account may be appropriate.

Another case when a presentation in the financial section of the profit and loss account is apparently more appropriate may be a situation when a contract between the seller and the buyer sets out a due date which is rather long (e.g. 90 days or more) and concurrently determines the entitlement to the prompt payment discount. In such a case, given the significant length of the time period for which the discount is provided, it is a tool of financial nature and the discount would therefore be a financial expense or income.

In addition to the aforementioned cases of discounts provided, in practice we can come across the provision of discounts such as "every tenth product free". The customer purchases and recognises ten products at the same reduced cost and the discount is distributed across all the ten pieces received. As for the supplier, the tenth product is issued out of stock at internal expenses just like the preceding nine products and the discount on the provision of the tenth product is reflected in the decreased revenue from the sale, i.e. a lower sales margin.

Not every price reduction can be considered a discount. Another situation concerns the "nomination fee", which is also sometimes referred to as "pay to play" etc. It consists in the liability of the supplier (usually the producer) to pay a specific amount to its customer for the opportunity to obtain some kind of future order (often not entirely precisely defined), at a specific time, without having already produced let alone supplied anything. For the supplier, the payment represents an additional expense reported in the current period or accrued over the duration of the project or the contract term. The accounting professional has to consider, among other things, whether the "nomination fee" can be considered a "marketing" expense with the objective of maintaining the position on the market or increasing turnover, and assess whether it is possible to identify the benefit provided in relation to individual deliveries, especially if such a direct connection is not defined by the supplier. Then the payment received from the supplier is recognised in other operating income.

In any case, we recommend including the selected method of recognising and reporting the individual discounts in an internal policy or directive to ensure a consistent approach in similar cases in the future. The notes to the financial statements should describe the methodology for the users.

Conclusion

We acknowledge that the current system of using discounts has become part of our lives and it is a very effective tool used to influence customer consumer behaviour. It is necessary to keep correct accounting records of discounts. Understanding the reasons for price reduction in relation to the primary transaction to which the discount relates is helpful in presenting true and fair accounting records. The notes should also describe types of discounts and their accounting treatment for users of the financial statements.

Let us add that other interesting marketing tools containing elements of discount that are widely used and have very specific features include various forms of loyalty programmes. These should always be addressed on an individual basis, which places considerable demands on accounting professionals, not to mention the potential increased variability caused by reporting under IFRS (especially with respect to IFRS 15 *Revenue from Contracts with Customers*).

Andrea Havlová
ahavlova@deloittece.com

Invitation to Seminars

News in Czech Accounting

Prague, Brno, Ostrava, Pilsen and Hradec Kralove

We would like to invite you to Deloitte's traditional autumn seminar focusing on financial statements and accounting in the Czech Republic. The seminar will comprise practical examples and tips in the areas where, as advisors and auditors, we come across the most findings. Furthermore, we will introduce to you the concept of new accounting legislation for the period 2020 -2030, which is in the process of preparation. We will also discuss the planned changes to the Czech accounting legislation related to the forthcoming amendment of the Act on Business Corporations. The programme will also include new tax developments and their impact on companies' financial statements.

The seminar is predominantly intended for accountants, economists and financial managers preparing or involved in the preparation of financial statements under Czech accounting legislation and the related tax and legal regulations, and for all of you who want to learn more about Czech accounting and the most recent tax and legal developments.

Seminars will be held in Czech and will be delivered by our professionals.

The seminar is not intended for consultants or employees of companies engaged in providing advisory services.

Dates

Prague:	12 November 2019 and 10 December 2019
Ostrava:	21 November 2019
Pilsen:	5 December 2019
Hradec Kralove:	11 December 2019
Brno:	12 December 2019

More information and registration on: akce.deloitte.cz

Cash Flow

We invite you to a seminar focused on the cash flow statement. We will address which reporting entities have to prepare the cash flow statement and what preparation methods exist. We will use practical examples to see what sources of data can be used when preparing the cash flow statement, what the information value of the individual parts of the statement is and how to approach the preparation of the cash flow statement effectively.

The seminar focuses on the preparation of the cash flow statement using the indirect method for the purposes of the annual financial statements. It does not include cash flow management as part of corporate planning.

