

# ACCOUNTING AND FISCAL ASPECTS REGARDING SALES OF FINISHED PRODUCTS IN SMALL ENTERPRISES (MICRO ENTERPRISES)

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***Abstract:** This paper addresses a number of issues related to the commercial activity and production within an economic entity which markets its products made in their own company. It also presents a number of peculiarities regarding the calculation and recording of revenues from the sale of finished products. From the study we draw a series of conclusions regarding the way of recording in accounting and we can determine the fiscal result so that the reality of the performed activity and the profit obtained is as clear as possible.*

***Keywords:** Accounting, commercial activity, accounting operations, acquisitions of raw materials, finished goods, goods, incomes, expenses.*

***JEL classification:** M40.*

## I. Introduction

The current accounting legislation harmonized with the accounting regulations and in line with the European directives, recognizes that for the production of finished products, various raw materials and consumables must be purchased. The raw materials purchased directly participate in the manufacturing of the products and are found in their initial or transformed state, in whole or in part, in the finished product.

Consumables participate or help in the manufacturing process. Depending on the nature of the finished product, consumables can include fuels, packaging materials, spare parts, seeds and planting material, etc. Unlike raw materials, consumables are not found in the finished product, they indirectly help to obtain it.

However, the cost of production of a good comprises both the cost of purchasing raw materials and consumables, as well as the production costs that can be directly attributed to the good.

Synthetically, production costs comprise of:

- **direct costs** related to production: direct materials, energy consumed for technological purposes, direct labor and other direct production costs;
- the share of **indirect production costs** allocated directly in proportion to the production obtained.

Products are goods obtained in different phases in the manufacturing process and are intended to be sold to third parties or used for internal consumption.

Finished products are goods that have undergone all the phases of the manufacturing process without the need of further processing and which are qualitatively appropriate for their intended use.

After obtaining the finished products, the producer has three options depending on the market demand of the products and its need for liquidity to continue the production process:

- a) Store the products for sale;
- b) Send the products directly to the clients from whom they have received firm orders;
- c) Transfer the products to their own shops for sale under the retail regime.

## **II. Accounting aspects of finished products obtained by the manufacturer**

In accounting the finished products which the company obtained, the manufacturer must prepare the following stock records of raw materials, materials and finished products:

- Waybill;
- Invoice;
- Goods received/ Receipt note;
- Supply/Material Requisition form;
- Recipe;
- Acceptance certificate / protocol.

On the basis of these documents, the information on the finished products obtained is recorded in the accounts in the 3rd class of accounts being used:

**The accounts in Group 30 "Stocks of raw materials and materials"** keep records of raw materials and materials and comprise of the following accounts: **301** "Raw materials"; **302** "Consumables"; **303** "Materials of the nature of inventory objects"; **308** "Price Differences in Raw Materials and Materials". All are part of the current asset class and therefore are active accounts.

<i>Debit</i>	<i>Credit</i>
<ul style="list-style-type: none"> <li>the value of inventories of raw materials entered into the management of the economic entity by purchase from suppliers, brought as capital or other sources. The raw material registration value can be: the purchase price, the default price (standard) or the billing price.</li> </ul>	<ul style="list-style-type: none"> <li>The value of raw materials emanating from the management of the economic entity through consumption or other destinations. The exit of raw materials from the company can be made at the value determined by the weighted average cost method (CMP) if their recording was made at the acquisition cost as well as at prices determined by the FIFO or LIFO method.</li> </ul>
<p><i>The debtor final balance</i> shows the value of the raw materials and materials in stock at the registration prices.</p>	

**The accounts in Group 34 "Products"** keep records of products and comprise of the following accounts: **341** "Half finished materials"; **345** "Finished Products"; **346** "Resultant Products"; **348** "Product Price Differences".

<i>Debit</i>	<i>Credit</i>
<ul style="list-style-type: none"> <li>the value at the registration or production cost of the finished products resulting from the technology park including the inventory plus the value of the finished products brought by third parties.</li> </ul>	<ul style="list-style-type: none"> <li>the value at the registration or production cost of the finished products sold by the entity through sale (decrease), minus the inventory, transferred from its own stores selling goods, destroyed by natural calamities etc.</li> </ul>
<p><i>The debtor final balance</i> represents the stock of finished products at the registration price.</p>	

At the level of a Romanian producer we can meet the following types of operations that the Romanian producer performs no matter what will happen to finished products at the time of finalizing the production process.

