

THE ANALYSIS OF THE DEFICIENCIES IN THE WARES FINANCIAL MANAGEMENT DISCHARGE

Roman Adrian

*University of Pitești, Faculty of Economic Sciences, 40 Republicii Blvd., E-mail:tindache@yahoo.com,
Phone number: 0742886239*

Abstract: This analysis intends to draw the attention upon the accounting issues concerning the wares financial management discharge which, due to the easiness in treating it caused troubles in appropriately presenting the turnover in the profit and loss account, in the situation in which commercial reductions are treated as financial reductions or caused issues in the inventory accounting in case the accounting judgement is not finalized.

Key words: commercial reduction, financial management discharge method, wares

Discounts represent price reductions granted to the clients either to stimulate them to buy more products or to stimulate them to pay more rapidly, or to create for them the possibility to obtain a profit from the distribution of a ware having a set price.

Commercial-type price reductions are recorded when they are granted, based on the supporting documents: invoice and based on the management decision which must be made public and must be communicated to all the buyers.

If in the initial invoice the price reductions are distinctly mentioned, the seller records in the accountancy books the invoice at the commercial net value, this representing the initial value except for the granted reductions;

Price reductions are divided into the following categories:

- Commercial-type reduction that directly influence the net size of an invoice (abatements, rebates, discounts)
- Financial-type reduction (discount)

Abatements are percentage price reductions granted by suppliers, in the sales invoices, for certain categories of material current assets (for ex. fabrics) in case there are small, but unavoidable quality-related flaws or imperfections.

Rebates are percentage price reductions granted by suppliers in the sales invoices either for a significant negotiated quantity, over a certain limit –rebate for quantity-, or for the preferential position of the beneficiary in the total number of the unit clients- reselling rebate.

Discounts refer to percentage price reductions, granted after a certain period. They are fixed and are returned to the clients for repeated shopping that exceed a certain value in a certain period, normally one year. This category of price reductions is recorded in distinct invoices issued for this purpose .

Deduction discounts are percentage price reductions that the suppliers grant and distinctly write on the invoices in case the clients pay their debts before the due date.

Following the observations made during 2 years in 40 companies we noticed that 35 of them recognize commercial reductions as if they were financial reductions. The major deficiency in recognizing commercial reductions is the fact that that economic reductions are recognized in accountancy as financial reductions influencing thus the financial year result and not the turnover as stipulated by the Ordinance of the Ministry of Public Finance 1752/2005. Recognizing the the commercial reductions granted as financial reductions is due to the loss of control over the inventory and to the deficiencies encountered in the wares financial management discharge due to the fact that the accounting judgement is not completed, especially in the entities that organize globally value management and presents their inventory at a retail sale price.

In order to demonstrate this, we shall give an example:

In the case of the wares presentation at a retail sale price the wares recording value involves: the wares purchase price, the expenses met when bringing the inventory to the necessary state for valorising it, the undue VAT and margin related to their selling price.

Final balance	8.568	
debit	Account 378 „price differences for wares”	credit
Opening balance		2.000
Rollover		10.000
	10.800	
Total amounts	10.800	12.000
Final balance		1.200
debit	Account 4428 „undue VAT”	credit
Opening balance		2.280
Rollover		11.400
	12.312	
Total amounts	12.312	13.480
Final balance		1368

As you can notice above this accounting representation is not faithful, since although physically all the wares are sold, in the financial accounting books there are still wares recorded in amount of 8.568 lei.

The accounting profit presented in the financial statements, which is the difference between income and expenses is, in our situation, of 64.800 -54.000 which equals 10800, does not coincide with the accomplished profit, which would have to be the difference between the wares selling price out of which we deduct the VAT and the wares purchase price out of which we deduct the VAT which is 64.800 – 60.000, which equals 4.800, so the profit is overestimated with 6.000.

As a consequence by removing this inconvenience we have to perform the following steps:

- We carry out the wares financial management discharge at the difference between the value of the wares, reduction excluded and the value at which we perform the endorsement which is $85.680 - 77.112 = 8.568$ lei;
- We also discharge the margin by multiplying the price differences distribution coefficient by the reduction value. $0,140056 \times 8568 = 1200$ lei;
- We also discharge the undue VAT TVA by applying the simplified quota to the reduction value $0,15966 \times 8.568 = 1.368$

We carry out the financial management discharge of the commercial reduction:

%	=	371	8.568	
		607		6.000
		378		1.200
		4428		1.368
debit		Account 371 „wares”		credit
Opening balance		14.280		
Rollover		71.400		
			77.112	
			8.568	
Total amounts		85.680	85.680	
Final balance		0		
debit		Account 378 „price differences for wares”		credit

Opening balance		2.000
Rollover		10.000
	10.800	
	1.200	
Total amounts	12.000	12.000
Final balance		0
debit	Account 4428 „undue VAT”	credit
Opening balance		2.280
Rollover		11.400
	12.312	
	1.368	
Total amounts	12.312	13.480
Final balance		0

We notice that the financial management discharge is made at the wares entry value, as a consequence in accountancy the wares value is 0 and the profit is diminished with 6.000, which is the value of the profit overestimation before the financial management discharge of the commercial reduction.

Bibliography:

1. The Order of the Ministry of Public Finance no. 1752/2005
2. The Government Decision 2185/2004
3. The Government Directive 15/ 1996