ACCOUNTING TREATMENT OF THE DIFFERENCES CONTAINED IN THE INVENTORY

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Abstract: *Inventory control is the most effective internal control procedure, as it allows knowledge of reality, discovery of possible shortcomings and other forms of waste, contributing to a great extent to the integrity of the economic entity's patrimony. In order to properly address inventory gaps, the Inventory Committees will get complete explanatory notes from the managers, which will show the nature of the shortcomings, losses, depreciations and circumstances of their production. On the basis of the explanations received and other documents and facts investigated, the inventory committees formulate conclusions and propose concrete measures to the management's attention, which are to be adopted (offsets, perishables, imputations, decreases in management).*
Keywords: *inventory differences, inventory control, compensation, perishables, accounting of differences.*

1. Regularization of inventory differences

After inventory plus and minus, the differences are settled. In principle, pluses are recorded as entries in unit assets, and minuses are passed on to expenses or deducted from inventory change revenue, as appropriate.

The determination of the amounts to be charged to the guilty persons is made at the replacement value, which represents the cost of the acquisition of the goods at the date of the finding of the damage.

Under current legislation, managers are fully accountable to economic agents for damages (management gaps) they have caused in management. When the manager has caused a loss in management at the workplace and it is not fully covered within one month, the economic agent will be compensated by the established cash guarantee.

According to the Labor Code, employees are liable under the civil contractual liability for material damage to the employer by fault and in connection with their work. If the employer finds that his / her employee has caused a fault in connection with his / her work, he / she will be able to apply to the employee for a damages assessment and assessment, recovery by agreement of the parties (payment commitment) within a time limit that may not be less than 30 days from the date of communication.

Recovery of damage through the parties' agreement is limited to situations where it does not exceed a value of 5 gross salaries in the economy, and if the damage exceeds this value, the employer will have to address the courts.

In order to properly address inventory gaps, the Inventory Committees will get complete explanatory notes from the managers, which will show the nature of the shortcomings, losses, depreciations and circumstances of their production.

On the basis of the explanations received and other documents and facts investigated, the inventory committees formulate conclusions and propose concrete measures to the management's attention, which are to be adopted (offsets, perishables, imputations, decreases in management).

In practice, the differences observed in the general inventory of inventories are regulated by the following: direct recording of inventory plots and minus; compensation of pluses with inventories minus; combined grant of offsets and perishables; the granting of perishables or admissible allowances.

2. Accounting treatment of inventory differences

For the purpose of preparing the annual financial statements, entities must inventory and measure assets such as assets, debts and equity. In the annual financial statements, the nature of the assets, liabilities and equity is reflected and measured at the carrying amount that is consistent with the inventory results. These valuation rules apply also to assets that have been contributed to capital and current assets. According to the legal provisions: 1) the carrying amount of an asset is the amount at which it is recognized after deducting accumulated depreciation for depreciable assets and adjustments accrued from impairment or loss of value; 2) the inventory value of an asset is the carrying amount of the asset determined at the valuation at inventory, that is, the value entered in the inventory lists. The valuation during the inventory of items such as assets, debts and equity is made in accordance with the present regulations and the regulations issued to this effect by the Ministry of Public Finance. In order to perform the inventory, the entity's management must establish its own procedures, in compliance with the legal provisions. In order to carry out inventory and evaluation operations in good condition, the inventory commissions will be called suitably trained, technical and economical, familiar with the field of activity. When determining the inventory value of goods, the principle of prudence will apply, according to which all value adjustments due to depreciation or loss of value will be taken into account. For asset items recorded at cost, the differences noted in the minus between the inventory value and the carrying amount are shown separately in the accounting in the adjustment accounts, these items being maintained at their input value. The valuation of tangible and intangible assets, when inventorying, is made at the inventory value, as determined by the inventory commission or by authorized valuers, according to the law. They are the object of the valuation and the assets in progress. Correcting the value of intangible and tangible assets and bringing them to inventory value is made, depending on the type of impairment, either by recording additional depreciation if irreversible depreciation is found or by making or adding impairment adjustments , if a reversible depreciation is found. In the case of tangible and intangible assets, in determining impairment losses, authorized assessors, according to the law, or the entity's staff may use different valuation methods (for example, cash-based methods). The valuation of tangible assets at the balance sheet date is carried at cost, less depreciation and cumulative impairment adjustments, or revalued, being the fair value at the revaluation date, less any cumulative depreciation and any accumulated impairment losses. valued at cost, less the impairment adjustments found. Adjustments for impairment are also found for non-moving stocks. If the inventory book value is greater than the inventory value, the inventory value decreases to the net realizable value by making a write-down adjustment.

