

ACCOUNTING FEATURES OF THE SALE OF PRODUCTS WITH THE RIGHT OF RETURN

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Abstract: Returning goods in commercial organizations is one of the most common deals, the reasons for which are different: product malfunction, defects, inconsistency with the range specified in the contract, etc. However, the return of the goods may not take place in cases of lack of consumer characteristics of the goods, presence of defects or inconsistency of the assortment, but in accordance with the clause stipulated in the contract, according to which the buyer has the right to return the unused part of the goods. However, the return of the goods may be implemented not in cases of lack of consumer characteristics of the goods, presence of defects or inconsistency of the assortment, but in accordance with the clause stipulated in the contract, according to which the buyer has the right to return the unused part of the goods.

Although the return of unused goods by the customer is not new in practice, the previous IAS 18 "Revenue" standard did not outline any accounting approach. While IFRS 15 "Revenue from Contracts with Buyers" standard offers a unique approach to accounting for each item of the contract, more specifically, it makes the accounting flexible and conforms to the terms of the contract, which, of course, only improves the accounting. Moreover, if the customer, according to the contract, has the right to return a part of the unused goods, therefore, there is a need to develop the mechanisms for the sale, write-off and return accounting of the goods under the conditions of return.

This article presents the mechanisms of evaluation and accounting of products corresponding to contracts with the right of return, which need to be identified and developed at the theoretical and practical level for the preparation of financial statements.

Keywords: IFRS 15 "Revenue from contracts with buyers", accounting for returned goods, accounting for contractual obligations

JEL code: M40

Research aim: The purpose of the research is to develop accounting models for products with the right of return, based on the requirements of IFRS 15 "Revenue from contracts with buyers". As a result, an asset with the right of return is formed, as well as a contractual (reimbursable) obligation, which leads to the reduction of income and costs, which is important for accurate calculation and effective management of the income and expenses of organizations.

Research hypothesis: Financial accounting models for the sale of goods liable to the right of return are supposed to be important

in terms of the reliability of the information included in the financial statements of entities engaged in the sale of goods.

Research novelty: The scientific novelty is the methodological development of the theoretical bases of the accounting of assets and liabilities for goods with the right of return (fixed by the contract) in commercial organizations.

Introduction

Almost all theorists agree that the IFRS 15 standard has a number of advantages. "The new standard provides a more detailed presentation of the circumstances of practical application of income accounting and improves the reconciliation of income between different organizations, different branches of the economy, etc., in addition, it creates prerequisites for improving the disclosure of income in order to provide users with more useful information" [1].

Some theorists consider one of the advantages of the standard to be the development of long-distance trade in the world, one of the conditions of which is the condition of returning goods. "Currently, the problem of returning goods is present all over the world. Due to the development of online stores, the return of goods has become significantly more popular due to the fact that buyers did not receive the goods that they ordered or the goods did not match the description or arrived damaged to the buyer" [2].

The compensation promised by the contract can be changed very often according to some clauses of the contract, in which case the compensation contains a fixed part and a variable part. Currently, the chart of accounts operating in the Republic of Armenia, as well as the instructions for its application, do not meet

the requirements of IFRS 15 in the sense that they do not provide for variable compensation operations related to the reflection of the contractual obligation and the asset with the right of return.

Research Results

According to Yu. A. Vasileva's "Promised compensation can be changed if the right to compensation is conditioned by events that will or will not happen in the future. For example, compensation would be variable if it was sold with a right of return" [3].

According to A. S. Pyatinsky, "For determining the variable part of compensation, two methods are used. Expected compensation and the most probable compensation" [4]. It should be noted, that the expected compensation is applied in the case of sale of goods liable to return.

IFRS 15 defines: "The returned product should not be considered as an enforceable obligation" [5]. That is, the selling party should not recognize cost and revenue for the batch of returned products [6]. That is, the revenue will not be recognized for the entire batch for the seller, while returnable items must be reflected. It turns out that if the contract stipulates that the customer will return a part of the goods, then the seller:

- ✓ Should recognize the compensation that he expects to receive for items that are not expected to be returned
- ✓ Cost price of sold goods should reflect only those items that are not expected to be returned.
- ✓ The goods subject to returned should continue to be accounted in the balance sheet at cost price, in particular, in the newly opened "Goods subject to return" sub-account.

- ✓ Should reflect mutual obligations at the selling price of the goods to be returned.
- ✓ In the case when products are returned fewer than expected, then the unreturned part is considered as sold and revenue is recognized at its selling price, while these products are written off at cost price of sale.

Figure 1 shows a model for accounting for sales of goods with a contractual right of return.

Organizations engaged in the sale of building materials have long been dealing with the situation when the refund is made after a certain time after the conclusion of the contract (one month, two months), that is, after the completion of the construction works to be performed.

