

INVENTORY - IMPORTANT TECHNIQUE PRECEDING THE ACCOUNTING BALANCE SHEET

INVENTARIEREA – IMPORTANT PROCEDEU AL CONTABILITĂȚII PREMERGĂTOR ÎNTOCMIRII BILANȚULUI

APOSTOL C.

“Alexandru Ioan Cuza” University of Iași, Romania

Abstract. *The accounting should provide a fair, clear and complete image of the entity, reflecting correctly in the chronologic, systematic evidence and the trial balance all economic and financial operations. Sometimes, however, could appear differences between the data from the accounting and those from reality, due to certain economic, natural processes, negligence, errors, embezzlements etc. The concordance between the writing information and those real it could verify through the process named inventory. Inventory is request by the accounting law, republished in 2008, which presents in Article 7 also the accounting registrations of it results according to the applicable accounting rules. More, the details regarding the inventory procedure, the valuation of all assets and liabilities and specific documents are settled by the Ministry of Public Finance Order no. 1753/2004 for the approval of Standards regarding organization and making inventory of assets and liabilities. An important law in terms of inventory is the Ministry of Public Finance Order no. 1752/2005 for accounting rules approval according to European directives, as amended by Order of the Ministry of Economy and Finance no. 2374/2007.*

Key words: inventory, balance sheet, accounting

Rezumat. *Contabilitatea trebuie să ofere o imagine fidelă, clară și completă a entității, reflectând corect în evidența cronologică, cea sistematică și apoi în balanța de verificare toate operațiunile economice și financiare. Uneori, însă, pot apărea discrepanțe între datele din contabilitate și cele din realitate, din cauza anumitor fenomene economice, naturale, neglijențe, greșeli, delapidări etc. Concordanța dintre informațiile scriptice și cele reale se poate verifica cu ajutorul procedeeului numit inventariere. Inventarierea generală este cerută de Legea contabilității, republicată în 2008, care la articolul 7 prevede și înregistrarea în contabilitate a rezultatelor acesteia potrivit reglementărilor contabile aplicabile. În plus, detaliile privind procedura de inventariere, modul de evaluare a tuturor elementelor de activ sau pasiv și documentele ce se întocmesc sunt reglementate de Ordinul Ministerului Finanțelor Publice nr. 1753/2004 pentru aprobarea Normelor privind organizarea și efectuarea inventarierii elementelor de activ și de pasiv. Un act normativ important din punctul de vedere al inventarierii este și Ordinul Ministerului Finanțelor Publice nr. 1752/2005 pentru aprobarea reglementărilor contabile conforme cu directivele europene, modificat prin Ordinul Ministerului Economiei și Finanțelor nr. 2374/2007.*

Cuvinte cheie: inventariere, bilanț contabil, contabilitate

INTRODUCTION

Accounting should provide a faithful, clear, and complete image of the asset base, correctly reflecting all economic and financial operations in the chronological and systematic statements, and then in the verification statement. However, sometimes there may appear discrepancies between accounting and real data, caused by certain economic or natural phenomena, by carelessness, errors, defalcations, etc. The correspondence between real information and that on paper can be verified through the inventory process.

MATERIAL AND METHOD

Drawing and filing the annual financial statements means completing the accounting evidence corresponding to one year, both from a managerial and from a fiscal point of view. If in the course of the year, accounting information has been recorded chronologically and systematically, according to the requirements of the Accounting Law, at the end of the year, the statements need to be verified and part of the information gathered during this year needs to be processed.

Actually, before drawing the financial statements, the requirements of the applicable accounting regulations need to be verified (Accounting Law no. 82/1991, re-published in 2008 and OMPF no. 1752/2005 for the approval of accounting regulation in conformity with the European directives, modified by OMPF nr. 2374/2008). This means that before certain operations, such as computing and recording legal reserves, computing the accepted limits in the case of protocol expenses and regulating the corresponding value added tax, recording the expenses and income belonging to the closing fiscal year, but for which no bills have arrived or whose date is after December 31st, etc., the first step should be inventorying the assets and liabilities owned and capitalizing on their results.

To accomplish this article have studied accounting rules related to inventory, it was aimed to capture aspects of inventory accounting results, which have as their purpose a fair reflection of the information in the company's financial statements.

