

The Specific Features of the Assessment and Accounting of Goods in Consignment Trade

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Abstract: *The complex commercial activity consists of paying attention to the specific economic relationships with partners, such as sales in consignment, whose legal treatment is implemented by the provisions of the Civil Code of Republic of Moldova, Chapter 15. These provisions refer to the managing procedure of the commission agreement, the execution of the obligations and legal act concluded by the salesman, the payment and compensation of the salesman's expenses, and also the severance of the salesman contract. The mechanism and the accountancy methodology of the economic and financial operations reflecting in accounts, which are generated by the consignment sales, are imposed by the National Standards of Accountancy principles.*

Keywords: *principal, consignee, consignment, commission agreement*

Introduction

Consignment marketing is a consignment form that assures the disjunction of materials which belong to physical people or legal entities.

The materials intended for sale through the instrumentality of consignment may be new or obsolete, but they have to be usable and also under a commercial appearance.

The article 1061 of The Civil Code defines the commission agreement as “agreement in which one of the contractors (commission agent) commits to close juridical documents on his behalf, but on the other contractors’ account (principal) that will pay an emolument (commission)”.

Principal –is a person that entrusts to a commission agent the implementation of a commercial or financial operation on his account.

Commission agent – is a person that transacts commercial affairs on his behalf, on the account of another person, in exchange for a yield.

1. Juridical Treatment of Consignment Marketing

The complexity of the commercial activity imposes paying attention to the specific economic relationships with the partners; e.g. the consignment sales, its juridical treatment being settled by the 15th chapter’s precognitions of the Civil Code of Republic of Moldova. The precognitions refer to the utilization procedure of the commission agreement, the execution of the obligations and the juridical document signed by the commission agent, the emolument and the clearing of the commission agent’s expenses, and also the manner of rescinding the commission agreement [1].

Two categories of references are created through the commission agreement’s closure:

- ✓ References of rights and obligations from the agreement between the principal and the commission agent;
- ✓ References of rights and obligations from the agreement closed by the commission agent based on the given empowerment – between the commission agent and the buyers.

Based on the precognitions of the Tax Code, the fiscal obligation with respect to the VTA appears during the transference of the merchandises from the principal to the commission agent. According to the article 107, par., (1) of the Tax Code, the transference of the merchandises from the principal to the commission agent and vice versa, as well as the transference of the merchandises by the commission agent to the buyer requires merchandises release [2].

Regarding the precognitions and the explanations mentioned above, the transference of the merchandises to the committee from the principal to the commission agent is founded through the deliverance of the tax account.

The development of the operations specific to the consignment marketing, in addition to the concrete proceeding of documentation and execution are stipulated in *The rules of the consignment marketing no 1010 dated on the 31st of the October 1997, Official Gazette no 79-80/814 dated on the 02nd of December 1997* [4]. The commerce of the merchandises through consignment units, specialized for this type of marketing, compared to the usual commerce of the consignment present some particularities which influence the accountancy established as it follows:

- The receiving of the merchandises in consignment is registered in the consignment agreement at the evaluation price, dealt with the principal. Regarding the current legal precognitions, the merchandises intended for consignment sale which are received from the principals or economic agents, are registered also in the shipping papers (waybill, tax bill, delivery note etc.). An exception from this rule are the merchandises received from the principals in inventories, more exactly physical people, unrecorded as economic agents;
- According to the 27th paragraph of the Rules – which provides the fact that the order, terms and measurements of the received merchandises' reassessment at consignment are assessed by the commission agent and the principal at the consignment agreement closure, respecting the following conditions:
 - a) The commission agent has the right to reduce 20% of the unsold merchandises' price in process of 20 working days. At the end of another 20 working days after the first reassessment, the commission agent reduces again 30% of the price compared to the one established at the first reassessment. If these merchandises were not sold during the next 20 working days, the commission agent would decay with 50% the price established after the 2nd reassessment. If the merchandises have not been sold after the 3rd reassessment, the trade would have decayed the price up until safe marketing;
 - b) At the principal request, the price of the received object may be reduced before the due date established by the current Rules, however the price should be reduced at least 10% until the expiration of the first reassessment established by the commission agent;
 - c) The due dates of the next reassessment are calculated in the day after the perfection of the reassessment document;
 - d) All merchandise reassessments are accomplished without the principal contribution, his signature being needed for the acceptance of these conditions, according to the consignment agreement [4].

