

## ACCOUNTING AND TAX LEGISLATION ISSUES REGARDING THE PROCUREMENT AND THE SUPPLY FOR INTRA-COMMUNITY GOODS

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**Abstract:** *The paper addresses a number of aspects regarding the entrepreneurship of a company and especially the import and export of goods in the the European Union and the coverage of major accounting operations performed. It also presents a series of particularities relating to the calculation of the cost of the goods imported from states in the European Union, as well as tax implications that are generated by their marketing in the country and in the EU. From this study we can draw a number of conclusions regarding the payments that have to be done to the budget which can prejudice the Romanian State.*

**Keywords:** *accounting, commercial activity, accounting operations, intra- community acquisitions, intra-community supplies, triangular operations, goods.*

### I. Introduction

Purchasing goods with the purpose of reselling between economic operators situated in different European States in the European Union is a type of business which has experienced a large increase and began to take root in our country.

From the point of view of an economic operator, tax registered in Romania, it may carry out the following types of operations:

- ***Intra-Community acquisition - delivery of goods within the country.*** The assets have to be purchased by a Romanian buyer from a supplier in a State which is a member of the European Union and then be delivered on the Romanian territory.
- ***Intra-Community acquisition - intra-Community delivery of goods.*** The assets have to be purchased by a Romanian buyer from a supplier in a State which is a member of the European and then be delivered to a customer in another EU State.
- ***Triangular operations.*** The goods have to be purchased by a

buyer-reseller in Romania, from a supplier in the EU, and then delivered to a client in another EU State directly from the supplier to the actual consumer.

These intra - community operations are influenced by a number of factors that disrupt the economic activity and create some advantages for economic operators in the European Union countries that have not yet introduced the euro currency and who have the bookkeeping in national currency thus leading to a disadvantage of that state. The factors that cause these disturbances can be:

- Changes in the exchange rate of the national currency against the euro currency
- The time gap on the transfer of the ownership of the goods
- The VAT rate which is different in the EU states.

All these factors stimulate the economic operators to defraud the system and to acquire some advantages. Fraud, in terms of value added tax (VAT), has a significant effect on the financial incomes of EU states and distorts the economic activity in the internal market by creating unjustified flows of goods and then the placement of goods on the market with abnormally low prices.

The shortcomings of the intra-community VAT and the system for the exchange of information regarding the supply of goods within the community<sup>1</sup> is one of the causes of this fraud. Especially, the time that elapses between a transaction and the corresponding time of the exchange of information within the system of is an obstacle for the effective use of that information to combat tax fraud.

## **II. The accounting treatment of transactions carried out by a buyer-reseller operator from Romania.**

From the point of view of an economic operator, tax registered in Romania, it may carry out the following types of operations: intra-community acquisition - delivery of goods within the country, intra-community acquisition - intra-community delivery of goods, triangular operations.

### **1. Intra-community acquisition**

#### **Example:**

SC "X" SRL performs in the financial exercise N an intra-community acquisition from a country from the EU (Netherlands), in the following conditions:

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<sup>1</sup> Established through Directive 2006/112/CE of the EC

- The external value of the FOB invoice: 100 000 /€;
- The transport costs along the external / internal (up to the supplier's warehouse) are: 5000 / €;
- Cargo insurance costs: 5% of the invoice amount;
- The exchange rate on the date of shipment based in the notice and the proforma is 4,2 lei /€;
- The exchange rate at the date of acquisition of the goods is 4,4 lei / € (the date of acceptance in the deposit);
- The exchange rate at the date of external payment and the invoice for external transport is 4,5 lei / €
- VAT 24%;
- Payment for the external provider of goods is made by payment orders;
- Goods are sold to domestic customers with an importer margin (mark-up) of 30%;

*The acquisition cost of imported goods* = the net price of imported goods + external transport costs + irrecoverable taxes paid at customs (customs duty, customs fee, excises) + internal transport costs (from the border to the SCE storage). Their value is calculated in lei at the exchange rate in the acquisition date.

