September 2022

New accounting standard on sales revenues

The Accounting Standards Committee has published National Accounting Standard No. 15 “Revenue from the sale of products, semi-finished products, goods for resale and raw materials”. The new standard details the principles to be applied to identify and recognize, as well as present in financial statements, revenues from the sale of products, semi-finished products, goods for resale and raw materials, as well as some of the related costs of concluding and performing a sales contract.

I. New accounting standard on sales revenues already in effect

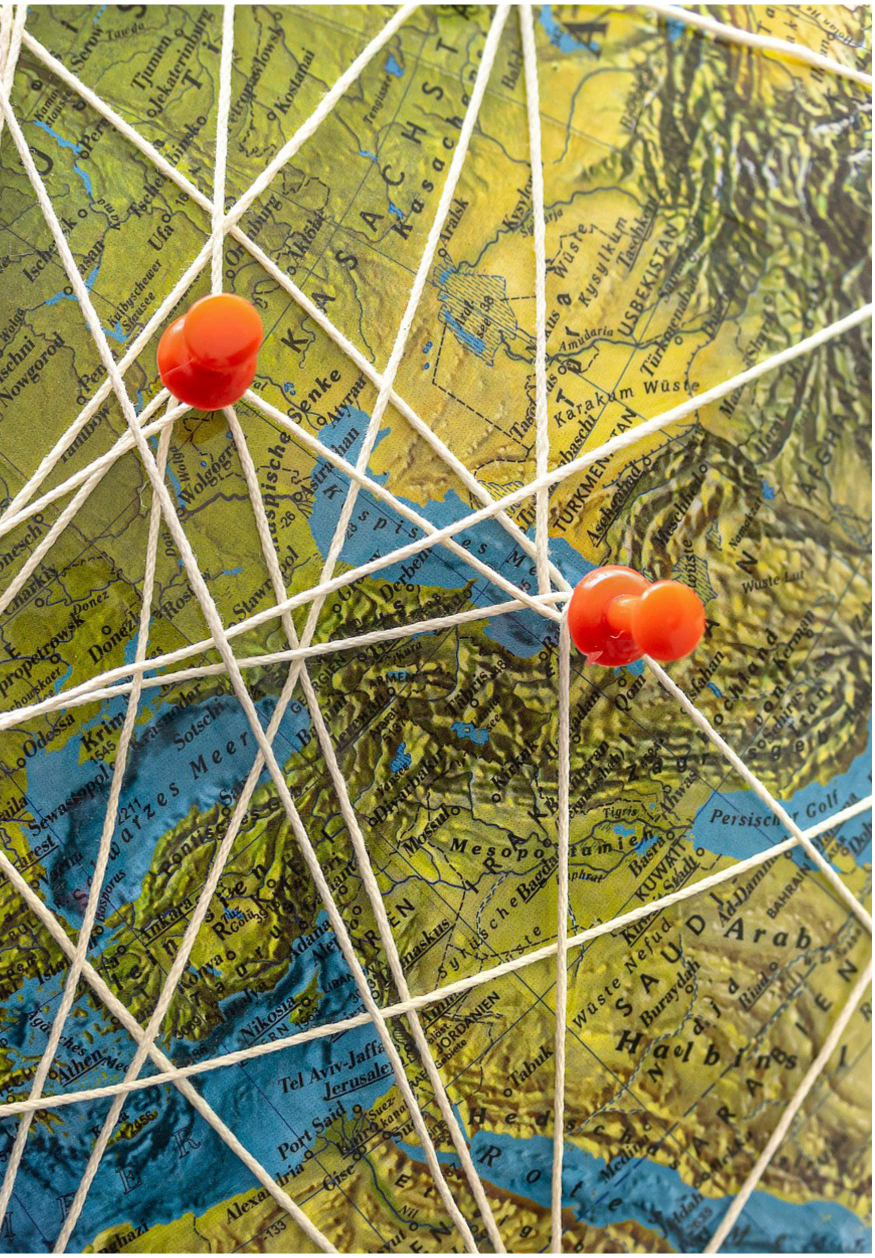
Resolution No. 9/2022 on the adoption of National Accounting Standard No. 15 “Revenue from the sale of products, semi-finished products, goods for resale and raw materials”, passed by the Accounting Standards Committee on 7 June 2022, was published in item 81 of the Official Journal of the Ministry of Finance on 29 July 2022. The standard details the accounting principles applicable in the recognition, measurement, presentation and disclosures relating to revenues from the sale of products, semi-finished products, goods for resale and raw materials, as well as some of the related costs of concluding and performing a sales contract, in accordance with the Accounting Act. Among others, the new standard contains guidance on: the conditions that have to be fulfilled to identify and recognize sales revenue; sales contracts concluded on special conditions (e.g. barter, consignment sales, conditional sales, promotional sales or repurchase agreements); reductions in revenue (such as returns, rebates, subsidies); costs of concluding a contract; presentation and disclosure of information on revenue from the sale of products, semi-finished products, goods for resale and raw materials in financial statements.

II. Not all sales revenues covered by new standard

Standard No. 15 does not cover issues relating to the recognition of revenues and profits: from services; from donations; from donations other than subsidies to operating activities; relating to the sale and measurement of financial instruments; relating to holding interests in and shares of other entities; arising out of insurance and reinsurance activities; arising out of banking activities; relating to financial activities; relating to the statutory activities of entities that do not conduct business operations, such as non-profits, relating to the sale of vouchers, pre-paid gift cards and other similar instruments; arising out of the sale of an organized part of a business or group of assets. In addition, the standard does not apply to sales and exchanges with a significant financing component, i.e. those due in more than 12 months from the transfer of risks and benefits to the buyer.

