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Accounting information on goods in retail trade

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Abstract: *Goods represent the goods that the entity buys for resale in the same condition. In their circuit from final producers to consumers (population), goods generate a very large volume of economic and financial operations that are carried out through a large number of entities with different profiles of commercial activity. The sale of goods to the population is carried out through commercial entities specialized in retail trade. They may trade food or non-food goods in different units or within the same business unit. The goods that are sold may come from suppliers or from their own production. Collection of the value of goods sold can be done in cash or through bank accounts, by using cards. For retail sales, the selling entity must be equipped with electronic fiscal cash registers. The retail price consists of the purchase price, the commercial addition and the non-chargeable value added tax, if the selling entity is registered for VAT purposes. If it is not registered as a taxpayer then neither the VAT accounts nor the non-chargeable value added tax are used.*

1.Stocks and production in progress

Achieving the object of activity of any economic entity requires, in addition to fixed assets, a wide variety of current assets, which includes any asset that meets one of the following conditions:

- is purchased or produced for own consumption or for marketing purposes and is expected to be completed within 12 months from the balance sheet date;
- is represented by receivables related to the operating cycle;
- is represented by cash or cash equivalents whose use is not restricted.

The operating cycle means the time period between the purchase of raw materials for production and their completion in cash or cash equivalents, which are defined as short-term financial investments, extremely liquid, easily convertible into cash and with a risk insignificant change in the value assigned to them.

Relatively homogeneous groups are defined within current assets, as follows:

- a. stocks, including the value of services rendered for which no invoice has been issued;
- b. receivables;
- c. short-term investments;
- d. house and bank accounts.

In turn, inventories and production in progress are an important component of current assets, and the first are indispensable for the business of any entity. They are called material current assets and include all goods and services intended for sale in the state in which they were purchased or after their processing, and for their consumption in the form of raw materials, materials and other consumables to be used in production process or for the provision of services, or in production. The category of inventories also includes certain assets with a long manufacturing cycle, intended for sale, such as, for example, housing complexes or complexes. The stocks themselves are classified and delimited in the financial accounting according to several criteria: physical, destination, phase of the operating cycle. Of these, the most important is the physical criterion, according to which the stocks have a complex structure and include the following categories of patrimonial elements¹:

- a. Goods
- b. Raw materials
- c. Consumables
- d. Materials of the nature of inventory items
- e. Products
- f. Inventory biological assets
- g. Packaging
- h. Production in progress
- i. Housing complexes or complexes for sale.

2. Definition and registration prices of goods

Goods represent the goods that the entity buys for resale in the same condition, without any further processing. The category of goods also includes:

- the products (semi-finished products, finished products, etc.) transferred by the producing entities in their own presentation and sales stores;
- those material current assets such as raw materials, consumables or the nature of inventory items, packaging, etc. become available within the entity's assets and are sold to third parties as purchased.

Wholesale entities are those that ensure the development of this form of movement of goods, carrying out operations of purchase of consumer goods, in large and very large quantities, from domestic and foreign producers and suppliers, as well as their sale in batches (lots) to other entities, usually with a retail (retail) profile, including catering. Sales can also be made to other entities, also with a wholesale profile.

Retail trade entities carry out this form of movement of goods by making purchases of goods, usually from wholesale entities, but also from domestic producers and suppliers, in small or relatively small lots, as well as their sale to the population, including through catering entities. The goods are sold in the condition in which they were purchased or after a pre-processing for consumption in specially arranged operating locations (restaurants, buffets, etc.).

Joint ventures carry out both wholesale and retail trade. For these categories of commercial entities it is characteristic that they have as object of activity, main or complementary, both the purchase and the resale of the goods, in order to obtain a profit. They usually carry out activities that fall into various fields of activity.

The organization of goods accounting is influenced, to a certain extent, by the **registration price** used and which, depending on the category in which the business falls, and, implicitly, by its option, may be the actual acquisition cost, the retail price and wholesale.

¹ O.M.F.P. no. 1802/2014 for the approval of the Accounting Regulations regarding the individual annual financial statements and the consolidated financial statements, M. Of. no. 963 / 30.12.2014.

