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ACCOUNTING AND TAX TREATMENTS REGARDING THE INVENTORY OF ASSETS, EQUITY, AND LIABILITIES

Angela POPOVICI
Academy of Economic Studies of Moldova
popovici.angela.alexandru@ase.md
Lidia CAUȘ
Academy of Economic Studies of Moldova
caus.lidia.ion@ase.md

Abstract
Inventory is a process through which the factual, quantitative, or only quantitative value of elements such as assets, equity, and liabilities is determined, with the purpose of comparing them to the recorded situation in accounting. The aim of the research is to analyze and clarify the types of inventory, the specific procedures related to the preparation of inventory, the actual inventory, and the regularization of differences found during the inventory of assets, equity, and liabilities of entities, as well as their tax consequences. As a result of the research, for the proper application of the rules for accounting the results of inventory, it is recommended to: comply with all inventory stages in accordance with legislative provisions; comply with specific work and operations related to content, procedures to be followed, and documents to be prepared in the case of inventorying assets, equity, and liabilities; establish and correctly account for the results of the annual inventory in order to obtain accurate data that will be presented in the financial position and financial performance of the entity; study and correctly apply the tax consequences related to shortages and surpluses of goods, as well as the recovery of material damages according to the provisions of the Tax Code of the Republic of Moldova.

Keywords: *inventory; inventory surpluses; inventory shortages; inventory register; value depreciation.*

JEL Classification: *M41*

I. INTRODUCTION

In contemporary times, the competitive economy generates, at the national and international level, two trends in presenting information on economic and financial activity. Firstly, the veiling of all information that could be used by competitors to the detriment of the entity, and secondly, the obligation to provide credible, objective, neutral, and error-free information.

Accounting encompasses a multifaceted framework involving the collection, identification, categorization, processing, recording, summarization, and presentation of information concerning various accounting components (stated in Article 3 of the Law on Accounting and Financial Reporting in 2017). Essentially, accounting serves as the central instrument for managing an entity, ensuring accurate insights into its operations. To fulfill this purpose, a crucial prerequisite is a complete alignment between the data logged in the records and subsequently presented in financial statements, and the actual reality within the entity. This alignment is achieved through the process of inventorying, a comprehensive procedural approach that enhances the credibility and precision of accounting information through the application of intricate tools and algorithmic methodologies. These methodologies offer assurance to entity proprietors regarding the preservation of their assets. From the perspective of external users of financial statements, inventorying instills confidence in the adherence to foundational accounting principles.

The entire process of conducting inventorying and integrating the outcomes into accounting practices is regulated by multiple sources, including the Law on Accounting and Financial Reporting, the Inventorying Regulation, National Accounting Standards, and the Tax Code of the Republic of Moldova. Notably, the Law on Accounting and Financial Reporting positions inventorying as a constituent of the accounting cycle, positioned between the stages of compiling accounting records and generating financial statements. As defined by the Law, inventorying constitutes the process of validating and documenting the presence of assets, equity, and liabilities owned by or temporarily under the entity's control (as outlined in Article 3 of the Law on Accounting and Financial Reporting in 2017). The Regulation on Inventorying further

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establishes the obligation to perform asset inventory for all legal and natural entities involved in entrepreneurial activities, irrespective of their field of operation, ownership model, or organizational legal structure (per the 2012 Regulation on Inventorying).

The purpose of the research is to analyze and elucidate the types of inventory, specific procedures related to preparing the inventory, the order of conducting the inventory of assets and liabilities, problematic aspects related to determining and adjusting inventory differences found during the inventory of assets, equities and liabilities of entities, as well as the tax consequences thereof (Graur & Bucur, 2016).

II. Materials and Methods Applied

For our investigation, we intend to adopt a methodological framework that centers on contemporary regulations, expert-authored literature, and insights garnered from professionals active in the respective domain. Our research strategy employs a deductive route, moving progressively from overarching principles to precise particulars. This journey initiates from the existing realm of comprehension surrounding both the pragmatic and theoretical dimensions concerning the bookkeeping and tax aspects of evaluating assets, equity, and liabilities. To underpin this exploration, we harness the dialectical methodology, which encompasses key components such as analysis, synthesis, induction, and deduction. Additionally, we draw upon methodologies pertinent to economic disciplines, including observation, comparison, selection, and categorization.

