CASE STUDY REGARDING THE VARIATION ON INVENTORY ON RETAINED EARNINGS AND ON THE TAX ON INCOME

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Abstract: This research paper consists in the analysis of the manner in which the account 711 – "Revenues associated with the costs of the completed production" influences the retained earnings and implicitly the tax on income owed by the economical entities which are liable to set and pay this tax to the state budget. In order to elaborate this research topic was needed the determination of the retained earnings and fiscal outcome in a production company. Based on these results later on, it has been studied the impact of using account 711 – "Revenues associated with the costs of the completed production" in different scenarios for a agricultural economical entity.

JEL classification: M40, M41

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1. INTRODUCTION

The present research sets as a main objective studying the influence of the 711 account "Revenues associated with the costs of the completed production" on the determination of the retained earnings and tax on income in a production company. In order to define the proposed objectives several financial data needed to be taken into consideration such as: total incomes, total expenses, and the tax on income.

This study was developed based on these data according to a methodology created by the research team, and the presented facts are highlighted through examples, along the article being presented as well a case study regarding the monograph and the accounting treatment that is applied as far as production companies are concerned in relation to the variation inventory. That example, serving exclusively as a didactic purpose, uses initial random data chosen by the research team, any similarity of the sums with other active entities figures being coincidental. The theoretical scenario is developed by considering that apiece entity as being a economical production agent in the agricultural sector, the study being realized on a wheat culture on lease.

2. CONCEPTS AND USED TERMS

The economical performance of any company is mainly measured through the earned profit, this being the fundamental objective of a business. The obtained result can be analyzed both from an accounting perspective as well as from a fiscal one.

From an accounting perspective the retained earnings is determined as the difference between the total incomes and total expenses associated with the analyzed financial exercise.

RE=TI-TE

RE- Retained earnings

TI – Total incomes

TE – Total expenses

It can also be determined as a sum between the operating profit and financial result of the exercise.

RE=OP+FR

OP – Operating profit

FR- - Financial result

From a fiscal point of view the calculus of the result of the exercise starts from the retained earnings of the economical entity to which are added non inferential expenses and subtracted the untaxable incomes.

FO=RE+IE-UI

FO-Fiscal outcome

IE- Non inferential expenses

UI-Untaxable incomes

The difference between the two results can be so big that one may be negative and the other positive, this consequence deriving from the influence of the non inferential expenses and of untaxable incomes that the company might showcase.

The tax on income is applied to the fiscal result, this one being determined through the following calculus formula:

TI=FO*TR

TI – Tax on income

.TR – Tax Rate

The purpose of this research paper consists in the analysis of the way in which 711 account – “Revenues associated with the costs of the completed production” acts both as a form as income and as an expense as well in the determination of the retained earnings and implicitly in the calculus of the fiscal outcome.

The General plan of accounts used in Romania showcases the 711 account – “Revenues associated with the costs of the completed production” in order to display both income and expenses associated to the production. This is a bi-functional account, in its debit being registered the cost of production or the standard price of the products, or of the unfinished production eliminated from the inventory, with the associated price differences.

3. RESEARCH METHODOLOGY

This article is based on the study of the 711 account – “Revenues associated with the costs of the completed production” for a production company from the agricultural sector. The data have been randomly selected by the reseacrh team. Firstly it were determined the retained earnings by calculating the differences between the total incomes and the total expenses. Secondly, it was determined the influence of the 711 account – “Revenues associated with the costs of the completed production” on 121 account – „ Profit (loss) for the period” , as the level of influence may decide if the result of the exercise consist in profit (credit balance of account 121) or loss (debit balance of account 121). Next it was established the fiscal outcome of the entity, based on which was determined the tax on income associated to it. By deducting the tax on income from the gross result (gross result) can be determined the net result (net profit). In the case in which the company incurres losses the tax on income is 0.

4. CASE STUDY

The current study is developed on an hypotetical example represented by a fictional economical entity from the agricultural area, having the following initial data:

First Case

Element	Value
Production expenses	1.000 lei
Obatined finished product quantity	3.000 kg
Sold finished product quantity	3.000 kg
Selling price	1 leu/kg

Registration of the production

Collection of the expenses associated with the production

6xx = %
1.000

3xx
4xx
5xx

Registering in progress production at manufacturing cost

331 = 711
1.000

Obtaining finsihed product (3.000 kg) at manufacturing cost

345 = 711

1.000

Discharging in progress production

711 = 331

1.000

Selling the finsihed products (3.000 kg X 1 leu/kg)

411 = 701

3.000

Discharging finsihed products

711 = 345

1.000

Closing the revenue accounts

% = 121

5.000

711

1.000

711

1.000

701

3.000

Closing the expenses accounts

121 = %

3.000

711

1.000

711

1.000

6xx

1.000

Element	Calculus	Value
Retained earnings	5.000 – 3.000	2.000 lei
Fiscal outcome	5.000 – 3.000	2.000 lei
Tax on profit	2.000 x 16%	320 lei
Net result (profit)	2.000 - 320	1.680 lei

