ATLANTIS PRESS

Advances in Economics, Business and Management Research, volume 47

International Scientific Conference "Far East Con" (ISCFEC 2018)

The Influence of the Accounting Method for Finished Products on Financial Accounting Assessment

L.E Tumali
Far Eastern State Transportation University,
Russia

A.V. Lapaeva
Far Eastern State Transportation University,
Russia

***Abstract*— The report reveals the impact of alternative methods of accounting for finished goods on the valuation of current assets of the balance sheet and financial results reflected in the company's financial statements; explanations of possible legal distortions in the estimation of assets and profit indicators of the enterprise are given.**

Standard regulation of financial accounting in Russia provides for two options for accounting of finished products.

The first option allows the use of only account 43 "Finished products" and the evaluation of finished products at actual cost. As a result, a true valuation of ac-counting indicators: finished goods in a warehouse, work in progress, cost, gross profit and sales profit.

The second variant of accounting assumes the use, in addition to account 43, of an additional account 40 "Release of products, (works, services)" and the formation of the regulatory cost price. This variant of accounting is preferred, as a rule, by production enterprises of a serial and mass type. They choose a standard method of accounting of expenses and calculation of product cost. The report reveals how such a variant of accounting for finished products distorts the real value assessment of the above-mentioned indicators of financial reporting. The financial analysis made on its basis doesn't allow to estimate truthfully dynamics of the remains of finished goods in a warehouse and a condition of work in progress, profitability of the sold products and efficiency of sales. Such accounting statements do not allow you to judge the size and dynamics of production costs. To obtain reliable results of economic analysis and business valuation, the above-mentioned articles of the financial statements are subject to special adjustment.

The report emphasizes the importance of preliminary acquaintance with the option of accounting for finished products for a proper understanding and "reading" of the articles of the financial statements.

Keywords*— *Accounting for finished products; Accounting method; Distortion of accounting (financial) statements; Adjustment of financial results; Methodology for adjusting the indicators of financial accounting makes

I. Introduction

It is generally known that the company's financial accounting is the main or one of the necessary information sources for analyzing its financial condition, assessing business efficiency and evaluating risks that precede making various management decisions. Financial accounting is an obligatory object of study in the diagnosis of financial insolvency of a business entity and economic security. Despite the development of methods of financial analysis and local types of economic analysis, as well as the improvement of technologies for professional assessment and audit activities, we have to admit that specialists still do not pay enough attention to the impact of various accounting methods on the formation of valuation of balance sheet items and financial indicators. The change in financial accounting due to the preference for a particular method for finished products accounting is not, in fact, revealed in scientific publications, in domestic educational publications, or in practical recommendations on disclosing financial accounting information depending on its use purposes [1, 2, 6]. Thus, elimination of this gap is in proper time and relevant. Moreover, it will be useful for interested users of the organization financial accounting, both internal and external, to learn how to adjust the values of financial indicators when the method of finished products accounting is used, the method that obviously leads to a distortion of the values of indicators forming the organization profit.

The influence of evaluation methods and methods of accounting for finished products on the indicators of financial accounting in Russia

Modern view on the need to adjust the indicators of financial accounting, depending on the choice of alternative methods of accounting

Procedures for verifying the reliability of financial accounting indicators against a backdrop of regular changes in accounting rules over the past decade neither have been changed significantly, nor complemented. The normalization of the organization's financial accounting has already become traditional, that is special processing of cost indicators for business evaluation, which increases the adequacy degree of the financial indicators values due to their "clearing" from the chosen accounting method influence [1]. However, according to the majority of scientific publications, similar preparation and processing of financial accounting is not required for financial analysis, the evaluation of financial and economic activities effectiveness and in other cases [2].

In our opinion, this is not always true, especially in case of the finished product accounting with the use of account 40 "Output of products, (works, services)." The choice of the finished product accounting method affects the formation of costs, and, consequently, the profit indicators of the organization. Thus, it is impossible not to take into account the possibility of financial results distortion, nor in the case of financial accounting normalization for the purposes of business evaluation, nor in the calculation and diagnosis of generalized indicators of economic efficiency of production and sales of products (works, services), nor in the case of financial analysis

As a rule, when normalization ways of the balance sheet and financial results report are being disclosed, the objects of adjustment are evaluation of inventories, depending on the method of their accounting, and the amount of depreciation of non-current assets, formed in accordance with its chosen accrual method [1,4].

