

## ACCOUNTANCY POLICIES AND TREATMENTS FOR ASSESSING STOCKS

Mihaela TULVINSCHI

“Ștefan cel Mare” University, Romania

### Abstract

*Assessing the stocks is an important activity given its economic and financial implications on effectively managing the economic units' patrimony. Organizing and managing the stocks accountancy relies more and more on effectively knowing the means and the resources, on operatively following the values movement, on carefully researching the structure and dynamics elements, but especially on decoding the future evolution tendencies of the phenomena that occur within the company and in its external environment.*

*Through the matter approached, the author of the paper has in view to present the manners assessing stocks with the help of means specific to the financial accountancy and management accountancy. The theoretical aspects of the paper are combined with practical circumstances specific to entities in the timber processing industry.*

**Key words:** *stocks, assessment, cost.*

**JEL Classification:** M41

### 1. INTRODUCTION

Right now, the stocks issue is very vast; it includes aspects of assessment, diminishing stock expenses, as well as storage, structure on kinds, keeping and stocks using matters. Improving a company's performances involves operatively and as exact as possible measuring the efforts and the effects, efficiently using the resources that economic entity holds, as well as identifying the manners for diminishing the consumption within which the stocks hold an important position.

Significance of stocks assessment derives from the fact that it supplies a great quantity of information used by the entity's management in the decision making process. “The vital aspect for making any decision is the analysis and solving manner of issues generated by it.”(Horomnea, 2008: 200)

The present day problems concerning the stocks are presented in one of the International Accountancy Standards, IAS 2 “Stocks”. The direct or indirect references to the stocks issue is also approached in other standards, such as: IAS 20 “Accountancy of the governmental subsidies and submitting information connected to governmental assistance”, for the subsidized stocks or for those that are subject matter of some governmental assistance contracts; IAS 18 “Incomes” for selling the stocks; IAS 19 “Benefits of the employees” for the stocks created as benefits of the employees”; IAS 8 “Accountancy policies, modifying in the accountancy estimations and errors” for rectifying the errors concerning the stocks or for modifying the policies concerning stocks and implications on the financial statements; IAS 12 “Profit tax” for the impact of the policies connected to stocks on the profit tax; IAS 14 “Segment reporting” for the need to report stocks on activity segments and geographical area; IAS 23 “Costs of being indebted” for the situations of capitalizing interests in the stocks' cost; IAS 21 “Effects of the foreign currency exchange rates” for the impact of the exchange rates differences corresponding to the stocks in foreign currency or to the stocks belonging to an external entity; IAS 29 “Financial reporting in the hyper-inflated economies” for re-dealing with stocks during inflation.

The issues IAS 2 deals with have obvious implications on the stocks accountancy and they make reference to: assessing the stocks, methods for determining the stocks cost, net value for creating stocks and their depreciation, acknowledging the stocks cost as expenses, presenting the stocks in the financial statements.

This standard does not apply for assessing stocks:

- held by the producers of agriculture and forestry products;
- comprised of ores and other extractive products;
- held by the intermediary brokers in the commodities exchange that assess their stocks for the fair value less the selling costs.

The stocks held by producers of agriculture and forest products, as well as stocks of ores and other extractive products are assessed in certain production phases according to their net value that can be obtained. These cases occur when the crops have been harvested or when the ores have been extracted and the selling is ensured through a due date contract or through a governmental guarantee or when there is an active market and the risk of having the production unsold can be neglected.

The intermediary brokers are the ones that buy or sell goods for other persons or for their own. The stocks held by intermediary brokers are acquired in order to sell them in the near future and they generate a profit in the market fluctuations or in the margin of intermediary brokers.

Assessing the stocks according to IAS 2 is made according to the lowest value between the entry cost and the net value that can be obtained. The cost of stocks must comprise all costs corresponding to the purchase, production, process, as well as other costs borne for bringing the commodities, works, services to the shape and to the location where they are now.