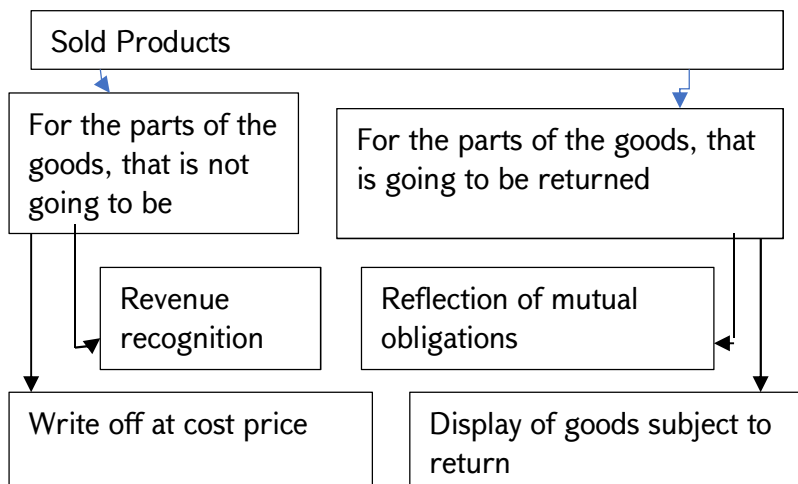


Figure 1. The Model for Accounting for Goods Subject to Return¹⁰

¹⁰ Composed by authors

Therefore, let's consider the following conventional example related to the sale of building materials (Table 1): "Metal" LLC carries out retail and wholesale sales of A 500C class rebars imported from the Russian Federation in accordance with international standards (GOST 12004-81).

"Metal" LLC on 01.03.2022 signed an agreement with "Karutsenk" LLC for the supply of 3 tons of rebars with a diameter of 32 mm and a length of 11.7 meters, the date of delivery: 05.03.2022. is the price of the contract (including VAT) was 960,000 drams, of which 800,000 drams is the cost of reinforcements, and 160,000 drams is VAT. In other words, according to the contract, the price of one ton of rebar is 320,000 drams, of which 266,666 drams is the cost of one ton of rebar, and VAT is 53,334 drams. Note that the cost of 1 ton of rebar of the aforementioned quality and diameter in "Metal" LLC is AMD 218,666.

Let us add that the parties to the contract are old partners and in one of the clauses of the previously signed contracts, as well as in one of the clauses of the mentioned contract, it was stated that "Kartutsink" LLC has the right to return the unused part of the reinforcements within one month from the date of delivery, moreover, in all previous contracts "Kartutsink" LLC returned 10% of the rebars, and Metal LLC predicts that this contract will return that much again.

According to IFRS 15, "Metal" LLC should not recognize revenue for the entire quantity of rebars for 3 tons, but only for 90% for 2.7 tons. And so. On 05.03.2022, "Metal" LLC should recognize income in the amount of 720,000 AMD (800,000 AMD

x 90%), (table 1 line 1). VAT: 144,000 drams ($160,000 \times 90\%$) (table 1, line 2), and the total amount to be reimbursed will be 864,000 drams. At the same time, the cost of sale will be reflected for the batch of rebars that will be recognized in revenue: 590,398 drams ($218,666 \text{ drams} \times 2.7 \text{ tons}$) or which is the same: ($218,666 \text{ drams} \times 3 \text{ tons} \times 90\%$) (see Table 1, line 3).

The rest of the reinforcements, 0.3 tons, will be reflected in the balance sheet in the "Products with the right of return" sub-account in the amount of 65,600 AMD ($218,666 \text{ AMD} \times 0.3 \text{ tons}$) (table 1, line 4), at the same time, in the article "Contractual obligations" of current liabilities: 96,000 AMD. including value added tax (table 1, line 5), of which 80,000 drams is the value of the rebars to be returned, and VAT is 16,000 drams ($800,000 \text{ drams} \times 10\% \times 20\%$)).

Version 1.

Let's admit that before 05.04.2022 Karutsenk LLC returns 10% of the reinforcements, that is, as much as in previous transactions or as much as predicted by "Metal" LLC. Therefore, rebars are re-entered into the warehouse at cost of acquisition as goods in stock for AMD 65,600 (table 1, line 6), and contractual obligations and receivables are settled for AMD 96,000 (table 1, line 7).

Version 2.

Let's admit that before 05.04.2022 "Karutsenk" LLC returns 7% instead of 10%. With the sale price of 3% not returned, "Metal" LLC recognizes revenue for AMD 24,000 ($800,000 \times 3\%$) (table 1, line 8) and reflects VAT for AMD 4,800 (table 1, line 9), at the same time the write-off of those 3% of the already realized reinforcements should reflect the cost of realization - 19 680 AMD (table 1, line 10), while the returned part - 7% - the cost of 45 920 AMD ($655\,998 \times$

7%) should be entered into the warehouse (table 1, line 11), and with the 7% returned at the same time, repays contractual obligations and receivables for AMD 67,200, including VAT (table 1, line 12).