2. Merchandise Assessment and Documentation

The merchandise assessment that enterprises the circulation object operates under two price categories:

- Assessment prices;
- Marketing prices.

The assessment price can be established either by the underwriters from the welcoming offices or by the merchandises' owner, or by the involved partners by means of settlement. The level of price is correlated with the similar merchandises' price and with the eventual merchandises depreciation.

The marketing price is composed of:

- The assessment price;
- The consignment commission (applied to the assessment price);
- The eventual commission VAT (if the organisation if VAT payer) [3, the 171st p.].

The commission of the assessment price ensures the organisation after covering its own expenses and a profit. Regarding the main particularity, the elaboration of the consignment agreement highlights the following:

1. It serves as:

- a) The receiving/delivery proof of the marketing merchandises in consignment;
- b) Payment document given to the principal;
- c) Accounting recording document.

It is compiled by the commission agent in 2 copies. At the merchandise's receiving, it is accomplished the description of the merchandise's characteristics (merchandise docket) and the establishment of the marketing price in terms of the assessment price, the commission value and the VAT.

- 1.1. Both copies, in addition to the merchandise docket, are signed by the principal and the commission agent, the first copy being handed to the principal as delivery proof for consignment marketing.
 - 1.2. The price sales are computed based on a signed declaration of the principal, where the due dates and the relative size of the reassessment are specified. The results are further reflected in the reassessment file, the merchandise docket and in the blanks from the consignment agreement.
 - 1.3. The restorations (the revocations) are made at the principal request, its expenses for the merchandise keeping being recovered.
 - 1.4. The principal collects the sold merchandise value in consignment based on the agreement signed by him in the intended blank, contained in the file from the 2nd agreement copy. This copy establishes the legitimate document for the registered accomplishments in the organisation accounting consignment.
2. It moves on at:
- a) The principal for the delivery merchandise confirmation to the consignment marketing (1st sample);
 - b) The pay office for the emolument (1st sample);
 - c) The financial-accountant compartment (2nd sample).
3. It archives to the financial-accountant compartment (1st and 2nd sample).

According to the National Standard of Accountancy "Proceeds", the capital is determined only after the effective marketing of the finite products and of the merchandises to the third parties. Hence for the delivered merchandises based on a commission agreement, the recognition moment of the capital is given to the delivered merchandises by the principal clients [7]. Simultaneously, from the point of view of the VAT rating in the 3rd title of the Tax Code, the commission agreement is assimilated to the marketing-purchasing agreement and it establishes the fact that the tax obligation concerning the VAT appears in the moment of merchandises transference from the principal to the commission agent [2].

3. Merchandise Accountancy in Consignment Marketing

Hence, at the transaction accountancy which takes place within the scope of the commission agreement, the following particularities need to be highlighted [6, 7th and 8th p.]:

To the principal:

- a) The merchandises transference from the principal to the commission agent is founded through the tax bill redemption with the mention of "Merchandises transferred to consignment". The audit value of the commission agent's transference merchandises is reflected in the separately-opened subaccount at the 217th account "Merchandises";
- b) The tax commitment regarding the merchandises transference moment to the commission agent is determined starting from the value of the merchandises which will be sold to the clients. Based on the emitted tax bill, it is established the accountancy formula for the VAT sum associated with the merchandises marketing value transmitted to consignment:
The 221st debit account "Commercial claim"
The 534th credit account "Liabilities towards budget"
- c) At the recording of the commission agent claims specific to the transferred merchandises at consignment, the principal may choose one of the following evidence versions, which will be specified in the accountant politics:
1st version: The principal registers the commission agent claims specific to the transferred merchandises at consignment in the 920th extra audit account "Contingent claims";
2nd version: The principal reflects upon the commission agent claims specific to the transferred merchandises at consignment as an increment of the claims concerning the offsets with the commission agent within a separated subaccount open at the 221st account "Commercial claims", simultaneously with the recording of the anticipated proceeds:
 - i. The costs of the merchandises marketing under the provided conditions of the agreement are recorded by the accounting formula:

- The 712th debit account "Distribution expenses",*
The 211th credit account "Materials",
The 531st credit account "Indebtedness towards the employees regarding the working remuneration",
The 532nd credit account "Indebtedness towards the employees regarding other operations",
The 533rd credit account: "Indebtedness regarding the social and medical assurances" etc.
- ii. The capital recognition from the sale cut out for the merchandises marketing of the buyers:
- In case of the 1st version implementation of reflecting towards the commission agent claims:
The 221st debit account "Commercial claims",
The 611th credit account "Proceeds from marketing",
 And simultaneously:
The 920th credit account "Contingent claims";
 - In case of the 2nd version implementation towards the principal claims:
The 515th debit account "Current anticipated proceeds",
The 611th credit account "Proceeds from marketing";
- iii. The audit value offset of the transferred merchandises at consignment based on their accountancy is reflected through the accounting formula:
The 711th debit account "Proceeds cost",
The 217th credit account "Merchandises";
- iv. The costs regarding the computed commission are registered through the accounting formula:
The 712th debit account "Distribution costs",
The 544th credit account "Other current indebtedness";
- v. The VAT associated with the commission service is reflected through the accounting formula:
The 534th debit account "Indebtedness towards budget",
The 544th credit account "Other current indebtedness";
- vi. The reciprocal compensation of the claims and debts specific for the proceedings with the commission agent is registered as:
The 544th debit account "Other current indebtedness",
The 221st credit account "Commercial claims";
- vii. The cash in of money faculties from the commission agent (minus the retained commission) is registered through the accounting formula:
The 241st debit account "Building" or the 242nd debit account "Current accounts in national currency",
The 221st credit account: "Commercial claims".

To the commission agent:

- a) The inventory of the received merchandises from the principal is kept in the 916th extra audit account "Received assets based on the commission agreements" at the sale value established in the agreement;
- b) The transfer in account of the VAT calculated from the total value of the marketing merchandises according to the tax bill received from the principal is reflected through the accounting formula:
The 534th debit account "Indebtedness towards budget",
The 544th credit account "Other current indebtedness";
- c) In case of recording the debts towards the principal specific to the received merchandises in consignment (without VAT), the commission agent has the right to choose one of the following evidence versions, which will be implemented in his accounting politics:
1st version: The commission agent records the debts towards the principal specific to the received merchandises in consignment in the 923rd extra audit debit account "Received assurances";
2nd version: The commission agent reflects the debts towards the principal, simultaneously with the recording of the buyers' claims through the accounting formula:

- The 221st debit account "Commercial claims",
The 544th credit account "Other current indebtedness";*
- d) The computation of the VAT based on the tax bill emitted to the buyers' address is reflected through the accounting formula:
*The 221st debit account "Commercial claims"
The 534th credit account "Indebtedness towards budget";*
- e) The cash in of money faculties from the buyers is registered through the accounting formula:
*The 241st debit account "Building" or the 242nd debit account "Current accounts in national currency",
The 221st credit account "Commercial claims";*
- f) The proceeds recognition as commission is reflected as it follows:
*The 221st debit account "Commercial claims",
The 611th credit account "Proceeds from sales";*
- g) The VAT computation from the commission service value is reflected through the accounting formula:
*The 221st debit account "Commercial claims",
The 534th credit account "Indebtedness towards budget";*
- h) The restraint of the income tax in 7% at the debts discharge towards the principals – physical entities is registered through the accounting formula:
*The 544th debit account "Other current indebtedness",
The 534th credit account "Indebtedness towards budget";*
- i) The reciprocal compensation of the claims and debts specific to the proceeding with the principal is registered as:
*The 544th debit account "Other current indebtedness",
The 221st credit account "Commercial claims";*
- j) The redemption of the debts towards the principal (without the retained commission) is registered through the accounting formula:
*The 544th debit account "Other current indebtedness",
The 242nd credit account "Current accounts in national currency";*
- k) The accumulation of the supported costs for the commission agreement realization is reflected through the accounting formula:
*The 811th debit account "Basic activities",
The 211th credit account "Materials",
The 531st credit account "Indebtedness towards the employees regarding the working remuneration",
The 532nd credit account "Indebtedness towards the employees regarding other operations",
The 533rd credit account "Indebtedness regarding the social and medical assurances", etc.;*
- l) The offset of expenses at the end of the month regarding the supported costs for the commission agreement realization is registered through the accounting formula:
*The 711th debit account "Marketing costs",
The 811th credit account: "Basic activities".*

4. The Merchandises Accounting Exemplification in Consignment Marketing

Next we will present the accounting method of the operations included in the commission contract through some examples.