## **2. MANNERS FOR ASSESSING THE STOCKS ACCORDING TO THEIR ORIGIN**

### **2.1. Assessing stocks originated from purchases**

According to the international accountancy norm IAS 2 “Stocks” the purchasing cost comprises the buying price, the import charge and other charges (except those the company can recover from the tax authorities), transportation, handling and other type of cost that can be directly attributed to the purchasing. The commercial deductions, the discounts and other similar elements are deducted in order to determine the purchasing cost.

Construing and applying in practice these provisions generate little difference from one country to another. Thus, in Great Britain the purchasing cost is comprised of the price paid to the supplier and the accessory expenses for purchasing the good. From the point of view of the French economists Bernard Esnault and Cristian Hoarau, the purchasing cost of a good is “obtained through adding the purchasing accessory expenses to the buying price. Thus, in other words, the purchasing cost includes the direct and indirect expenses incurred in order to bring the good in the patrimony”. (Esnault, Hoarau, 1994: 289)

As against France, the concept of accessory expenses is vaster in the United Kingdom, comprising all expenses committed in order to bring the good in a using condition, including the moving charges, fees, commissions and the expenses concerning documents.

In Germany the stocks’ purchasing cost is comprised of the buying price less the commercial and financial deductions to which is added the accessory expenses necessary for the assessed good to entry the management. There can be noticed that unlike the French accountancy, in order to determine the purchasing cost the financial deductions are also deducted from the buying price. While in the French accountancy the expenses concerning the fees and the ones for the documents corresponding to the stocks purchased are registered in the balance sheet item “expenses to be assigned on several financial years”, in the German accountancy these expenses are included in the stocks’ purchasing cost.

In the Romanian accountancy the manner for applying the regulations comprised in IAS 2 as regards the purchasing cost can be emphasized through the following example.

A commercial company has as activity domain selling furniture items. On March 11, N it purchased from a company in Spain furniture amounting to EUR 10 000. The value owed for the external route transportation is EUR 1 000 and the insurance value paid in foreign currency on the date for

performing the transaction is EUR 600. For the internal route the value for the transportation invoiced by a transportation specialized company is lei 500. The foreign currency exchange rate is: 1 EUR = 4,3 lei. The purchasing cost is determines thus:

- Price negotiated with the supplier      10 000 € x 4,3 lei/€ = 43 000 lei
- External transportation                      1 000 € x 4,3 lei/€ = 4 300 lei
- External insurance                              600 € x 4,3 lei/€ = 2 580 lei
- VAT at the customs                              49 880 x 19% = 9 477,2 lei
- Internal transportation                        500 lei
- VAT for the internal transportation        500 x 19% = 95 lei
- Purchasing cost                                 50 380 lei

If the import would have been made from a country that is not EU member, the purchasing cost would have included, next to the elements above, the custom duties and the customs commission.

## 2.2. Assessing stocks obtained from own production

The stocks obtained from the own production (finished products, semi-finished products and other stocks produced in the patrimonial unit) are assessed at the time they enter the patrimony according tot heir production cost (processing cost).

Calculating the costs assumes the ensemble of works performed in an organized form in order to obtain information concerning the cost of goods, works, services, activities or of other items involved in the calculation. Organizing the works connected to calculating costs depends on several factors, such as the following: size of the unit, its organization structure, type and manner for organizing the production, production technology, production integration degree, production kind, etc.(Tabără, 2006: 19)

In the speciality literature can be encountered different definitions for the production cost. In the French accountancy “the production cost of finished products is obtained through totalizing the costs for purchasing the consumed raw materials, direct and indirect production expenses, the latter being reasonably assigned on the finished products.” (Esnault, Hoarau, 1994: 289)

Monchail Alain believes that the production cost represents “the value of elements entering a manufacturing process. It is a “façade cost” adapted to the diversity of companies and to the complexity of their organizing”. (Monchail, 1988: 99)

Rayburn considers that through the cost it is ensured “measuring the necessary efforts for making a product or a service”. The same author states that “there is no true cost for a product, but just that product or service and that it involves different costs for different purposes.” (Rayburn, 1986: 45)

The processing cost implies the direct expenses connected to the produced units, as well as the direct manual labor and a share of the indirect production expenses, fixed and variable, incurred by transforming the raw materials in finished products. The fixed expenses remain approximately constant no matter the production volume. In this category are included the amortizations, the expenses for managing the sections and the plants, as well as the expenses corresponding to managing and administering the sections. The variable production expenses are those costs whose size is modified pro rated or almost pro rated with modifying the production volume. In this category are included the indirect expenses for materials and work force.