The element that differentiates the selling price from the purchase cost is the commercial addition. **The commercial addition or margin of the trader** is intended to cover the expenses of the commercial entity and to obtain a profit.

The retail or wholesale price is used only in the case of goods, and may be adopted by any entity with a commercial, retail, wholesale or mixed profile. Moreover, this price is justified in the conditions of a trade with numerous articles and assortments and a high frequency of inputs and outputs, as well as in the situation of organizing the analytical evidence according to the global value method, which does not exclude the possibility of its use. on assortments of goods.

The price analyzed, due to the somewhat frequent changes in purchase prices, trade surcharges and other causes, may be reduced or increased, as appropriate, on an inventory basis, where necessary. This operation does not contradict the accounting provisions in force as it does not affect the value of the entry in the patrimony at the actual acquisition cost.

The retail or wholesale price is determined by the entity by taking into account a certain trade surcharge that may be made, but when the market situation changes it is normal to increase or decrease the trade surcharge and, implicitly, the price. sales, based on price change inventory, with the accounting recording of the calculated price differences.

In other words, the increase or decrease of the retail or wholesale price up to the level of the acquisition cost complies with the accounting rules and principles, being an exclusive right of the entity, which may take such a decision when it deems it necessary for capitalization. goods and to avoid risks.

It should be noted that for non-VAT entities (with an annual turnover lower than the equivalent in lei of 65.000 euros, respectively 220.000 lei) the retail price consists of the purchase cost (which also includes VAT invoiced by suppliers) and the commercial addition.

Another aspect that needs to be clarified refers to the slow and hard-to-sell goods, which require the practice of selling prices below the level of the actual purchase cost, which requires that the annual inventory be adjusted for depreciation. With regard to the latter aspect, as well as with regard to goods with an expired period of validity, degraded or obsolete and at the same time not attributable, it is mentioned that, according to the regulations in force, the board of directors of the entity, without any other approval, has the competence to decide on the declassification and scrapping operation.

The retail price, excluding VAT, or wholesale, is reflected in the goods account (371) and consists of the actual purchase cost (the price invoiced by the supplier and the transport-supply costs) and the trade surcharge.

The retail price or sale price to the population, excluding VAT, is determined by adding to the purchase price (invoicing) negotiated with the supplier the commercial addition considered by the entity to be possible.

In turn, the total retail or retail price to the population, including VAT, is calculated by adding the legal VAT rate to the aforementioned retail price. This price represents the accounting price of the goods by the entities that adopt this valuation option.

3.Organization of synthetic accounting of goods

The accounting of the circulation of goods both wholesale and retail is organized with the help of the following synthetic accounts of the first degree:

▪ 371	"Goods"	A
▪ 378	"Price differences on goods"	A/P
▪ 397	"Adjustments for the depreciation of goods"	P

As with other inventory accounts, the synthetic accounting of goods at retail entities is organized using permanent or intermittent inventory.

The debit of account 371 "Goods" provides information, throughout the year, on the value of the goods entered in the management of the entity, and through the corresponding creditor accounts (401, 408, 446, 542, 456, 357, 481, 482, 451, 453, 301), 302, 303, 361, 381, 345, 607, 758) separate information is obtained on sources of origin or methods of entry. If the record of the goods is kept at the retail price, the debit of the analyzed account includes information on the value of the trade surcharge and, respectively, the non-chargeable VAT related to the goods entered into management (378, 4428).

The credit of account 371 "Goods" provides users with information on the value of goods out of the entity's management, which correspond to the methods of exit, as a result of sales, inventory shortages, sent to third parties, delivered to units or subunits, donations or losses from calamities, according to correspondent accounts. (607, 357, 481, 482, 658) At the same time, the corresponding debtor accounts (378 and 4428) identify information regarding the commercial surcharge and, respectively, the non-chargeable VAT keep it at retail price.

The balance of account 371 "Goods" may be debit, representing the registration price (actual purchase cost, pre-determined price or retail or wholesale price) of goods existing in the assets at the end of the management period.

