A. Accounting basics

1. The accounting system

Management accounting develops accounting information for internal decision makers (the managers).
Financial accounting is aimed at external users, through four basic financial statements and related disclosures.

2. The financial statements

- *The balance sheet* discloses the economic resources owned by the enterprise and its liabilities to others.
- *The income statement* contains information on the company's ability to sell goods for more than the cost to produce them.
- *The statement of retained earnings* (or statement of changes in equity) informs the users on the amount of income reinvested in the company for future growth.
- *The statement of cash flows* reports inflows (receipts) and outflows (payments) of cash during the accounting period in the categories operating, investing, and financing.
- The notes to the annual financial statements contain all the necessary information regarding accounting policies.

3. The elements of the financial statements

For the balance sheet:

- *Assets* are the economic resources owned by the company and resulting from past transactions.
- *Liabilities* are the company's debts or obligations resulting from past transactions.
- *Stockholders' equity* indicates the amount of financing provided by owners of the business and earnings.

For the income statement:

- Companies earn *revenues* from the sale of goods or services to customers, as well as from other sources, like interest.
- *Expenses* represent the amount of resources the entity used to earn revenues during the period.

Assets	**Stockholders' Equity**
Cash	Contributed Capital
Short-Term Investments	Retained Earnings
Accounts Receivable	
Notes Receivable	**Liabilities**
Inventory (to be sold)	Accounts Payable
Supplies	Accrued Expenses
Prepaid Expenses	Payable
Long-Term Investments	Notes Payable
Equipment	Taxes Payable
Buildings	Unearned Revenue
Land	Bonds Payable
Intangibles	
Expenses	**Revenues**
Cost of Goods Sold	Sales Revenue
Wages Expense	Fee Revenue
Rent Expense	Interest Revenue
Interest Expense	Rent Revenue
Depreciation Expense	Service Revenue
Advertising Expense	
Insurance Expense	
Repair Expense	
Income Tax Expense	

4. Types of cash flows

- Cash flows from *operating activities* are cash flows that are directly related to earning income.
- Cash flows from *investing activities* include cash flows related to the acquisition or sale of the company's productive assets.
- Cash flows from *financing activities* are directly related to the financing of the enterprise itself.

5. The accounting equations

The *basic accounting equation* (the financial position of the company): Assets = Liabilities + Stockholders' Equity

The *income statement equation*: Revenues – Expenses = Net Income

The *retained earnings equation*: Beginning Retained Earnings + Net Income – Dividends payable (liability) = Ending Retained Earnings

6. Accounting assumptions

- The *separate-entity assumption* states that each business's activities must be accounted for separately from the activities of its owners, all other persons, and other entities.
- Under the *unit-of-measure assumption*, each business entity accounts for and reports its financial results primarily in terms of the national monetary unit.
- Under the *continuity assumption* (sometimes called the going-concern assumption), a business normally is assumed to continue operating long enough to meet its contractual commitments and plans.
- The *accrual basis of accounting* imposes that revenues and expenses are recognized when the transaction that causes them occurs, not necessarily when cash is received or paid. That is, revenues are recognized when they are earned and expenses when they are incurred.

7. The account

Transactions are events which have an economic impact on the entity and are recorded as part of the accounting process.
The account is a standardized format used to accumulate the monetary effect of transactions on each accounting item.
A *chart of accounts* is a list of all account titles and their unique numbers. Romania has a standardized chart o accounts for all enterprises. The T-account has a left side (debit) and a right side (credit).

Assets	=	**Liabilities**
↑ with Debits		↑ with Credits
Accounts have debit balances		Accounts have credit balances
		+
		Stockholder's Equity
		↑ with Credits
		Accounts have credit balances

Expenses	=	**Revenues**
↑ with Debits		↑ with Credits

8. The journal entry and transaction analysis

Every transaction has at least two effects on the basic accounting equation, which known as the *dual effects concept*. The basic accounting equation must remain in balance after each transaction.
The *journal entry* is an accounting method for expressing the effect of a transaction on accounts in a debits-equal-credits format. Terminology: the words debit and credit may be used as verbs, nouns, and adjectives. Any journal entry that affects more than two accounts is called a *compound entry*.

<u>Explanation and date of journal entry</u>

Debited accounts	=	**Credited account**	Amount in lei or currency
Assets ↑		Assets ↓	
Liabilities ↓		Liabilities ↑	
Stockholder's equity ↓		Stockholder's equity ↑	
Expenses ↑		Revenues ↑	

During the accounting period, transactions that result in exchanges between the company and other external parties are analyzed and recorded in the *general journal* in chronological order, and the related accounts are updated in the *general ledger*.