The obligation to include a share in the indirect production expenses does not allow limiting the value of the stocks only to the direct or variable costs. As a consequence, the economic units whose management accountancy relies on calculating the partial costs cannot use these costs for assessing the stocks in the balance sheet. If there are used the partial costs, the purpose envisaged is operatively determining the profitability of the technical and material sub-divisions of the company, as well as of the products manufactured and / or sold, works executed and services supplied.

Assigning the fixed expenses on the production cost is made taking into account the regular production capacity. (Feleagă, 2005: 163)This is the average production estimated to be obtained

during certain periods of management, in regular conditions, also taking into account the loss resulting from the equipment maintenance related works. The present day production level can be used if it is taken into account that it only approximates the regular capacity. The size of the fixed expenses granted to each unit produced is not increased as a consequence of obtaining a low production or an unused production plant. In the management periods of time when an unusual high production is registered, the value of the fixed expenses granted to each unit produced is diminished, thus for the stocks not to be assessed to a value higher than their cost. The variable production expenses are granted to each unit produced according to fully or partially using the production capacity.

Determining the regular production capacity or the regular activity level is a delicate matter. From a theoretical standpoint there are known two types of capacities:

- theoretical capacity corresponding to a continuous and a constant pace using all plants belonging to a patrimonial unit;
- real capacity determined through diminishing the theoretical capacity with the time periods corresponding to the inevitable interruptions: repairing, time for commissioning, absences, leaves of absence, inventory making.

Thus, the real capacity is lower than the theoretical capacity but equal to the regular production capacity. Because there must be taken into account the possible volume of the sales, the regular capacity can be lower than the real capacity. In order to set out the regular production capacity there is determined the production necessary for satisfying the volume of sales corresponding to a financial year. This production corresponds to a real capacity that will be considered regular production capacity. It fluctuates from one financial year to another.

Another possibility for setting out the regular capacity begins with determining the production to be achieved according to the sales volume for several years and in order to level the fluctuations. The production thus determined corresponds to using the real capacity that will be considered regular capacity constant in time.

The unitary production cost must be determined independent of the company's activity level. This means that the finished product stocks must not be assessed according to an amount higher than their production cost that would also include the subactivity cost. The calculus formula for the subactivity cost is:

$$\text{subactivity cost} = \text{fixed expenses} \left(1 - \frac{\text{real activity level}}{\text{regular activity level}}\right)$$

In the subactivity costs are included the losses incurred by the maintenance works (repairing and inspections) and the losses from scraps due to technical fails of the production. The fixed indirect expenses that are included in the production cost are obtained by deducting the subactivity cost from the total fixed expenses or by using the formula:

$$\text{fixed expenses that are included in the production cost} = \text{fixed expenses} \cdot \frac{\text{real activity level}}{\text{regular activity level}}$$

The following example emphasizes the influence the activity level has on the production cost.

An economic entity manufactures timber for which the direct expenses (raw materials, direct manual labor) are lei 80 lei / m<sup>3</sup>, the indirect variable production expenses are 40 lei / m<sup>3</sup> and the indirect fixed expenses for a financial year are lei 20 000. The regular production capacity is 1000 m<sup>3</sup> timber. The quantities manufactured have been 1000 m<sup>3</sup> during N-2 financial year, 800 m<sup>3</sup> during N-1 financial year and 1 200 m<sup>3</sup> during N financial year. The final timber stock at the end of each financial year is 500 m<sup>3</sup>. The status of production costs, by taking into account the regular production capacity, is described in table- 1.