The different ways of valuing the goods, at the entry and, respectively, of the patrimony, as well as the practice of the commercial addition, require the use, in the current accounting of the account 378 "Differences in the price of the goods".

Account 378 "Price differences on goods", as the name implies, keeps track of the trade surcharge (trader's margin) for goods in commercial entities. According to the economic content, it is a **corrective** account, and from the point of view of the accounting function it is a **liability**.

The credit of this account constitutes the information base regarding the commercial addition related to the goods entered in the patrimony, information that serves to form the retail or wholesale price, having a single correspondence, regardless of the way of entering the goods, with the debit of account 371 "Goods".

The debit of the analyzed analytical account mirrors information regarding the commercial addition corresponding to the value of the goods out of the patrimony, in different ways, in correspondence with the credit of account 371 "Goods".

For the purpose of allocating the commercial surcharge for outgoing goods, an average distribution coefficient is used, which is calculated according to the relation²:

$$\begin{array}{l} \text{Coefficient} \\ \text{of} \\ \text{allocation} \end{array} = \frac{\begin{array}{l} \text{Initial sold (to 1 jan.)} \\ \text{from account 378} \end{array}}{\begin{array}{l} \text{Initial sold (to 1 jan.) +} \\ \text{from account 371} \end{array}} \frac{\begin{array}{l} \text{Credit turnover, cumulated since the be-} \\ \text{ginning of the year, related to the account} \\ \text{378} \end{array}}{\begin{array}{l} \text{Debt turnover, cumulated since the} \\ \text{beginning of the year, related to the} \\ \text{account 371} \end{array}}$$

At the same time, it is necessary to take into account the following aspects.

- The data on the goods account, from the denominator of the fraction, do not contain VAT, which is why it is necessary to reduce in advance each element in question by the corresponding amount.

This calculation can also be performed by decreasing the total selling price, including VAT, with the related non-chargeable tax, which is determined as follows: the initial credit balance from

² O.M.F.P. no. 1802/2014 for the approval of the Accounting Regulations regarding the individual annual financial statements and the consolidated financial statements, M. Of. no. 963 / 30.12.2014.

account 4428 + total credit turnover accumulated since the beginning of the year from the same account.

- The distribution coefficient, which is determined, is multiplied by the value of the goods out of management until the end of the reference month and valued at the sale price, excluding non-exigible VAT, obtaining the commercial addition related to these goods. This amount is recorded in the debit of the commercial addition account (378) through the credit of the goods account (371), on the occasion of the decrease in management for the outflows from the patrimony.

Entities with a turnover of up to RON equivalent of 65.000 euros are exempt from paying VAT, for which reason the VAT related to the goods supplied from third party VAT payers is included in the acquisition cost of the goods, and on the occasion of unloading the management for the outgoing goods. from the patrimony this tax is no longer taken into account, both in terms of determining the distribution coefficient of the commercial addition, and in terms of the use of account 4428 "non-chargeable VAT".

The balance of account 378 "Price differences on goods" is a creditor and represents the trade surcharge for goods in stock at the end of the management period.

As in the case of the other components of inventories, it should be noted that in the annual inventory of goods management can be found the depreciation of some of them, as is the case of slow and hard to sell, establishing a lower current value (inventory) than the actual cost of acquisition.

Information on these depreciation, representing reversible depreciation, is provided by Account **397 "Impairment Adjustments"** which, in the credit, contains information on the amount of Impairment Adjustments made or supplemented by the debit of Account 6814 "Expenses on adjustments for impairment of current assets".

Account 397 "Adjustments for the depreciation of goods" **shall be debited**, in the following years, with the amounts representing the cancellation or reduction of adjustments for the depreciation of the goods, as the goods leave the balance sheet, for which adjustments have been made or if the depreciation has not occurred or was lower than expected, crediting account 7814 "Revenue from adjustments for impairment of current assets".

The balance of the analyzed account can be **credited** and represents the value of the adjustments made for goods in stock at the end of the period.

