

# SYSTEM OF ACCOUNTS SPECIFIC TO THE MANAGEMENT ACCOUNTING IN WHOLESALE TRADE

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*According to the Romanian accounting norms, management accounting is organized at the level of each patrimonial unit according the specificity and information needs; and they have the possibility to create and use their own system of accounts, adapted to the viewed aims.*

*In this paper we present a system of account specific to the organization of the management accounting on responsibility centres in wholesale trade units.*

*Key-words: system, accounts, management*

The organization of accounting, referring to the *separation of the confidential information from the public information*, has generated *the dualism in accounting*<sup>334</sup>, concept based on the organization of accounting on two interrelated branches: the financial accounting and the management accounting. This concept supposes the distinct processing of expenses and incomes by the two accountings by separate information flows (circuits), each of them aiming the realization of their specific objectives, that is the drawing up of financial situations at the end of the accounting period, by the financial accounting and, the calculation of production costs, the establishing of results and return of the developed activity, the following and control of results, by the management accounting. The latter uses specific accounts, grouped separately from financial accounting system of accounts, by means of which the following objectives are met:

- the taking-over of expenses from the financial accounting for their collection and repartition on destinations;
- the calculation of costs according to the technical-productive characteristics of the developed activities and to the information needs of the decision-taking factors;
- the taking-over from the financial accounting of incomes for the settlement of afferent costs and establishing of analytic results;
- the realization of the management control on the deviations from the pre-established costs (in the case of standard costs use);
- internal budgetary control on budgetary expenses and incomes.

The management accounting is also useful for the establishing of unitary tendencies of economic phenomena and processes, for the substantiation of programmes and the elaboration of provisions regarding the expenses and incomes to be realized<sup>335</sup>.

In fact, as Michel Capron concludes, the management accounting is an instrument used by the enterprise management to fill their information needs and to direct their decisions and that, unlike the financial accounting, is not liable to some common conventions of all enterprises, and the supplied information is not public.

In accordance to the Romanian accounting norms, the management accounting is organized at the level of each patrimonial unit according to its specificity and information needs, and they have the possibility either to use a system of specific accounts, or to develop the financial accounting accounts or to organize cost calculation by means of the technical-operative record.

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<sup>334</sup> N. Feleagă, I. Ionașcu, *Contabilitatea financiară (Financial Accounting)*, vol. I, Economic Publishing House, Bucharest, 1993, p.13

<sup>2</sup> M. Capron, *Contabilitatea în perspectivă (Accounting in the future)*, Humanitas Publishing House, Bucharest, 1994, p.57

The use of accounts, as well as their symbolizing is realized so that the stocking and accessing system of the obtained results should be flexible and allow a wide range of options. The list of management accounts can be adapted according to the viewed aims, respectively: the prominence of the costs flow, the determination of the costs afferent to stocks, the determination of incomes and results according to the generating-activity, provisions etc.

As within the management accounting there is followed only the determination by accounts of production costs, the expenses taken for re-treatment from the financial accounting refer only to the operating expenses and to a part of financial expenses with depreciations and provisions<sup>336</sup>.

The procedures and techniques used in the management accounting are established in accordance with the qualitative characteristics of the information required by users, as well as with the characteristics of the developed activity<sup>337</sup>.

We suggest here a system of accounts appropriate to the management accounting in the wholesale trade sector.

Taking into account the characteristics of the wholesale trade enterprises, operating expenses and incomes recorded in the financial accounting on different types according to their economic nature, are taken in the management accounting on expense places or responsibility centres, as we have defined them, divided in profit centres and cost centres using the 9<sup>th</sup> class accounts with the following adjustments:

- group 90 – “Internal settlements accounts”
  - 901 “Internal settlements on commercial activity expenses”;
  - 902 “Internal settlements on commercial activity incomes”;
  - 903 “Internal settlements on results”.
- group 92 – “Calculation accounts”
  - 921 “Main activities expenses”;
  - 922 “Auxiliary activities expenses”;
  - 923 “Indirect expenses”;
  - 924 “General administrative expenses”;
  - 925 “Selling expenses”
- group 94 – “Operating incomes”
  - 941 “Commercial activity incomes”.

We have to make the following observations to the system of management accounts, proposed for a wholesale trade enterprise:

- within group 90 “Internal settlements accounts”, the account 903 “Internal settlements on results” gets another economic content than that established by the accounting norms.

This account helps to record the results on profit centres as well as to take the expenses afferent to the period (general administrative expenses, subactivity cost, selling expenses) according to the way the result is established on the commercial activity cost or on the total commercial cost.

