

PRICE REBATE IN THE BUSINESS RELATIONS AND THE CONSEQUENCES ON THE COMPANY OUTCOME

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Abstract: *The development of the company's activity in a competition economic environment, featured by continuous dynamics generates more and more complex problems and for solving these problems, the manager searches solutions meant to lead to the attainment of the set goals. Thus, the most important strategy to attain higher financial performances is the efficient management of the relation with the clients. Moreover, studies and analyses are required concerning the volume of the commercial transactions with strategic partners, developing a price rebate policy meant to make clients loyal. This paper aims at identifying the most appropriate communication and collaboration methods between the client and the company and at setting the type of granted commercial facilities, so that the outcome of the carried out activity attains the proposed level.*

Key words: *commercial discounts, financial discounts, profit and loss, clients, relationship with the clients.*

1. Introduction

The financial outcome of the entity is mainly influenced by the relationships with the clients. The price rebates in the relations with the commercial partners represents an approach of the entities who aim at orientating towards the client. According to the opinion of the specialists, in dealing with the clients there are underlined the following main subjects [1]:

- *managing the clients' databases;*
- *clients analysis (segmentation according to the profitability and to the strategic rank, segmentation according to the profitability and to the loyalty);*
- *purchase exclusivity (clients loyalty) –*

developing clients loyalty.

In this paper, we aimed at developing a loyalty strategy of the clients, taking into account the provided commercial facilities, as *price rebates*, without affecting the performance *target*. Within a concurrent market environment, the *price rebates*, which may be granted by the providers to the clients, quantify among others the trust between the two partners, the business volume, and the quality of the assets. The accounting activity practice operates *two rebates categories*:

- *commercial rebates*, which directly influence the net amount of an invoice;
- *financial rebates*, referred to as *discount*

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settlement.

The commercial rebates may be granted as [8]: *abatement, reduction and discount.*

The term „*commercial rebate*” is mentioned both in the Accounting Regulations according to the Fourth Directive of the Economic European Community, approved by the Order of the Public Finances Ministry no. 3055/2009 [10], and by the International Financial Reporting Standards („IFRS”), while the „*financial discount*” is described in the Accounting Regulations according to the Fourth Directive of the Economic European Community.

As the practical activity showed that the companies frequently use the procedure of granting facilities (the term used being the one of „*discount*”), it is necessary to thoroughly analyze the *commercial rebates* and the *financial discount*. Thus, the accountancy together with the management aim to increase the concurrence/competition on the market, taking into account both the sold assets and the relation with the business partners [4].

2. Research methods

The research methods included the study of the accounting procedures and of the financial report of the *commercial/financial rebates*, according to the Accounting Regulations of the Fourth Directive of the Economic European Community, approved by the Order of the Ministry of the Public Finances no. 3055/2009 („OMFP 3055/2009”) and according to the International Financial Reporting Standards („IFRS”).

Furthermore, the research method consisted in analyzing the opinions and the approaches in the specialty literature, of the different articles and studies in the field of the accounting profession. The *objectives* of the documentation were:

- ◆ *establishing the effects of the price rebates on the outcome registered by an*

economic entity, respectively S.C. REBELS S.R.L., BRAŞOV;

- ◆ *identifying the contracting provisions concerning the types of granted commercial rebates and the presentation of these rebates in the accountancy, respectively for REBELS SRL;*
- ◆ *identifying the demands and the expectations of the managers of the assets delivery companies, within the current competition environment;*
- ◆ *identifying a strategy of granting the price rebates in order to develop the loyalty of the clients.*

For the purpose of knowing the opinions and the expectations of the managers of the providing companies concerning the relation with the clients in providing the assets, the study was based on the quality research method referred to as the semi-directive thoroughness interview [7]. The pattern consisted of 10 subjects, randomly chosen, from the lists of providers of SC REBELS SRL. For efficiently carrying on the analysis, we rigorously planned it and we settled the necessary instruments, respectively the Selection Enquiry of the potential respondents and the *List of the Themes and of the Sub-themes that are approached within the semi-directive thoroughness interview.*