**Example:**

SC "X" SRL supplies in the financial year N, with raw materials and materials amounting to 2000 lei + VAT 19% and with consumables amounting to 1000 lei + VAT 19%:

%	=	401	2.380
301		“Suppliers “	2000
“Raw materials”			380
4426			
“Deductible VAT”			

%	=	401	1.190
302		“Suppliers “	1000
“Consumables”			
4426			190
“Deductible VAT”			

Consumption of raw materials in the amount of 1000 lei and consumable material amounting to 500 lei are given on Supply/Material Requisition form.

601	=	301	1000
"Raw Material Expenses"		“Raw materials”	
602	=	302	500
„Expenditure on consumables "		“Consumables”	

Finished products are obtained at a production price of 1.600 lei and are to be deposited, sold directly or transferred in the store:

345	=	711	1600
„Finished products”		„Income related to the cost of product stocks”	

**1. Registration of finished products transferred to the warehouse for subsequent sale.**

On the basis of the waybill finished goods in the amount of 1.600 lei, are transferred to the warehouse for subsequent selling.

371.21.1	=	345	1600
„Goods in warehouse with analytical finished products”		„Finished products”	

Sale of finished products from a customer's warehouse in the amount of 1700 + VAT19%

4111 „Clients”	=	% 707.21 „Income from the sale of warehouse goods” 4427 „Collected VAT”	2023 1700  323
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Discharge of stocks goods / finished goods for sold goods

607.21.1 „Expenditure on goods sold from the warehouse”	=	371.21.1 „Goods in warehouse with analytical finished products”	1600
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Closure of expenditure accounts:

121 „Profit and loss”	=	% 601 „Expenditures on raw materials” 602 „Expenditures on consumables” 607.21.1 „Expenditure on goods sold from the warehouse”	<u>3100</u> 1000  500  1600
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Closure of Income Accounts:

% 707.21 „Income from the sale of warehouse goods” 711 „Income related to the cost of stock products”	=	121 „Profit and loss”	<u>3300</u> 1700  1600
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The account 121 “Profit and loss” will look like:

<i>D</i>	<i>C</i>
3100 RD = 3100	3300 RC = 3300
	<i>Fsc 200 lei</i>

**2. The registration of finished products sold to a customer based on a firm order.**

Sale of finished products directly to the customer on the basis of a firm order received from him in the amount of 1700 + VAT19%:

4111	=	%	2023
„Clients”		701	1700
		„Income from the sale of finished products”	
		4427	323
		„Collected VAT”	

Disposal of finished product as a result of their sale at a production cost of 1,600 lei

711	=	345	1600
„Income related to the cost of stock products”		„Finished products”	

Closure of expenditure accounts:

121	=	%	<u>1500</u>
„Profit and loss”		601	1000
		„Expenditures on raw materials”	
		602	500
		„Expenditures on consumables”	

Closure of Income Accounts:

%	=	121	<u>1700</u>
701		„Profit and loss”	1700
„Income from the sale of finished products”			

The account 121 “Profit and loss” will look like:

<i>D</i>	<i>C</i>
1500 RD = 1500	1700 RC = 1700
	<i>Fsc 200 lei</i>

### 3. Registering of finished products sold through the store.

The goods category also includes finished products obtained from own production, which were later transferred to their own stores for the direct sale to consumers of legal entities and individuals.

Based on the transfer, the store must accept the goods, at which time it also forms the retail price, which includes non-refundable VAT.

The transfer of finished products in the own sale shop at the cost of production totaling 1,600 lei:

371	=	345	1600
„Goods”		„Finished products”	

Establishing and recording on the basis of the Entry Note Reception of the retail price, the commercial additions practiced at 20%, VAT = 19%

Calculation of commercial additions:  $1600 \times 6,5\% = 100$  lei

Calculation of VAT:  $(1600+100) \times 19\% = 323$  lei

371	=	%	423
„Goods”		378	100
		„Differences in price of goods”	323
		4428	
		„VAT under settlement”	

Selling goods to a customer (finished products obtained from his own production) based on invoices and house receipts.