Taking into consideration the lack of finished production in the wholesale trade activity, this account loses its signification of reflecting the differences between the pre-established cost and the effective cost of production, the way it functions in other sectors of activity.

- - group 93 “Production cost” will no longer be used, taking into consideration the lack of finished production and of manufacturing production, so that the two accounts 931 “The obtained production cost” and 933 “The manufacturing production cost” remain without objects.

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<sup>336</sup> Budugan D., *Contabilitate de gestiune (Management accounting)*, Pro Juventute Publishing House, Focşani, 1998 p.222

<sup>337</sup> Ministry of Public Finances. Mentions on some organization and management measures of the management accounting, approved by Order 1826/22<sup>nd</sup> December 2003, published in Monitorul Oficial no. 23/12.01.2004

- from reasons of reflecting the result afferent to profit centres, obtained in the selling process, we suggest the introduction of *group 94 “Operating incomes” that, by account 941 “Commercial activity incomes”, will take from the financial accounting the incomes afferent to profit centres, offering thus the possibility to determine the afferent results.*

We have to demonstrate here that, in fact, the system of management accounts regulated by the Romanian accounting norms allows only the calculation of effective costs on costs holders and the record of differences from the pre-established cost, leaving unsolved the problem of the products selling results reflection.

In order to organize the calculation on responsibility centres by using the suggested system of accounts, it is necessary to take the financial accounting expenses into the management accounting, on expenses places and calculation items, as follows:

- the direct expenses that can be charged directly to the responsibility centres, will be taken to the debit of the account 911 “Main activities expenses” on profit centres and calculation items;
- the expenses afferent to the auxiliary activities will be taken by the debit of the account 922 “Expenses afferent to auxiliary activities”, with development in analytical on appearance places (auxiliary activities) and on expense elements;
- indirect expenses, meaning those expenses that cannot be charged directly to the profit centre will be taken from the financial accounting by the debit of the account 923 “Indirect expenses” with deduction on analytic on appearance places (operational or functional structures-deposits or auxiliary sections) and expense elements;
- the general administrative expenses will be taken from the debit of the account 924 “General administrative expenses” on appearance places and types of expenses;
- the selling expenses will be taken by the account 925 “Selling expenses” on types of expenses and appearance places;
- the incomes from the selling of goods will be taken by the credit of the account 902 “Internal settlements on commercial activities incomes”, analytically on profit centres, in correspondence with the account 941 “The commercial activity incomes”.

The determination of results on profit centres requires the collection of incomes on places of appearance, calculation and settlement of the auxiliary activities costs, the repartition of indirect expenses and the calculation of the main activities cost. The necessary stages and the afferent book entries can be represented synthetically as follows:

1. The collection and entry of direct expenses afferent to responsibility centres (main activities and auxiliary activities).

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%	:
<b>921 “Main activity expenses”</b>	<b>901 “Internal settlements on expenses”</b>
analytic xx.xx.xx*	10,000,000
<b>922 “Auxiliary activities expenses”</b>	8,000,000
analytic xx.xx*	2,000,000
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2. The collection of indirect expenses on responsibility centres (main activities, auxiliary activities and general activities).

\* The explanation of analytical accounts is presented at the end of this paragraph.

%	:	<b>901 “Internal settlements on expenses”</b>	2,000,000
<b>923 “Indirect expenses”</b>			1,500,000
analytic xx.xx*			
<b>924 “General administrative expenses”</b>			500,000
analytic xx.xx*			

3. The settlement of mutual carrying-outs between the auxiliary sections, as well as by the other enterprise activities.

%	:	<b>922 “Auxiliary activities expenses”</b>	2,000,000
<b>922 “Auxiliary activities expenses”</b>			500,000
analytic xx.xx*		analytic xx.xx*	
<b>923 “Indirect expenses”</b>			700,000
analytic xx.xx*			
<b>924 “General administrative expenses”</b>			500,000
analytic xx.xx*			
<b>925 “Selling expenses”</b>			300,000
analytic xx.xx*			

4. The repartition of indirect costs on profit centres and the establishing of the effective cost for each profit centre.

<b>921 “Main activities expenses”</b>	:	<b>923 “Indirect expenses”</b>	2,200,000
analytic xx.xx.xx*		analytic xx.xx*	

5. The taking of incomes from the financial accounting, analytical on each profit centre.

<b>941 “Commercial activity incomes”</b>	:	<b>902 “Internal settlements on commercial activity incomes”</b>	1,500,000
		analytic xx.xx*	

6. The settlement of the effective costs of the profit centres on incomes and the establishing of the gross results, afferent to each profit centre, according to the commercial activity cost, and

\* The explanation of analytic is presented at the end of this material.

the costs of the period (general administrative costs, selling costs, sub-activity cost) will be charged directly to the result account.