If we don't take in consideration the regular production capacity, the data submitted in table- 2 will be obtained.

**Table- 1: The situation of the production costs taking into account the regular production capacity**

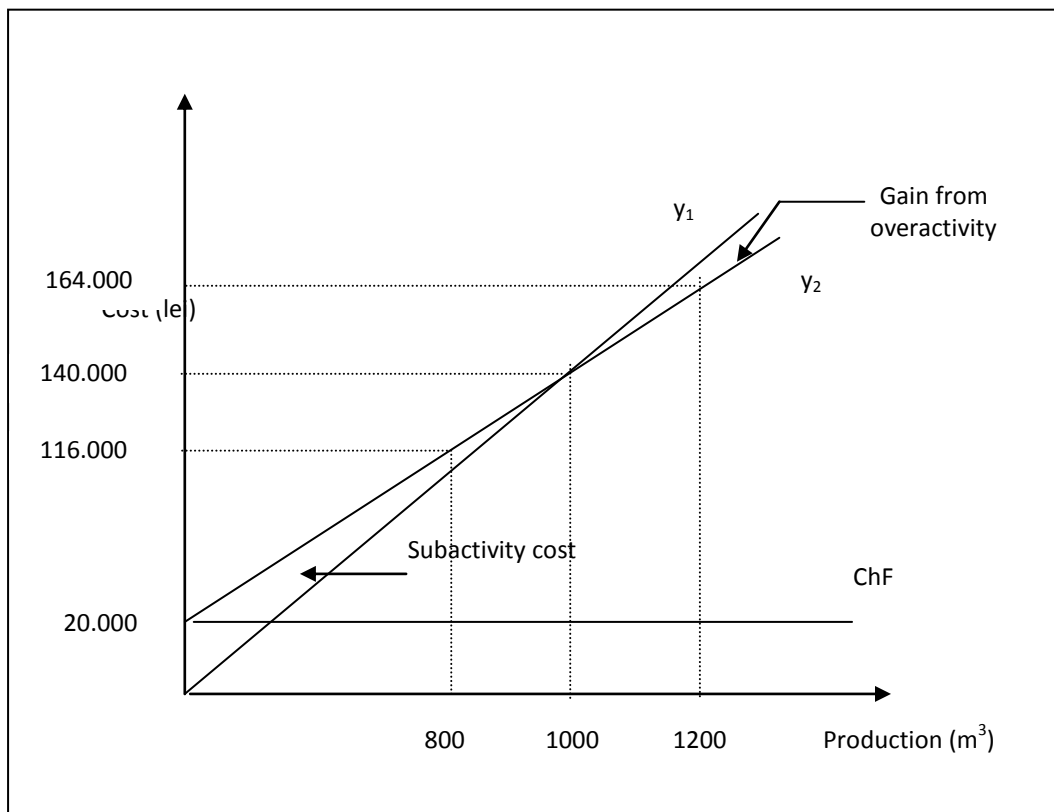
INFORMATION	N-2	N-1	N
Produced quantity	1 000 m <sup>3</sup>	800 m <sup>3</sup>	1 200 m <sup>3</sup>
Direct expenses	80 000	64 000	96 000
Variable indirect expenses	40 000	32 000	48 000
Fixed indirect expenses	20 000	16 000	24 000
Total production cost	140 000	112 000	168 000
Unitary production cost	140	140	140
<b>Final stock</b>	<b>70 000</b>	<b>70 000</b>	<b>70 000</b>

**Table- 2: The situation of the production costs not taking into account the regular production capacity**

INFORMATION	N-2	N-1	N
Produced quantity	1 000 m <sup>3</sup>	800 m <sup>3</sup>	1 200 m <sup>3</sup>
Direct expenses	80 000	64 000	96 000
Variable indirect expenses	40 000	32 000	48 000
Fixed indirect expenses	20 000	20 000	20 000
Total production cost	140 000	116 000	164 000
Unitary production cost	140	145	136,66
<b>Final stock</b>	<b>70 000</b>	<b>72 500</b>	<b>68 330</b>

