

Discounts and rebates (IAS 2 *Inventories*)—November 2004

The IFRIC considered three related questions on the application of IAS 2 *Inventories* that had been referred to it by the Urgent Issues Group (UIG) of the Australian Accounting Standards Board:

(a) whether discounts received for prompt settlement of invoices should be deducted from the cost of inventories or recognised as financing income.

(b) whether all other rebates should be deducted from the cost of inventories. The alternative would be to treat some rebates as revenue or a reduction in promotional expenses.

(c) whether volume rebates should be recognised only when threshold volumes are achieved, or proportionately where achievement is assessed as probable.

On (a), the IFRIC tentatively agreed that settlement discounts should be deducted from the cost of inventories.

Because the requirements under IFRSs were sufficiently clear, the IFRIC tentatively agreed that the matter should not be added to the agenda.

On (b), the IFRIC tentatively agreed that IAS 2 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 costs of inventories. Because the requirements under IFRSs were sufficiently clear, the IFRIC tentatively agreed that the matter should not be added to the agenda.

On (c), the IFRIC tentatively agreed that there was insufficient evidence of diversity in practice to warrant the matter being added to the agenda.