Variant A

<p><b>902 "Internal settlements on commercial activities incomes"</b> analytic xx.xx *</p>	<p><b>921 "Main activities expenses"</b> 10,200,0 analytic xx.xx *</p>
<p><b>902 "Internal settlements on commercial activities incomes"</b> analytic xx.xx *</p>	<p><b>903 "Internal settlements on commercial activities results"</b> 4,800,00 analytic xx.xx *</p>
<p><b>903 "Internal settlements on commercial activities results"</b> analytic xx.xx *</p>	<p style="text-align: right;">%</p> <p><b>924 "General administrative expenses"</b> 500,000 analytic xx.xx *</p> <p><b>925 "Selling expenses"</b> analytic xx.xx * 300,000</p>

7. The settlement of the general administrative expenses and of the selling activity on the responsibility centres account, with the determination of results on profit centres according to the total commercial cost:

Variant B

<p><b>921 "Main activities expenses"</b> analytic xx.xx *</p>	<p style="text-align: right;">%</p> <p><b>924 "General administrative expenses"</b> 500,000 analytic xx.xx *</p> <p><b>925 "Selling expenses"</b> 300,000 analytic xx.xx *</p>
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<b>902,, Internal settlements on commercial activities incomes”</b> analytic xx.xx *	<b>921”Main activities expenses”</b> analytic xx.xx *	11,000,0 00
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<b>902,, Internal settlements on commercial activities incomes”</b> analytic xx.xx *	<b>903,, Internal settlements on commercial activities results”</b> analytic xx.xx *	4,000,00 0
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8. The settlement of total expenses on incomes with the view to close the internal settlements account on expenses.

<b>901”Internal settlements on the commercial activity expenses”</b>	<b>941 “Commercial activity incomes”</b>	11,000,0 00
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9. The closure of the commercial activity results and income account.

<b>903 “Internal settlements on commercial activities incomes”</b>	<b>941 “Financial activity incomes”</b>	4,000,00 0
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The use of the two variants requires further elucidations:

- **in the case of Variant A:**
- the results obtained by each profit centre are supplied by the analytic record of the account 903 “The commercial activity results” and are established according to the incomes resulted from the selling of goods and the commercial activity cost;
- the administration and distribution cost affects the result of the whole activity and is supplied by the two accounts: 924 “General administrative expenses” and 925 “Selling expenses”.
- **in the case of Variant B:**
- the result obtained for each profit centre is calculated according to the total commercial cost – established for each profit centre by means of the account 921 “Main activities expenses” and is found in the crediting turnovers of the analytical of the account 903 “Commercial activities incomes”, before closure, as a difference between the incomes obtained from the selling of goods and their complete cost.

After these two entries, all accounts are balanced.

In order to give the possibility to collect expenses and incomes on responsibility centres, so as to determine the commercial activity cost as well as the results afferent to each profit centre, the synthetic management accounts have been developed on analytic accounts, as follows:

- 921** - is divided on three categories of analytic accounts:
- 921.xx. - 1<sup>st</sup> degree analytic accounts, corresponding to level I profit centres (storehouses);
- 921.xx.xx - 2<sup>nd</sup> degree analytic accounts corresponding to level II profit centres (managements);

- 921.xx.xx.xx - 3<sup>rd</sup> degree analytic accounts, corresponding to calculation items  
 (01 – „Merchandise purchase cost”;  
 02 – „Salary expenses”;  
 03 – „Social insurance-supplementary pension”;  
 04 – „Indirect expenses”;  
 05 – „Bank interests”;  
 07 – “General administrative expenses”).
- 922, 923** - developed on two categories of analytic accounts,  
**924, 925** as follows:
- 922.xx - 1<sup>st</sup> degree analytic accounts – afferent to responsibility centres  
 923.xx (profit centres and costs centres)  
 924.xx  
 925.xx
- 922.xx.xx - 2<sup>nd</sup> degree analytic accounts on types of expenses symbolized with two figures  
 923.xx.xx representing the completion of the expenses accounts from the 6<sup>th</sup> class  
 924.xx.xx financial accounting, respectively **600, 601, 602, ..., 681**.  
 925.xx.xx
- 902, 903** - are broken down on two categories of analytic accounts:
- 902.xx - 1<sup>st</sup> degree analytic accounts representing level I profit centres  
 903.xx (storehouses, auxiliary activities);
- 902.xx.xx - 2<sup>nd</sup> degree analytic accounts representing level II profit centres  
 903.xx.xx (managements and auxiliary activities).

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