ANALYSIS AND MODIFICATION OF THE STRUCTURE OF THE INTERMEDIATE MANAGEMENT BALANCES THROUGH THE FLOWS OF THE LEASING OPERATIONS AND OF VENTURE OPERATIONS

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Abstract. In the present the author shows the relationships between the different major indicators from the income statement, especially on the value added.

Key words: turnover, trading margin, value added.

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1. Major indicators used in income statement analysis

Turnover (CA) represents the volume of the achieved portfolio of business conducted by the entity in relation to third parties with the occasion of the current activity and it reflects the production side and the commercial side of the enterprise.

Turnover expresses the value volume of the following income: income from the sale of finished products; income from the sale of semi-fabricated products; income from the sale of residual products; income from the work performed and services rendered; income from studies and researches; income from the fees, location management and rentals; income from various activities; income from sale of goods; income from the recorded interest by the entities whose main activity is leasing and income from operating grants for afferent turnover.

Changes made in the balance sheet and implicitly in the profit and loss account through O.M.F.P. no. 1752/2005 on highlighting distinctly interest income recorded by entities whose main activity is leasing, lead to the emergence of **a new element of turnover**, namely **INCOME INTEREST REGISTERED FOR LEASING ACTIVITY.**

The model of turnover is:

Turnover (CA) = Output sold (PV) + Sales of Goods (VMF) + Interest income recorded for the leasing activity (VDI) + Operating grants afferent to the turnover (SE)

$$\mathbf{CA = PV + VMF + VDI + SE}$$

Sold production represents the productive activity and performing of services. Sales of goods represent the commercial activity. Interest income recorded for the leasing activity represents the recorded amounts as interest of the entities, whose main activity is leasing. Operating grants represent the cover of the differences in price, respectively the cover of losses, and also other grants that the entity benefits of.

Another important indicator is the trading margin **(MC)** is the supplement of value brought by the entity through the marketing activity = purchased products and goods = being an item of the added value and is determined with the help of the relationship:

MC = Sales of Goods (VMF) – Cost of goods (CMF)

$$\mathbf{MC = VMF - CMF}$$

Finally, exercise's production **(PEX)** represents the size of the productive activity of the entity through goods and services produced and sold and stored production variation, respectively production of fixed assets for their own purposes and capitalized (immobilized) production

PEX = Sold production (PV) + Stored production (PS) + Production of fixed assets for their own purposes and capitalized production (PI)

$$\mathbf{PEX = PV + PS + PI}$$

In terms of analysis, “the exercise’s production” is heterogeneously because sold production is evaluated in prices of production, and the variation of the stored production and the production of fixed assets are valued in production costs.
In conclusion also the factors that alter the status of these components are grouped into: physical volume - the structure of production and sales - selling price - cost of production.

2. Flows of leasing operations and venture operations

Following undertaken studies and researches, respectively analyzes of the financial position and financial performance of the entity, **we found two significant and relevant elements of operational flows** that affect the intermediate management balances of the operation activity. These two elements are components of the added value and represent

a) Flows from operating leasing operations, respectively

b) Flows from operating venture operations

a) Flows from leasing operations – leasing operations margin

Flows from operating leasing operations generate **a new indicator** in regard to analysis of the intermediate management balances which we called **the margin of leasing operations.**

Changes made in the balance sheet by O.M.F.P. no. 1752/2005 on **distinctly highlighting the recorded interest income** by the entity whose main activity is the leasing (part of turnover), respectively distinctly highlighting the costs of the refinancing interest registered by the entities whose main activity is leasing led to the emergence and introduction of this new indicator. **The margin of leasing operations** can be calculated by the leasing companies and reflect the profitability of the leasing activity and measure the effectiveness of activities of this kind. **The financial theory in the basic formula, respectively specialty literature doesn’t specify and doesn’t highlight this new indicator**. In my opinion it must be introduced in the analysis of intermediate management balances with the principle of calculation of margin trading, citing the existence of many leasing companies as legal personality in Romania.