The seminar is intended primarily for accountants, economists and finance managers who prepare financial statements under Czech accounting legislation or who are otherwise involved in their preparation.

Seminars will be held in Czech and will be delivered by our professionals.

Dates

Ostrava:	3 December 2019
Prague:	4 December 2019
Brno:	20 May 2020

More information and registration on: akce.deloitte.cz

IASB Amended IFRS 9, IAS 39 and IFRS 7 in Response to the IBOR Reform

On 26 September 2019, the International Accounting Standards Board (IASB) published 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Background

Interbank offered rates (IBORs) are interest reference rates, such as LIBOR, EURIBOR and TIBOR, that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity and in a particular interbank term lending market. Recent market developments have brought into question the long-term viability of those benchmarks. Therefore, work is underway in multiple jurisdictions to transition to alternative risk free rates (RFRs) as soon as 2020. Such rates will be based on liquid underlying market transactions, and not dependent on submissions based on expert judgement. This will result in rates that are more reliable and provide a robust alternative for products and transactions that do not need to incorporate the credit risk premium embedded in the IBORs.

The IASB followed a phased response to the reform of interest-rate benchmarks. Phase 1 culminates with the amendments issued on 26 September 2019 and focuses on the accounting effects of uncertainty before IBOR is replaced with an alternative RFR, i.e. The pre-replacement issues. In September 2019, the IASB also started work on Phase 2, which considers the potential consequences on financial reporting of replacing an existing benchmark with an alternative. The first output from this phase of the project will be an exposure draft expected in the first half of 2020.

The recent amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, which require forward-looking analysis. (IAS 39 is amended as well as IFRS 9 because entities have an accounting policy choice when first applying IFRS 9, which allows them to continue to apply the hedge accounting requirements of IAS 39.) There are also amendments to IFRS 7 *Financial Instruments: Disclosures* regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

Changes

The changes in *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7)

- modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Effective date

The amendments are effective for annual periods beginning on or after 1 January 2020, with early application permitted. The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

More information about these amendments is available in IFRS in Focus from September 2019.

Sources: IFRS in Focus (September 2019)

www.ifrs.org

www.iasplus.com

Jitka Kadlecová
Jkadlecova@deloittece.com

IFRS EU Endorsement Process

The European Financial Reporting Advisory Group (EFRAG) updated its report showing the status of endorsement of each IFRS, including standards, interpretations, and amendments, most recently on 16 October 2019.

As of 23 October 2019, the following IASB pronouncements are awaiting European Commission endorsement for use in the EU:

Standards

- IFRS 14 *Regulatory Deferral Accounts* (issued in January 2014) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard
- IFRS 17 *Insurance contracts* (issued in May 2017)

Amendments

- Amendments to IFRS 3 *Definition of a Business* (in October 2018)
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform* (issued in September 2019)
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued in September 2014)
- Amendments to IAS 1 and IAS 8 *Definition of Material* (issued in October 2018).
- *Amendments to References to the Conceptual Framework in IFRS Standards* (issued in March 2018)

Click here for the Endorsement Status Report.

Jitka Kadlecová
jkadlecova@deloittece.com

Invitation to Autumn Seminars

IFRS News 2019

We would like to invite you to Deloitte's traditional autumn webinar on International Financial Reporting Standards (IFRS).

From the comfort of your office, you will gain a full and lightning-quick overview of new and amended standards. We will give you a short summary of the nature of the changes to enable you to identify whether the changes affect your company. You will also learn how much time is left for their potential implementation.

Date:

- Webcast took place on 16 October 2019. Its record in Czech is available here.

The Pitfalls of Financial Statements under IFRS for 2019

We are pleased to invite you to Deloitte's autumn seminar on International Financial Reporting Standards (IFRS).

You will be provided with an overview of standards and interpretations, which have been mandatorily effective since 1 January 2019 or later. We will draw your attention to the major changes and their impact on financial statements prepared for the year 2019.

We will have a closer look at the new IFRS 16 *Leases*, which has been in effect since 1 January 2019. The standard brings along changes that are primarily critical from the lessee's perspective, as according to the amended rules, operating leases are now reported on the face of the balance sheet. We will primarily focus on how the adoption of this new standard should be reflected in the 2019 financial statements and what practical expedients may be used in the transition. We would like to note that we will focus on IFRS 16 in greater detail during a special seminar entitled "IFRS 16 *Leases* in Practice".