Table 1. Accounting for Goods that Subject to Return¹¹

Nº	Correspondence	Amount (in AMD)
1.	DR Sales receivables CR Revenue from the sale of goods	720 000
2.	DR Sales receivables CR Value added tax debt	144 000
3.	DR Cost price of sold products CR Products in stock	590 398
4.	DR Goods subject to return CR Products in stock	65 600
5.	DR Sales receivables CR Contractual Obligations	96 000
Version 1		
6.	DR Products in stock CR Products subject to return	65 600
7.	DR Contractual Obligations CR Sales receivables	96 000
Version 2		
8.	DR Contractual obligations CR Proceeds from sale of goods	24 000
9.	DR Contractual Obligations CR Value added tax debt	4 800

¹¹ Composed by authors

10.	DR Cost price of sold products CR Goods subject to return	19 680
11.	DR Products in stock CR Goods subject to return	45 920
12.	DR Contractual obligations CR Sales receivables	67200

Conclusion

Returning a certain batch of sold products is always a common operation in organizations dealing with the sale of goods. Moreover, if there is business experience between the buyer and the seller. For similar operations, IFRS 15 proposes to apply the expected value method, according to which, the cost of realization should be reflected for the goods that will be recognized in revenue, that is, that will not be returned and are considered as sold.

It turns out, that the seller should calculate the expected value based on business experience and recognize the revenue with that amount. Whereas previously, revenue was recognized at the full amount of the sale, and a revenue adjustment was made in the event of a return. According to the current standard, goods with a right of return should continue to be reflected in the balance sheet as current assets.

Therefore, in order to provide the users with the most useful information, there is a need to create unique reports related to the reflection of the contractual obligation and the asset with the right of return, which is important in the direction of accurately calculating the income and expenses of the organizations and improving the disclosure of income.

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5. IFRS 15, point 22

ՎԵՐԱԴԱՐՁՄԱՆ ԻՐԱՎՈՒՆՔՈՎ ԱՊՐԱՆՔՆԵՐԻ ՎԱՃԱՌՔԻ ՀԱՇՎԱՌՄԱՆ ԱՌԱՆՁՆԱՀԱՏԿՈՒԹՅՈՒՆՆԵՐԸ

Մանյա Պողոսյան

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Բանալի բառեր - ՖՀՄՍ 15 «Հասույթ գնորդների հետ պայմանագրերից», ապրանքների վերադարձի իրավունքով պայմանագրեր, պայմանագրային պարտավորությունների հաշվառում

Առևտրային կազմակերպություններում ապրանքների վերադարձը հաճախ հանդիպող գործառնություններից է, որի պատճառները տարբեր են. ապրանքի անսարքությունը, թերությունները, անհամապատասխանությունը պայմանագրում նշված տեսականուն և այլն: Սակայն վերադարձը կարող է տեղի ունենալ պայմանագրում ամրագրված կետով, այլ ոչ թե ապրանքի սպառողական հատկանիշների բացակայության, թերության կամ տեսականուն չհամապատասխանելու պատճառով:

Նախկին ՀՀՄՍ 18 «Հասույթ» ստանդարտը այսպիսի իրավիճակների համար հաշվառման որևէ մոտեցում չէր ուրվագծում, եթե նույնիսկ չօգտագործված ապրանքների վերադարձի մասին ամրագրված էր հաճախորդի հետ կնքված պայմա-

նագրում, այսինքն՝ պայմանագրի պայմաններին համապատասխան գործառնություններն որևէ արտացոլում չունենին հաշվառման մեջ:

Մինչդեռ ՖՀՄՍ 15-ը պայմանագրի յուրաքանչյուր կետին համապատասխան հաշվառման մեջ փոփոխություն է առաջարկում, ավելի կոնկրետ՝ հաշվառումը դարձնում է ճկուն և համապատասխանեցնում պայմանագրի պայմաններին, որն, ինչ խոսք, միայն բարելավում է հաշվառումը: Եվ քանի որ հաճախորդն ունի ապրանքների մի մասը վերադարձնելու իրավունք՝ պայմանագրով ամրագրված, անհրաժեշտություն է առաջանում գնահատել և հաշվառել նմանատիպ պայմանագրով ապրանքների վաճառքը, վերադարձի պայմաններով ապրանքների արտացոլումը և վերադարձը:

Սույն հոդվածում ներկայացված են ապրանքների վերադարձի իրավունքով պայմանագրերին համապատասխան ապրանքների գնահատման ու հաշվառման մեխանիզմները, որոնք ֆինանսական հաշվետվությունների պատրաստման համար տեսական և գործնական մակարդակով բացահայտման ու մշակման կարիք ունեն:

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