III. Results and discussions

The fundamental component of accounting (Bădicu & Mihaila, 2019), serving as the primary medium for conveying insights about an entity's performance and its dynamic equilibrium to stakeholders, is embodied in financial statements. These statements, in accordance with the guidelines outlined in paragraph 5 of the National Accounting Standards under "Presentation of financial statements", encompass a collection of reports containing data pertaining to the financial stance, financial performance, alterations in equity, and cash flows of the entity throughout a specified reporting interval. From a pragmatic and informative perspective, financial statements offer a methodically structured portrayal of an entity's fiscal situation and transactions, offering details on assets, liabilities, equity, income, expenses, gains, losses, and the cash flows within the entity. This information, coupled with explanations found in accompanying notes, aids users in forecasting the entity's forthcoming cash flows, ascertaining the timing and level of confidence concerning cash and equivalents generation.

To ensure the alignment of information within the financial statements with foundational principles and to validate the existence and status of an entity's assets and liabilities, paragraph 16 of the SNC "Presentation of Financial Statements" establishes the requirement that financial statements be crafted based on accounting data after incorporating the outcomes of an inventory assessment (as per the 2019 National Accounting Standards). Throughout the inventory process, a sequence of actions is undertaken to verify the presence of all asset, equity, and liability elements, either quantitatively or in terms of valuation. This process culminates in the generation of financial statements designed to offer stakeholders lucid, intelligent, trustworthy, and pertinent data for decision-making concerning the entity's financial situation and performance over the reporting interval. In alignment with the guidance found in paragraph 7 of the Regulation, inventorying is described as a procedure aimed at overseeing and substantiating the existence of assets and liabilities, whether in quantitative terms or solely based on valuation, owned by or temporarily overseen by the entity at the time of implementation (per the 2012 Regulation on Inventorying). The current regulations provide for situations in which entities are required to inventory the elements of assets, equity, and liabilities held, which are presented in Figure 1.

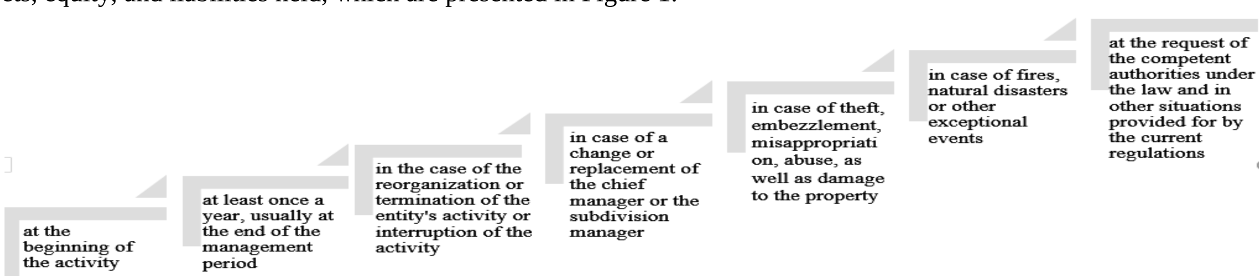

Figure 1. The cases in which inventory is carried out
Source: Developed by the author based on the Inventory Regulation (Regulation on Inventorying, 2012, art. 3)

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In the course of the study, it was found that the inventory procedures for the components of economic resources controlled by the entity differ according to several criteria, presented in the figure 2.