Crt. No.	Elements	Foreign currency value (€)	Value in lei Currency exchange rate 4,4 lei/€	Unit value	Pcs.
1	External FOB value	100 000	440.000	440 lei	1000
2	External shipment	5 000	22.000	44	
3	Cargo insurance costs	5 000	22.000	22	
4	External CIF value (1+2+3) (value at custom)	110 000	484.000	506	
5	Custom duty (3x20%)	-	-		
6	Custom fee (3x0,5%)	-	-		
7	Cost of acquisition in custom (4+5+6)	-	484.000	506	
8	Importer margin (7x30%) (mark-up)		145.200	152	
9	VAT (7+8)x24%	-	151.008	157	
<b>10</b>	<b>Value of the goods at the selling price (7+8+9)</b>		<b>780.208</b>	<b>780,21lei</b>	<b>1000</b>

In the accounting for the Romanian company we will do the following accounting records in a chronological order with supporting documents according to the International Accounting Standards (IAS) and legal regulations from Romania:

The company X in Romania buys goods from the Y Company in Netherlands with a value of 100.000 euros. The company receives the invoice on 1.02.N at an exchange rate of 4,2 lei / euro, and receives the goods on 7.03.N at an exchange rate of 4,4 lei / euro.

But on 01.02.N the company had no actual goods entering the establishment, so we can not use the account of stock 371<sup>2</sup> which is why the goods will be highlighted in account 327 "Goods under supply".

1. Accounting records on 01.02.N are the following:

- The invoice from the supplier at RNB (Romanian National Bank) exchange rate valid on 01.02.N: 1000 pcs. \* 4.2 lei = 420.000lei.

327 "Goods under supply"	=	401 "Suppliers" (external)	420.000 lei
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Note: the 327 account is not registered in management only in accounting.

- Reverse charge - this is done on the date of the invoice as the chargeability of tax for intra-community acquisitions, occurs on the date of the invoice:

(420.000 lei\*24% - if the goods are subject to the standard rate).

4426 deductible VAT	=	4427 output VAT	100.800 lei
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- On 28.02.N the unpaid supplier is remeasured at the RNB exchange rate from that date.

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<sup>2</sup> In this case, under paragraph 276 align. (3) from OMFP no. 1802/2014 approval of accounting regulations on the annual individual and consolidated financial statements, such stocks that have not yet arrived in the unit but were transferred to this rights and obligations from the supplier to the beneficiary, are recorded in accounting using the group accounts 32 " Stocks under supply ", respectively the account 327: "Goods under supply".

2. The records for the acceptance in the deposit, the shipping expenses and insurance costs in 07.03.N.

371 =	%	<b>484.000</b>
“Goods”		<b>lei</b>
	401 “Suppliers” (external)	
	401 “Suppliers” (transport services)	440.000
	401 “Suppliers” (Insurance Broker Services)	lei
		22.000 lei
		22.000 lei

- The cancelation of current goods as they arrived in the unit and were received :

327 “Goods under supply”	=	401 “Suppliers” (external)	- 420.000
			lei

- Recording the VAT difference as a result of foreign exchange differences  $100,000 \text{ Euro} * (4,4 - 4,2) * 24\% = 4.800 \text{ lei}$ :

4426 deductible VAT	=	4427 output VAT	4.800 lei
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3. Determining the retail price and the record of the trading margin for the importer and VAT:

371 =	%	<b>296.208</b>
“Goods”		<b>lei</b>
	378 “Difference of prices on goods” (Trade margin)	145.200
	4428 “ VAT under settlement”	lei
		151.008
		lei

## 2. Deliveries of goods on Romanian territory

The delivery of goods towards a registered tax operator in Romania is done at the amount of retail sales and the accounting records are the following. We assume that in April all the goods were sold to customers.