The margin of leasing operations is the value supplement created by the leasing companies through their specific activity and business and is determined as difference between income from recorded interest and expenses on recorded interest in refinancing.

$$\mathbf{MOL = VDI - CHDI}$$

where: **MOL** = the margin of leasing operations
VDI = income from recorded interest
CHDI = expenses on recorded interest in refinancing

b) Flows of venture operations - venture operations margin

Economic agents, regardless of their legal form, may initiate based on the rules of commercial, civil and economic law the progress "in participation" of some activities with productive and / or commercial character on determined periods without being for this purpose patrimonial entities with legal personality.

Accounting of these venture operations can be organized and done either by different functional departments from the organizational structure of each patrimonial entity co-participating in venture operations or by the accounting compartments of one of it. In both cases between the organizer and implementer accounting compartment of venture operations and participant patrimonial entities with legal personality are born settlement of accounts relations aimed at three **main groups of problems**, namely:

1. Cashing and refunds of amounts covering the creation and liquidation of the necessary working capital for the development of venture operations;

2. Transfer of income and expenditure between associates to participation in venture operations and settlement of amounts representing gross financial result between associates.

3. Transfer of amortizations and of the equivalent value of its settlements for immobilization which belongs to associates, but whose amortization is adjusted by the organizer and implementer accounting compartment of venture operations.

O.M.F.P. no. 1752/2005, regarding the associated venture operations, regulates “costs and revenues determined by associated venture operations are accounted separately by one of the associates according to association contract compliance. At the end of the reporting period costs and revenues recorded on the nature of each one are transmitted based on the settlement of accounts to each associate in order to record it in its own accounting.”

Following studies and research practically made on associated venture operations, we found that the transfer of revenue and expenses by nature in order to record in the accounting of the associates presents contradictions and failures in terms of accounting management.

Given the conditions under which venture associations conduct several activities: manufacturing, services, trade, financial, etc., registration in associates accounting of the revenue and expenditure by nature is difficult and contradictory. In this context, I consider that venture operations are relevant and significant, respectively recording of expenditure and revenue settlement of accounts should be summed in total revenue and expenditure.

In my opinion, to not distort the structure of the profit and loss account, total revenues of venture operations may be recorded distinctly in "OTHER OPERATING INCOME", respectively the total expenditure from venture operations may be recorded distinctly in "OTHER OPERATING EXPENDITURE", citing the following reasons:

a) “Other operating income" is an element of the profit and loss account and is a component of total operating revenue;

b) Accounting regulations O.M.F.P. no. 1752/2005 in accordance with European directives, in Section 7, article 212 point 1 shows the structure of the operating revenues, respectively at point. e) is highlighted "other operating income" current, including revenue from recovered debts and other operating income,

c) Accounting policies should be developed so that to ensure the provision - through annual financial statements – of information that should be:

- Relevant to the needs of users and decision-making, and
- Are credible in the sense to represent accurately the assets, debts, liabilities, financial position and profit or loss of the entity, are cautious and are complete in all significant respects.

Changing accounting policies is permitted only if required by law or has as a result information more relevant or more credible regarding the entity’s operations.

In conditions of ventures association, revenues are recorded globally in "OTHER OPERATING INCOME" analytically distinct, which represents “TOTAL INCOME FROM VENTURE OPERATIONS”, respectively expenditures are recorded globally in "other operating expenses" analytically distinct, which represents **"TOTAL EXPENSES FROM VENTURE OPERATIONS”.**

Other total operating income = Income from venture operations + Other operating income

Other total operating expenses = Expenses from venture operations + Other operating income

Exercise’s production (PEX) in this case includes goods and services produced directly by the enterprise and the activity that generates operating income in venture operations.

PEX = Sold production (PV) + Stored production + Production made for the company and capitalized (Pi) + Other operative operating income (AVEO).

d) In practice there are economic activities and operations which employ costs, generate revenue and are significant, but these costs and revenues must be recorded in **"Other operating expenses"** respectively in **"Other operating income"** taking into account the fair, clear and complete image in all aspects of annual financial statements, respectively balance sheet correlations.

3. Case study

To support this theory I present an example of a joint venture implemented in practice and developed by myself.