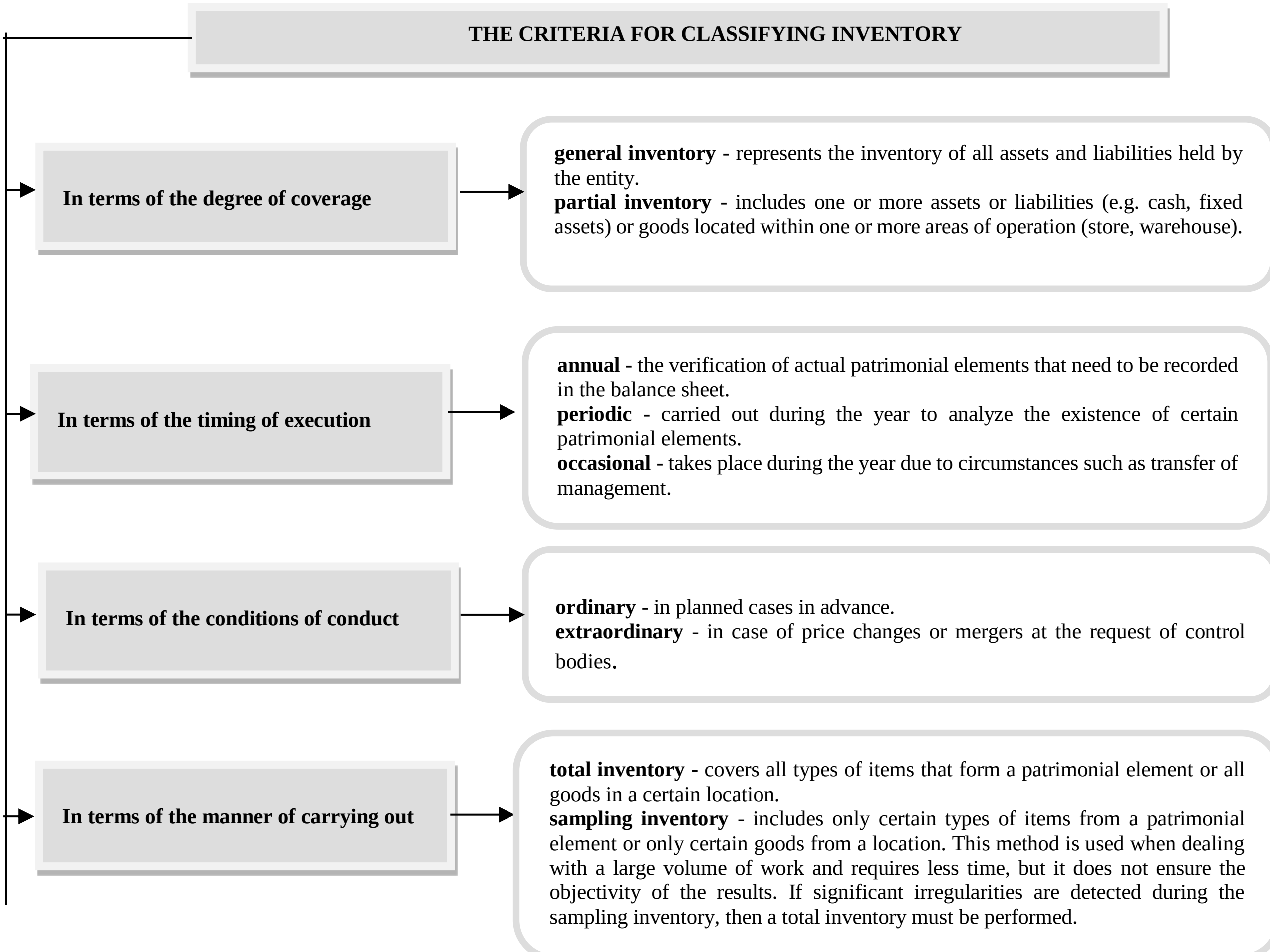

Figure 2. Classification of inventory by the elements controlled by the entity
Source: Developed by the author based on the current legislation

The complexity of the inventory process is supported by the stages it involves, namely: *preparation for inventory, the actual inventory process, determination of inventory results, and adjustment of the differences identified during the inventory.*

In the specialized literature and in the practice of entities, for each stage of the inventory process, specific tasks and operations are outlined regarding content, procedures to be followed, and documentation that needs to be prepared.

Table 1. The stages of the inventory process

The inventorying process stage	The works and specific operations of the inventorying process stage
Preparation for inventory	The object of the inventorying is established, along with the start and finish dates. Organizational operations are carried out to create the inventorying committee and prepare the accounting for the normal conduct of the inventorying operations: the constitution of the inventorying committee by the order of the entity's leader, the sealing of access routes to stocks by drawing up the sealing minutes, the submission of the inventory declaration by the stock manager, ensuring the registration of all operations in the operational records kept within the stock and in the accounting, verifying the