Second Case

Element	Value
Expenses associated to production	1.000 lei
Obtained finsihed product quantity	3.000 kg
Production expenses per kilogram	0,33 lei/kg
Sold finshed product quantity	2.000 kg
Selling price	1 leu/kg

Registration of the production

Collection of the expenses associated with the production

6xx = %
1.000
3xx
4xx
5xx
Registering in progress production at manufacturing cost
331 = 711
1.000
Obtaining finsihed product (3.000 kg) at manufacturing cost
345 = 711
1.000
Discharging in progress production
711 = 331
1.000
Selling the finshed products (2.000 kg X 1 leu/kg)
411 = 701
2.000
Discharging finsihed products (2.000 kg x 0,33 lei/kg)
711 = 345
660
Closing the revenue accounts
% = 121
4.000
711
1.000
711
1.000
701
2.000
Closing the expenses accounts
121 = %
2.660
711
1.000
711
660
6xx
1.000

Element	Calculus	Value
Retained earnings	4.000 – 2.660	1.340 lei
Fiscal outcome	4.000 – 2.660	1.340 lei
Tax on profit	1.340 x 16%	214 lei
Net result (profit)	1.340 - 214	1.126 lei

In practical cases can be met as well the situation in which the company obtains production at the end of the year, therefore registering it in the dischargemennt of the materials for subsequent selling. Assuming that the economical entity didn't have any other operations during an exercise, the accounting operations are the following:

Collection of the expenses associated to the production

6xx = % 1.000

3xx

4xx

5xx

Obtaining finsihed product (3.000 kg) at manufacturing cost

345 = 711 1.000

Closing the expenses account

121 = 6xx 1.000

Closing the revenue account

711 = 121 1.000

In this situation, the result of the entity is 0, neither profit or loss.

Next year we will sell the production obtained the previous year.

Transferring the products in the commodity dischargement

371 = 345 1.000

Selling commodities

4111 = 707 2.000

In this case, the economical entity is registering a profit of 1.000 lei.

5. CONCLUSIONS

The research and analysis process ends by expressing several conclusions that the authors of the paper reached after aplying the previously presented methodology to the used examples. Taking into consideration hypotetichal data regarding a economical manufacturing entity from the agricultural sector, were assesed the implications of using the 711 account – "Revenues associated with the costs of the completed production" on the reatined earnings, fiscal outcome, as well as on the tax on profit owed by the company. It is highly important to highlight that the accounting and fiscal treatments applied along the present case study have been approached accordingly with the current legislation in Romania, at the date of the ellaboration of the article.

The first analysed case premises on the obtaining of 3.000 kilograms of finished product (wheat), with a total production cost of 1.000 lei, registered accordingly with the expenses accounting documents. Continuing the scenario with the fact that the entire quantity of finished product is sold at a selling price of 1 leu/kilogram,can be developed calculations for the determination of the retained earnings (2.000 lei), fiscal outcome (2.000 lei, not havaing non inferential expenses or untaxable incomes), tax on profit (320 lei), as well as the net result (1.680 lei profit)

The account registration highlighted in the previously presented monograph are elaborated according to the procedures specified by OMFP 1802/2014, so that the production cost along the collection of the associated expenses, is resumed through its initial registration in the credit of an incomes account, namely the 711 account “Revenues associated with the costs of the completed production”. Once the production is registered (transferring the in progress production to finished products, or selling the finished products for that matter) they are discharged too through the same incomes account (711 account – “Revenues associated with the costs of the completed production”) at the production cost value. Using this approach the results of the entity will not be affected in any way due to the fact that the expenses are registered for a certain period of time, and the incomes are registered only after the production was obtained and sold. Consequently, the usage of the 711 account – “Revenues associated with the costs of the completed production” won’t lead the company to diminished results or even loss along the production operation, the only incomes being obtained after the selling of the products. The benefit of the economical entity (profit margin) is present at the moment of capitalizing the assets, this fact increasing the results of the entity and offering it an advantageous position in the economy. That certain benefit will be rated according to the Fiscal Code, declared and paid to the State Budget. It is worth mentioning the fact that in certain cases, the prices of the market for certain products are under the level of the unit cost of production registered by an entity, in which case the company will sell the obtained production at loss.

The second case study differentiates itself from the first one through the fact that from the whole obtained production (3.000 kg), only a part is sold (2.000 kg), the rest of it remaining as a stock in the company. The calculation remains the same, having in mind that the product discharging is realized only for the sold quantity of wheat. The results are similar to the ones from the first case, as well as the treatment for the tax on profit.

The statements above are reinforced also by the last analysis developed in the study case. If at the determination of the tax on profit wouldn’t have been taken into consideration the amount registered in account 711 – “Revenues associated with the costs of the completed production”, at the end of the duration the company would obtain negative results, translated through a loss of 1.000 lei. This loss can be covered from the profit of 1.000 lei from next year as a consequence of selling the commodities.

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