4. Case studies on the sale of goods

Application no.1. Purchase and sale of goods to a non-VAT entity, using the following data:

- | | | |
|------|---|------------------|
| 1.1. | Initial balance of goods, valued at retail price, excluding VAT from which: | 2.400 lei |
| | - acquisition cost | 2.000 lei |
| | - the commercial addition | 400 lei |
| 1.2. | During January 2017, goods were purchased from entities paying VAT, at the price charged by them, of which: | 12.000 lei |
| | • VAT on the value of goods invoiced by suppliers (19%) | 2.280 lei |
| 1.3. | Goods are sold through the store at the price of, of which: | 10.115 lei |
| | • through the house (cash), at the price of | 8.996 lei |
| | • through the bank (card), at the price of | 1.119 lei |

The accounting items are as follows:

a. Registration of the commercial surcharge and non-chargeable VAT

$$371 = 401 \quad 14.280$$

Registration of the trade surcharge, of 2.400 lei (12.000 x 20%)

$$371 = 378 \quad 2.400$$

b. Cash sale of goods (by cash)

$$5311 = 707 \quad 8.996 \text{ lei}$$

c. Bank sales (card)

$$5121 = 707 \quad 1.119 \text{ lei}$$

d. Calculate the average percentage share:

$$K = (Si \ 378 + Rc \ 378) : (Si \ 371 + Rd \ 371)$$

$$K = \frac{400 + 2.400}{2.400 + 16.280} \times 100 = \frac{2.800}{18.680} \times 100 = 14,99\%$$

e. Calculate the absolute amount of the trade surcharge included in the value of the goods collected:

$$10.115 \times 14,99 = 1.516,24 \text{ lei}$$

f. Discharge for the goods sold:

%	=	371	10.115,00
607			8.598,24
378			1.516,24

1.4. At the inventory carried out at the end of January, there is a decrease, for goods, in the amount of 400 lei, which is imputed to the manager:

- bearing the cost of missing goods
607 = 371 400 lei
- imputation to the manager
4282 = 758 400 lei
- recovery of the claim by withholding on the payment statement
421 = 4282 400 lei

Application no.2. Purchase and sale of goods to a non-VAT entity, using the following data:

- | | | |
|------|--|------------------|
| 2.1. | Initial balance of goods, valued at retail price, from which: | 3.808 lei |
| | - acquisition cost | 2.660 lei |
| | - the commercial addition | 540 lei |
| | - Non-exigible VAT | 640 lei |
| 2.2. | In January 2017 they were purchased goods from suppliers registered for VAT purposes, at the invoiced price, of which: | 28.560 lei |
| | • VAT related to the invoiced goods | 4.560 lei |
| 2.3. | The value of the goods received at the price of retail sale, of which: | 37.120 lei |

- acquisition cost	24.000 lei
- the commercial addition	7.200 lei
- Non-exigible VAT	5.928 lei

2.4. Goods are sold through the store, at the price of 29,750 lei from which: 29.750 lei

- through the house (cash), at the price of 27.132 lei
- through the bank (card), at the price of 2.618 lei

The accounting items are as follows:

a. Registration of the commercial surcharge and non-chargeable VAT 19%

%	=	401	28.560
371			24.000
4426			4.560

- Registration of the commercial surcharge and non-chargeable VAT

371	=	%	13.128
378		7.200	
4428		5.928	

b. Cash sale of goods (by cash)

5311	=	%	27.132
		707	22.800
		4428	4.332

c. Bank sales (card)

5121	=	%	2.618
		707	2.200
		4428	418

d. Calculate the average percentage share:

$$K^* = \frac{Si_{378} + Rc_{378}}{Si_{371} + Rd_{371}} \times 100$$

* non-chargeable VAT is deducted for account 371

$$K = \frac{540 + 7.200}{3.200 + 31.200} \times 100 = \frac{7.740}{34.400} \times 100 = 22,50\%$$

e. Calculate the amount of the trade surcharge included in the value of the goods sold:

$$25.000 \times 22,50\% = 5.625 \text{ lei}$$

f. Discharge for the goods sold:

$$\% = 401 \quad 29.750$$

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