9. The valuation of assets

- Purchase cost, Production cost, Appraised value of capital contributions, Fair value

B. The accounting cycle

Source documents are proof for each transaction
Invoices, cash slips, receipts, payroll, internal notes

↓

Journals are chronological records of transactions
General journal and cash, receipts, sales and other journals

↓

Ledger is a collective term for the accounts of a business

↓

Trial balance is a sheet displaying all the accounts, as a final check before the financial

↓

Income tax must be computed before drawing the financial statements

↓

Financial statements
Balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements

↓

Auditing of financial statements for large companies

C. Transactions for the startup of the business

1. The issuance of common stock

Alpha Pan Inc. is founded on January 5th 2015, by filing the constitutive act with the Company Registrar. The main business is the production and selling of bread and related products, as well as catering services. Common stock, 10 lei par value, 9,000 shares authorized and issued for 60,000 lei in cash. A shareholder contributed a utility van newly bought for 30,000 lei.

(a) Issuance of common stock (January 5)

456. Receivables from stockholders	=	1011. Unpaid share capital	90,000

(b) Receiving the cash contribution from shareholders (January 5)

5121. Current bank account (RON)	=	456. Receivables from stockholders	60,000

(c) Receiving the utility van (January 15)

2133. Vehicles	=	456. Receivables from stockholders	30,000

(d) Recording the amount of paid-in capital (January 15)

1011. Unpaid share capital	=	1012. Paid-in share capital	90,000

The van will be used for 5 years for the catering services of the company. The company uses the unit-of-production method, estimating the following schedule: 1,000 km in 2015, 2,000 km in 2016, and 3,000 km in 2017, 2018 and 2019. The estimated total distance is 12,000 km.
Cost of the utility van is 30,000 lei, therefore the depreciation for 2015 is 30,000 / 12,000 km x 1,000 km = 2,500 lei

(e) Recording the depreciation (December 31)

6811. Depreciation expense for long-lived assets	=	2813. Accumulated depreciation of equipment and vehicles	2,500

2. Startup costs

For the startup of the company, registration fees and solicitor's fees are incurred and paid from the current bank account. These expenses are capitalized and amortized over a period of 5 years (the maximum permitted by law).

(a) Registration fees paid to the Company Registrar (January 6)

201. Startup expenses	=	5121. Current bank account (RON)	500

(b) Solicitor's fees (January 6)

201. Startup expenses	=	404. Payables to suppliers of intangibles	1,000

(c) Bank transfer for solicitor's fees (January 10)

404. Payables to suppliers of intangibles	=	5121. Current bank account (RON)	1,000

(d) Set-up expenses are amortized (December 31)

6811. Depreciation expense for long-lived assets	=	2801. Amortization of startup expenses	1,500 / 5 years = 300

3. Purchasing a franchise

The company buys a franchise to start selling under the *Brioche Dorée* brand. Franchises are contracts in which a franchisor provides rights to franchisees (in this case, our company) to sell or distribute a specific line of products or provide a particular service. In return, franchisees usually pay an initial fee to obtain the franchise, along with annual payments for ongoing services such as accounting, advertising, and training. The contract stipulates an initial franchise fee of 12,000 lei and prepaid annual royalty fees of 3,000 lei.

(a) Payment of the franchise fee (February 28)

205. Concessions, patents, trademarks and others	=	5121. Current bank account (RON)	12,000

(b) Prepayment of the royalty fee (March 1)

471. Prepaid expenses	=	5121. Current bank account (RON)	3,000

(c) The current year's expense for the royalty fee (December 31)

612. Rent expense	=	471. Prepaid expenses	3,000 x (10/12) = 2,500

(d) Amortization of franchise fee, straight-line method over 10 years (December 31)

6811. Depreciation expense for long-lived assets	=	2805. Amortization of concessions, patents and trademarks	12,000 / (10 years x 12 months) x 10 = 1,000

D. The operating cycle

4. Monthly salaries and social contributions

The company has only one employee hired at February 1st. His gross income is 1,000 lei and the company must record the individual and the employer's contributions to the National Pension Fund, the National Health Insurance Fund and the Unemployment Fund, as well as income tax. The company buys gifts for its employee for Easter and Christmas.