RESULTS AND DISCUSSIONS

Inventorying refers to the totality of operations that establish, following counting, measuring, weighing, or, when these measures cannot be attained directly, through tallies and confirmations based on documents, the real quantitative, qualitative and value measure, at the respective moment, of the category of means and resources subject to this approach. (Petriș R., 2002)

Inventorying is at the basis of drawing a real balance, contributing to ensuring a faithful image and to applying accounting prudence (Horomnea E., 2004). The inventory is different from the balance sheet, although both present assets at a given moment, for the following reasons:

- The balance sheet is a synthetic general document based on accounting data, while the inventory is the result of measuring and evaluating operations of the *de facto* reality;
- The balance sheet presents the assets and liabilities synthetically and in numeric expression, while the inventory describes in detail, quantitatively

and numerically, each individual element of the asset base (each type of material goods, each provider, customer, etc.);

- The balance sheet is the result of the entire cycle of data processing using the procedures of the accounting method, while the inventory is merely the result of factual accounting of the existence and state of the assets and liabilities.

Companies have the obligation to perform a general inventory of the assets and liabilities owned at the beginning of the activity, at least once a year during their functioning, in the case of a merger or when stopping their activity, as well as in other situations mentioned by the law.

As a fact-finding procedure, inventories are made at the locations where goods exist, are deposited or preserved, by the company's own staff or by authorized natural or legal outside persons.

The main documents that record the results of the operations specific to inventorying are: the inventory list (code 14-3-12) – according to O.M.P.F. no. 1.753/2004; the protocol regarding the inventory results – no model exists, and its contents are set by the commission; the inventory register (code 14-1-2) – according to O.M.P.F. no. 1.850/2004.

Drawing the inventory register according to accounting rules and inventory norms is compulsory, and incompliance to this request is a contravention punished by a fine.

As an accounting procedure, inventorying fulfills the following functions (Pântea I. P., Bodea G., 2007):

- *The function of controlling the correspondence between factual and written data:* it verifies the integrity of the asset base, comparing the factual data recorded upon inventorying with the accounting information. From this comparison there may result a positive or a negative difference in goods or values, and measures can be taken to establish a correspondence between the written balance and the reality;

- *The function of updating the recorded value of the assets:* in order to obtain a faithful image with the help of annual financial statements, it is necessary to update the accounting values of the assets and liabilities, establishing their real or inventory values. By comparing the recorded (accounting) values with the actual (inventory) values, there may result positive or negative differences in value, according to the relation:

$$\text{ACTUAL VALUE} - \text{RECORDED VALUE} = \text{NEGATIVE or POSITIVE VALUE DIFFERENCES}$$

Positive differences, according to the prudence principle, are not recorded by accounting, while negative differences are recorded as adjustments for depreciation or supplementary amortization.

- *The function of determining the net situation and the result of the fiscal year:* the inventory helps determining the real situation of both assets and liabilities. Therefore, the net situation of the asset base can be computed according to the relation:

NET SITUATION (NET ACCOUNTING ASSET) = INVENTORY
ASSETS – INVENTORY DEBT

If during the fiscal year there are no increases or diminutions of the social capital, the result of the fiscal year according to the net situation variation is computed as follows:

RESULT OF THE FISCAL YEAR = Net situation at the end of the fiscal
year – Net situation at the beginning of the fiscal year

- *The function of computing and recording stocks, consumption, and sales:* it is specific to enterprises that use the periodic inventory method for recording their stocks, when the stocks bought are directly included in the expenses, following that at the end of the period, based on the inventory, to compute the total balances that will be recorded in the stock accounts. At the beginning of the next period, these balances will be again included in the expenses. The closing stock resulted through consumption or sales, during the month, are computed as follows:

CLOSING INVENTORIES = INITIAL INVENTORIES + INCOMING
INVENTORIES – FINAL INVENTORIES

Considering the performance order and succession, as well as the nature of performance, inventorying implies the following stages: preparing the inventory, the inventory activity, establishing the inventory results, and recording the inventory differences.

The suppositions formulated by the inventory commissions in the inventory protocols help the accounting department correlate the accounting data with the reality observed and recorded in inventory lists.

There is a possibility to compensate certain positive differences with certain negative differences, but only under the conditions presented in inventory norms:

- *There should exist a risk of confusion* between the types of the same material goods because of their resemblance in the outer appearance: color, design, model, dimensions, package, or other elements;

- The observed positive or negative differences should concern the same *inventory period and the same inventory*;

- *The lists with the types of products, merchandise, packages, and other material goods that meet the requirements for compensation due to the confusion risk should be approved (annually) by the administrators.*

This compensation is granted for equal quantities of the positive and negative differences noticed (irrespective of their value).

