ACCOUNTING AND TAX ISSUES ON PERISHABLE STOCKS

Codruța Daniela PAVEL
Carmen Mihaela IMBRESCU

Abstract: *By perishable, we understand the minuses that occur in some products, materials or goods during transportation, handling, storage and disposal of goods, caused by natural processes. The expiration date and moral degradation are the reasons why companies end up being forced to destroy their stocks. Firms often that appeals to the destruction of stocks are from food industry, where the risk of perishability is very high.*
One implication charges in stockpile destruction is VAT. Decision regarding destruction of goods is being felt in the work of sales and logistics departments. The effects are highlighted and recorded in accounting.
Keywords: *perishability, VAT, stocks*

INTRODUCTION

Reasons for institutions come to destroy some of their stocks of products are overcoming validity and moral degradation.

Those who seek often the destruction of stocks, because the risk is very high perishability are companies in the food industry.

By perish means minuses that occur during transportation, handling, storage and disposal of goods caused by natural processes. Perishability is given after verification that the quantities of items in your inventory, established by weighing, counting, measuring and other such processes and after the compensations according to law.

Maximum limits of perishability admitted to storage and distribution as well as goods in stock are set across all activities of the legal person paying the tax by applying the coefficient established for the group of goods in the registration price of goods entering or price delivery for goods sold in the period between two inventories.

Destruction of stockpiles

Merchants may establish differentiated quotas of perish assortment in warehouses, stores management, to be admitted to expenses deductible from taxable profits, mandating framing the maximum extent provided for perishability goods group. Perishability is approved by the manager, director or manager of a legal entity, as applicable, to the actual amounts found to natural losses during reception of transported goods, the inventory management or teaching. From a tax perspective loss or reduction of volumes that exceed standards set perishability are not deductible.

Food products are divided into four categories, depending on the shelf life: fresh products (shelf life of 24-72 hours); packaged products (available three to ten days); packaged goods (bags, boxes); bulk.

In case of perishable products, the damage is greater if the entity sold off the shelf life unless you destroy the products because it loses its customers[1].

Strategies that companies try to reach to not destruct the stockpiles are not promotions or donations.

„Of the total production, generally around 2% - 4% get eventually be destroyed. If the percentage is higher, then it is a sign of poor organization of the sales department, which should collaborate with the production. The decision to destroy the goods depends greatly from industry to industry and from case to case”[2].

Finding minuses of management is made only by inventory. Inventory can be general - performed on all management and patrimonial elements of the entity- or partial - only some management / multiple management if there are indications of fraud / gaps / thefts.

The decision for inventory is the justification document for designating the inventory commission.

Drawing up a commission to inventory is the first step for the destruction of which can not be used. Follows the inventory of products by the commission that it finds a lack, damaging or destruction of stockpiles.

After the inventory is issuing the inventory document prepared by the Commission inventory, which must contain results of the inventory (finding minus respectively, the difference between the stock of the management report and the value of stock inventoried) conclusions and proposals to the causes shortages and people found guilty, and proposals for measures related to them (if deficiencies are attributable) to ensure the integrity of the property management and other aspects of inventory management activity.

Then submit a claim to the company's management, to approve the removal of management of the property, mentioning the reason for the request.

Then submit a claim to the company's management, to approve the removal of the goods, mentioning the reason for the request.

1 http://www.startups.ro/tutoriale/cum-sa-distrugi-stocurile

2 Idem

"Demand addressed by management and approved this would be the justification recording accounting notes by which goods are removed from the records of the company"[3].

In case the destruction of goods may affect the environment, companies will sign a contract with a specialized company which, under a minute, will raise those goods and destroy them safely. Registration evidence in accounting of deregistration of such stocks based on which specialized firms raise such stocks or bonds is represented minutes.

Accounting and tax treatment on destruction of stockpiles

One implication charges in destruction of stockpiles is VAT.

„From a tax perspective, according to Law no. 571/2003 regarding the Fiscal Code, as amended and supplemented, goods discovered as missing are considered as delivery of goods should therefore the VAT be collected"[4] .

From this provision exception are perishable goods, goods damaged due to natural calamities or other causes of force majeure, goods which can not be capitalized and written off tangible fixed assets.

"Selling at a loss is not considered delivery of goods so you no longer have to collect VAT for uncovered difference of sale price"[5].

Fiscal Code states that do not adjust the initial deduction of VAT for g damaged goods, lost or stolen, given that these situations are adequately proved or confirmed by the taxable person. If stolen goods, theft of taxpayer demonstrated by documents issued by judicial bodies.