(a) Recording the gross salary (last day of each month for 11 months)

641. Salary expense	=	421. Salaries payable	1.000

(b) Individual contribution to National Pension Fund

421. Salaries payable	=	4312. Employee's payables to pension fund	1.000 x 10,5% = 105

(c) Individual contribution to the National Health Insurance Fund

421. Salaries payable	=	4314. Employee's payables to health fund	1.000 x 5% = 50

(d) Individual contribution to the Unemployment Fund

421. Salaries payable	=	4372. Employee's payables to unemployment fund	1.000 x 0,5% = 5

Personal income tax =

Tax rate x (Gross salary – individual contributions – personal deduction) = 16% x (1.000 – 105 – 50 – 5 – 250) = 94 lei

(e) Recording the personal income tax

421. Salaries payable	=	444. Personal income tax payable	94

(f) Employer's contribution to the National Pension Fund

6451. Pension fund contribution expense	=	4311. Employer's payables to pension fund	1.000 x 15,8% = 158

(g) Employer's contribution to the National Health Insurance Fund

6453. Health fund contribution expense	=	4313. Employer's payables to health fund	1.000 x 5,2% = 52

(h) Employer's contribution to the Unemployment Fund

6452. Unemployment fund contribution expense	=	4371. Employer's payables to unemployment fund	1.000 x 0,5% = 5

(i) Bank transfer for salaries payables – remaining balance (monthly on the 15th, starting with March)

421. Salaries payable	=	5121. Current bank account (RON)	1.000 – 105 – 50 – 5 – 94 = 746

(j) Bank transfer for pension fund payables (monthly on the 25th, starting with March → 10 months in 2015)

%	=	5121. Current bank account (RON)	263
4312. Employee's payables to pension fund			105
4311. Employer's payables to pension fund			158

(k) Bank transfer for health fund payables

%	=	5121. Current bank account (RON)	102
4314. Employee's payables to health fund			50
4313. Employer's payables to health fund			52

(l) Bank transfer for unemployment fund payables

%	=	5121. Current bank account (RON)	10
4372. Employee's payables to unemployment fund			5
4371. Employer's payables to unemployment fund			5

(m) Bank transfer for income tax payable

444. Personal income tax payable	=	5121. Current bank account (RON)	94

(n) The purchase of small gifts for the employee (April and December)

3028. Other materials	=	5121. Current bank account (RON)	70

(o) The gifts are given away for the holidays (April and December)

6028. Expenses with other materials	=	3028. Other materials	70

5. Prepaid expenses (or deferred expenses if they are recorded as noncurrent assets)

Prepaid Expenses = Assets created by the prepayment of cash or incurrence of a liability. Prepaid expenses expire and become expenses with the passage of time, use, or events, for example: prepaid rent, prepaid insurance and deferred taxes.

On January 30, the company rents a retail store at the Mall, in which it can produce and sell specialty bread. The rental agreement begins on February 1st and ends December 31st. The annual amount is 2,200 lei, but only the fee for 11 months is prepaid when the agreement is signed. The company deposits a warranty of 1,000 lei for the duration of the contract.

(a) Signing the rental agreement after the bank transfer to the owner (January 30)

471. Prepaid expenses	=	5121. Current bank account (RON)	2,200 x 11/12 months = 2016

(b) Payment of the required warranty (January 30)

461. Other short-term receivables	=	5121. Current bank account (RON)	1,000

(c) Recording the rent expense (at the end of the year)

612. Rent expense	=	471. Prepaid expenses	2016

6. Electricity consumption

Starting with March, the company receives an electricity bill for the store space in the Mall amounting to 300 lei per month.

(a) Electricity bill (on the 5th of each month)

605. Electricity expense	=	401. Account payables	300

(b) Payment to suppliers of electricity (on the 15th of each month)

401. Account payables	=	5121. Current bank account (RON)	300

7. Purchase of an oven (equipment)

To start the production process, the company needs to purchase an oven worth 7,700 lei. For its transportation and installation, the following costs are incurred: 400 lei invoiced by a specialized supplier and 300 lei worth of fees for the gas company. The oven will be depreciated over 7 years using the straight-line method.

(a) Purchasing the oven (February 2)

2131. Equipment (oven)	=	404. Payables to suppliers of long-lived assets (oven)	7.700

(b) Transportation and installation of the oven (February 3)

2131. Equipment (oven)	=	404. Payables to suppliers of long-lived assets (transportation)	400

(c) Invoice for the certification fee from the gas company (February 5)

2131. Equipment (oven)	=	404. Payables to suppliers of long-lived assets (fees)	300

(d) Bank transfer for the account payables (February 15)

%	=	5121. Current bank account (RON)	8.400
404. Payables to suppliers of long-lived assets (oven)			7.700
404. Payables to suppliers of long-lived assets (transportation)			400
404. Payables to suppliers of long-lived assets (fees)			300

Monthly depreciation = Historic cost 8,400 lei / (7 years x 12 months) = 100 lei / month

(e) Recording the depreciation for 2015, between March and December (December 31)

6811. Depreciation expense for long-lived assets	=	2813. Depreciation of equipment	100 x 10 = 1,000

8. Subsequent repairs for an equipment

Over the year, the oven requires several expenditures to maintain its operating condition. At regular intervals (6 months), the interior must be cleaned of accumulated ash, which is considered an ordinary maintenance. This operation is carried out by the supplier and costs 150 lei. After 9 months of use, the gas valve needs to be replaced, which is a capitalized expenditure. A new valve costs 600 lei and will be depreciated starting next year.

