# FISCAL AND ACCOUNTING ASPECTS RELATED TO THE RESULTS OF THE INVENTORY

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***Abstract****: The paper aims at highlighting the importance of inventory in assuring the integrity of the assets and presenting the real situation of assets, equity and debt. The economic entities have the obligation to clearly record the accounting results of the inventory. The paper emphasized the delimitation of these results in two broad categories: value differences and quantitative differences between the scriptural and the factual stock. The quantitative differences refer to the pluses and minuses in the inventory. The paper presents applications concerning the recording of the inventory results, the solution of which was argued with the fiscal legal provisions and the Labour Code*

**Keywords**: Inventory results, deductible expenses, non-taxable income, collected VAT, debt recovery

**JEL Classification Codes: M41, K34.**

## 1. OBJECTIVES OF THE INVENTORY

The main objective of the inventory is to establish the real situation of the assets, liabilities and equity, as well as of the assets and values held by any title, belonging to other legal entities or natural persons, in order to prepare the annual financial statements that must give a true image of the position and of the performance of the company for the respective financial year.

In accordance with the legal norms in force, the inventory is compulsory for all the economic entities, being justified by the possibility of occurrence of discrepancies between the physical state or the value dimension of the patrimonial elements and the scriptural data. Such inadvertencies may occur as a result of the action of natural factors, in the sense that the material substances are diminished quantitatively by evaporation, drying, oxidation, etc. The consequences of poor management such as, for example, thefts and the existence of expired stocks may also appear.

## 2. DELIMITATIONS CONCERNING THE RESULTS OF THE INVENTORY

It is necessary to distinguish between the results related to the value inventory and the results related to the management situation of the patrimonial elements.

The value differences in the valuation of the patrimonial elements are solved by establishing provisions and adjustments for impairment or loss of value.

The management situation of the patrimonial elements is established by comparing the facts with the documents, thus determining the possible pluses or minuses in the inventory.

We can conclude that the value differences cannot be mistaken for the pluses and minuses of the inventory that are substantiated in quantitative differences.

According to the provisions of Order of the Minister of Public Finance no. 1802/2014, at the date of the balance sheet, the recognition and evaluation must be performed on a prudent basis. The main requirements of the prudence principle are schematically represented in figure no. 1.

| | | |
|---|---|---|
| *Assets and incomes* | | *Should not be overestimated* |
| *Debts are expenses* | | *Should not be underestimated* |
| *prudence doesn't allow for, e.g.:* | | |
| *the establishment of excessive provisions* | | *The deliberate overvaluation of the debts and expenses, because financial statements would no longer be credible* |

**Fig. No. 1- Valuation rules of evaluation according to the principle of prudence**

The inventory of the lands is carried out on the basis of the documents that certify its ownership right and of other documents, in compliance with the law. Source: Order of the Minister of Public Finance no. 2861/2009.

**Note**: The lands owned is inventoried. The ownership is certified by deeds of ownership and other documents provided by law. Other documents include: the sales contracts in the authentic form, the donation documents in the authentic form and document amending the articles of association in the authentic form, when among the in-kind contributions to the share capital there are also fixed assets (land and constructions).

2861/2009. Buildings are inventoried by identifying them on the basis of deeds of ownership and their technical files. Special constructions and equipment such as: electricity, heat, gas, water, canal, telecommunications, railways and the like are inventoried according to the rules established by their owners. Source: Order of the Minister of Public Finance no. 2861/2009.

Note: Owners of special equipment and networks may establish their own inventory rules.

Tangible fixed assets that are outside the entity during the inventory period (ships, locomotives, wagons, airplanes, vehicles, etc.), left in a long-term trip, power machines and energy equipment, machines, work equipment and installations, measurement, control and regulation machines and installations, and the means of transport given for repairs outside the entity are inventoried before their temporary exit from the management of the entity or by written confirmation received from the entity where they are located, according to own approved procedures Source: Order of the Minister of Public Finance no. 2861/2009.

Note: In the practical activity, the most frequently met are the leasing and rental contracts. In both situations the user/tenant confirms by a written letter the existence of the fixed assets that constitute the subject of these contracts. The confirmation letter is sent to the financier/lessor.

In the case of intangible and tangible fixed assets, which are in progress, the inventory lists record each and every item separately, based on the on-site finding: the name and the value of the item are determined according to the execution stage, based on the value from the existing documentation (bills of quantities), as well as according to the volume of works that have been carried out at the date of inventory. Separate inventory lists are drawn up for the materials and equipment received from the clients for assembly and which are not incorporated in the works. Source: Order of the Minister of Public Finance no. 2861/2009.