Perhaps, O.V. Efimova presents the longest list of indicators, the results of calculation and interpretation of which depend on the chosen accounting policy, including unfinished production and the cost of finished products in this list along with other indicators[4].

II. EXPOSURE OF FINANCIAL ACCOUNTING INDICATORS TO DISTORTIONS DEPENDING ON THE CHOICE OF METHODS FOR FINISHED PRODUCTS EVALUATION AND METHODS FOR ITS ACCOUNTING

As the accounting policy is being developed in relation to the accounting of finished products, the system of normative and legal regulation of accounting in Russia [6,7,8,9] provides business entities with the possibility to choose the method of finished products evaluation and its accounting method [19, 20] .

Finished goods can be evaluated in one of the following ways: at the actual production cost; at the standard (estimated) production cost; at the sales prices (nominal or wholesale-negotiated).

Active account 43 "Finished Products" from the "Chart of Accounts" is meant for the generalization of information on the availability and movement of finished products. When forming the accounting policy, the organization chooses one of the two ways of accounting for finished products: they use account 40 "Release of products, (works, services)" along with synthetic account 43 and they don’t use it.

The second method is traditional [16]. In this case, the final product is evaluated at the actual production cost. Considering that analytical accounting of some types of finished goods is usually carried out at the planned cost price or wholesale prices, deviations of the actual cost of finished products from the evaluation in accounting prices are reflected in the entry Debit on account 43 "Finished products" and Credit on account 20 "The main production" separately on the subaccount for deviations accounting. As a result, we have a true value assessment of accounting indicators: finished goods in a warehouse, work in progress, cost, gross profit and sales profit.

The use of account 40 "Release of goods (works, services)" in the organization’s account "is based on the normative method of calculating the cost of finished goods and is possible when the value of production costs is formed in an estimate that differs from the actual costs of production, due to the use of discount prices.

Discount prices are applied by many organizations to provide current accounting and control over the process of finished products output. As a discount price, the sale price, target or normative cost of finished products may be used [4].

In such a situation, the cost of finished goods in the inventory is shown in the balance sheet at the standard cost, without taking into account the portion of deviations referring to the remainder of the finished goods in the warehouse. The entire amount of deviation between the normative and actual cost is written off to the financial result, as required by the application scheme for account 40 "Output of products (works, services)" [5]. Namely, the indicator "Cost of sales" will characterize not the actual cost price of sales, but the standard cost of sales, taking into account the total amount of deviation in the output for the reporting period. As a result, the indicators "Gross profit", "Sales profit", "Profit before taxation", "Retained earnings (uncovered loss)", "Net profit" will be distorted: if the deviation is positive - underestimated; and if the deviation is negative - overestimated.

Thus, the organization’s financial accounting that uses account 40 in its accounting practice is not a reliable information source of financial analysis, and its users are misled.

Adjustment of financial accounting indicators taking into account the evaluation method and the method of finished products accounting to increase the reliability of financial analysis results

The amount of deviation between the actual and standard cost of the output (the amount of the accounting entry Debit 90.2 " Cost of sales" Credit 40 "Output of products (works, services)") affects the financial result of the organization without taking into account the volume of sold products. As a result, it becomes necessary to determine the deviation sum referring to the stock-in-trade and to adjust certain articles of the financial accounting.

The adjustment of the financial accounting, in our opinion, should be carried out by preliminary calculating the amount of the deviation between the standard and actual values of the finished product, referring to its balance. We propose to name this difference "The amount of deviation for the remainder" ($\sum_{\text{for the remainder}}^{\text{deviations}}$). The above mentioned indicator can be calculated according to the formula:

$$\sum_{for\ the\ remainder}^{deviations} = \left(\frac{A_c(\text{Dt 40 Ct 20})}{S_c(\text{Dt 43Ct 40})} - 1\right) * S_c(R\ 43) \quad (1)$$

Where A_c - actual cost of the finished product – the sum of entry Dt 40 Ct 20 for the reporting period or credit turnover of account 20 minus the amount of returnable waste;

S_c - standard cost of the finished product - the sum of entry Dt 43 Ct 40 for the reporting period or debit turnover of account 43 minus the amount of product cost returned by the buyers.

Further adjustments are made to two items of the balance sheet - "Stocks" in the asset and "Retained earnings (uncovered loss)" in the liability. In addition, several indicators of the financial results report are also subject to adjustment. In the first place, it concerns the indicator "Cost of sales", because this indicator requires “clearance” of the deviation amount referring to the remainder of the finished product.