(a) Recording the maintenance (August 31)

611. Maintenance expenses	=	401. Accounts payable	150

(b) Recording the replacement of the gas valve (December 20)

2131. Equipment	=	404. Accounts payable for long-lived assets	600

(c) Transferring the amounts due to the suppliers (December 25)

%	=	5121. Current bank account (RON)	750
401. Accounts payable			150
404. Accounts payable for long-lived assets			600

The net book value of the asset is: 8,400 + 600 (capitalized expenditure) – 1,000 (accumulated depreciation) = 8,000.

9. Purchase of raw materials with trade discounts and cash discounts

On February 15 the company purchases raw materials (flour and olives) necessary for the production of pretzel bagels. The catalog price of raw materials is 2,000 lei, but the vendor offers a trade discount of 10%. Transportation is invoiced separately for 50 lei. The due date for both invoices is March 15, but the company pays the raw materials invoice on March 1, reason for which it benefits from a cash discount of 2%.

(a) Recording the purchase of raw materials, taking into account the trade discount (February 15)

301. Raw materials	=	401. Trade payables (raw materials)	2,000 – 10%x2,000 = 1.800

(b) Recording the transportation invoice (February 15)

301. Raw materials	=	401. Trade payables (transportation)	50

(c) Payment for the materials invoice (March 1)

401. Trade payables (raw materials)	=	%	1.800
		5121. Current bank account (RON)	1.764
		767. Financial discount revenue	36

(d) Payment for the transportation invoice (March 15)

401. Trade payables (transportation)	=	5121. Current bank account (RON)	50

10. Materials consumption in the production process

Starting with March 1, in the production process the consumption of raw materials amounts to 180 lei per month.

Raw materials are processed into finished goods (at the end of each month)

601. Raw materials expense	=	301. Raw materials	180

11. Producing finished goods

Starting with March 1, the company starts the production process for pretzel bagels, which will be sold in the Mall store. The direct expenses are: materials consumption 180 lei per month, direct labor quantified as 60% of the payroll expenses, energy consumption 80% of the monthly invoice. Fixed overhead expenses are the monthly depreciation of the oven and the monthly rent for the Mall store.

The monthly cost of finished goods

Materials	180
Direct labor	60% x 1,215 lei = 729
Electricity	80% x 300 = 240
Depreciation	100
Rent	2016 / 11 months = 183
Overall production cost	**1,432**
Number of items produced	1,000 items
Unit cost	**1.432 lei / item**

Recording the inventory of finished goods produced at the end of each month (for 10 months)

345. Finished goods	=	711. Revenue from the production of finished goods	1,432 lei / month

12. The purchase of a cash register

To sell products for cash to customers in a Mall, the company needs a cash register. It purchases one on February 28, for 2,400 lei. It will be depreciated over 4 years using the straight-line method.

(a) The purchase of a cash register (February 28)

214. Office equipment	=	404. Payables to suppliers of long-lived assets	2,400

(b) Bank transfer to the supplier (March 1)

404. Payables to suppliers of long-lived assets	=	5121. Current bank account (RON)	2,400

(c) Recording the depreciation for 2015 (December 31)

6811. Depreciation expense for long-lived assets	=	2814. Accumulated depreciation of other tangible assets	2,400 / (4 years x 12 months) x 10 months = 500

13. The sale of finished goods at the Mall store

Each month, 60% of the finished goods (pretzel bagels) are sold in the Mall store, 30% are exported and 10% are delivered as a catering service. The price for one bagel is 3 lei at the store.

