



THE CHARACTERISTICS OF ACCOUNTING AND TAX SYSTEM IN PAWNSHOPS

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Abstract

In this article the authors described the different aspects of accounting in pawnshops in the Republic of Moldova and the directions of its development. In the research there was mainly used the method of monographic study applying elements of observation, selection, induction and deduction.

Keyword: accounting in pawnshops, pledge tickets, the book of records, pledge nominative tickets.

JEL Classification: M4

I. Introduction

Accounting is a key element in the activity of any economic entity because every manager can understand with certainty which is the financial situation and the source of the owned assets, but also entity's bonds towards other business only through a proper accounting system. In recent years in the RM has been a wide spreading of non-bank credit institutions, namely Pawnshops. In this context, as **Pawnshops** became a widely

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spread type of activity, but yet a quite sophisticated one, accounting experts working in this field often face some difficulties that must be strictly avoided.

The legal framework for the Pawnshops activities in RM is stipulated in: Civil Code of RM, No.1107-XV adopted on 06.06.2002; Law on Pledge No.449-XV adopted on 30.07.2001; Law on precious metals and precious stones No.282-XV adopted on 22.07.2004; The Government Regulation upon approval of the law regarding the organization and functioning of the pawnshops No.204 of 03.18.1995. According to paragraph 3 of the Regulation regarding organization and functioning of the pawnshops: "**pawnshops are credit institutions**, which provide the possibility for people to keep household items and technical objects, and receive credit by placing these objects as pledge."

II. The general aspects of accounting in pawnshops

Pawnshops have the right to perform the following activities: keep personal items and appliances, which belong to natural persons with ownership; to offer credits based on pledge (designated objects).

According to paragraph 19 of the Regulation regarding organization and functioning of the pawnshops, "**pawnshops are not entitled to receive** for storage and as pledge the following objects: foreign currency; stocks and bonds; objects that do not belong to natural persons, namely those who do not have right of ownership; coins out of precious metal; means of transport (excluding bikes); antique objects.

For the establishment of a pawnshop it is required to have a minimum capital in amount of:

- for urban area: 250,000 MDL;
- for rural area: 150,000 MDL. Pawnshops offer loan after the agreement of the parties and in accordance with the value of the property offered as pledge, issue pledge nominative tickets, which are the primary basic document so pawnshops whose evidence is carried out in a special book of records.

There are basic requirements for registration of pledge nominative tickets, as well as for the book of records because mistakes occur in practice:



1. Pledge tickets a restrict reporting forms which are drawn up in four copies with the same number on all of them: the first copy is received by the customer, the second copy comes along with the object received as pledge, which is sent to the warehouse, the third copy goes to the cashier for credit granting and the four this received by accounting.

2. The book of records must have its pages sewed together and numbered; it must be signed by the Director of the Pawnshop and stamped.

3. Pledge nominative tickets, in nominal bonds, in the book of records must be presented the descriptions of objects held in storage or as pledge, and also the way how the customer will return the credit; precious metals and precious stones-general description, weight, number of precious stones and their names, characterization, color, etc.

Pawnshops are not subject to excise payment, but if they practice the activity of selling jewelry without the necessary documents showing the payment of excise, then the deduction of excise payment is required based on the mass of units which have been sold, representing **10% of the object's value**, but it can vary for precious metals (1 gram. Silver-2,10 MDL, 1 gram. Gold-32.00 MDL).

Pawnshops per form operations through cash, so it is necessary that they have **control of cash** in the following trade operations: payment for the credit by the client; loan interest paid by the client; when receiving payment for storage of objects; and for the payment in cash of the objects which have been sold.

At the present time there are no methodical recommendations regarding bookkeeping, there forereach employee develops his own methodology. In this context often difficulties can appear regarding the organization of **accounting in pawnshops**, which refer to:

1. The assessment of pledged objects which have passed to the pawns hops ownership, due to non-payment of the credit by the customer;
2. Calculation of excise that must be paid;
3. Determination and shift of unpaid interest from one period to another, inclusively for the outstanding loans;
4. The procedure of sharing funds, in case if that person has not addressed within three years limit;
5. Infringement of the principle of bookkeeping commitments.

So, regarding problems encountered in the accounting of pawnshops, we can determine the main cause, is the regulatory framework which is outdated, has no



connection with reality. The solution could be to implement some regulations at the State level concerning organization and operation of pawnshops, and to impose pawnshops to rigorous control and tracking, to keep up with today's changes.

Below there is a table that shows a number of accounting records in a pawnshop:

Table 1- General economic transactions in the Pawnshops accounting

No.	Economic sense of the accounting operation	Accounting formulas	
		Debit	Credit
1.	Granting loans to natural persons with pledge (objects deposited by them)	251	241
2.	Reflecting the objects received as pledge	916	-
3.	Receiving interest from natural persons	241	611*
4.	Interest accumulated on loans unpaid by the end of the year (and those loans that have not been returned by the natural persons at maturity according to the deadline set in the contract)	231	611
5.	Reflecting the value of repurchased objects	-	916
6.	Reflecting the amount of the loan paid by natural persons	241	251
7.	Reflecting the objects that have passed in pawnshops ownership after the deadline, stipulated in the contract (including the amount of the unpaid interest)	- 217 217	916 251 231
8.	It reflects the value of the State service of providing a metal seal, which is included in the cost of these goods	217	544
9.	Deduction of the cost of created objects	711	217
10.	Reflecting income from the sale of objects	221	611
11.	Excise calculation (if it is lacking confirmation of payment)	221	5345
12.	VAT from the value of the sold goods (for pawnshops which pay VAT)	221	5344

* 611 It is used for the reason that charging safekeeping fee or crediting are main activities of the pawnshops.



III. Conclusion

An economic entity can have a fruitful and long standing history, which means specifically that it has a high profitability, well defined by efficiency and effectiveness indicators, but this is only possible when all its departments perform their duties at the highest level. And regarding the accounting of the pawnshops, although it has its peculiarities which makes it more difficult, it can certainly be mentioned that we can remove any uncertainty in this area as long as we thoroughly consult the legislation that relates to such activity, and also national and international accounting standards, which will give us a clear picture regarding economic activity which must be reflected correctly, and thus insuring a decent level of profitability.

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