IFRS 15

1. Guidance on presentation of discount to customers in financial statements

Enquiry: This query is being made in order to eliminate the diversity in practice as a result of the newly promulgated auto policy 2016 for auto industry. The auto policy *inter alia* states that:

"Advance payment shall be limited up to 50% of the total price. Price and delivery schedule, not exceeding two months, shall be firmed at the time of booking. Any delay over two months shall result into discount @ KIBOR +2 percent prevailing on date of final delivery / settlement of the final payment, which shall help shorten the lead time."

In this background, guidance is requested regarding the presentation of this discount as to whether this discount should be presented as a deduction from sales revenue or should it be presented as a finance cost?

Opinion: Revenue is derived from contracts with customers entered into by an entity for the sale of goods or services, in the ordinary course of the business. The automotive manufacturer's financial liability (discount payable to the customer due to delayed delivery of vehicle) originates from a contract (for the sale of vehicle) with the customer.

IFRS 15 '*Revenue from Contracts with Customers*' applies to contracts to deliver goods or services. The core principle of IFRS 15 is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 provides detailed guidance on the determination of the consideration to which the entity expects to be entitled in exchange for those goods or services (the transaction price).

Relevant paragraph of IFRS 15 is reproduced here under:

"An entity shall <u>consider the terms of the contract</u> and its customary business practices to determine the transaction price. <u>The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer</u>, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, <u>variable amounts</u>, or both." (Underline is ours)

In determining the transaction price the entity considers the guidance related to the variable consideration, significant financing component, non-cash consideration and consideration payable to the customer, contained in IFRS 15.

Therefore, in the enquired scenario the automotive manufacturer should recognise and present revenue in accordance with the requirements of IFRS 15.

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