They are the subject of the valuation and the stocks are in progress. Under the statutory provisions, net realizable net realizable value is the estimated selling price that could be obtained during the normal course of business, minus the estimated cost of completion of the good, where applicable, and the estimated cost of the sale. Inventory valuation of receivables and debts is made at their probable amount of cashing or payment. Minor differences between the inventory value set at inventory and the carrying amount of the receivables are recorded in the accounting for adjustments for impairment of receivables. For uncertainties, write-downs are created for value loss. The balance sheet of receivables and liabilities denominated in foreign currency and those denominated in RON based on a foreign exchange rate is made at the exchange rate communicated by the National Bank of Romania, valid at the end of the financial year. For the purpose of presentation in the balance sheet, the value of the receivables thus valued shall be reduced by value adjustments. The cash, checks, bills, promissory notes, letters of guarantee, letters of credit, mortgages and other values in the cashier of the units shall be presented on the balance sheet in accordance with the legal provisions. Cash and other currency equivalents are valued in the balance sheet at the exchange rate communicated by the National Bank of Romania, valid at the end of the financial year. The registration of postage stamps, tax stamps, travel vouchers, fixed quantity vouchers, show tickets, museum entry, exhibitions and the like shall be made at their nominal value. In the case of impaired or unused goods of this nature, adjustments are made for impairment. Short-term securities (shares and other financial investments) admitted to trading on a regulated market are valued at the quotation value of the last trading day, and those not traded at the historical cost less any value for money loss adjustments. Long-term securities (shares and other financial investments) are valued at historical cost, less any write-downs. For items of a debt nature, the excess differences found between the inventory value and the carrying amount are recorded in the accounts on the basis of the corresponding liability items. Equity remains highlighted at book value. At each balance sheet date: 1) Monetary assets denominated in foreign currency (cash and cash equivalents such as bank letters of credit and deposits, foreign currency claims and liabilities) should be valued and presented in the annual financial statements using the exchange rate communicated by the National Bank of Romania and valid at the end of the financial year. Exchange rate fluctuations, favorable or unfavorable, between the exchange rate of the foreign exchange market communicated by the National Bank of Romania as of the date when the foreign currency debts or liabilities are recorded or the rate at which they are recorded in the accounts and the exchange rate at the date of the conclusion of the financial year, is recorded in income or expense from foreign exchange differences, as the case may be. 2) For claims and debts denominated in RON, the settlement of which is based on a currency, any favorable or unfavorable differences that result from their valuation are recorded in other income or other financial expenses, as the case may be. Determining the value differences is similar to the above. 3) Non-monetary items purchased with foreign currency payments and recorded at historical cost (assets, inventories) should be reported in the annual financial statements using the exchange rate from the transaction date. 4) Non-monetary items purchased in foreign currency and at fair value (for example, revalued tangible assets) should be presented in the annual financial statements at Practically, the differences found during the general inventory of the patrimony are regularized by the following ways:

a. direct recording of inventory plots and minus;
b. compensing inventory minus plus;
c. combined compensation and perishability;
d. accessibility of perishable or acceptable additions except for possible value adjustments. For items of a debt nature, the excess differences found between the inventory value and the carrying amount are recorded in the accounts on the basis of the corresponding liability items. Equity remains highlighted at book value.

a. Direct recording of inventory pluses and minuses

In principle, for the storable items pluses are recorded as entries in the heritage of the units (class 3 = class 6) and the minuses are passed on the expenses (class 6 = class 3), if any, minuses, to be imputed, if applicable (4282/461) =% (7588,4427).

b. Compensation of pluses with inventory minuses

When determining the value of the debit, in cases where the gaps in the management are not considered as crimes, consideration is given to the possibility of compensating for the deficiencies with the possible added benefits.

Compensating shortfalls with inventory gains helps to correct mistakes in asset handling due to confusion between assortments.