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	accuracy of the records by comparing the information from the accounting with that from the operational records, collecting all operational records from the stock and endorsing them after the last operation, etc.
Inventory execution	The inventorying of assets is carried out at each storage location and by each stock manager. The actual findings are made for each type and category of assets, separately, by measuring, counting, weighing in relation to the nature and characteristics of each, and recording them in the inventory lists. The elements of assets and liabilities subject to inventorying are recorded in standard forms: INV-1 "Inventory List of Fixed Assets"; INV-2 "Inventory List of Stocks (quantitative and qualitative)"; INV-3 "Inventory List of Stocks (qualitative)"; INV-4 "Inventory List of Goods Temporarily Transferred to Entities"; INV-5 "Inventory List of Assets in Progress", etc. The inventory lists are drawn up in triplicate (by the stock manager, a member of the inventorying committee, the stock manager, and the accountant who keeps the stock records). The committee submits the entire set of documents to accounting, where the verification and processing of the documents and information contained in them continues.
Determining the result of the inventory	The comparison of the inventory data with those in accounting is made and the gross result of the inventory is determined. The assets for which differences are found are recorded in the Verification Balance Sheet of the inventory results, with identifying data: the quantity and value found through inventory, those existing in accounting, and the differences between them. In case of shortages or surpluses in inventory, based on the inventory lists, the INV-11 Inventory List, "Register of Verification of Inventory Results," is created.
Regularization of inventory differences found during inventory	The stage of regularizing inventory differences in warehouses includes the following tasks: • reflecting in accounting the differences found during inventory; • offsetting shortages with surpluses found (Regulation on Inventorying, 2012, art. 80-89); • applying natural expiration norms and calculating the corresponding amount; • determining recoverable shortages; • determining the net result of the inventory.

Source: developed by the author based on current legislation

The results of the inventory are recorded by the inventory committee in a report, after the accounting department confirms the book balances. The report on the results of the inventory contains the following elements: *the date of preparation; the names and surnames of the inventory committee members, the number and date of the order (decision) to establish the inventory committee, the inventory managed, the date of the start and end of the inventory operation; the results of the inventory; the committee's conclusions and proposals regarding the causes of the excesses and shortages found, the persons responsible, as well as the measures taken (proposed) in connection with them; the volume of depreciated assets, slow-moving, difficult to sell, without guaranteed disposal, and proposals for measures to reintegrate them into the economic cycle; findings regarding the preservation, storage, conservation, and protection of the integrity of the inventory assets; other aspects related to the activity of the inventoried inventory.*

To determine the differences between the results of the inventory and the accounting data, it is recommended to prepare a Register for verifying the results of the inventory. The divergences identified during the inventory between the actual availability and the accounting data are recognized as shortages or excesses of assets. It should be noted that these shortages and excesses identified during the inventory are not treated as errors; they are recorded as current income and expenses.

Determining shortages of goods is an important accounting matter, as the way they are realized and reflected will influence the financial position and financial performance of the entity. For the reflection of shortages of goods, additional investigation is required regarding the responsible person, who should recover the damages they caused. Thus, inventory shortages can be non-attributable or attributable, depending on the degree of culpability of the persons responsible for managing the inventory. In practice, non-attributable shortages are due to risks of confusion between varieties, perishability, sales risk, burglary, disasters, etc., and the evaluation is made at the accounting value. In the context where the guilt of the managing individuals is proven, these deficiencies are recovered from the guilty individuals in the amount established by the current legislation. It should be noted that according to the provisions of the Inventory Regulation, missing goods can also be

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recovered from the responsible persons in the form of other similar goods (at the same value), with the agreement of the unit leader and the guilty person, by drawing up a Recovery Agreement and Payment Commitment. It should be mentioned that the obligation to recover only applies to deficiencies in goods beyond the norms of natural perishability. Natural perishability refers to the decrease in quantity or weight of material goods due to the influence of natural factors, namely: physical and chemical processes such as drying, evaporation, leakage, etc. Natural processes, in turn, are influenced by the qualities of the environment: temperature, humidity, as well as other factors (frequency of handling the goods, etc.).

In case of finding attributable shortages in the inventory, the evaluation is made at the accounting value. The identified shortages are reflected as expenses, in account 714 "Other operating expenses", regardless of whether the culprit has been identified or not (General Chart of Accounts, 2013).

As there are several taxation regimes applied to resident economic agents in the Tax Code of the Republic of Moldova, we will separately analyze the tax consequences for each existing category.

Thus, there are two tax regimes provided for in the Tax Code:

1.*The general (standard) tax regime* with the calculation of income tax for legal entities at a rate of 12% of taxable income (The Fiscal Code of the Republic of Moldova, 1997, art. 15 letter b);

2.*The tax regime of taxation on operational activity income (IVAO)* for small and medium-sized enterprise sector subjects with the calculation of income tax at a rate of 4% (The Fiscal Code of the Republic of Moldova, 1997, chapter 71).