2. Research outcome

2.1. Accounting operation of the commercial / financial rebates according to the accounting regulations

The analysis made by the specialists in the accounting field [6], concerning the exploitation activity carried on by the economic entities emphasize the functioning manner of the commercial and of the financial rebates, being registered in the accountancy. Thus, *the commercial rebates granted on deliveries* does not determine distinct registrations, in the

accountancy as, the invoice shall reveal the rebated amount of the delivered assets, while *the subsequent rebates* are necessary for the specific accountancy concerning the adjustment of the debt to the providers of the company, simultaneously to the adjustment of the assets purchase price (art. 51 paragraphs 3 and 4 of the Order of the Ministry of the Public Finances 3055/2009[10]). In the accountancy, the *financial rebates* are diversely registered, as financial expenses when being granted by the provider and as financial income when being received by the client. The discount, being a part of these financial rebates signifies a rebate of the amount that is cashed in as a consequence of being cashed in before the due term, contributing to [2]:

- *improvement of the cash flow of the companies;*
- *transparently including in the price of the assets and of the provided services, the cost of the interest and of the afferent commissions, being consequently paid by the beneficiaries;*
- *development of the activity by granting the business partners the possibility of postponing the payment, for certain pre-established periods, of the delivered assets;*
- *allows the increase of the payment postponing period, without influencing the profitability of the company, as the*

price of the delivered assets includes the costs afferent to the discount interests.

According to the law in force the abatement, reduction and discount and other price rebates directly granted by the providers to the clients are not comprised in the taxable basis of the VAT [12], fulfilling the following conditions [5]:

- a) *to be registered in invoices or other legally approved documents;*
- b) *to be in the benefit of the client;*
- c) *not to actually constitute the retribution of a service or a trade-off for any kind of service.*

2.2. Influence of the price rebates on the outcome of REBELS SRL

The analysis of the influence of the price rebates on the profit is elaborated, taking into account the exploitation activity of SC REBELS SRL, which is concretized in the delivery of the products in specialty shops, the book-keeping being based on the wholesale price. For exemplifying, there are studied two cases. In the first case, it is studied the influence of the trade mark-up and of the commercial rebates on the outcome, and in the second case it is presented the outcome variation for practicing a pondered trade mark-up and low commercial rebates. The analysis of the manner in which the commercial rebates vary as compared to the trade mark-up is developed according to the following tables [3]:

Variation of the profit when applying a trade mark-up and high commercial rebates

Table 1

Purchase price	Pa (%)	Trade mark-up	Pr (%)	Commercial rebate	Sale price	Result
0	1	2	3	4	5=0+1-4	7=2-4
5.000	50	2500	65	4875	2625	-2375
5.000	100	5000	65	6500	3500	-1500
5.000	150	7500	65	8125	4375	-625
5.000	200	10000	65	9750	5250	250

Source: adapted according to: Cotigă, G.C.: *Invoicing the commercial and financial rebates, Stock management and accountancy of the company Magazine no. 4, Tribuna Economică Publishing House, Bucharest, 2006, p. 28*

*Variation of the profit in applying pondered trade mark-up
and low commercial rebates*

Table 2

Purchase price	Pa (%)	Trade mark-up	Pr (%)	Commercial rebate	Sale price	Result
0	1	2	3	4	5	7=2-4
5.000	3	150	5	257,5	4892,5	-107,5
5.000	5	250	5	262,5	4987,5	-12,5
5.000	50	2500	5	375	7125	2125
5.000	200	10000	5	750	14250	9250

Source: adapted according to: Cotigă, G.C.: *Invoicing the commercial and financial rebates, Stock management and accountancy of the company Magazine no. 4, Tribuna Economică Publishing House, Bucharest, 2006, p. 28*

In order to understand the study, the *wholesale price* is defined as being formed of the purchase price (purchase price) to which the trade mark-up is added, to which it is further added the value added tax. The

trade mark-up can be settled as a percentage (*trade mark-up percentage-Pa*) [3] or as an absolute value and it is determined in the following manner:

$$\text{Trade mark-up} = \text{purchase price} \cdot Pa \quad (1)$$

The *price debates* are determined by the parties and they are provided by contracting provisions. The calculus manner of the trade mark-up is different

from the trade mark-up. These vary together with the sale price and with the *rebate percentage (Pr)* and they are determined in the following manner:

$$\text{Trade mark-up} = \text{sale price} \cdot Pr \quad (2)$$

Furthermore the *sale price* (purchase price for the client) is calculated in the following manner:

$$T \text{ Purchase price} = \text{sale price} - \text{commercial rebate} \quad (3)$$