The risk of confusion is caused by product similarities, unsafe handling, packaging labels, and negligence of managers.

The competence of the approval of compensation is in all cases the responsibility of the heads of the patrimonial entities.

According to the rules on the organization and performance of patrimony inventory, (approved by OMFP 2861/2009), compensation of the plus with the minus inventory operates only if the following conditions are met:

- there is a risk of confusion between assortments of the same groups of material goods because of their similarity in terms of appearance: color, pattern, dimensions, packaging and other elements;
- pluses and minuses must be related to the same management periods and the same management.

Lists of product, commodity, packaging and other material values that meet the conditions of compensation are established annually by the managers of the economic units or the authorizing officers.

The following clearing rules should also be considered:

a) The quantitative equality between plus and minus is obtained by eliminating from the calculation the quantities exceeding that equality (plus or minus, as the case may be) starting with the assortments, which have the lowest unit price, in the increasing order of prices for the least damage);

b) the difference in value, in equal quantities of plus and minus, is established between the total value of the assortments found in addition and the total value of the assortments found in the minus within the same group of material values;

c) As a result of the offsetting, unfavorable differences can not result for the firm, and if they exist, they are recovered from the culprits (compensation can not diminish the entity's patrimony).

c. Combined Offsetting and Perishability

In the case of goods which are subject to deductions, in the case of gaps in the inventory, the losses are calculated only if the missing quantities are higher than the quantities found in addition, and only to the extent of these differences.

Within each category, the order of perishability is the one used to include the goods in the compensation (starting with the missing range that has the highest unitary price).

The scrap is granted first of all for the assortments which have been found to be missing, and if quantitative differences remain in the minus, they can be granted for the other assortments with pluses.

The value losses which may be covered by perishables shall consist of the value of the missing quantities exceeding the quantities found plus the negative value differences resulting from the offsetting of the equal quantities.

The difference set in the minus due to the offsetting and application of all allowances, representing damage to the entity, is recovered from the guilty persons in accordance with the legal provisions.

d. Allowing permissible or acceptable allowances

Perishables means the drops which occur during the transport, handling, storage and disposal of goods as a result of natural transformations of goods leading to weight loss or depreciation, including through fermentation processes.

These normal quantitative losses do not come from the fault of the manager or other persons and should therefore be deducted from management as non-imputable losses.

The competence of the approval of the allowances is in all cases of the management of the entity.

Perishables are approved at the inventory, only in case of actual inventory gaps and only within their limit.

These perishables diminish the patrimonial responsibility of managers.

1. Perishables during storage determine the function of the entries recorded between two successive inventories, the most common method of calculation, etc.

2. Perishability during transport

It refers to losses, which occur in the quantitative and sometimes qualitative quantity of the goods and are usually calculated by applying the percentage of decreases in the amount or value of the goods carried.

For some categories of goods, the percentages may vary depending on the transport distances, the duration of the transport or the season of transport and the means of transport used.

3. Perishability during dismantling is usually calculated by applying the percentage of decreases to the quantity sold between two successive inventories.

3. Examples of accounting treatment of inventory differences

Practical application no. 1

SC Student S.A. has as its object the production. In the general inventory of the heritage there is a lack of 100 kg of raw materials at a purchase cost of 10 RON / kg, which is accounted to the manager. Afterwards, he retains the damage from the guarantee initially lodged by the manager.

Solution:

1. registration fee attributable to the manager 100 * 10 lei / kg:

601 = 301 1.000 RON

2. adjustment of deducted VAT at the time of purchase (1000 * 19% = 190 RON)

635 = 4426 190 RON

3. attribution of the missing to the manager in the amount of 1.190 RON (the imputed sums are not considered as deliveries of goods according to the fiscal code):

4282 = 7588 1.190 RON

4. retention of the damage originally lodged by the manager:

4281 = 4282 1.190 RON

Practical application no. 2

SC Student S.A. has as its object the production. In the general inventory of the heritage there is a lack of 10 kg of raw materials at an acquisition cost of 10 RON/ kg, not imputable.

Solution:

1. recording the lack of improbability to the manager 10 * 10 RON / kg:

601 = 301 100 RON

2. adjusting the VAT deducted at the time of purchase (100 * 19% lei = 19 RON)

635 = 4426 19 RON

Practical application no. 3

SC Student S.A. has as its object the production. The stock of raw materials was destroyed after a flood. In inventory, the inventory committee determined that the stock of raw materials destroyed was 10,000 kg of raw materials at a purchase cost of 10 RON / kg, not imputable.