(a) Selling the bagels to customers for cash (at the end of each month, starting with March)

531. Cash in hand	=	701. Revenues from the sale of finished goods	600 x 3 = 1,800

(b) Cost of goods sold (after recording the monthly sales)

711. Revenue from the production of finished goods	=	345. Finished goods	1,432 x 60% = 859

(c) The cash is transferred to the bank account (at the end of each month)

5121. Current bank account (RON)	=	531. Cash in hand	1,800

14. Delivering finished goods in the European Union

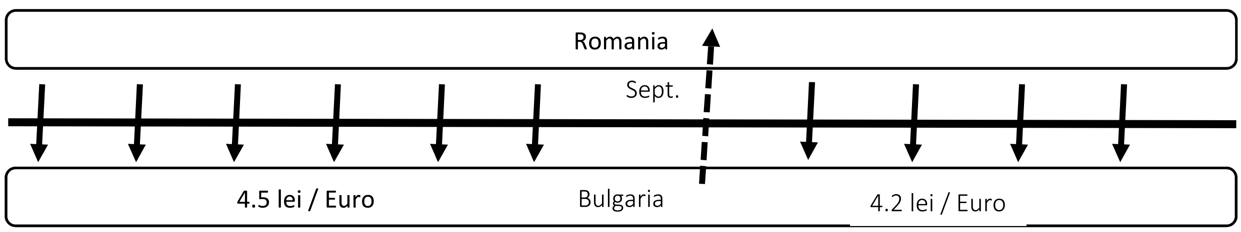
The company has a customer in Bulgaria which constantly orders packaged bagels. The price for one bagel is 1 Euro. For the first 6 months starting in March, the exchange rate is 4.5 lei/Euro, and for the last 4 months it is 4.2 lei/Euro. The Bulgarian customer pays in September for the period March – August, and in January 2016 for deliveries in the last 4 months of 2015.

(a) Selling finished goods to the Bulgarian customer (at the beginning of each month, March through August)

411. Trade receivables	=	701. Revenues from the sale of finished goods	300 Euros x 4.5 lei /Euro = 1,350

(b) Cost of goods sold (after recording the monthly sales)

711. Revenue from the production of finished goods	=	345. Finished goods	1,432 x 30% = 430



(c) Collecting cash from the Bulgarian customer at an exchange rate of 4.2 lei / Euro (September 15)

%	=	411. Trade receivables	6 months x 300 Euros x 4.5 lei /Euro = 8,100
5124. Current bank account (EUR)			6 months x 300 Euros x 4.2 lei/Euro = 7,560 lei
665. Losses from exchange rates differences			540

(d) Selling finished goods to the Bulgarian customer (at the beginning of each month, September through December)

411. Trade receivables	=	701. Revenues from the sale of finished goods	300 Euros x 4.2 lei/Euro = 1,260

(e) Cost of goods sold (after recording the monthly sales)

711. Revenue from the production of finished goods	=	345. Finished goods	1,432 x 30% = 430

15. The provision of catering services (deferred revenue)

In March, the company enters into a catering agreement with a hotel, promising to provide 100 bagels per month at a price of 5 lei per piece and transportation 50 lei. The fuel expense incurred for such a service is 30 lei. The hotel pays 2,000 in advance and the remaining amount at year end.

(a) Collecting cash in advance from the customer (March 3)

5121. Current bank account (RON)	=	472. Deferred revenue	2,000

(b) Selling finished goods to the hotel (on the 7th of each month for 10 months)

411. Trade receivables	=	701. Revenues from the sale of finished goods	100 x 5 = 500

(c) Costs of goods sold (after recording the monthly sales)

711. Revenue from the production of finished goods	=	345. Finished goods	1,432 x 10% = 143

(d) Transportation as catering service (on the 8th of each month for 10 months)

411. Trade receivables	=	704. Service revenues	50

(e) Fuel costs (same as above)

6022. Fuel expense	=	5121. Current bank account (RON)	30

(f) Collecting the remaining balance for trade receivables (December 25)

%	=	411. Trade receivables	10 months x 550 = 5,500
472. Deferred revenue			2,000
5121. Current bank account (RON)			3,500

16. Selling of merchandise (cost flow assumptions)

Merchandise are goods held for resale in the normal course of business. The goods usually are acquired in a finished condition and are ready for sale without further processing. The company sells traditional Romanian bread cake (cozonac) as merchandise for the holiday parties where it provides catering services.

(a) Merchandise purchased: 20 items x 7 lei/ item (November 1)

371. Merchandise	=	401. Trade payables	140

(b) Merchandise purchased: 30 items x 8 lei/ item (November 10)

371. Merchandise	=	401. Trade payables	240

(c) Merchandise sale: 40 items x 9 lei / item (November 15)

411. Trade receivables	=	707. Merchandise sale revenues	360

(d) Merchandise purchased: 50 items x 6 lei / item (November 25)

371. Merchandise	=	401. Trade payables	300

(e) Merchandise purchased: 10 items x 5 lei / item (December 5)

371. Merchandise	=	401. Trade payables	50

(f) Merchandise sale: 30 items x 9 lei / item (December 20)