Table 1 shows the procedure for adjusting the indicators of financial accounting when there is a positive deviation between the standard and the actual cost of output.

Table1. The procedure of adjustment of the financial accounting items

Form of financial accounting	Balance sheet item / Financial results report indicator	Procedure of adjustment
Balance sheet	"Stocks" (Finished products)	+ $\sum$ deviations for the remainder
Balance sheet	"Retained earnings (uncovered loss)"	+ $\sum$ deviations for the remainder
Financial results report	"Cost of sales"	- $\sum$ deviations for the remainder
Financial results report	"Gross profit"	+ $\sum$ deviations for the remainder
Financial results report	"Profit (loss) before tax"	+ $\sum$ deviations for the remainder
Financial results report	"Net profit"	+ $\sum$ deviations for the remainder

The proposed methodology for adjusting the indicators of financial accounting makes it possible to increase its reliability as an analytical information source and facilitates well-reasoned management decision making.

References

[1] Shcherbakov, V.A., Shcherbakova, N.A.: The valuation of the enterprise (business). Omega-L, Moscow (2006).

[2] Gryaznova, A.G., Fedotov, M.A., Eskindarov, M.A., Tazikhina, T.V.: The valuation of the enterprise (business). INTERREKLAMA, Moscow (2003).

[3] Pasko Y.S.: Disclosure of information on the formation and distribution of profits in the financial statements. Internet-journal Naukovedenie 6 (37), 151 (2016).

[4] Efimova, O.V.: Financial analysis: a modern tool for making economic decisions: a textbook. 4th edn. Publishing House «Omega-L» (2013).

[5] The chart of accounts for the accounting of the financial and economic activities of the organization and Instructions for its application: Order No. 94n of the Ministry of Finance of the Russian Federation of October 31, 2000 (as amended on 08.11.2010)

[6] Accounting policy of the organization (PBU 1/2008), approved by Order of the Russian Ministry of Finance of 06.10.2008 № 106n.

[7] Accounting of inventories (PBU 5/01). approved by Order of the Russian Ministry of Finance of 09.06.2001 No. 44n

[8] Income of the organization (PBU 9/99): Order of the Ministry of Finance of Russia dated May 6, 1999 No. 33n

[9] Chart of accounts for the accounting of the financial and economic activities of the organization and Instructions for its application: Order No. 94n of the Ministry of Finance of the Russian Federation of October 31, 2000 (as amended on 08.11.2010)

[10] Petrova V.Yu.: Evaluation of finished products: accounting and tax accounting. Accounting (1), 21 - 26 (2015).

[11] Petrova V.Yu.: Evaluation of finished products: accounting and tax accounting. Accounting (2), 35 - 39 (2015).

[12] Chernova V.O. : Accounting and management accounting of the cost of finished products. The theory and practice of modern science 12 (30), 756 - 762 (2017).

[13] Kruglova V.Yu. : Evaluation of finished products: accounting and tax accounting. Accounting 9, 25 - 32 (2016).

[14] Kruglova V.Yu. : Evaluation of finished products: accounting and tax accounting. Accounting 10, 37 - 41 (2016).

[15] Tyumenev Yu.A. : Accounting of finished products in an industrial enterprise. New science: financial and economic fundamentals 1, 257 - 260 (2017).

[16] Kerimov V.E.: Method of accounting issued and sale of finished products on polygraphic enterprises. Accounting in publishing and printing 6, (2007).

[17] Katashevich Y.A., Gabeau L.A. : Accounting for the cost of production and sale of finished products. Bulletin of Youth Science 2 (9), 419 - 425 (2017).

[18] Starchenko E.V. : Normative regulation of accounting of finished products at commercial enterprises. Innovative science 6 (6), 154 -158.

[19] Karimova E.Ya., Murzagalina G.M. : Regulatory regulation of finished products accounting. Scientific discussion: innovations in the modern world 11 (54), 44 -47 (2016).

[20] Popova A.V., Ilyicheva E.V. : Regulatory regulation of finished products accounting. Comparison of IFRS 02 and PBU 5/01. In: ECONOMIC DEVELOPMENT OF THE COMPANY IN THE PRESENT CRISIS CONDITIONS 2016, ISPC, pp. 85 -89 (2016).

[21] Alimbekova G.F. : Regulatory and legal regulation of accounting for finished products. NovaInfo.Ru. 2nd p. 66 pp.175 - 179 (2017).