



Conceptual Boundaries Regarding the Inventory Process in the Accounting System of the Republic of Moldova

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Abstract: This paper represents a theoretical approach of the role, importance, legality and methodology of the inventory process within the entity. The study of the topic in question is important because the results of the inventory provide information related to the existence and movement of the entity's obligations to third parties for which the entity must provide a benefit or equivalent. Accounting is an information system used to quantify, process and transmit useful information for economic decision making. In the current conditions, it provides with objective and truthful information exposed in the Financial Statements, being accessible to all user groups, such as owners and employees, shareholders, creditors and investors, the tax service and other state bodies, etc.

Keywords: information system; economic decisions; objective information; tax service; state bodies

JEL Classification: M20; M 40; M41; G59

1. Introduction

The activity of any entity is characterized by a continuous character, determined by a permanent transformation and mass movement of the patrimonial elements as well as of the patrimony as a whole.

In order for the information presented in the Financial Statements to be objective and truthful information, it is necessary to know at a certain period of time the de facto situation of the entity's patrimony. Thus, the main instrument and procedure, through which the real situation of the patrimony is ascertained and which also allows the comparison of the data obtained in this way with the data generated by the accounting, is the inventory.

The primary purpose of the inventory is to ensure the integrity of the patrimony, to establish the culprits for the eventual detected deficiencies as well as to take the necessary measures to recover the damages.

The objective of the inventory is the patrimony of the entity formed both by the material and cash values, as well as by the rights and obligations with economic value.

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2. Normative Regulation of the Inventory Process

One of the basic requirements regarding the accounting information is its reality and accuracy, and this is done with the help of carrying out the inventory.

Inventory is the procedure of control and documentary authentication of the existence of accounting elements that belong and / or are in the temporary management of the entity.

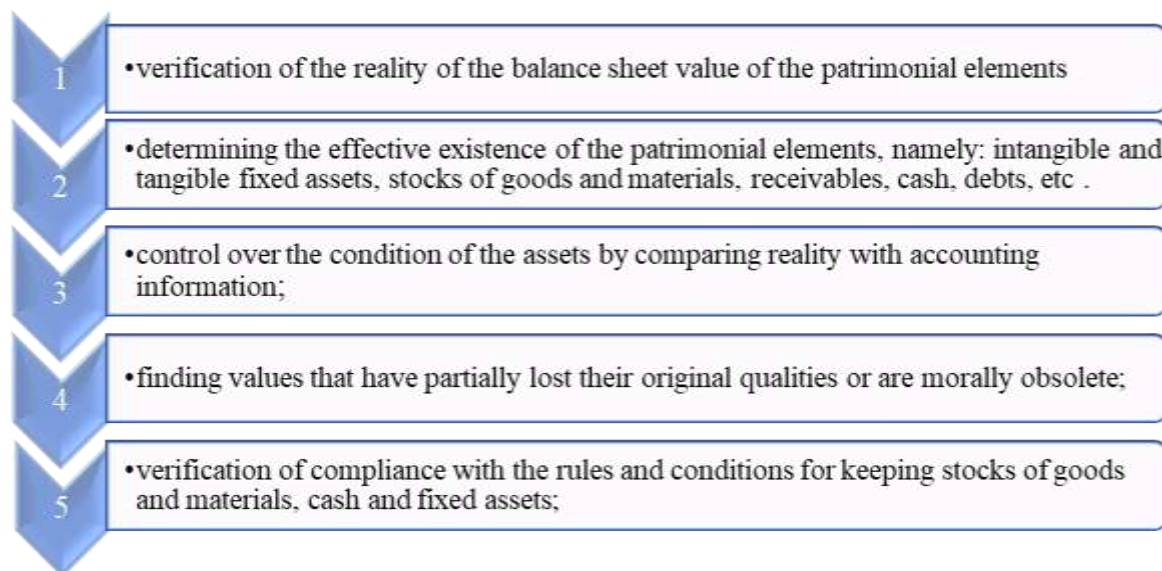


Figure 1. Basic tasks of the inventory process

The manner of performing the inventory and reflecting in accounting its results are also regulated in general by the Accounting Law and the Regulation on inventory.