Of the example above can be derived the conclusion that the activity level is one of the factors that influences the production cost in an opposite pro rated relation. As the activity level is higher, the unitary cost is lower because the fixed expenses are assigned on a greater number of products. In order to avoid the fluctuations that do not show the real value of the stocks, the fixed costs are included according to the regular production capacity. This method is efficient for N-1 financial year when the production obtained (800 m<sup>3</sup>) was lower than the regular production capacity (1000 m<sup>3</sup>). It is noticed that during N financial year it was obtained an overproduction (1200 m<sup>3</sup>) and using the regular capacity (1000 m<sup>3</sup>) as basis for granting the fixed costs, determines total costs greater than the real ones. The total real cost in the N financial year is lei 164 000 and if it is considered the regular capacity as basis for assigning the fixed costs it is obtained a total cost of lei 168 000. It is noticed that during N financial year the value of the final stock is also over-assessed to lei 70 000 as against the real value of lei 68 330. As a consequence, in the overproduction periods of time the regular

production capacity cannot be used as basis for assigning the fixed expense. The result of the example above can be construed as a diagram in figure- 1.



**Figure- 1: Graphic representation of rational imputation of indirect fix expenses according to the regular production capacity**

If we will write down: TDE - total direct expenses, UDE - unitary direct expenses, UVIE unitary variable indirect expenses, UFIE - unitary fixed indirect expenses, TFIE - total fixed indirect expenses, RA – real activity, we will obtain the equations with two straight lines: (Budugan, 2002: 281)

- cost for rationally imputing according to the regular production capacity:

$$y_1 = TDE + (UVIE + UFIE) \times RA$$

- full production cost:

$$y_2 = TDE + UVIE \times RA + TFIE$$

In the diagram, the two straight lines,  $y_1$  and  $y_2$  are intersected in a  $y$  point whose image reflected on the abscise indicates the regular activity level.

The direct expenses for raw materials and direct manual labor can be considered variable expenses because their size fluctuates pro rated with modifying the production volume. The direct manual labor can be considered variable expenses if the workers do not have a fixed salary but they are compensated according to the quantity of products obtained in a management period of time.

In these circumstances the two equations become:

- cost for rationally imputing according to the regular production capacity:

$$y_1 = (UDE + UVIE + UFIE) \times RA$$

- full production cost:

$$y_2 = UDE \times RA + UVIE \times RA + TFIE = (UDE + UVIE) \times RA + TFIE$$

Next to the activity level, the size of the production cost is also influenced by other factors such as: type of expenses, period of time taken into account, assigning costs, efficiency, price paid for entries, organizing the activity and management.

A series of costs must not be included in the stocks cost; but, they are acknowledged as expenses of the period when they occurred. Such costs are (Popa and others, 2007: 246): material and manual labor losses or other production costs registered over the regular approved limits; storage expenses, except for the cases when such costs are necessary in the production process, prior to passing to a new manufacturing phase; general administration expenses that do not take part in bringing the stocks to the form and location they are now; selling related expenses.

If the time for manufacturing a product is high, the international norm IAS 23 “Loan costs” provisions for the interests to the loans made for financing the production can be included in the stocks value.

There are situations when in the patrimonial units in the industrial sector are manufactured at the same time several products connected among them or a main product and a secondary one. If the production costs cannot be identified separately for each product, norm IAS 2 proposes using a logical method relying on each product’s selling value. In order to show this method it will be taken into account the following example:

A company having as activity domain processing the wood obtains from its own production 10 cabinets having a commercial value of lei 700 / piece and the special accessories attached to the cabinets have a value of lei 15/ piece. The total production cost is lei 5 500. This cost can be assigned thus:

- 10 cabinets :  $5500 \times \frac{10 \times 700}{10 \times (700 + 15)} = 5384,62 \text{ lei}$
  - 10 accessories :  $5500 \times \frac{10 \times 15}{10 \times (700 + 15)} = 115,38 \text{ lei}$
- TOTAL = 5500 lei

For the companies supplying services, the stocks cost is comprised of manual labor and other expenses connected to the staff directly committed to supplying services, including the ones concerning the staff having as responsibilities monitoring and the general expenses that can assigned. The manual labor and the other costs concerning the sales and the administrative and management staff are not included in the cost of the stocks belonging to the companies supplying services, but they are acknowledged as expenses during the period of time they take place.