We will also draw your attention to the most common errors our auditors came across during audits of financial statements prepared in accordance with IFRS for 2018. Given that most frequently, the errors were related to the implementation of the new standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, we will address these standards with appropriate care during the seminar.

We will also pay attention to missing disclosures in the notes to the financial statements.

And finally, we will also have a look at an overview of IFRS changes that are expected to come into effect in the near and later future.

The seminar is primarily intended for accountants, economists and financial managers of projects relating to IFRS and for all who want to know more about IFRS.

The whole day's seminar will be held in Czech in Prague, Brno and Ostrava and will be hosted by Deloitte experts.

Date:

Prague	6 November 2019, 9 a.m. – 3 p.m.
Ostrava	12 November 2019, 9 a.m. – 3 p.m.
Brno	19 November 2019, 9 a.m. – 3 p.m.

For more information and to register, please go to: akce.deloitte.cz

IFRS 16 – *Leases* in Practice

We are pleased to invite you to the autumn seminar on International Financial Reporting Standards (IFRS), which will be held in our new office premises in Prague Vinohrady. We will scrutinise the new IFRS 16 *Leases*, which has replaced IAS 17 *Leases* and which has been effective for reporting periods starting on 1 January 2019. Also, we will address in detail the relating interpretations. The new standard brings along significant changes, primarily those from the lessee's perspective. This is because operating leases are newly reported on the face of the balance sheet.

At the seminar, we will focus on challenging areas that require applying greater judgement in implementing the new standard. We will provide practical examples on how individual requirements placed by the standard shall be implemented. We will also pay detailed attention to various practical expedients that may be used in the transition to the new standard. You will also find out about new disclosures to be provided in the notes.

Certainly there will be time to answer your questions during the seminar.

The seminar is primarily intended for accountants, economists and financial managers of projects relating to IFRS and for all who want to know more about IFRS.

The whole day's seminar will be held in Czech in Prague and it will be hosted by our professionals.

Date:

- Prague: 26 November 2019, 9 a.m. – 4 p.m.

For more information and to register, please go to: akce.deloitte.cz

US GAAP

Revenue Recognition Standard: New Publication

We would like to share with you information about a recently-issued publication by Deloitte that you may find useful in considering how to account for revenue related transactions under US GAAP.

It is a comprehensive guide to revenue recognition standard ASC 606 called "A Roadmap to Applying the New Revenue Recognition Standard (2019)" reflecting all subsequent updates of the standard made at a later stage. It can be accessed on iasplus.com.

The publication contains in extensive detail chapters on each of the five steps of the revenue recognition assessment:

Step 1: Identify the Contract

Step 2: Identify the Performance Obligations

Step 3: Determine the Transaction Price

Step 4: Allocate the Transaction Price to the Performance Obligations

Step 5: Determine When to Recognize Revenue

Also, it covers the topics of contract modifications, principal vs. agent considerations, licensing, contract costs, presentation and disclosure, sales of non-financial assets within the scope of ASC 610-20 as well as tax considerations.

Those looking for the differences between US GAAP ASC 606 and IFRS 15 will appreciate Appendix a included (pages 787 to 793) as well as Deloitte's Q&A's with references to the relevant extracts from the guidance.

Should you need further support with the interpretation and application of US GAAP or IFRS, our specialists are available to provide assistance.

The publication has 932 pages and is available here.

Gabriela Jindřišková
gjindriskova@deloittece.com

Contacts

Should you have any questions regarding the matters outlined in this publication, please reach out to your contact person from Deloitte's Audit function, Deloitte's technical desk at CZ_TechnicalDesk@deloittece.com or one of the following specialists:

Czech Accounting
Jarmila Rázková
jrazkova@deloittece.com

IFRS and US GAAP
Martin Tesař
mtesar@deloittece.com

Soňa Plachá
splacha@deloittece.com

Gabriela Jindřišková
gjindriskova@deloittece.com

Deloitte Audit s. r. o.
Churchill I
Italská 2581/67
120 00 Prague 2 – Vinohrady
Czech Republic
Tel.: +420 246 042 500

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