4111	=	%	2023
„Clients”		707.01	1700
		„Revenue from the sale of goods in its own store”	
		4427	323
		„Collected VAT”	

#### Discharge of stocks goods / finished goods for sold goods

%	=	371	2023
607.01		„Goods”	1600
„Expenditure on goods”			
378			100
„Differences in price of goods”			
4428			323
„VAT under settlement”			

Closure of expenditure accounts:

121	=	%	3100
„Profit and loss”		601	1000
		601	
		„Expenditures on raw materials”	500
		602	
		„Expenditures on consumables”	
		607.01	1600
		„Expenditure on goods”	

Closure of Income Accounts:

%	=	121	3300
707.01		„Profit and loss”	1700
„Revenue from the sale of goods in its own store”			
711			1600
„Income related to the cost of product stocks”			

The account 121 “Profit and loss” will look like:

<i>D</i>	<i>C</i>
3100	3300
RD = 3100	RC = 3300
	<i>Fsc 200 lei</i>

**III. The way of calculating and recording in accounting of the income tax of micro-enterprises obtained from the sale of finished products.**

According to the updated tax code, a micro-enterprise is a Romanian legal entity that cumulatively fulfills the following conditions on 31 December of the previous fiscal year:

- a) earned income;
- b) made revenues other than consultancy and management in excess of 80% of total revenues;
- c) Made revenues that have not exceeded the equivalent in RON of 500,000 euros.
- d) its share capital is held by persons other than the state and the administrative-territorial units;

- e) is not in dissolution, followed by liquidation, registered in the trade register or in the courts, according to the law.

The tax base of the revenues of microenterprises, according to the Tax Code, is the income from any source, from which we will decrease:

- Income related to the cost of stocks;
- Income related to the costs of services in progress;
- Income from the production of tangible and intangible assets;
- Income from subsidies;
- Income from provisions and adjustments for depreciation or loss of value;
- Income resulting from the restitution or cancellation of interest and / or late payment penalties that were non-deductible expenses when calculating taxable profit;
- Income from indemnities, from the insurance / reinsurance companies, for the damages caused to the goods of the nature of the stocks or their own tangible assets;
- Income from exchange rate fluctuations;
- Financial incomes of debts and debts settled on a currency exchange rate resulting from their valuation or settlement;
- The amount of trade discounts granted after invoicing;
- Income related to the payment titles obtained by the persons entitled, according to the law;
- Damages received on the basis of the European Court of Human Rights judgments;
- Income obtained from a foreign state with which Romania has concluded a convention for avoidance of double taxation, if they were taxed in the foreign state.

The tax rates on the income of micro-enterprises are:

- a) 1% for micro-enterprises having one or more employees;
- b) 3% for micro-enterprises without employees.

Having considered this the formula can be:

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$$\text{Base Income} = \text{Total Income} - \text{Income on the cost of stocks produced}$$

$$\text{Income tax} = \text{Base Income} * 3\%$$


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In the 3 cases we have dealt with in Chapter II of this article, the income tax is determined in accordance with the data from the Accountsheet 121 “Profit and Loss”:

**Case 1** Registration of finished products transferred to the warehouse for subsequent sale.

**Base Income = 3300 – 1600 = 1700**

**Income tax = 1700 x 3%= 51 lei**

698	=	4418	51
“Income tax expense”		“Income tax”	
121	=	698	51
“Profit and loss”		“Income tax expense”	

**Case 2** The registration of finished products sold to a customer based on a firm order.

**Base Income = 1700 – 1600 = 100**

**Income tax = 100 x 3%= 3 lei**

698	=	4418	3
“Income tax expense”		“Income tax”	
121	=	698	3
“Profit and loss”		“Income tax expense”	

**Case 3** Registering finished products sold through the store.

**Base income = 3300 – 1600 = 1700**

**Income tax = 1700 x 3%= 51 lei**

698	=	4418	51
“Income tax expense”		“Income tax”	
121	=	698	51
“Profit and loss”		“Income tax expense”	

**IV. Conclusions**

As a result from the case study, it can be noticed that when the finished products are not sold directly to customers and are to be registered as goods in the respective store or in their own sales store, the income tax is higher than if the products are sold directly to customers based on a firm order.

In the case of small producers in the field of tourism, those who carry out a public catering, restaurant or pastry business, it is indicated that the products are sold directly on the basis of a firm order from a client. Also here the manager's attitude in promoting products and finding customers comes in place.

In conclusion, I propose for small enterprises in the field of tourism that the solution of the preponderant activity should be to sell as many products as possible directly to clients only on the basis of firm orders, and only a small

volume of products to ensure the presentation of products and for the attraction of new customers to take place through their own stores.

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