### 2.3. Limits of standard costs and retail price

IAS 2 recommends as cost assessment techniques the standard cost method and the retail price method only if it is proven these methods approximate the cost. After analyzing applying these methods in the accountancy practice, we can emphasize that they can be generalized for all stocks categories and for all economic entities.

The standard cost method takes into account the regular levels of materials and supplies, manual labor, efficiency and production capacity. These levels must be reviewed and adjusted on a periodic basis according to the present day conditions. We believe that due to the fluctuations in the market prices, using the standard cost method is not recommended for the stocks coming from purchasing (raw materials, supplies, and merchandise). But, for the stocks obtained from the own production (semi-finished products, finished products), the standard cost can be considered a previously calculated cost and the difference against the actual production cost will be showed separately.

The standard costs method is a concept within the integral (full) calculation of the costs. In a system for calculating the integrated full costs, the data concerning the standard costs replace all data concerning the actual production costs. The standard calculation may be considered an important costs control system. (Caraiani, Dumitrana, 2008: 316) In the management accountancy there is kept a separate registration of all actual costs in order to compare the amounts that should be spent (standard costs) with the actual expenses. The deviations, that are the differences between the standard costs and the actual costs, will be calculated either at the end of the financial year, either weekly, monthly or quarterly.

The standard unitary cost of a product has the following elements: (Belverd and others, 2001: 1091)

- standard cost of the raw materials determined through multiplying the standard price and their standard quantity;
- standard cost of the direct work force calculated as standard number of work hours multiplied by their standard tariff;
- general cost concerning the standard production comprised of the sum of estimated general variable expenses and the fixed general expenses.

The standard price of the direct raw materials is a rigorous estimation of the cost a certain type of raw materials will have in the following financial year. For estimating the standard price of the raw materials there must be taken into account the possible price increasing, the modifying of the available quantities and the occurrence of some new supplying sources. The standard quantity of direct raw materials used in the production process is an estimation of the quantity that is foreseen for consumption. This is influenced by the product's technical specifications, by the quality of raw materials, by the years and productivity of the plants and by the quality and experience of the work force. If there are scraps and losses that cannot be avoided, these must be anticipated when it is calculated the standard quality.

The standard direct work time is the time estimated as being necessary for each section to make a batch of products. For determining the standard direct work time it is used the current studies as regards the time and movement for workers and plants, as well as data concerning the past productivities of the employees and plants. The standard direct work time must be reviewed when a plant is changed or when the quality of the work force is altered. The tariffs for the standard direct work time represent costs of the work force set out per work hour for each function or category of worker.

The standard share of the general variable expenses is equal to the ratio between the total general variable expenses included in the budget and a measurement unit of the production capacity such as the estimate number of standard direct work hours. The standard share of the fixed general expenses is equal to the ratio between the total general fixed expenses included in the budget and a measurement unit of the production capacity, usually the regular capacity expressed in standard direct work hours. Using the regular capacity as granting basis will ensure assigning all fixed general expenses on the units produced until the time it is reached a regular capacity.

The retail price method is recommended to be used in the retail activities in order to assess the stocks with numerous items and having a rapid movement that also have similar commercial margins and for which it is impossible to be used other cost determining methods. The stocks cost is determined through deducting the value of the gross margin from the selling price of these assets. The gross margin percentage used takes into account the stocks whose price has been diminished below the initial selling price. Often it is used an average percentage for each retail department.