1. Selling goods to customers in the amount of 780,208 lei VAT included:

4111 "Clients"	=	%	<b>780.208 lei</b>
		707 "Revenue from sale of goods"	629.200 lei
		4427 "output VAT"	151.208 lei

2. The receipt through the bank of accounts payable amounting to 780.208lei:

5121 "Bank accounts - Lei"		4111 "Clients"	782.208 lei
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3. Discharge of goods at the value of the goods sold:

	%	371 "Goods"	780.208 lei
607 "Expenses on goods"			484.000 lei
378 "Difference of prices on goods" (Trade margin)			145.200 lei
4428 " VAT under settlement"			151.208 lei

4. Payment of liabilities to suppliers amounting to 100,000 Euro at the rate of 4,5 lei/Euro = 450.000 lei:

	%	5121 "Bank accounts - Lei"	450.000 lei
401 "Suppliers"			440.000 lei
665 "Expenses from exchange rate differences"			10.000 lei

5. Closing the income and expenditure accounts and determining the taxable profit:

121 "Profit and loss"	607 "Expenses on goods" 665 "Expenses from exchange rate differences"	484.000 lei 10.000
707 "Revenue from sale of goods"	121 "Profit and loss"	629.200 lei

6. Recording the income tax expenses:

**Taxable profit = I – Exp. + Non-deductible expenses – taxable income**

$$\text{Taxable profit} = 629.200 - 494.000 = 135.200 \times 16\% = 21.632 \text{ lei}$$

691 "Income tax Expenses"	441 "Income tax"	21.632 lei
121 "Profit and loss"	691 "Income tax Expenses"	21.632 lei

As a result of this operation the entity has to pay to the state budget the following fiscal obligations resulting from the transaction:

- Income tax 21.632 lei
  - Payable VAT 151.208 lei
- NET PROFIT: 113.568 lei

### 3. Intra-Community supply with goods

We are in the same situation, on 07.03.N company X procures goods from Netherlands worth 100,000 euros to which we add shipping costs amounting to 5000 Euro and another 5000 Euro the merchandise insurance. Exchange rate in 07.02.N is 4,4 lei/Euro. The evidence of such goods shall be held at the entrance value + expenses because it is kept in the warehouse of the company.

1. The recording in accounting the goods received in the warehouse and drawing up the warehouse sheets.

371.21 "Goods in warehouse"	=	%	<b>484.000 lei</b>
		401 "Suppliers" (external)	440.000 lei
		401 "Suppliers" (transport services)	22.000 lei
		401 "Suppliers" (Insurance Broker Services)	22.000 lei

2. On 25.03.N we pay the debt to the supplier worth 100.000 Euro on the exchange rate of 4,5 lei/Euro = 450.000 lei

%	5121 "Bank accounts - Lei"	450.000 lei
401 "Suppliers"		440.000 lei
665 "Expenses from exchange rate differences"		10.000 lei

3. On 25.04.N goods are sold to a customer in Italy with a mark-up of 30%. Exchange rate on 25.04.N is at 4,2 lei/Euro.

100.000 Euro \* 30% = 30.000 Euro.

The value of the sale price is 130,000 Euro respectively 546 000 lei, amount that will be billed.

4111 "Clients"	=	707 "Revenue from sale of goods"	<b>546.000 lei</b>
4426 "deductible VAT"	=	4427 "output VAT"	131.040 lei

4. Discharge of goods.

607 "Expenses on goods"	371.21 "Goods in warehouse"	484.000 lei
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5. Closing the income and expenditure accounts and determining the taxable profit:

121 "Profit and loss"	607 "Expenses on goods" 665 "Expenses from exchange rate differences"	484.000 lei 10.000
707 "Revenue from sale of goods"	121 "Profit and loss"	546.000 lei

6. Recording the income tax expenses:.

**Taxable profit = I – Exp. + Non-deductible expenses – taxable income**

Taxable profit = 546.000 – 494.000 = 52.000 x 16% = 8.320 lei

691 “Income tax Expenses”	441 “Income tax”	8.320 lei
121 “Profit and loss”	691 “Income tax Expenses”	8.320 lei

As a result of this operation the entity has to pay to the state budget the following fiscal obligations resulting from the transaction:

- Income tax 8.320 lei
- Payable VAT 0 lei

NET PROFIT: 43.680

#### 4. Triangular operation

The particularity of this operation is that the goods are only registered in the accounting records of the buyer-reseller. The reception of the goods is impossible!