The tax consequences related to shortages of goods apply only to entities that apply the standard tax regime. Thus, the book value of fixed asset shortages is non-deductible, and the book value of inventory shortages is only deductible within the limit of natural perishability established by the enterprise's manager. At the same time, for fixed asset and inventory shortages exceeding the limit of natural perishability, the VAT amount is restored in the month of recording the inventory results. Table 2 presents the tax consequences related to shortages of goods.

Table 2. Tax consequences related to shortages of goods

Type of taxpayer	Consequences on tax liabilities and deductions	Legal norm
The entities that apply the standard tax regime	The accounting value of missing fixed assets is non-deductible	The Fiscal Code of the Republic of Moldova: art. 24 par. (6))
	The accounting value of missing inventory is only deductible within the natural perishability limit set by the business owner	art. 24 par. (13) and (1)
	For missing fixed assets and inventory exceeding the natural perishability limit, the VAT amount is restored in the month when the inventory results are recorded.	art. 102 par. (8)
Entities that apply the IVAO tax regime	There are no tax consequences since the taxable object (operational income) is not affected by expenses	par. 54^2

Source: Developed by the author based on the Fiscal Code of the Republic of Moldova (The Fiscal Code of the Republic of Moldova, 1997 https://sfs.md/ro/pagina/codul-fiscal)

It should be noted that when identifying surpluses of goods, it is not necessary to determine the cause of their appearance, although the entity is interested in finding out the reasons for the surpluses, since the "revenues" from this situation are not entirely natural - most likely, errors occurred at the stage of documentation or registration of the transaction in accounting. However, sometimes the "surplus method" is used as a way to legalize assets (for example, in the case when it is desired to transfer some movable property into the ownership of the enterprise with fewer tax consequences, without drawing up the purchase document and without withholding tax) (Grigoroi et al., 2021). Another situation where surpluses can be a solution is the identification of additional goods in the context of import, when the documents reflect a smaller quantity of goods.

Following the identification of surpluses, which occurred during the documentation or registration stage of accounting transactions, they are evaluated as: intangible and tangible fixed assets, inventories, and other current assets, and are recorded as entries into the entity's patrimony. Surpluses of goods are accounted for at their fair value (market value) as income, in account 612 "Other income from operating activities" (General Chart of Accounts, 2013). It should be noted that fair value is essentially a market value, but there is no requirement to demonstrate the source of information used to determine it. In

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practice, fair value can be determined through several methods at the discretion of the entity: from internal accounting information (if previous procurement or sales transactions of such goods have been carried out), from supplier offers, or by contracting the services of an independent appraiser.

For entities applying the standard taxation regime and IVAO, the income from surplus goods is taxed with income tax, while for entities applying the resident regime of IT parks, the income from surplus goods is not subject to the unique tax. Table 3 presents the tax consequences related to surplus goods.

Table 3. Tax consequences of goods surplus

Type of taxpayer	The tax consequences	Legal norm
Entities applying the standard taxation regime	The income derived from surpluses of goods is taxed with income tax	The Fiscal Code of the Republic of Moldova: art. 18 letter o)
Entities that apply the IVAO tax regime		art. 54^2
Entities applying the tax regime for IT park residents	The income derived from the surplus of goods is not subject to flat tax	art. 369

Source: Developed by the author based on the Fiscal Code of the Republic of Moldova (The Fiscal Code of the Republic of Moldova, 1997 *https://sfs.md/ro/pagina/codul-fiscal*)

The voluntary recovery of material damages is reflected in the accounting records only if the guilty party has agreed to repair the damage. The recovery agreement is made in writing. If the presumed guilty person does not accept the recovery, their debt will be recorded only upon the occurrence of an irrevocable court decision.

It should be noted that the recovery of the value of fixed assets by the employee is carried out at their book value, which is not entirely fair for the employer, since this amount will not allow for the procurement of a similar asset, at least due to the fact that the value does not include value-added tax (VAT).

According to the provisions of the Fiscal Code, the tax consequences related to the recovery of material damages are as follows:

✓ for entities applying the standard taxation regime - the income is not taxable if the lost asset is replaced with a similar one and this substitution occurs no later than the end of the year following the year in which the damage was established (The Fiscal Code of the Republic of Moldova, 1997, art. 22);

✓ for entities applying the IVAO taxation regime - the income is taxable (The Fiscal Code of the Republic of Moldova, 1997, art. 542; The National Accounting Standard "Presentation of Financial Statements", 2019, par. 32).