### **3. USING THE FIFO METHOD FOR DETERMINING THE COST OF STOCKS IN INFLATION CONDITIONS**

The cost of stocks that are not fungible and of the goods or services designated to some separate orders will be determined through the specific identifying method. It assumes assigning specific costs to the elements that can be identified in the stocks. The specific identifying cannot be used when the stocks comprise a greater number of elements that usually are fungible. For these stocks it is used the weighted average cost method (CMP) or the first in – first out method (FIFO). The CMP method calculates the cost of each element according to the weighted average of the similar elements costs in the stock at the beginning of the period and the cost of the similar elements produced or bought during the period. The FIFO method believes that the elements exit the stock as they entered.

After analyzing the two methods mentioned, in inflation conditions, we believe that for performing an assessment of the final stocks according to their most recent values, the economic entities should apply the FIFO method. This method allows a minimum influence of the inflation on assessing the final stocks which has as main flaw that is generated under-assessing the expenses and over-assessing the results. This disadvantage can be diminished through increasing the rotation speed of the stocks.

The acceleration of the stock rotation speed may be provided by technical, organizational and financial actions that shall be applied during each phase of the operating process: purchasing, production and trading. During the purchasing phase, decisions and actions are necessary to ensure the elimination of the dead time due to purchasing shortage. The purchasing optimization may be achieved by increasing efficiency, by fast adaptation to the market conditions, by suppliers selection according to certain criteria, by concluding the contracts in due time and by the compliance thereto. During this phase it is necessary to reduce the transportation, handling and storage losses. One cause of the rotation speed slow-down during this phase is the extra stocks due to improper contracting or certain product production stoppage.

During the production phase, the stocks volume depends mainly on the costs and on the duration of the manufacturing cycle. Any way of reduction is also a way of accelerating the stocks rotation speed. This objective may be attained by the due organization of the production, by settling some rational manufacturing flows and by choosing the best manufacturing technologies. During the trading phase, the products dispatching and the fast receiving of their value lead to re-making the liquidities. The acceleration of the rotation speed during the trading phase may be achieved by reducing the reimbursement period, by rhythmically procuring the products and by reducing the selection and packaging time.

### **4. ACKNOWLEDGING STOCKS IN THE BALANCE SHEET**

Given the physical deterioration, to becoming obsolete or to diminishing the price, the market value of stocks may diminish below the cost. Thus, a loss occurs that can be found through diminishing the stock to the market value by using a depreciation adjustment. According to the IAS 2 provisions, stocks are acknowledged in the balance sheet according to the lowest value between their cost and the net achievable value. The net achievable value is the sale price estimated to be obtained during the regular development of the activity, less the costs estimated for finishing the good and the costs estimated as necessary for the sale. The net achievable value is determined through estimation, taking into account the purpose or the purpose of stocks and the stocks depreciation. (Dumitrean, 2008: 195) The practice of diminishing the stocks value below the cost, until reaching the net achievable value, complies with the prudence principle according to which assets must not be shown in the balance sheet at a value greater than the value that might be obtained through using or selling them.

Usually, calculating and registering the adjustments for stocks depreciation is made for each storable element. Still, there can be made regrouping for similar elements or for elements that are connected. This is the case for elements belonging to the same range of products that have similar using, that are produced and that are sold in the same geographical area and that cannot be assessed, practically, separately from other elements in the same products range.

On 31.12.N, the situation of the stocks of finished products within an entity producing furniture described in table- 3.

**Table- 3: Status of stocks at the end of the financial year**

Categories of stocks	Cost	Net value that can obtained	Balance sheet value
Libraries	30 000	29 000	29 000
Cabinets	20 000	22 500	20 000
Couches	25 000	24 600	24 600
<b>Total</b>	<b>75 000</b>	<b>76 100</b>	<b>73 600</b>

Of the data presented there results a loss of  $75\,000 - 73\,600 = \text{lei } 1\,400$  that will be registered in the accountancy registers as adjustments for depreciating the stocks of finished products.