Solution:

1. missing non-refundable registration 10.000 * 10 RON / kg:

6587 = 301 100.000 RON

it is not adjusted to deduct VAT at the time of purchase for goods destroyed as a result of natural disasters.

Practical application no. 4

S.C. Student S.A. has as its object the production. Inventory Commission found an unregistered calculator valued at 3,000 RON and 10 bags with flour plus inventory at a re-purchase cost of 10 RON/ kg, not imputable. Solution:

1. recording the plus to the computer in the amount of 3.000 RON:

214 = 4754 3.000 RON

2. registering the surplus of raw materials:

301 = 601 / 7588 100 RON

Practical application no. 5

Following the inventory, we found:

- in the X range, a minus 5 kg flour with 6 RON / kg.
- perishables admitted during storage were 5kg.

Set the inventory situation.

Solution:

1. recording the lack of 30 RON, fully covered by perishables:

   607= 371 30 RON

2. not adjust the deduction deductible at the time of purchase for the missing goods covered by perishables

Practical application no. 6

Following the inventory, we found:

- in the X assortment, a minus 50 kg flour with 6 RON / kg.
- perishables accepted during storage were 2 kg. The inventory situation is determined.

Solution:

1. registering the lack of 300 RON:

   6607 = 3371 300

2. adjustment of deducted VAT at the time of acquisition (48 * 6 * 9% lei = RON)

   635 = 4426 25, 9 RON

3. imputation to the missing total manager 48 kg:

   4282 = 7588 313, 9 RON

4. withholding this damage from the guarantee initially lodged by the manager:

   4281 = 4282 313,9

Practical application no. 7

Following the inventory, we found:

- in the X range, and minus 10 kg flour with 6 RON / kg.
- permitted permits during storage were 10,5 kg.

Set the inventory situation.

Solution:

1. registration of the missing amount of 60 RON fully covered by perishables (do not adjust for the perisabilities granted within the legal limits):

   6607 = 3371 60 RON

Practical application no. 8

Following the inventory, we found:

- in the assortment X, a minus 200 kg flour with 6 RON / kg.
- perishables admitted during storage were 10 kg.
- perishables admitted during transport were 5kg.
- perishables allowed during the sale were 2kg.

Set the inventory situation.

Solution:

1. registering the missing amount in the amount of 1.200 RON:

6607 = 3371 1.200

2. adjustment of the VAT deducted at the time of acquisition (183 * 6 * 9% lei = 98.82 RON)

635 = 4426 98,82 RON

3. import to the missing manager total 183 kg (1,098 + 98,82):

4282 = 7588 1196, 82 RON

4. retention of this damage from the guarantee initially lodged by the manager:

4281 = 4282 1196,82 RON

4. Conclusions

Establishment of inventory results is made by comparing the quantities and values recorded in the inventory lists with the quantities and values recorded in the accounting.

From the above comparison, inventory pluses or minuses may result, for which the inventory committee will require written explanations from the manager.

The inventory results should be recorded in both the operating and accounting records within seven days of the date of approval of the inventory report by the administrators.

After inventory plus and minus, the differences are settled. In principle, payments are recorded as entries in unit assets, and minuses are passed on to expenses or deducted from inventory change income, as appropriate.

The determination of the amounts to be charged to the guilty persons is made on the replacement value, which represents the cost of the acquisition of the goods at the date of the finding of the damage.

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According to the Labor Code, the employees are liable under the civil liability for material damage to the employer by fault and in connection with their work. If the employer finds that his / her employee has caused a fault in connection with his / her work, he / she will be able to apply to the employee for a damage assessment and assessment, recovery by the parties a time limit that may not be less than 30 days from the date of communication.

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On the basis of the received explanations and other documents and facts investigated, the inventory committees formulate conclusions and propose specific measures to management attention, which are to be adopted (offsets, perishables, imputations, decreases in management).

Practically, the differences found in the general inventory of the heritage are regulated by the following: direct inventory and inventory minus; offsetting inventory minuses; combined grant of offsets and perishables; the granting of perishables or admissible allowances.

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