Note: The unfinished intangible assets are those in account 203 Development expenses. Tangible fixed assets under execution are the subject of the records in account 231.

The establishment of the actual stocks is done by counting, weighing, measuring or cubing, as the case may be. The goods that are with the employees at the time of inventory (equipment, barracks, tools, instruments, etc.) are inventoried and recorded in separate inventory lists, specifying the people responsible for keeping them. Source: Order of the Minister of Public Finance no. 2861/2009

Note: The assets that are with the employees are recorded in an account outside the balance sheet, i.e. 8035 Inventories of the nature of the inventory items given for use.

Slow or impaired stocks are inventoried and included in separate inventory lists,

According to the provisions of Order of the Minister of Public Finance no. 2861/2009, the receivables and liabilities towards third parties are subject to verification and acknowledgement based on the statements of the debtor and creditor balances of the accounts of debts and debts that hold the value share in the total balances of these accounts or the mutual written scores.

The results of the inventory must be recorded in the technical and operative record within no more than 7 working days from the date of the approval of the inventory report by the administrator, the authorizing officer or the person responsible for the entity management.

The results of the inventory are recorded in the accounting records in compliance with Law no. 82/1991, republished and in compliance with the applicable accounting regulations.

The reflection of the value differences in the accounting records

*The case of establishing a provision for taxes*

A computer has a depreciable value of 9,000 lei and a depreciation period of 3 years. In accounting, depreciation is calculated and recorded according to the straight-line method of depreciation. Tax depreciation is calculated using the accelerated method.

**Table no. 1- Deferred income tax**

| Year | Accounting depreciation -RON- | Tax depreciation -RON- | Profit tax (-) deferred/ (+)due |
|---|---|---|---|
| 1 | 3000 | 4500 | (3000-4500 x 16%=-240 |
| 2 | 3000 | 2250 | (3000-2250)16%= 120 |
| 3 | 3000 | 2250 | (3000-2250)16%= 120 |
| Total | 9000 | 9000 | 0 |

For the first year there is a debt regarding the deferred income tax:

**Table no. 1.1 - Recognition of a deferred tax**

| *Book entry* | | |
|---|---|---|
| *6812* | *=1516* | *240 Ron* |
| *Checked by Prepared by* | | |

*Key: 6812. Provisions-related operating expenses; 1516. Provisions for taxes*.

*The case of the establishment of an adjustment for inventory impairment*

On the occasion of the annual inventory of stocks of goods, hard-selling stocks with an accounting value of 15,000 lei and an inventory value of 14500 lei were found. The inventory commission proposes to maintain the retail price and to make an adjustment for the value depreciation.

**Table no. 2 - The establishment of an adjustment for the goods impairment**

| Book entry | | |
|---|---|---|
| *6814* | *=397* | *500 Ron* |
| *Checked by* | *Prepared by* | |

*Invoices to be received*

At the end of the financial year, the debit balance of account 4111 Customers is 1,500,000 RON, out of which 18,000 RON represents the value of the outstanding invoices that have exceeded 270 days since the due date.

Note: It is necessary to record the outstanding invoices from the Customers to Doubtful customers or customers involved in litigation at the same time with the establishment of an adjustment for the depreciation of the customer receivables.

**Table no. 3 - Impairment of account receivables**

| Book entry | | |
|---|---|---|
| *4118* | *=4111* | *18.000 Ron* |
| *6814* | *=491* | *18.000 Ron* |
| *Checked by* | *Prepared by* | |

*Key: 4111 Customers; 4118 Doubtful customers or customers involved in litigation; 6814. Operating expenses regarding adjustments for impairment of current assets; 397. Adjustments for the depreciation of goods.*

From a fiscal point of view, the adjustments for the depreciation of receivables are deductible at the calculation of the taxable profit, within a limit of 30% of their value. The deductibility is granted in compliance with the following conditions: 1. They have not been collected in a period exceeding 270 days from the due date; 2. they are not guaranteed by another person; 3. they are due by a person who is not a person affiliated with the taxpayer, Source: Art. 26 letter. c) of the Fiscal Code approved by Law no. 227/2014.

*The accounting record of inventory excesses and shortages*

*Inventory excesses*

On the occasion of the annual inventory, then inventory excess is found in relation to the machines. The inventory commission establishes that the fair value of the equipment found as excess by the stocktaker is 8000 RON and the depreciation period is 2 years.

Note: The inventory excess is recorded at book entries in the management of machines and at the same time with the registration of depreciation, the source is transferred to income from investment subsidies.