Is adjusted VAT for stocks degraded?

If degraded quality assets such as stocks, that can not be recovered, not adjusted input tax if two conditions are met:

- qualitative degradation of the goods is due to objective reasons documented (this category includes excise goods for which the competent authority issued a decision approving the destruction);
- taxpayer proves that the goods have been destroyed.

In the minutes drawn up by the Commission inventory will be presented objective causes that led to degradation and proof that the goods were damaged may be represented by contract with a company specialized in waste collection and other documents showing transmission property for destruction (notice accompanying the goods, delivery minutes etc.).

According to the application of the Tax Code, the obligation to demonstrate or to confirm that the goods have been destroyed, lost or stolen the taxable person.

3 Idem

4 Idem

5 http://www.startups.ro/tutoriale/cum-sa-distrugi-stocurile

If tax inspectors considered that the evidence provided by the taxpayer is not enough, then they can compel the taxpayer to carry out tax valuation adjustment added.

Removal expenses from inventory degraded are deductible?

Expenses regarding goods such as stocks discovered as missing or damaged attributable to non insurance contracts have been signed and are considered VAT non-deductible.

If for such goods exist an insurance contract, the expenses are deductible.

Stocks destroyed as a result of natural disasters or other force majeure are recognized in the category of deductible expenses if they are located in areas declared affected by natural disasters or other force majeure.

Example - removal of damaged stocks from inventory

In May 2015, an entity acquires textile materials at cost 25,000 lei, VAT 20%, in order to produce articles of clothing.

Given the termination of contractual relationships with a number of customers, the entity failed to consume whole production materials purchased and in December 2015 following the inventory, the company management decided to pull out the textiles remaining from , having cost 12,000 lei they are faded and no longer be used.

We have two situations:

1. The Company provides evidence that the goods have been destroyed; or
2. The company can not prove that the goods have been destroyed.

The entity in May 2015:

• raw material acquisition:

 25.000 5.000	% 301 Raw materials 4426 VAT deductible	=	401 Suppliers	30.000

A. The company is proof that the goods have been destroyed

• removal of raw materials from inventory:

12.000 lei	601 Costs with raw materials	=	301 Raw materials	12.000 lei

In this case, the entity does not perform as VAT adjustment meets the requirements of the tax law.
12. 000 lei expense is non- deductible tax if the stock was not insured.

B. The Company can not prove that the goods have been destroyed

- removal of raw materials from inventory:

12.000 lei	601 Costs with raw materials	=	301 Raw materials	12.000 lei

- adjusting VAT on stock out of inventory:

2.400 lei	635 Costs with other taxes	=	4426 VAT deductible	2.400 lei

The entity performs the adjustment of VAT because it can prove property damage

Both expense 12,000 lei and 2,400 lei expense are non- deductible if the stock was not insured.

CONCLUSIONS

The effects on the entity's business

The decision to destroy the goods is felt in the work of sales and logistics departments.

Stockpile destruction implies the release of storage space for new products and reduce costs for rent, handling and moving products.

Regarding the advantages of destruction of goods are on long-term the increase sales, because the company sells quality products. Many companies have huge stocks, whose value in sales is zero, but they maintain that way to may present a good financial situation to the shareholders.

The disadvantage destruction of goods is the financial loss, because such a decision affect the company's profits.

Expenses related to the destruction of goods, the disassembly, transport and incineration are the most important. If you It appeals to a specialized company for destruction of property, are added the expenses and the tariff requested it.

If the products are sold at a price below the production or acquisition, then it has taken into account the difference between the purchase price and the sale.

References

Pavel Codruta si colaboratorii, Contabilitat financiară Concepte de bază. Tratamente specifice. Studii de caz, Editura Mirton 2012, Timișoara

O.M.F.P. nr. 1802/2014 pentru aprobarea Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile finnciare anuale consolidate.

O.M.F.P. nr. 2861/2009 Norme privind organizarea și efectuarea inventarierii elementelor de natura activelor, datoriilor și capitalurilor proprii.

www.startups.ro/tutoriale/cum-sa-distrugi-stocurile

Legea nr. 227/2015 privind Noul Cod fiscal 2016.

www.startups.ro

NOTES ON THE AUTHORS

CODRUȚA DANIELA PAVEL
Faculty Of Economics and Business Administration, Timisoara
E-mail: codruta.pavel@e-uvt.ro

CARMEN MIHAELA IMBRESCU
Faculty Of Economics And Business Administration Timisoara
E-mail: carmen.imbrescu@e-uvt.ro