411. Trade receivables	=	707. Merchandise sale revenues	270

(g) Payment to suppliers of merchandise (December 25)

401. Trade payables	=	5121. Current bank account (RON)	730

First-In, First-Out Method (preferred assumption)

Date	Purchase		Sale		Inventory	
	Number of items	Unit cost	Number of items	Unit cost	Number of items	Unit cost
November 1	20	7			20	7
November 10					20	7
	30	8			30	8
November 15			20	7		
			20	8	10	8
November 25					10	8
	50	6			50	6
December 5					10	8
					50	6
	10	5			10	5
December 20			10	8		
			20	6	30	6
					10	5

(h) Cost of goods sold 40 items (November 15)

607. Merchandise expense	=	371. Merchandise	20 x 7 + 20 x 8 = 300

(i) Cost of goods sold 30 items (December 20)

607. Merchandise expense	=	371. Merchandise	10 x 8 + 20 x 6 = 200

Ending inventory (December 31) = 30 items x 6 lei / item + 10 items x 5 lei / item = 230 lei

Last-In, First-Out Method

Date	Purchase		Sale		Inventory	
	Number of items	Unit cost	Number of items	Unit cost	Number of items	Unit cost
November 1	20	7			20	7
November 10					20	7
	30	8			30	8
November 15			30	8		
			10	7	10	7
November 25					10	7
	50	6			50	6
December 5					10	7
					50	6
	10	5			10	5
December 20			10	5		
			20	6	30	6
					10	7

(j) Cost of goods sold 40 items (November 15)

607. Merchandise expense	=	371. Merchandise	30 x 8 + 10 x 7 = 310

(k) Cost of goods sold 30 items (December 20)

607. Merchandise expense	=	371. Merchandise	10 x 5 + 20 x 6 = 170

Ending inventory (December 31) = 30 items x 6 lei / item + 10 items x 7 lei / item = 250 lei

Moving Average Cost Method

Date	Purchase		Sale		Inventory	
	Number of items	Unit cost	Number of items	Number of items	Unit cost	Number of items
November 1	20	7			20	7
November 10	30	8			20 + 30 = 50	7.6
November 15			40	7.6	50 – 40 = 10	7.6
November 25	50	6			10 + 50 = 60	6.2
December 5	10	5			60 + 10 = 70	6
December 20			30	6	70 – 30 = 40	6

(l) Cost of goods sold 40 items (November 15)

607. Merchandise expense	=	371. Merchandise	40 x 7.6 = 304

(m) Cost of goods sold 30 items (December 20)

607. Merchandise expense	=	371. Merchandise	30 x 6 = 180

Ending inventory (December 31) = 40 items x 6 lei / item = 240 lei

Weighted Average Cost Method

Cost of goods available for sale and divides it by the number of units available for sale during the period:

20 x 7 + 30 x 8 + 50 x 6 + 10 x 5 = 730 lei

CMP = 730 lei / 110 items = 6.6 lei

(n) Cost of goods sold 70 items (December 31)

607. Merchandise expense	=	371. Merchandise	70 x 6.63 = 464

Ending inventory (December 31) = 730 – 464 = 266 lei for an inventory of 40 items

E. Transactions outside the operating cycle

17. Long-term bank loan for an investment property

The company needs a long-term bank loan to purchase land for a new building as an investment property. The estimated amount is 30,000 lei and the bank agrees to lend the funds. The agreement is signed on April 1 with an annual interest rate of 16%. The duration of the loan is 5 years and the principal must be repaid quarterly in equal installments. Bank fees are 1% of the principal.

(a) Signing the loan contract and recording the loan proceeds less credit fees (April 1)

%	=	1621. Long-term bank loans	30,000
627. Bank fees expense			300
5121. Current bank account (RON)			29,700

Quarterly repayment of principal = 30,000 / (5 years x 4 quarters) = 1,500 lei per quarter
Quarterly interest rate = 16% / 4 = 4%
Quarterly interest payment = 4% x Unpaid balance of the principal

(b) Interest expense and repayment of bank loan (June 30)

%	=	5121. Current bank account (RON)	2,700
1621. Long-term bank loans			1,500
666. Interest expense			30,000 x 4% = 1,200

(c) Interest expense and repayment of bank loan (September 30)

%	=	5121. Current bank account (RON)	2,640
1621. Long-term bank loans			1,500
666. Interest expense			(30,000 – 1,500) x 4% = 1,140

(d) Interest expense and repayment of bank loan (December 30)

%	=	5121. Current bank account (RON)	2,580
1621. Long-term bank loans			1,500
666. Interest expense			(30,000 – 3,000) x 4% = 1,080

The principal payments in 2016 (the next four quarters) are classified as current liabilities = 1,500 x 4 = 6,000 lei

18. Land purchase

The company purchases a piece of land with an access road outside Bucharest to build a storage facility as investment property. On April 15, the company made a 40% cash prepayment to the owner of land, in amount of 8.000 lei. When signing the contract on April 30, the company pays off the debt to the owner.