The positive differences observed during inventorying are recorded as a growth of the assets by debiting the asset accounts as follows:

1. Positive differences in tangible and intangible assets:

2xx “Tangibles accounts” = 134 “Inventory excesses of
tangible nature”

Subsequently, the amortization and incomes from grants at the amortization level will be recorded monthly (or annually) as follows:

6811 "Exploitation expenses regarding the = 28xx "Amortizations regarding
amortization of tangibles tangibles"

134 "Inventory excesses = 7582 "Incomes from donations and received
of a tangible nature" grants"

2. Stock excesses (Dumitrean E., 2008):

- *Excess in raw materials:*

301 "Raw materials" = 601 "Expenses for raw materials"

- *Excess in consumables:*

302 "Consumables" = 602 "Expenses for consumables"

- *Excess in materials of the nature of inventory objects:*

303 "Materials of the nature = 603 "Expenses with materials of the nature
of inventory objects" of inventory objects"

- *Excess in end products:*

345 "End products" = 711 "Stock variation"

- *Excess in merchandise:*

371 "Merchandise" = 607 "Expenses for merchandise"

- *Excess in packages:*

381 "Packages" = 608 "Expenses for packages"

Recording stock excesses in the expenses accounts credit alters their rollover, and therefore it is recommended to rectify their consumption.

The negative differences noticed during inventorying are treated differently, according to their causes, as follows:

1. In the case of non-imputable lacks, their deletion from the inventory or management discharge is recorded (Ristea M., Dumitru C. G., 2005):

- *For entirely amortized intangibles:*

281 "Amortizations regarding intangibles = 21xx "Intangibles accounts"

- *For intangibles not entirely amortized:*

% = 21xx "Intangibles accounts"

281 "Amortizations regarding intangibles"

6583 "Expenses regarding ceded assets and other capital operations"

- *For intangibles not entirely amortized, but lacking because of natural disasters:*

% = 21xx "Intangibles accounts"

281 "Amortizations regarding intangibles"

671 "Expenses determined by disasters and other extraordinary events"

Non-imputable stock lacks mainly appear as a result of allowed outage and natural disasters. In the case of allowed *outage*, they are recorded as an inventory discharge by crediting stock accounts and debiting the corresponding expenses accounts.

In the case of lacks caused by natural disasters, account 671 "Expenses determined by disasters and other extraordinary events" is debited according to the credit of the stock accounts.

From the above are excepted finished products that are recorded by the accounting formula:

711 "Inventory change" = 345 "Finished products"

2. In the case of imputable lacks, first the discharge of the asset inventory is recorded, and then the guilty parties are imputed to pay the cost for the acquisition of the tangibles and for the missing items in the inventory, as follows:

4282 “Other staff-related debts” =	%
(461 “Various debtors” for imputing third parties)	7581 “Incomes from compensations, fines, and penalties”
	4427 “Collected VAT”

CONCLUSIONS

Accounting information that constitutes the basis for financial statements needs to be clear, complete, and reflect reality. Therefore, based on the verification balance drawn on December 31st, and on the inventory, the balance is drawn, whose data must correspond to the values recorded in accounting, according to the real situation of the assets and liabilities, established by inventorying. If the real situation of assets or liabilities, observed during the inventory, differs from the one in the accounting records, then accounting record these differences, in compliance with the accounting principles applicable on the date when the operation is performed.

Following the study we noticed that most practicing accountants are faced with a dilemma regarding the addition to inventory stocks (many of them resort to cancellations, while others recorded addition to income). However the law is clear in this respect (OMFP no. 2374/2008) and, as presented in article, the positive differences of the inventory of inventories to look at the credit of the expenses (except make the production).

REFERENCES

1. **Dumitrean E., 2008** - *Contabilitate financiară*. Sedcom Libris Publishing House, Iași
2. **Horomnea E., 2004** - *Bazele contabilității. Concepte și aplicații*. Sedcom Libris Publishing House, Iași
3. **Pântea I. P., Bodea G., 2007** - *Contabilitatea financiară românească conformă cu Directivele Europene*. Ediția a II-a, Intelcredo Publishing House, Deva
4. **Petriș R., 2002** - *Bazele contabilității*. Gorun Publishing House, Iași
5. **Ristea M., Dumitru C.G., 2005** - *Contabilitate aprofundată*. University Publishing House, București
6. *****, 2006** - *Standardele Internaționale de Raportare Financiară 2006*, CECCAR Publishing House, București
7. *****, Legea contabilității nr. 82/1991**, republicată în M.O. nr. 454 din 18.06.2008
8. *****, 2005** - O.M.F.P. nr. 1752/17.11.2005 pentru aprobarea *Reglementărilor contabile conforme cu directivele europene*, publicat în M.O. nr. 1080 din 30.11.2005
9. *****, 2004** - O.M.F.P. nr. 1753/22.11.2004 pentru aprobarea *Normelor privind organizarea și efectuarea inventarierii elementelor de activ și de pasiv*, publicat în M.O. nr. 1174/13.12.2004