SC "Transport Local" SA Târgu-Mureş and SC "Siletina Impex" SRL have entered into a contract of venture association. The main activity consists in organizing and carrying out, with own transport means or hired, the public transport of people activity, respectively selling fuel, repair services, car wash, I.T.P. station. In the venture association contract are provided:

A. Contributions of each side to the formation of the association

a) SC "Transport Local" SA – Fixed and circulating assets 60 %

b) SC "Siletina Impex" SRL – Fixed and circulating assets 40 %

B. Participation in profits and losses

a) Revenues and expenses of the venture association are divided in proportion of 60% by SC "Transport Local" SA Târgu-Mureş and 40 % by SC "Siletina Impex" SRL.

b) The amounts realized by way of "net income" will be passed to the associates by settlement of accounts and will be steered into their bank accounts.

c) Income and expenses of the association are divided 60% to SC "Transport Local" SA Târgu-Mureş and 40 % to SC "Siletina Impex" SRL.

C. Venture operations accounting is organized distinctly from the accounting of the associates.

Venture operations association contracts involve transfers and settlements operations per total economic activity. Revenues and expenses in connection with the association contract are aggregated in total, income and expenditure being distinct elements.

Costs and revenues are recorded and grouped in the separate accounting of the venture association by the way and nature of it, in compliance with accounting regulations in force.

The situation of "settlement" includes:

- Monthly income and expenditure;
- Yearly income and expenditure;
- Income and expenditure transferred to associates in ratio of 60 % - 40 %;
- The monthly and yearly net result and the quota to be transferred to associates of 60 % and 40 %.

Revenues and expenses are recorded in the accounts of the associates as follows:

INCOME 60 % = 10.518.117 lei;
INCOME 40 % = 7.052.078 lei;
EXPENSES 60 % = 9.321.599 lei;
EXPENSES 40 % = 6.214.399 lei;

A. Income transfer

1) ______________________________ x ____________________________

458 Settlement from venture operation = 758* Other operating income 10.518.117 lei

2) ______________________________ x ____________________________

458 Settlement from venture operation = 758* Other operating income 7.052.078 lei

758* → ANALYTICAL DISTINCT

B. Costs transfer

1) ______________________________ x ____________________________

658* Other operating expenses = 458 Settlement from venture operation 9.321.599 lei

1) ______________________________ x ___________________________
658* Other operating expenses = 458 Settlement from venture operation 6.214.399 lei

658* → ANALYTICAL DISTINCT

Economic operations related to the venture activity will be finalized through detailing the account "settlements from venture operations" 458 = "Settlements from venture operations - liabilities" 4581, and

"Settlements from venture operations - assets" 4582

Given that venture associations conduct several activities: products, services, trade, it is useful to introduce a “new” indicator and that is **"Margin of venture activity"** because of the following reasons:

- Income from sold production does not have a direct correlation with the products and services conducted in venture association, respectively income from sold production does not have a direct correspondence with clients, has a direct correlation with the settlements in the venture operations.
- Income from sale of goods has no direct correlation with stocks of goods, goods movement and differences in price of goods (trade margins).
- Income from stock variation has no direct correlation with stocks of goods and products that are still in the production stage.
- Cost of raw materials and materials do not have a direct correlation with stocks, respectively corresponding movement of stocks.
- Utility costs in terms of energy and water can double if one of the associates holds the contract as a beneficiary for electricity, gas, water, these utilities or part of them are consumed by the venture association; in this case the holder of the contract re-bills the consumption towards the venture association as to any other client. After the data from the settlement of accounts of the expenses of the venture association, recording once again the expenses for energy and water distort these external charges.
- The expenses with the personnel are not consistent with the average number of employed personnel of the entities. Associates may have more or less employees detached in the association. Personnel detachments in the association are not equivalent to the percentage distribution of income and expenditure and it is possible to distort the calculation of labor productivity.
- The transfer of depreciation afferent to common investments or differences of depreciation distort the amortization costs and by default **distort the correlations of the balance sheet** and these errors can not be justified in the explanatory notes.
- The transfer of goods and personnel insurance can double, which distorts the structure of expenditure.
- In the case of the production activity: stored production and running production is highlighted in the total income from venture operations, and simultaneously are highlighted in the total costs from venture operations of expenses incurred for the stored production and running production.
- In the case of trade revenues and expenses are included in the total revenue and expenditure of the venture activity.
- Expenditure on staff salaries are totalized in costs, and also other income and expenses such as financial ones, respectively extraordinary are totalized in revenue and expenditure.