(a) Making the prepayment to the supplier (April 15)

4093. Prepayments for tangible assets	=	5121. Current bank account (RON)	8,000

(b) Signing the contract for the purchase of land (April 30)

2111. Land	=	404. Accounts payable for long-lived assets	20,000

(c) Subtracting the cash prepayment (April 30)

404. Accounts payable for long-lived assets	=	4093. Prepayments for tangible assets	8,000

(d) Payment of outstanding debt for land purchase (April 30)

404. Accounts payable for long-lived assets	=	5121. Current bank account (RON)	12,000

19. Building a storage facility as investment property

After purchasing the land, the company starts the process of building a storage facility. It purchases construction materials and hires a developer for this task. The company also uses the services of an architect, after obtaining the necessary authorizations from the City Council. An electricity bill is received at the end of August.

(a) Obtaining the authorizations from City Council (May 15)

635. Other tax expense	=	446. Other tax payables	400

(b) Contracting an architect for building plans (May 30)

628. Other services expense	=	401. Account payables (architect)	1,000

(c) Bank transfer for the authorization fee and architectural services (May 31)

%	=	5121. Current bank account (RON)	1,400
401. Account payables (architect)			1,000
446. Other tax payables			400

(d) Purchasing construction materials (June 3)

3021. Construction materials	=	401. Account payables (materials)	5,000

(e) 80% of construction materials are used for building the facility (July 30)

6021. Expenses with auxiliary materials	=	3021. Construction materials	4,000

(f) The company receives the invoice from the developer (August 15)

628. Other services expense	=	401. Account payables (developer)	12,000

(g) The electricity bill for the construction site (August 20)

605. Electricity expense	=	401. Account payables (electricity)	600

(h) Bank transfer for cost of materials (August 25)

401. Account payables (materials)	=	5121. Current bank account (RON)	5,000

Authorization fees	400
Architectural services	1,000
Materials consumed	4,000
Developer	12,000
Electricity bill	600
Construction cost	**18,000**

(i) Completing the building (August 31)

212. Investment property	=	725. Revenue from the production of investment property	18,000

Investment property is property (land or a building or part of a building) held by the owner to earn rentals or for capital appreciation or both. The building is depreciated using the straight-line method over a period of 10 years, starting with September 2015. The monthly depreciation is 18,000 / (10 years x 12 months) = 150 lei / month.

(j) Recording the depreciation for 2015 (December 31)

6811. Depreciation expense for long-lived assets	=	2814. Depreciation of other long-lived assets	150 x 4 months = 600

20. Operating lease

The storage facility will be leased out under operating lease. The annual rental agreement stipulates an initial payment of 2,400 lei to be collected on October 1 (equivalent of three months' rent) and monthly rental fees of 800 lei. Assets held for operating leases should be presented in the balance sheet of the lessor according to the nature of the asset. Lease income should be recognized over the lease term on a straight-line basis.

(a) Unearned revenue for the period October through December (October 1)

5121. Current bank account (RON)	=	472. Unearned revenue	2,400

(b) Recording rental revenue (at the end of each month, October through December)

472. Unearned revenue	=	706. Rental revenue	800

21. Purchase of software through finance lease

The company implements a specialized production management software (PMS) acquired through a capital lease. Both the useful life of such software and the lease term are 5 years. Ownership of the asset is transferred to the lessee at the end of the lease term. The terms of the agreement are the following:

- The prepayment made on June 30 is 500 lei.
- The lease is signed on July 1st when the software is also installed by the company;
- The payments of 900 lei are made half-yearly, starting with December 2015;
- The annual interest rate is 12% (so the half-yearly interest rate is 6%);

An **annuity** is a series of consecutive payments characterized by an equal amount for each interest period.
P = present value of the annuity (or the principal of the loan)
A = the value of each paid installment containing principal plus interest
r = annual interest rate
m = number of conversion periods per year (i.e. the interval of time between successive interest calculations)
t = number of years
n = total number of conversion periods