In the Republic of Moldova, in order to regulate the inventory of the patrimony, and respectively to account for its results, the following legislative and normative acts are applied:

- 1) The regulation regarding the inventory approved by the Order of the Ministry of Finance no. 60 of 29.05.2012;
- 2) Accounting and financial reporting law no. 287 of 15.12.2017;
- 3) S.N.C. “Inventories”;
- 4) S.N.C. “Revenues”;
- 5) S.N.C. “Costs”
- 6) S.N.C. “Presentation of financial statements”;
- 7) S.N.C. “Accounting policies, changes in accounting estimates, errors and subsequent changes”;
- 8) The general plan of accounting accounts;
- 9) Fiscal code no. 1163-XIII of 24.04.1997 and the laws for the implementation of its titles

The regulation regarding the inventory, approved by the Order of the Ministry of Finance no. 60 of 29.05.2012, has as objective the establishment of the rules for the inventory of assets and liabilities, the ascertainment and registration of the inventory results and the completion of the forms used for the inventory. This Regulation extends to all legal and natural persons engaged in entrepreneurial activity,

non-commercial organizations, including public institutions, notaries, lawyers and offices established by them, bailiffs, and representatives and subsidiaries of non-resident entities (organizations) registered in the Republic, regardless of the field of activity, the type of property and the legal form of organization, which according to the Law on Accounting and Financial Reporting are obliged to carry out the general inventory of assets and liabilities.

The inventory regulation defines inventory as “a process of control and documentary authentication of the existence of assets and liabilities in quantitative-value or only value expression, as the case may be, that belong and / or are in the temporary management of the entity at the time of its performance”.

According to the Inventory Regulation, all types of assets of the entity must be subject to general inventories, namely:

1) goods that belong to the entity and are located on its territory (intangible and tangible fixed assets, stocks, securities, funds and cash documents, standardized forms of primary documents with special regime, etc.);

2) goods that belong to the entity, but are outside its territory (intangible and tangible assets handed over in operating leasing (lease, lease), tangible assets transferred for repair, goods transferred to other entities for storage and / or processing, consignment, etc.);

3) goods that do not belong to the entity, but are under its management (intangible and tangible fixed assets received in operational leasing (lease, lease), received for installation, goods received for storage, for processing, consignment, etc.);

4) unregistered goods (unaccounted for) for various reasons

In the Law on accounting and financial reporting no. 287 of 15.12.2017 is provided in art.16 which stipulates that “the entity is obliged to carry out the general inventory of assets, equity and liabilities in the manner established by the Regulation on inventory, developed and approved by the Ministry of Finance”.

The Law on Accounting and Financial Reporting defines inventory as “the process of controlling and documenting the existence of assets, equity and liabilities that belong to and / or are temporarily managed by the entity.”

S.N.C. “Inventories” govern the accounting for transactions related to the entity's inventories, the valuation and recognition of inventories on their entry and exit, and the subsequent measurement. Thus, this standard provides for different types of stocks, special inventory methods, such as “Production in progress is determined by inventorying unfinished production at the end of the period, by technical methods of ascertaining the degree of completion or the stage of execution. technological operations and its valuation at actual cost 'or' the value of outgoing stocks may be determined after each outflow or on the basis of the final balance, determined following the inventory.

S.N.C. “Revenue” provides for the methods of accounting for income obtained as a result of the inventory of assets. The main issue of income accounting is determining when to recognize it. This standard establishes the criteria for determining income, how it is measured and reflected in the financial statements.

The composition and general method of accounting for the operations related to the entity's expenses are regulated by the S.N.C. “Costs”. That standard contains provisions regarding:

- recognition and evaluation of expenses resulting from the inventory of the patrimony;
- accounting for the expenses of both the operational activity and other activities;
- presentation of information related to expenditure in the financial statements.

S.N.C. “Presentation of financial statements” provides that “financial statements shall be prepared on the basis of accounting information after reflecting the results of the inventory to confirm the existence and condition of assets and liabilities”. At the same time, the present S.N.C. specifies that the inventory is one of the preliminary steps to the preparation of the financial statements. S.N.C. “Accounting Policies, Changes in Accounting Estimates, Errors and Subsequent Changes” determines how accounting policies are selected, applied and modified, changes in accounting estimates, corrected errors, accounting for subsequent events and disclosing related information in financial situations. It also applies to the selection of accounting policies, changes in accounting estimates, correction of errors and accounting for subsequent events. This S.N.C. specifies that “changes in accounting policies and estimates, shortfalls and surpluses in assets and liabilities recognized in the inventory shall not be treated as errors”.