In the United States of America, stocks are acknowledged in the balance sheet at the minimum value between cost and market value. (Ristea, 2006: 157) The difference as against IAS 2 occurs at the time of construing the market value. In the American accountancy, the market value is the replacement cost that must not be taken for the net achievable value. The stocks replacement cost is the amount a company should pay right now for the same goods, bought from regular suppliers, in regular quantities. The replacement cost is subject to an upper limit that is the net achievable value, but also to a lower limit, that is the net achievable value less the profit margin.

## 5. CONCLUSION

Assessing and managing stocks takes place in close connection to strategic indicators and in permanent interdependence with the economic and financial results of the company's activity.

For drafting this paper, practical situations concerning the assessment of socks within the entities from the wood processing industry were analyzed. After finding that along several management period of time these companies obtained a production equal or even lower than the regular production capacity, we suggest for determining the processing costs to be made with the help of the rational imputation method. For applying this method the economic entities will have to assign fixed expenses on the processing cost according to the regular production capacity. Determining the real production capacity or the regular activity level is a delicate matter. In order to perform this determination, the companies must set out the production necessary for satisfying the volume of the sales corresponding to a financial year. This production corresponds to a real capacity that will be taken into account as regular production capacity.

The companies in the wood processing industry encounter difficulties as regards choosing the best method for determining the cost of non-identifiable costs taking into account that IAS 2 indicates the FIFO and CMP methods. The main factors the companies should take into account for making this choice are the price evolution, the financial policy and the fiscal policy of the economic entity. Choosing a method is very important, taking into account the influence each method can have on the costs and, at the same time, on the results obtained by the company. After analyzing the two methods mentioned, in inflation conditions, we believe that for performing an assessment of the final stocks according to their most recent values, the economic entities should apply the FIFO method.

Adequately determining the minimum value between the cost and the net achievable value ensures conditions for creating a trustworthy image of stocks in the financial statements.

The stocking process is a concern for managing the companies in the wood processing industry that have in view obtaining a higher volume of material goods, taking into account incurring as low as

possible incorporation, maintaining and administering expenses for the stocks. Stocking must take place according to some concepts and strategies meant to protect the activity of the companies against the conjuncture elements on the international market, and at the same time to efficiently use the favorable conditions the relations between demand and supply have in certain periods of time.

## **BIBLIOGRAPHY**

1. D. Budugan, (2002): Contabilitate și control de gestiune, Editura Sedcom Libris, Iași
2. B.E. Needels, H.R. Anderson, J.C. Caldwell (2001): Principii de bază ale contabilității, ediția a 5-a, Editura ARC, Chișinău
3. C. Caraiani, M. Dumitrana (2008): Contabilitate de gestiune și control de gestiune, Editura Universitară, București
4. E. Dumitrean (2008): Contabilitate financiară, Editura Sedcom Libris, Iași
5. B. Esnault, C. Hoarau (1994): Comptabilité financière, Presses Universitaires de France, Paris
6. L. Feleagă, N. Feleagă (2005): Contabilitate financiară – o abordare europeană și internațională, Editura Infomega, București
7. E. Horomnea (2008): Fundamentele științifice ale contabilității: concepte, doctrină și lexicon, Editura Tipo Moldova, Iași
8. Monchail (1988): Techniques qualitatives de gestion pratique, ECDEL, Paris
9. Popa, C. Pitulice, I. Jianu, E. Nichita (2007): Studii practice privind aplicarea Standardelor Internaționale de Raportare Financiară în România, Editura Contaplus, București
10. L.G. Rayburn (1986): Principles of Cost Accounting: Managerial Applications, Third Edition, Irwin
11. M. Ristea, L. Olimid, D.A. Calu (2006): Sisteme contabile comparate, Editura CECCAR, București
12. N. Tabără (2006): Modernizarea contabilității și controlului de gestiune, Editura Tipo Moldova, Iași
13. M. Tulvinschi (2004): Gestiunea, contabilitatea și controlul stocurilor, Editura Sedcom Libris, Iași
14. S. Yves, P. Joffre (1997): Encyclopedie de gestion, Economica, Paris