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

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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 accounting 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 formalization 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"
\[ \sum \text{deviations for the remainder} \]
\[ \sum \text{deviations for the remainder} = \frac{\text{Debit} 40 - \text{Credit} 43}{\text{Credit} 40} \]

Where \( A_\text{c} \) - 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;

\( S_\text{c} \) - 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.

Table 1. The procedure of adjustment of the financial accounting items

<table>
<thead>
<tr>
<th>Form of financial accounting</th>
<th>Balance sheet item / Financial results report indicator</th>
<th>Procedure of adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet</td>
<td>&quot;Stocks&quot; (Finished products)</td>
<td>+ [ \sum \text{deviations for the remainder} ]</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>&quot;Retained earnings (uncovered loss)&quot;</td>
<td>+ [ \sum \text{deviations for the remainder} ]</td>
</tr>
<tr>
<td>Financial results report</td>
<td>&quot;Cost of sales&quot;</td>
<td>- [ \sum \text{deviations for the remainder} ]</td>
</tr>
<tr>
<td>Financial results report</td>
<td>&quot;Gross profit&quot;</td>
<td>+ [ \sum \text{deviations for the remainder} ]</td>
</tr>
<tr>
<td>Financial results report</td>
<td>&quot;Profit (loss) before tax&quot;</td>
<td>+ [ \sum \text{deviations for the remainder} ]</td>
</tr>
<tr>
<td>Financial results report</td>
<td>&quot;Net profit&quot;</td>
<td>+ [ \sum \text{deviations for the remainder} ]</td>
</tr>
</tbody>
</table>

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.

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