As a result of the inventory, there may be both shortages and surpluses, which are respectively accounted for as income or expenses. For the accounting of incomes and expenses, in the General Plan of accounting accounts is provided the class 6 “Revenues” - class of liabilities, in the credit of which the accumulations of incomes are registered during the management period; and, respectively, class 7 “Expenses”, asset class, in the debit of which the accumulations of expenses during the management period are registered. Based on the Chart of Accounts, the entity may prepare the working chart of accounts which contains the full nomenclature of the synthetic accounts, sub-accounts and analytical accounts necessary for the keeping of the accounts. The chart of accounts is recommended to be approved by order of the head of the entity and to be annexed to the accounting policies.

The Fiscal Code establishes the general principles of taxation in the Republic of Moldova, the principles of income records, the manner and conditions of prosecution for violating tax legislation. At the same time, this code regulates the relations related to the execution of fiscal obligations regarding the general state taxes and fees, also establishing the general principles for determining and collecting taxes and fees. The Fiscal Code expressly provides for the inventory to be carried out in the case of goods subject to excise duty, so it stipulates that “taxable persons who import goods subject to excise duty carry out an inventory of the stock of goods subject to excise duty”.

These taxes change every year, and the Budget Law for each year sets the rates of these taxes, which also publishes the amount of the state budget for that year.

Notion, Need and Role of the Inventory Process

Accounting, one of the most important management tools, has as its basic task the provision of real information on the activity of the entity, in order to make scientifically sound decisions. For the achievement of the objective in question, a fundamental condition is the full concordance that must be between the data recorded in the accounting and the factual reality existing at the entity.

The main means by which the real situation of the patrimony is ascertained and the comparison of the data obtained in this way with the accounting data, is constituted by the inventory. *Inventory is a process of the accounting method, common to other economic sciences, which represents the set of*

operations that establish the quantitative and value or only value, as the case may be, of the assets and liabilities in the unit's patrimony at the date when it is performed.

All operations are performed in order to evaluate the inventoried elements and compare the accounting data with the factual reality found after the inventory.

The need to inventory the assets of the entities is explained by the special importance they have for their practical activity.

❖ First of all, it represents as a starting point for opening and organizing the operative and accounting records within the newly established entities.

At the beginning of the activity, the main object of the inventory is to establish and evaluate the patrimonial elements that constitute the contributions in kind and / or in money of the associates / shareholders or of the private entrepreneur, depending on the form of organization of the entity.

❖ Secondly, during the management period, the need for inventory is determined by the fact that between the accounting data and the reality on the ground there may be certain differences, plus or minus, even in the conditions of a good organization of operational and accounting records, due to several causes of which we would mention:

- a) changes in the assets of the entity, either as a result of natural causes such as: drying, evaporation, weight loss, etc., or due to subjective causes, such as: inaccurate measurements; theft of economic means, etc.;
- b) non-registration or wrong registration in accounts of certain operations;
- c) non-preparation or defective preparation of certain documents;
- d) the negligence and carelessness of the storekeepers who manage the goods and economic values.

The objectives of the inventory process is present in Figure 2.

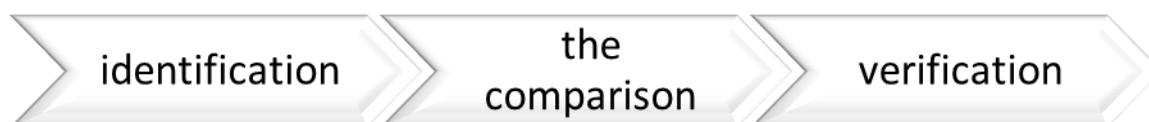


Figure 2. The objectives of the inventory process

The object of the inventory is represented by the entire patrimony of the entity, ie all the elements both actively and passively available to the patrimonial unit, at the moment of carrying out the inventory.

