

# RETAIL ACCOUNTING

Florin-Constantin Dima<sup>1</sup>

**Abstract:** *The starting point of this article was the importance that the stocks of goods have in the development of the economic entities' activity and from the particulars of bookkeeping of the retail price goods. The goods are one of the main components of the stocks. The retail stock method approximates the cost of the goods sold and it is often used in retail. In this method the cost of the inventories is calculated by deducting the gross margin from the sale price of the stocks. The retail stock method involves its own methodology for calculating the selling price of the goods, as well as for downloading from the inventory the value of the goods sold, a methodology which is analysed in this article.*

**Keywords:** *stocks, goods, purchase cost, commercial added value, retail price*

**JEL classification:** M41

## 1. Introduction

There are several issues related to the method of accounting for merchandise stocks at retail price, including:

- what are stocks?
- what are the goods?
- what is the use of the accounting method of goods at retail price?
- accounting method that involves using goods at retail price?

We shall try to answer all these questions below, as well as possible.

## 2. Literature

Given that in the trade activity the stocks, in general, and the commodities, in particular, occupy a central place, their accounting is a common topic in the literature. Regarding their definition we will only review the approach in terms of national and international accounting rules.

IAS 2 "Inventories" define stocks as active:

- held for sale during the normal course of the business activity;
- under production for such sale; or
- as types of materials or supplies to be used in the production process or performance of services.

Inventories are also defined in the national legislation within the OMPF 1802/2014 for approval of the Accounting Standards on the annual individual and consolidated financial statements, similarly with the definition from IAS 2 "Inventories".

Inventories are "goods purchased by the entity for resale" (Claudia Burtescu - eds., 2008).

Goods may be defined as property owned by the entity "for resale or products presented for sale in one's own outlets" (Magdalena Mihai, Florin-Constantin Dima – eds., 2013).

Regarding the method of goods at retail price, it "approximates the cost of the goods sold" (Dumitru Vişan, Corneliu Burada, Dorina Luță – eds., 2006) and it is often used "in the retail industry for measuring the cost of the large numbers and rapidly changing stocks of items, which have similar margins and for which it is not practical to use another costing method" (Dorina Luță – eds., 2012).

## 3. Research Methodology

The approach is based on the utility of the stocks at retail price method and it envisages the formation of the retail price, as well as the mechanism for the specific calculation. Thus, the following aspects are analysed:

- calculation of the trade margins;
- calculation of the retail price;
- calculation of the coefficient of discharge of goods sold;
- necessity and utility of the stocks at retail price method.

---

<sup>1</sup> PhD Associate Professor, "Constantin Brâncoveanu" University, Pitești, dimaflorin\_constantin@yahoo.com

#### 4. Components of the retail price

The retail price of the goods consists of their acquisition cost, plus the trade margins and the VAT. By adding up the cost of acquisition with the trade margins, we obtain the retail price, excluding the VAT. The establishment of the value of the retail price components of the goods takes place as follows:

- the cost of acquisition: it results from the documents of the acquisition of the goods issued by the suppliers plus, if applicable, the transportation costs – supply and other expenses directly attributable to that acquisition;
- the trade margin or the gross margin: it is calculated by applying the commercial addition share practiced by the entity on the acquisition cost;
- VAT under settlement: it is included in the price and it is established by applying the statutory rates of VAT on the amount of the purchase cost and the trade margins or, in other words, on the retail price, excluding the VAT.

#### 5. Calculation of cost of the goods sold

The calculation of the cost for the goods sold and for the other components of the retail price is made at the end of each month on the reverse path of its formation, as follows:

- VAT not due in related to the goods sold equals the VAT collected related to the goods sold; By subtracting the VAT not due in, related to the goods sold, from the retail price, we obtain the proper price.
- the trade margins for the goods sold is calculated based on the distribution coefficient, as follows:

<i>Distribution coefficient</i>	=	$\frac{\begin{array}{l} \text{378 account credit balance at} \\ \text{the beginning of the year} \end{array} + \begin{array}{l} \text{Credit turnover of account 378} \\ \text{cumulated from the beginning of the} \\ \text{year until the end of the reference month} \end{array}}{\begin{array}{l} \text{The debit balance of account 371} \\ \text{from the beginning of the year} \\ \text{(retail price without VAT)} \end{array} + \begin{array}{l} \text{Credit turnover of account 371} \\ \text{cumulated from the beginning of the} \\ \text{year until the end of the reference month} \\ \text{(retail price without VAT)} \end{array}}$
<i>The amount of the trade margins related to the goods sold</i>	=	$\begin{array}{l} \text{The value of the goods sold at retail price} \\ \text{without VAT (credit turnover of account 707)} \end{array} \times \begin{array}{l} \text{Distribution} \\ \text{coefficient} \end{array}$

Since the goods are recorded at the retail price that also includes the VAT, for calculating the distribution coefficient of the trade margins, recalculation of the VAT rate is required following the procedure of the increased hundred:

$$\text{VAT recalculated rate} = \frac{100 \times K}{100 + K}, \text{ where } K = \text{VAT rate}$$

The VAT recalculated rate is applied to the retail price with VAT and, by difference, the actual selling price of the goods is obtained; this is used when the entity collects the VAT also from other economic-financial operations than from the trade of goods at retail price and in the turnover of account 4427 there are also other amounts than the VAT collected and related to the goods sold;

- the cost of the goods sold is calculated as the difference between the actual selling price and the trade margin related to the goods sold, established according to the methodology above.