Example 1. In February 2015, according to the commission contract of "Sigma" SRL paying the VAT as the commission agent received a 12000 worth cargo, including the VAT rate from "Beta" SA. The cargo was traded in March 2015. In the accountancy of "Beta" SA, the expenses of the cargo had a value of 8200 RON. According to the articles of the closed commission contract, the value of the commission for the cargo is 15% of the selling value, without including the VAT rate. Principal and the commission agent will account the economic operations necessary for the commission contract in the following way.

Table no. 1 Accounting recordings at the principal

No	Content of the economic operations	Sum [lei]	Accounts correspondence	
			Debit	Credit
1	2	3	4	5
February 2015				
1.	Merchandises transferred to the commission agent, delivery price without VAT	10000	217	217
2.	The VAT reflection specific to the merchandises transferred to the commission agent	2000	221	534
3.	The marketing values recording (without VAT) of the merchandises transferred in consignment	10000	221	535
March 2015				
4.	The marketing value reflection (without VAT) of the sold merchandises	10000	535	611
5.	The cassation of the sold merchandises costs from the principal's deposit	8200	711	217
6.	The commission computation specific to the sold merchandises, without VAT [(12000 – 12000/6) * 15%]	1500	712	544
7.	The VAT calculation at the commission value (1500 * 20%)	300	534	544
8.	The reciprocal redemption of the claims and debts specific to the sold merchandises	1800	544	221
9.	It has been received money facilities from the commission agent, without the retained commission (12000 - 1800)	10200	242	221

Table no. 2 Accounting recordings of the commission agent

No	Content of the economic operations	Sum [lei]	Accounts correspondence	
			Debit	Credit
1	2	3	4	5
February 2015				
1.	The received merchandises from the principal	10000	916	
2.	The VAT reflection specific to the received merchandises	2000	534	544
3.	The marketing value recording (without VAT) of the received merchandises in consignment	10000	221	544
March 2015				
4.	The marketing value reflection (without VAT) of the sold merchandises	10000		916
5.	The VAT computation specific to the sold merchandises	2000	221	534
6.	The cash in of the buyer's claim regarding the sold merchandises	12000	242	221
7.	The commission computation (without VAT) [(12000 – 12000/6) * 15%]	1500	221	611
8.	The VAT computation form the commission value (1500 * 20%)	300	221	534
9.	The reciprocal redemption of the claims and debts specific to the sold merchandises	1800	544	221
10.	The transference of the money facilities from the commission agent, without the retained commission (12000 - 1800)	10200	544	242

Example 2. Based on the closed commission agreement “Sigma” SRL (paying the VAT), as a commission agent, he received tires in value of 7200 lei from Rusu A., physical entity. The commission consists 30% of the sale value, without VAT.

Table no. 3 Accounting recording at the commission agent

No	Content of the economic operations	Sum [lei]	Accounts correspondence	
			Debit	Credit
1	2	3	4	5
1.	Reflecting the receipt of the tires from the physical entity	7200	916	
2.	Booking the sales value (without VAT) of the received tires	7200	221	544
3.	The offset of the selling value of the sold tires	7200		916
4.	Reflecting the selling value (without including the VAT rate) of the sold tires	7200	241	221
5.	Calculating the VAT of the sold tires (7200*20%)	1440	241	534
6.	Calculating the commission of the sold tires (7200*30%/6*5)	1800	221	611
7.	Analyzing the TVA rate of the calculated commission (1800*20%)	360	221	534
8.	Reciprocal adjustment of the claims and debts of the sold tires	2160	544	221
9.	Holding the income tax to the payment source [(7200-2160)*7%]	352,80	544	534
10.	Repaying the debt to the COMITENTUL - the physical person (7200-2160-352,80)	4687,20	544	242

Conclusions

The merchandises belonging to the third parties are part of the entity’s heritage, but there also in other enterprises for a determined period of time.

The merchandises evaluation in case of consignment operates under two price categories: assessment prices and marketing prices. The participants of the consignment operations are in this case: the principals and the commission agents.

The commission agents are provided with a commission and they support all the expenses connected with merchandises dribbling, if it is their fault. The effected costs of the commission agents in the principals’ account are supported by them.

References

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