The role of the inventory is determined in several directions presented in Figure 3:

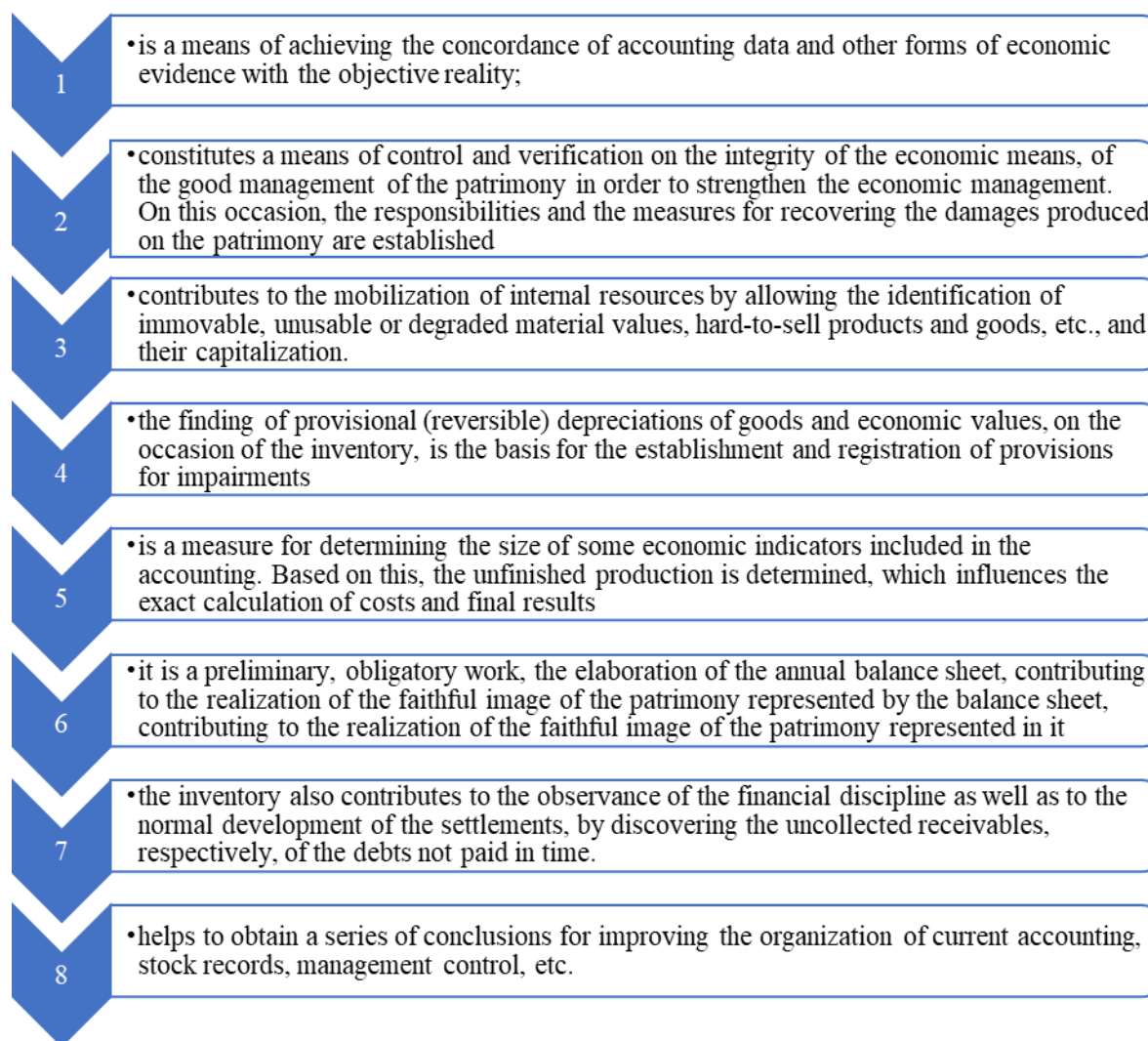


Figure 3. The role of the inventory process

Accounting, being one of the main tools of the entity's management, has the task of ensuring real information on the activity of the entity, in order to adopt informed decisions from both a practical and scientific point of view. In order to achieve this objective, one of the fundamental conditions is the full concordance that must exist between the information recorded in the accounts and subsequently found in one form or another in the financial statements and the factual reality of the entity, and the main instrument and procedure, by which ascertains the real situation of the patrimony and which, at the same time, allows the comparison of the data obtained in this way with the accounting data, is the inventory.