III. Entity may apply simplifications in accordance with the materiality principle

The standard provides that as part of applying the standard, entities may decide to apply simplifications with respect to the provisions of the standard, in accordance with the materiality principle. In particular, entities have a right to apply simplifications where the full application of the standard would involve excessive organizational effort, disproportionate to the results. Such situations may apply to, for example, entities with a large number of transactions involving relatively small per-transaction revenues, which under a simplification may be bundled into sets with common characteristics and recognized based on their aggregated value. Where the simplifications adopted by the entity do not lead to the reporting of values that would be determined in accordance with the wording of the standard, then the application of such simplifications is permitted.



IV. Recognition as sales revenue possible after some conditions are met

The standard defines revenues or profits as the probable formation in the reporting period of reliably measured economic benefits in the form of an increase in the value of assets or decrease in the value of liabilities, that result in an increase in equity or decrease in negative equity other than through contributions from shareholders or owners. In accordance with the matching principle, revenue from the sale of goods is recognized when all of the following conditions are met: a sales contract has been concluded between the supplier and the buyer of goods; the contract has economic substance; the consideration payable to the supplier for the sale of the goods has been determined reliably; the supplier has transferred the significant benefits and risks associated with the goods covered by the contract; the costs of fulfilling the contract have been determined reliably; it is probable that consideration for the sale of the goods will be received.

V. Additional criteria must be checked for contracts made up of multiple components

To identify and recognize revenue from multiple component contracts, all of the following criteria must also be met in addition to those listed above: the different components of the contract must be identified in order to be recognized separately; the consideration from the contract with the buyer must be allocated to the individual contract components; revenue recognition methods appropriate for each given component must be applied to revenue associated with individual contract components. In accordance with the definitions formulated in the standard, a multiple component contract is a contract for the sale of several distinct goods or several distinct services that may be separated out as individual contract components. Whereas a single component contract is a contract for the sale of distinct homogenous goods or a single distinct good, or for the provision of homogenous or integrated (linked to each other) services viewed as distinct services.

VI. It is necessary to determine if the entity is an intermediary or principal

Sales may involve entities that do not bear the operating risk associated with the sale of goods. These are intermediaries (agents). The role of intermediaries is played by, for example, real estate agents, entities that conduct consignment sales, travel agents, airline agents or entities that manage real properties, but it is also characteristic of activities performed as part of contracts executed by consortia. In practice, determining whether an entity plays the role of intermediary or principal is often difficult and requires judgement. To determine the role of an entity, its manager should analyze all of the facts and circumstances of the sale, and in particular determine whether: the entity is primarily responsibility for delivering the goods to the buyer; the entity bears inventory risk, during shipping or on return, and in maintaining an inventory of goods; the entity can independently and freely set its pricing and sales terms policy, it may shape it by organizing promotional campaigns, marketing activities and other activities of a similar nature; the entity is exposed to credit risk for the amounts receivable from the buyer.

VII. Performances made as part of loyalty programs are a separate contract component

If a loyalty program is used, in making a sale the entity determines all of its obligations to supply goods and services as part of the loyalty program and allocates the corresponding part of the consideration to those goods and services. If running a loyalty program, as part of the contract the entity may offer for consideration a package of goods and services to which it adds free benefits, such as loyalty points or other award credits (e.g. after collecting 10 stickers, the buyer can exchange them for a prize). Where in addition to the sales transaction the entity simultaneously offers an additional benefit to the buyer, the additional benefit should be recognized as a separate component of a multiple component contract. In consequence, the corresponding amount of the consideration received from the sale is allocated to the subject of the offer.

VIII. Time value of money must be considered in repurchase agreements

A repurchase agreement is a contract in which an entity sells a good and also promises or has the option (either in the same contract or in another contract) to repurchase the good. The repurchased good may be the good that was originally sold, a good that is substantially the same as that good, or another good of which the good that was originally sold is a component. If an entity has an obligation or a right to repurchase the good (a forward or a call option), a customer does not obtain control of the good because the customer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from the good even though the customer may have physical possession of the good. Consequently, the entity accounts for the contract as: a lease in accordance with NAS No. 5 Leases, if the entity can or must repurchase the good for an amount that is less than the original selling price of the good; or a financing arrangement if the entity can or must repurchase the good for an amount that is equal to or more than the original selling price of the good. When comparing the repurchase price with the selling price, the entity shall consider the time value of money.

IX. Adjustment of revenue necessary when returns reliably estimated

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If a supplier is able to reliably estimate the anticipated value of goods that are likely to be returned by buyers, the supplier reduces revenue by the value of the anticipated returns at the time the goods are transferred to the buyer. The amount to be recognized as a reduction of revenue is estimated in accordance with the methods described in the standard for variable consideration. The supplier estimates the value of returns to the best of his knowledge at the time of estimate or reflects in the value of revenues any subsequent events involving the return of goods sold in the previous reporting period, which in accordance with NAS No. 7 "Changes in accounting methods (policies), accounting estimates, adjustment of errors, subsequent events - recognition and presentation", constitute adjusting events. To make the estimate, the supplier may use historical data on the volume of returns of the same or similar goods made in previous reporting periods, the experiences of other entities from sales of the same or similar goods (if available) or other available sources of data.

The information presented herein does not constitute comprehensive information or opinion. Consult your adviser before making any decisions.