#### 6. Accounting for goods at retail price

From what we have analysed so far it results that the accounting operations related to records of the goods at retail price are related to: the entry, the sale and the subtraction from the administration. For better understanding them, we consider the situation in which S.C. Alfa S.R.L. presents the following matters on goods in May, N year:

- stock of merchandise on 01st May, N 840,000 lei, of which 200,000 lei trade allowance and 240,000 lei VAT not due;
  - purchases of goods in May, N: acquisition cost 400,000 lei, VAT 20%. 40% share of practiced trade allowance;
  - Sales of goods in May, N: 800,000 lei, VAT 20%.
- Accounting operations in May, N:

- entry under management of the goods bought:  
- registering the goods at the purchase cost based on the invoices from the suppliers:

400,000	% <b>371</b> Goods	=	<b>401</b> Suppliers	480,000
80,000	<b>4426</b> VAT deductible			

- calculation and registration of the goods at retail price, based on the input reception Note:

Retail price (PVA) = Acquisition cost (Ca) + Trade allowance (Ac)  
+ VAT under settlement (TVAn)

Trade allowance (Ac) = Acquisition cost (Ca) x share of trade allowance (KAc)

TVAn = (Ca + Ac) x VAT share (Ktva)

Ac = 400,000 x 40% = 160,000 lei

TVAn = (400,000 + 160,000) x 20% = 560,000 x 20% = 112,000 lei

PVA = 400,000 + 160,000 + 112,000 = 672,000 lei

272,000	<b>371</b> Goods	=	% <b>378</b> Price differences in goods	160,000
			<b>4428</b> VAT under settlement	112,000

- the sale of goods at retail price:

960,000	<b>5311</b> Cash register in lei	=	% <b>707</b> Income from the sale of goods	800,000
			<b>4427</b> VAT collected	160,000

- derecognising the goods sold:

The calculations for unloading the management of the goods sold:

- VAT not due corresponding to the goods sold is reflected in the account 4427 "VAT collected," being in the amount of 160,000 lei;

- The calculation of the distribution coefficient to establish the value of the trade allowance for the goods sold:

$$\text{Distribution coefficient} = \frac{200,000 \text{ lei} + 160,000 \text{ lei}}{(840,000 \text{ lei} + 672,000 \text{ lei}) - (240,000 \text{ lei} + 112,000)} = 0,31$$

Amount of the trade allowance = 800,000 lei x 0,31 = 248,000 lei

**Cost of goods sold** = 800,000 lei – 248,000 lei = 552,000 lei

552,000	% <b>607</b> Expenditure on goods	=	<b>371</b> Goods	960,000
248,000	<b>378</b> Price differences in goods			
160,000	<b>4428</b> VAT under settlement			

D		371 Goods		C	
S <sub>i</sub>	840,000		960,000		
	400,000				
	272,000				
RD	672,000	RC	960,000		
TSD	1,512,000	TSC	960,000		
		SFD	552,000		

D		378 Price differences in goods		C	
		S <sub>i</sub>	200,000		
			160,000		
	248,000				
RD	248,000	RC	160,000		
TSD	248,000	TSC	360,000		
	112,000				
SFC					

D		4428 VAT under settlement		C	
	160,000	S <sub>i</sub>	240,000		
			112,000		
RD	160,000	RC	112,000		
TSD	160,000	TSC	352,000		
SFC	192,000				

D		707 Income from the sale of goods		C	
			800,000		
RD		RC	800,000		
TSD		TSC	800,000		
SFC					

D		4427 VAT collected		C	
			160,000		
RD		RC	160,000		
TSD		TSC	160,000		
SFC					

D		5311 Cash register in lei		C	
	960,000				
RD	960,000	RC			
TSD	960,000	TSC			
		SFD	960,000		

## 7. Conclusions

The retail price method has its own methodology of making it starting from the acquisition cost of the goods plus the trade margins and the VAT under settlement. Moreover, upon unloading the goods sold from the management, the same calculation methodology is followed, only it is in reverse.

The stocks method at retail price is frequently used in retail because it allows the establishment of the cost of the goods sold for the stocks of large number and fast moving items.

## 8. References

- Burtescu, C., (eds.), 2008, "Contabilitate generală" [General Accounting], Editura Independența Economică, Pitești
  - Mihai, M., Dima, F.C. (eds.), 2013, "Contabilitate publică pentru începători" [Public Accounting for Beginners], Editura SITECH, Craiova
  - Ristea, M. (eds.), 2005, "Contabilitatea financiară a întreprinderii" [The Company's Financial Accounting], Editura Universitară, Bucharest
  - Vișan, D., Burada, C., Luță D. (eds.), 2006, "Contabilitate financiară" [Financial Accounting], Editura Independența Economică, Pitești
  - Vișan, D., Burada, C., Burtescu, C. (eds.), 2006, "Contabilitate financiară" [Financial Accounting], Editura Independența Economică, Pitești, vol. I and II
  - The Body of Expert and Licensed Accountants of Romania, "Practical Guide of applying the Accounting Regulations on the annual individual statements and the consolidated annual financial statements approved by the Ministry of Public Finance no. 1802/2014", CECCAR Publishing House, Bucharest, 2015
- \*\*\* "International Financial Reporting Standards – IFRS: official rules issued from 1 January 2015: it contains the standards that come into force after 1 January 2015, but it does not include the standards that they replace" IFRS Foundation – 7th ed., revised – Bucharest: CECCAR, 2015