The inventory of equity in accordance with the provisions of the Regulation on inventory is carried out at the beginning of the activity, with the main purpose of establishing and evaluating the assets and liabilities that constitute the contribution to the share capital (Regulation on Inventorying, 2012, Point 3, subparagraph 1).

It should be noted that the final results of the inventory must be reflected in the accounting, in the month in which the inventory was completed. The accounting expression of differences related to goods and other values detected during inventory is regulated by the provisions of the National Accounting Standards and the Inventory Regulation.

In accordance with the current legislation, the differences detected during inventory are reflected in the accounting as follows (National Accounting Standards 2013, Amendments to the National Accounting Standards, 2019):

- Surpluses of goods and cash, as well as the value differences resulting from offsetting shortages with surpluses, are recorded as an increase in income;
- Shortages of goods that exceed the established norms of natural spoilage are recorded in the accounts of the responsible persons at market prices on the date when the shortages were discovered;
- Shortages of goods and cash are recorded as expenses of the accounting period;
- In cases where the responsible persons for the losses due to deterioration of goods or shortages of goods cannot be established, such losses are recorded as expenses of the accounting period.

From the above, a clear causal link emerges between the information presented in the financial statements and the information obtained during the inventory of the assets. Quantitative differences in the form of inventory surpluses or shortages are recorded in the accounting records to bring the accounting records in line with the actual inventory, that is, the

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real situation in the assets. After the inventory, the recording of inventory surpluses and shortages, as well as the regularization operations, the final verification balance (after inventory) is prepared, which serves as the basis for the preparation of the balance sheet and other financial statements.

Thus, the financial statements are prepared using the data from the general inventory to authenticate the existence and status of assets and liabilities. In the explanatory note to the financial statements, the following information regarding the inventory is disclosed (The National Accounting Standard "Presentation of Financial Statements", 2019):

- confirmation of data reflected in the financial statements following the inventory process;
- objectives and deadlines for conducting general or partial inventories during the management period;
- results of the inventory process (final surpluses and shortages, compensations made, losses exceeding the established norms, etc.);
- reflection of inventory results in the accounting records;
- measures taken to remedy identified shortages;
- the amount of material damage and the method of its recovery (payment at the cashier's office, salary deductions, deductions according to court decisions, etc.);
- recovery from responsible persons during the management period of amounts related to losses incurred in previous years.

IV. CONCLUSION

In conclusion, we mention that inventorying consists of determining the correspondence between the real patrimonial situation and the accounting records. If the reality and the accounting records do not contradict each other, no accounting entries are made after the inventory, and the inventory procedure is concluded with the archiving of the relevant documents. In case of discrepancies, there is an obligation to reflect them in the accounting records and to determine the tax impact.

The inventorying process is a complex one that requires adherence to all stages: *preparing for inventorying, carrying out inventorying, establishing results, and accounting for identified differences.* Each inventory stage includes specific works and operations related to content, procedures to be followed, and documents to be prepared. Inventory serves as both the initial and concluding stage of each management cycle. It establishes the foundation for initiating accounts and finalizes the creation of the balance sheet and other financial reports (Nederiţa, 2007). As a result, annual inventory information is utilized to create financial statements, ensuring the validation of the presence and status of assets and liabilities.

To correctly apply the rules for accounting the results of the annual inventory, it is recommended to:

- Compliance with all stages of inventory taking as provided by the law;
- Compliance with specific tasks and operations related to the content, procedures and documents to be prepared in the case of inventorying the assets and liabilities of the entity;
- Accurate determination and recording of the results of the annual inventory in order to obtain truthful data to be presented in the financial position and performance of the entity;
- Proper study and application of the tax consequences related to shortages and surpluses of goods, as well as the recovery of material damages, according to the taxpayer's type and the provisions of the Tax Code.

Implementing the above-mentioned recommendations in practice will lead to the correct determination and regularization of inventory differences identified during the inventory of assets, equity, and liabilities of entities, as well as the tax consequences thereof. This will influence the financial position and financial performance of the entity and, as a result, provide all categories of users of financial statements with accurate information necessary for making economic and managerial decisions.

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