Inventory is an active work process, which gives more credibility and rigor to the information provided by accounting, by using complex tools and using algorithms that are a guarantee for maintaining the capital of the owners of an entity. Regarding the external users of the financial statements, the inventory is a note of confidence regarding the observance of the basic principles of accounting.

The basic element of accounting, namely the fundamental means of communicating information to users on the performance and dynamic balance of the entity, is the financial statements. If we refer to

the provisions of S.N.C. “Presentation of Financial Statements” means a set of reports that contain information about the financial position, financial performance, changes in equity and cash flows of the entity over a period of management. Therefore, economic decisions made by users on the basis of information generated by the financial statements require an assessment of the entity's ability to generate cash or cash equivalents if users are provided with accurate, relevant and intelligent information on their financial position, financial performance and changes in financial position.

From a practical and informative point of view, the financial statements constitute a structured financial representation of the financial position and of the transactions carried out by an entity, providing information on: assets, liabilities, equity, income, expenses, gains, losses, cash, information that, together with those presented in the explanatory notes, helps users to estimate the future cash flows of the entity, the timing and degree of certainty of the generation of cash and its equivalents.

In order for the information disclosed in the financial statements to comply with the basic principles and for the confirmation of the existence and condition of the entity's assets and liabilities, point 16 of the S.N.C. “Presentation of financial statements” stipulates that the financial statements are prepared on the basis of accounting information after the results of the inventory have been reflected.

Comprising a system of correlated economic-financial indicators, developed on the basis of pre-established rules, the information presented through the financial statements is used to organize and efficiently carry out the production process, distribution of goods produced, consumption of material values, and to satisfy needs to adapt to changes of any kind in the economic, legal or social environment in order to continue the activity of the entity.

As mentioned above, among the main operations preceding the preparation of the financial statements is the inventory, which involves establishing the real situation of all assets, liabilities and equity, but also of assets and values obtained by any entity, belonging to natural or legal persons. When carrying out the inventory, a complex set of operations is performed which establishes the existence of all patrimonial elements, quantitative-value or only value, in order to prepare financial statements, which must provide users with credible, clear, intelligent and useful information to make decisions about to the entity's financial position and performance for the management period.

In fact, before the actual preparation of the financial statements and before: calculation and recording of legal reserves; calculation of accepted limits for protocol and sponsorship expenses and regularization of the related value added tax; the recording of expenses and income belonging to the management period ending, etc., must be arranged and carried out the inventory of assets and liabilities held and the capitalization of its results, including:

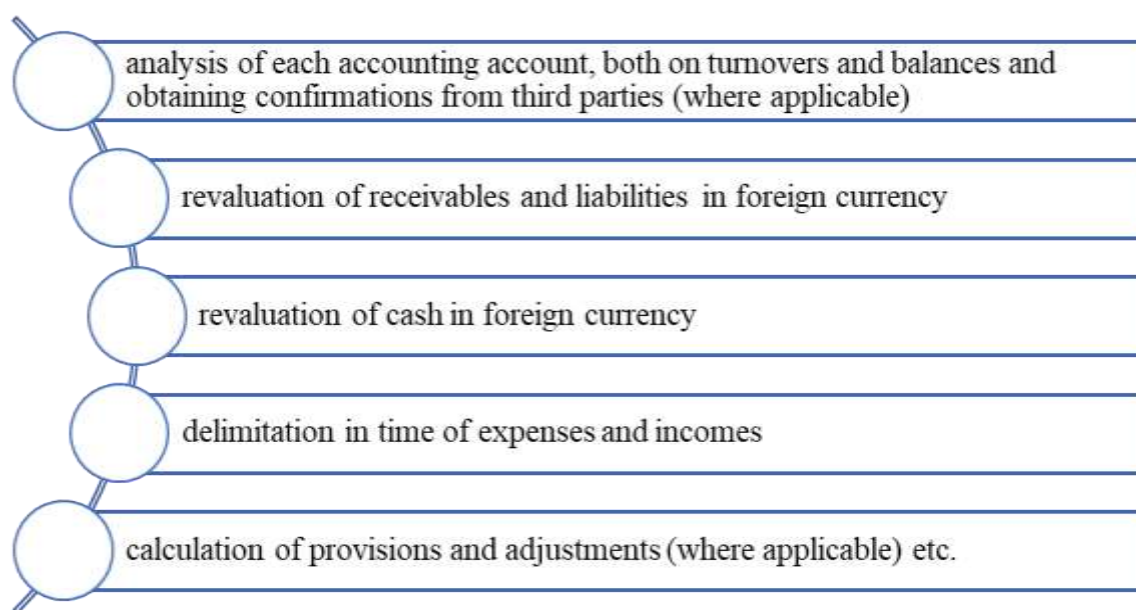


Figure 4.

The Functions of the Inventory Process

Inventory, as an accounting process, performs the following functions:

1. The function of controlling the concordance between the written and the factual data. Within this function, the integrity of the patrimony is verified with the help of the inventory, which is achieved by comparing the factual data, established at the inventory, with the information generated by the accounting. As a result of this comparison there may be pluses or minuses of goods or values, taking measures to reconcile the scriptural balances with reality.
2. The function of updating the registration value of the patrimonial elements. In order for the annual financial statements to reflect as accurately as possible the reality, it is necessary to update the accounting values of both the assets and liabilities, establishing their current or inventory values.
3. Function for determining the net position and the result for the financial year. With the help of the inventory, the real situation of both the active and the passive elements is established.

The inventory is carried out, usually annually, at the end of the year, but also in certain special situations such as: handing over-receiving a management; in the case of the beginning, division or dissolution of the public institution; at the request of the control bodies that perform checks in public institutions; burglaries; natural calamities (earthquake, fire, flood) etc.

The purpose of the inventory is to ensure the integrity of the patrimony, to establish the culprits for the eventual shortcomings found and to take the necessary measures to recover the damages.

As provided by the Regulation on inventory no. 60 of 29.05.2012, the entities must carry out the inventory:

- “at the beginning of the activity, the main purpose being to establish and evaluate the elements of assets and liabilities that constitute the contribution in the share capital;

- at least once during the management period, as a rule, at the end of the management period. Entities may also carry out the inventory until the end of the management period, provided that the results of the inventory are properly assessed and the results of the inventory are recorded in the financial statement;
- in case of reorganization or cessation of the activity of the entity;
- in the event of interruption of activity;
- in case of change or replacement of the head manager or the manager of the subdivision (section, warehouse) on the day of receipt-delivery of the goods and / or at the request of one or more managers from the same subdivision (section, warehouse);
- in case of thefts, embezzlements, thefts, abuses, as well as damages of the goods - immediately upon their detection;
- in case of fires, natural disasters or other exceptional events (floods, earthquakes, etc.);
- at the request of the bodies empowered according to the legislation;
- in the case of the existence of information, indices (signs) that there are deficiencies or surpluses, which can be established with certainty only by inventory;
- in other cases provided for by the legislation in force or at the decision of the head of the entity '

Conclusions

In order to facilitate the decision-making process and the correct reflection of the accounting information, the results of the inventory procedure may be grouped into accounts or groups of accounts, in the order of the balance sheet items and may be listed in the inventory register. This document mentions information on the recapitulation of the inventoried items, the carrying amount, the value after inventory, revaluation differences and the causes of differences in impairment, misalignment, etc. The processing of inventory data will facilitate compliance with the provisions of the Law on Accounting and Financial Reporting to ensure the obligation to correlate the data in the Balance Sheet with the accounting data provided in accordance with the real situation of the assets established by inventory.

In these circumstances, it is recommended that the assets recorded in the register be based on inventory lists, inventory minutes as well as sheets or analytical statements, as appropriate, which justify the content of each item on the balance sheet.

In conclusion, the author wants to mention that the necessity and importance of the inventory of the patrimony of the entities results from the special role that it represents for their practical activity. Firstly, the inventory is a starting point for opening and organizing the operating and accounting records of the newly established entities and secondly, the inventory is a starting and closing point of any management period, and thirdly, based on the inventory, the accounts are opened and also on the basis of the inventory, the balance sheet and other financial statements are closed and finalized.

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