**Table no. 4 -Inventory excess – of the fixed asset type**

| Book entry | | |
|---|---|---|
| *2131* | *=4754* | *8000 Ron* |
| *6811* | *=2813* | *4000 Ron* |
| *4754* | *=7584* | *4000 Ron* |
| *Checked by* | *Prepared by* | |

*Key: 2131 Technological equipment; 4754 Inventory excess – of the fixed asset type; 6811 Operating expenses related to depreciation of fixed assets; 2813 Amortization of facilities and transport means; 7584 Income from investment subsidies.*

*Inventory shortages*

The inventory of raw material management had the following results: the stock on paper is 150 kg while the actual stock is 125 kg. The result is an inventory shortage of 25 kg. The book value of the missing raw materials is 100 lei/kg plus 9% VAT.

Note: The inventory shortage is recorded at the exits of the management. For the closure of the financial year, there is recorded the inventory outflow of the missing raw materials and the corresponding VAT.

**Table no. 5 - Inventory shortage and taxation-**

| *Book entry* | | |
|---|---|---|
| *601* | *=301* | *2.500 Ron* |
| *635* | *=4427* | *225 Ron* |
| *Checked by* | *Prepared by* | |

*Key: 601 Expenditure on raw materials; 301 Raw materials; 635 Other expenses with taxes, duties and similar payments; 4427 Collected VAT.*

According to the provisions of Art. 25 (4) letter. c) of the Fiscal Code, the expenses related to the goods of the nature of stocks or of the fixed depreciable assets, found to be missing from accounting or degraded, non-imputable, as well as the related value added tax, if it is in compliance with the legal provisions, are not deductible in the calculation of the taxable profit. These expenses are deductible in the following situations/conditions:

1. depreciable goods/fixed assets destroyed as a result of natural disasters or other force majeure causes, under the conditions established by the norms;
2. depreciable goods/fixed assets for which insurance contracts have been concluded;
3. fixed qualitatively degraded depreciable goods/fixed assets, if proof of destruction is brought.
4. foods intended for human consumption, with the best before date close to expiry, other than those in the situations/conditions provided for at 1 and 2, if their transfer is made according to the legal provisions concerning the reduction of food waste;
5. by-products of animal origin, not intended for human consumption, other than those in the situations/conditions provided for in points 1 - 3, if their elimination is carried out according to the legal provisions concerning the reduction of food waste;
6. agri-food products, which have become inappropriate for human or animal consumption, if their orientation/directing is aimed at transforming them into compost/biogas or at neutralizing them, in compliance with the legal provisions concerning the reduction of food waste;
7. goods other than those in the situations/conditions provided for in points 1 - 6, if the best before/expiration period is exceeded, according to the law.

The recovery from the employees at fault for causing material damages is made only on the basis of the final court sentence. In support of this statement we bring the text of art. 169 of the Labour Code according to which "Withholding damages caused to the employer can be carried out only if the employee's debt is due, liquid and payable and has been found as such by a final and irrevocable court decision".

Given the aforementioned legal provisions, in the example provided in relation to inventory shortages, we supplement with the following aspects: in the following financial year, a court sentence was obtained, based on which the shortage found on the occasion of the inventory is imputed to the manager; according to the provisions of Order of the Minister of Public Finance no. 2861/2009, the deduction is recovered at the replacement value of 110 lei/kg plus 9% VAT.

The accounting operations related to the claim against the employee and the adjustment of the VAT collected are presented in the following table:

**Table no. 6 - Recognition of the receivable and VAT settlement -**

| *Book entry* | | |
|---|---|---|
| *4282* | *=%* | *2997.5 Ron* |
| | *7588* | *2750 Ron* |
| | *4427* | *247,5 Ron* |
| *635* | *=4427* | *-225 Ron* |
| *Checked by* | | *Prepared by* |

*Key: 4282 Other staff-related receivables; 7588 Other operating incomes; 4427 collected TVA; 635 Other expenses with taxes, duties and similar payments.*

From a fiscal point of view the incomes from the credit of account 7588 in the amount of 2500 Ron are non-taxable because they result from the cancellation of the non-deductible expenses generated by the raw materials outflow.

## 3. CONCLUSIONS

Inventory ensures the control of the assets integrity. The reflection in accounting of the results of the inventory aims to present the real situation of the assets, equity and liabilities.
The differences between the inventory value and the book value cannot be mistaken for the inventory excess and shortage in the management situation.

The inventory shortages lead to the outflow from the management of the goods and the taxation of the operation through VAT collection. Subsequently, the management shortages are recovered from the persons at fault only on the basis of a final court sentence.
In the case of intangible and tangible fixed assets found to be inventory excess simultaneously with the recording of the depreciation expense, the transfer of the financing source from account 4754 to 7584 income is recorded. The role of this transfer is to balance expenditure against depreciation by recognizing an income in such a way as the result is not influenced by depreciation.

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