The presented data do not reveal a high profit when applying a trade mark-up equal to the percentage of the commercial rebate. For a percentage of a high commercial rebate, the trade mark-up percentage must be very high in order to obtain a profit (for example 200%), however, the goal of the trade company is not to apply a very high trade mark-up. Consequently, in case of a low commercial

rebate, we may apply a low trade mark-up but which surpasses the value of the commercial rebate percentage for obtaining a profit (for example 6%).

According to the specialists [3], the relationship between the trade mark-up and the commercial rebate is given by the reverse percentage calculation method, consequently:

$$\text{Pr} = \frac{100 * \text{Pa}}{100 + \text{Pa}} \quad (4) \qquad \text{Pa} = \frac{100 * \text{Pr}}{100 - \text{Pr}} \quad (5)$$

According to the mathematical calculus, trade mark-up (5), obtaining the following data: it is determined the transformation procedure of the commercial rebate into

Values for the rebate percentage and the trade mark-up percentage Table 3

Pr (%)	Pa (%)
0	0
3	3,09
5	5,26
50	100
65	185,71
100	-

(Source: Cotigă, G.C., *Invoicing the commercial and financial rebates, Stock management and accountancy of the company Magazine no. 4, Tribuna Economică Publishing House, Bucharest, 2006, p. 28*)

The procedure can be applied by any trade company that aims at obtaining profit, inclusively by SC REBELS SRL, who carries on, among other main activities, the activity referred to as wholesale.

2.3. Applying the accounting regulations the commercial facilities granted and received by de SC REBELS SRL, in the context of the economic activity

The commercial rebates received subsequently to the invoice, respectively granted subsequently to the invoice,

irrespectively of the period to which it refers are differently emphasized in the accountancy, on grounds of the third parties accounts [11].

REBELS SRL, on July 15th 2011, benefited from the provider, STARCOM SRL of a 10% abatement of the amount of the purchased merchandise for the claimed quality defects (the value of the purchased merchandise is of 10.000 lei). The book-keeping of SC REBELS SRL reflected the 10% abatement received on July 15th 2011, in the following manner:

401	=	609	1.000 lei
„Providers”		„Received commercial rebates”	

In its turn, SC REBELS SRL grants a 20% abatement for the defects of the merchandise sold to SC ENERGO SA (the

income of the merchandise sale being of 10.000 lei). The book-keeping registration of the commercial rebate is the following:

709	=	4111	2.000 lei
„Granted commercial rebates”		„Clients”	

The modifications made by the Order of the Ministry of the Public Finances no. 3055/2009, concerning the commercial rebates (distinctly emphasized in the Loss and Profit Account), are meant to enable the users of accounting information in their activities and to determine an increase of the relevance and credibility degree of the information presented in the Financial Statements.

The analysis made reveals that besides the traditional relationships with different clients, SC REBELS SRL develops commercial relationships based on agreements. The commercial contracting provisions, concluded with the partners reveal the enclosure of these provisions within the general performance objective that the organization established. Pursuing the discount terms (the duration of the long-term receivables), obeying them, and the discount (recovery) modalities of the receivables correspond to a control of the book-keeping oriented towards the clients. Furthermore, the study of the price rebate

granted to the partners enables the management to substantiate the decisions concerning the profitability of the activities of the company.

2.4. Synthesis of the semi-directive interview

The themes comprised in the semi-directive thoroughness interview are presented in the following manner:

Theme 1. Concerning the market of the assets commercialized through the specialty shops; special products market; Theme 2. Demands and expectations of the managers concerning assets provided in the current competition environment, in an ideal situation; Theme 3. Restrictive factors in promoting the contracting relationships with the clients who benefit of special assets; Theme 4. Satisfaction/dissatisfaction degree in the collaboration to the current clients. Graphical representation of the managers intervention in report to the themes submitted to the interview is the following:

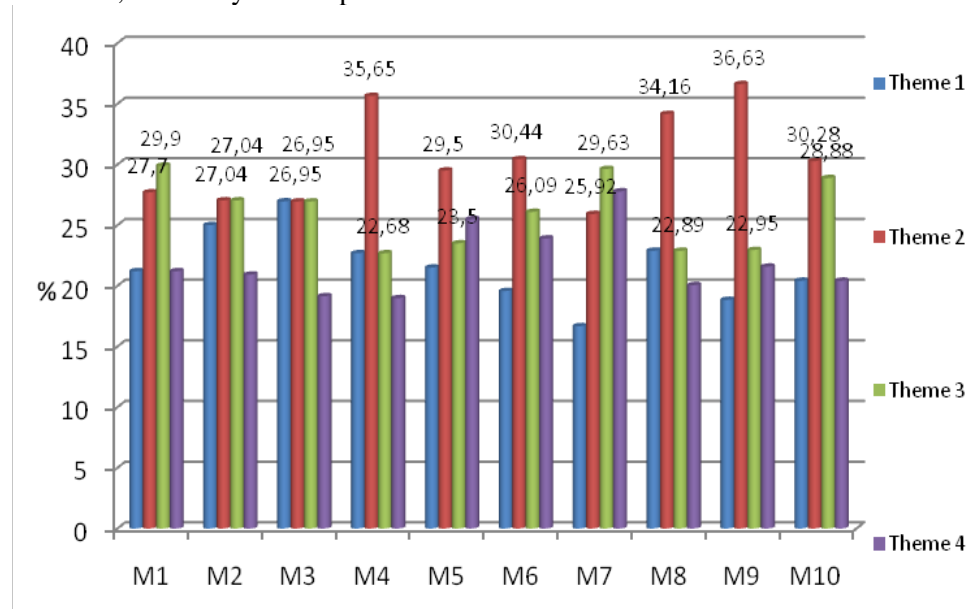


Fig. 1. Graphical representation of the interventions of the managers, according to the approached themes

It is revealed that the theme: *Demands and expectations concerning the provision of the assets in a current competition environment, in an ideal situation, comprised in the semi-directive thoroughness interview* presents the highest interest. Consequently, in the opinion of the respondents, the projection of the ideal relationship between the client and the provider assumes *permanent implication, continuous communication, understanding, good-faith in observing the contracting clauses, consistency between the words and the facts, adequate treatment of the relationship with the partner*. In this relationship, the behavior of the client must be based on *mutual respect, trust and commitment*, respectively the long-term orientation of a client in a business relationship, motivated by his belief that a long-term collaboration will give him superior advantages, as compared to the case of the relationship termination. It is also estimated, by most of the interviewed persons, that the ideal management mainly assumes a preoccupation for *transparency in communication, observance of the clauses concerning applied commercial facilities*. An ideal collaboration between the provider and the client may determine a series of advantages for both partners as: *business opportunities, quality service warranty, financial performances – result of the price rebates*.

3. Conclusions

In the context of the more and more complex relationships, the needs of the clients become more and more sophisticated, imposing at the level of all the companies, the identification of the manner of ensuring a great collaboration with these ones.

This article aims at emphasizing the *practices of providing commercial facilities* within the business relationship of a company with his partners. On

grounds of the research approach, it was contoured the *following clients loyalty developing policy by granting price rebates*. The procedure of granting any kind of commercial facility is based on the segmentation of the clients according to the profitability and to the strategic rank. Consequently, the top of the contoured hierarchy is occupied by the partners with whom there are constantly concluded commercial contracts, whose value ensured a significant percentage of the total sales.

Continuing the approach, it is recommended, in terms of the contracting provisions with the strategic clients, the introduction of low commercial rebates, associated to a pondered trade mark-up (for instance, 5% rebate and trade mark-up of 6% up to 80%), ensuring in this manner profitability.

Furthermore, it is essential, for maintaining and improving the collaboration, to introduce and to maintain within the provider-client relation certain *behavioral variables*, as permanent implication, continuous communication, mutual respect, observing in good-faith the contracting clauses and consistency between words and facts. These activities become completely facile if choosing the purchase and the implementation of a computer science system containing a distinct module of managing the relations with the clients. The relation between the provider and the beneficiary of the delivered assets must be based on a solid collaboration, on mutual respect, by using work means that reflect trust in the integrity and in the objectivity of the activities that are carried on.

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