We point out that joint ventures do not have legal personality.

Margin of the venture operations activity (MOP) can be determined by the difference between revenues transferred from the venture operations (VTOP) and expenses transferred from venture operations (CHTOP):

$$\mathbf{MOP = VTOP - CHTOP}$$

Margin of the venture operations activity represents the new created value in the area of activity of the ventures association, industrial, commercial, service activities respectively other activities determined over a period of management. It's a "new" indicator and we believe it is useful and will be introduced in the financial theory.

Value added (VA) represents and expresses what the entity adds to the economic circuit by its activities within a determined period of time, usually during the financial exercise.

The indicator measures the economic and financial performance of the entity, the growth index of value added must show a tendency to exceed the one of the exercise's production and be in a continuous growth.

The importance of the analysis of value added is reflected in the following aspects:

- Value added represents the main source of self-financing of economic agents activity;
- Value added represents the source of remuneration of staff;
- Value added represents the source of financing of budget obligations;
- Value added represents the source of increasing the entity's reserves.

Value added can be determined by the synthetic method by which from the exercise's production is deducted intermediate consumption and are added margin trading, margin from venture operations and leasing operations margin or by the method of repartition (additive) by which are summed the staff expenses, excise taxes and taxes, depreciation and operating profit.

$$\mathbf{VA = PEX - CI + MC + MOP + MOL}$$

PEX = Exercise's production

CI = Intermediate consumption = CM + LE, where

CM = Material cots

LE = Works and services performed by third parties

MC = Trade margin

MOP = Margin from venture operations

MOL = Margin of leasing operations

From the profit and loss account are determined the intermediate balances that characterize the performance of the operation.

Intermediate management balances of the activity. Case study

Criterion Number	Indicator Name	Financial Exercise		Deviations ± Δ	Indices (%)
		Previous	Current		
1	Sold Production (PV)	22.560.600	28.265.262	+ 5.704.662	125,28
2	Revenues from sales of goods (VMF)	452.362	532.450	+ 80.088	117,70
3	Income from recorded interest from the leasing activity (VDI)	12.563.500	14.260.350	+ 1.696.850	113,50
4	Revenues from operating grants (VS)	1.265.	2.562.456	+ 1.297.056	202,50
5	Net turnover (CA)	36.841.262	45.620.518	+ 8.779.256	123,82
6	Income from venture operations (VTOP)	8.747.972	10.578.117	+ 1.830.145	120,92
7	Expenditure on goods (CHMF)	383.358	443.708	+ 60.350	115,74
8	Expenditure on recorded interest for the leasing activity (CHDI)	10.500.800	11.265.677	+ 764.877	107,28
9	Expenditure from venture operations (CHTOP)	7.931.216	9.321.599	+ 1.390.383	117,53
10	Trade Margin (MC) (2-7)	69.004	88.742	+ 19.738	128,60
11	Leasing Operations Margin (MOL) (3-8)	2.062.700	2.994.673	+ 931.973	145,18
12	Venture Operations Margin (MOP) (6-9)	816.756	1.256.518	+ 439.762	153,84
13	Variation of stock of finished goods and of production running (PS)	+ 3.268.418	+ 3.816.376	+ 547.958	116,76

	- Balance C (+) - Balance D (-)	19.375.846 16.107.428	22.518.410 18.702.034	+ 3.142.564 + 2.594.606	116,21 116,10
14	Production made for own use and capitalized (Pi)	309.518	217.350	-92.168	70,22
15	Exercise's Production (Pex) (1+13+14)	26.138.536	32.298.988	+ 6.160.452	123,56
16	Intermediate Consumption (Ci) - Expenditure on materials (CHM) - Other external expenses (energy, water) (ACHE) - Expenditure on external services (CHPE)	19.563.795 18.005.945 307.200 1.250.650	23.505.348 21.304.638 340.440 1.860.270	+ 3.941.553 + 3.298.693 + 33.240 + 609.620	120,14 118,32 110,80 148,74
17	Value added (10+11+12+15-16) (VA)	9.523.201	13.133.573	+ 3.610.372	137,91

Source: Own calculus

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