Triangular operations presume the existence of a sequence of transactions between three people (or more...), located and registered for VAT purposes in different EU states. If, on paper, the goods pass from one partner to another, physically they run directly from the supplier to the final beneficiary.

In the event that all three persons are registered for VAT, it is possible, and recommended the application of simplification measures (taxation at destination) only if the transport of goods is the responsibility of the buyer-supplier or reseller (... intra-Community supplies ...).

Otherwise, for a contract under a EXW (ex works) condition where the goods are made available to the buyer in the origin state, the buyer will have to register for VAT purposes in that state, then he must make a physical delivery to the final beneficiary.

### III. Conclusions

Following this case study it can be seen how in the first case the company pays contributions to the state in a higher amount than the second case, when, due to the lower exchange rate, the company contributes much

less to the state budget. Most of these amounts are transferred to the state in which the final beneficiary is tax resident.

The situation payments to be made to the state budget in the two cases analyzed:

Ctr. No.	Elements	Foreign currency value (€)	Case 1	Case 1
			Intra-Community acquisition / country delivery	Intra-Community acquisition / Intra-Community delivery
1	Income	130.000	629.200	546.000
2	Expenses	110.000	494.000	494.000
3	gross Profit		135.200	52.000
<b>4</b>	<b>Profit Tax 16%</b>		<b>21.632</b>	<b>8.320</b>
5	Net Profit	-	113.568	43.680
<b>6</b>	<b>Payable VAT</b>	-	<b>151.208</b>	<b>0</b>

In this case the economic operator will be interested to purchase the goods from abroad and store them for a while, then find a client in the Member States of the European Union and to sell them.

The profit which the economic operator in Romania will win in euro will be the same regardless of whether the goods are sold within the country or in other EU states. The difference is major when the values are expressed in lei, especially when the value of the euro depreciates against the national currency. In the 1st case when the goods were sold in the country, the value of the goods was set at a rate of 4,4 lei / euro and all the calculations were made in relation to this value including the sale. In the the second case, the purchase was made at a rate of 4.4 lei / euro, the payment of the external debt was done at 4.5 lei / euro and the sale of goods at 4.2 lei / euro. The company earned a fair amount in euro, but compared the euro on the day of the sale the revenues are lower which causes a lower profit for the company and automatically less tax to pay to the state budget. Taking this into account, the economic operators will be interested to do such operations with the thought of paying fewer taxes to the state, without realizing what kind of prejudice they brought to the state budget.

In conclusion to effectively combat this type of fraud, it is necessary for the administration, in the state in which the VAT is chargeable, to receive information regarding the intra - community supplies of goods within a period of one month. For the cross-checking of information to be useful in combating fraud, it should be ensured that the intra - community transactions are declared for the same tax period by both the supplier and the buyer or recipient.

Given the evolution of the business environment, the state should make

available to the economic agents some simple electronic procedures in order to minimize the administrative burden.

To keep the balance between the objectives of the Community in the fight against tax evasion and reducing the administrative burden for the economic operators, it is appropriate to provide the possibility for economic operators to file quarterly recapitulative statements on intra- community supplies of goods when their value is not significant. The states member in the EU that wishes to organize a progressive implementation of this possibility should be able to fix the amount, on a transitional basis, at a higher level. Similarly, it should be possible for states to authorize operators to submit quarterly information on intra- Community supplies of services.

### **Bibliography**

- [1]\*\*\* Directive 2006/112/CE of the EC
- [2]\*\*\* OMFP no. 1802/2014 approval of accounting regulations on the annual individual and consolidated financial statements
- [3]\*\*\* “*International Accounting Standards 2000*”, Economic Publishing House, Bucharest 2000, p. 119.
- [4]\*\*\* *IAS 2 Stocks*

### **NOTE ON THE AUTHOR**

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