Simple interest: $A = P(1 + r)$
Compound interest: $A = P(1 + i)^n$ where $i = r/m$ and $n = mt$
Present value with compound interest formula (the principal is computed by discounting each of the equal period amounts):

$$P = \frac{A}{(1 + i)^n}$$

P = purchase cost of the intangible asset equals the loan amount to be repaid
Pr = the prepayment of 500 lei is not discounted
A = 900 lei, discounted half-yearly (each installment contains principal plus interest)
i = 6%
n = 10 periods of 6 months each

$$P = Pr + \sum_{1}^{n} \frac{A}{(1 + i)^n} = 500 + \sum_{1}^{n=10} \frac{900}{(1 + 0.06)^n} = 500 + 6624 = 7124$$

(a) Making the prepayment for the lease agreement (June 30)

4094. Prepayments for intangibles	=	5121. Current bank account (RON)	500

(b) Signing the lease agreement and installing the software (July 1st)

208. Other intangibles	=	167. Lease payable	7,124

(c) Writing-off the prepayment (July 1st)

167. Lease payable	=	4094. Prepayments for intangibles	500

Unpaid balance of the lease payable = 7,124 – 500 = 6,624 lei.
Interest paid in the first installment = 6% x 6,624 = 397 lei.
Principal paid in the first installment = 900 – 397 = 503 lei.

(d) Payment of first installment (December 30)

%	=	5121. Current bank account (RON)	900
167. Lease payable			503
666. Interest expense			397

Outstanding lease payable = 7,124 – 500 – 503 = 6,121 lei

The second and third installments cover the year 2016 and are classified as current liabilities.
Interest expense in the second installment = 6% x 6,121 = 367 lei
Principal payable in the second installment = 900 – 367 = 533 lei
Outstanding lease payable after second installment = 6,121 – 533 = 5,588 lei

Interest expense in the third installment = 6% x 5,588 = 335 lei
Principal payable in the third installment = 900 – 335 = 565 lei
Outstanding lease payable after third installment = 5,588 – 565 = 5,023 lei

Current portion of the lease payable = 533 + 565 = 1,098 lei

(e) During the first month of use, the vendor also provides some training courses to the firm's employee (July 15)

208. Other intangibles	=	404. Payables to suppliers of intangibles	676

Cost = 7,124 + 676 = 7,800 lei
Annual depreciation using the straight-line method = 7,800 / 5 years = 1,560 lei

(f) Depreciation of the long-lived asset at year-end (December 31)

6811. Amortization expense for long-lived assets	=	2808. Amortization of other intangible assets	1,560 x (6/12) = 780 lei

22. New issuance of common stock

The company proceeds to a new issuance of common stock to finance its projects for 2016. The authorized new capital is composed of 2,000 shares, sold at a price of 12 lei per share.

(a) Issuance of common stock (October 1)

456. Receivables from stockholders	=	1011. Unpaid share capital	2,000 x 10 (par) = 20,000

(b) Receiving the cash contribution from shareholders (October 15)

5121. Current bank account (RON)	=		24,000
		456. Receivables from stockholders	20,000
		1041. Capital in excess of par	2,000 x (12 – 10) = 4,000

(c) Recording the amount of paid-in capital (January 15)

1011. Unpaid share capital	=	1012. Paid-in share capital	20,000

23. Purchase of marketable securities and receiving dividends

The company purchases for cash marketable equity securities (1,500 shares of common stock for 5 lei each) as a passive investment, seeking to earn a return on funds that may be needed for future short-term or long-term purposes. The company sells the securities when the market price has increased significantly.

(a) Purchase of securities (April 30)

501. Short-term investment in equity securities	=	5121. Current bank account (RON)	7,500

Dividends earned are reported as investment income on the income statement and are included in the computation of net income for the period. The company received a 0.5 lei per share cash dividend.

(b) Dividends earned (June 15)

5121. Current bank account (RON)	=	762. Dividend revenue for short-term equity investments	750

When securities available for sale are sold, the gain or loss on sale is computed as follows:

- Proceeds from sale − Investment cost = Gain if positive (Loss if negative)

(c) Sale of 1,000 shares for 6.5 lei per share (November 15)

5121. Current bank account (RON)	=	%	6,500
		501. Short-term investment in equity securities	5,000
		7642. Gains on sale of short-term equity securities	1,000 x (6.5 – 5) = 1,500

24. Elements which are not recognized as intangible assets

The company spends two months to draw a list of prospective corporate customers to which it may provide catering services. The marketing research was done by a specialized firm and invoiced in October for 1,500 lei. However, brands, mastheads, publishing titles, customer lists and items similar in substance that are internally generated should not be recognized as assets.

Recording the marketing research expense (October 31)

614. Research expense	=	401. Account payables	1,500

25. Grants receivable towards the purchase of a packaging equipment

The company has filled in a request for a government grant in regard to a packaging equipment. The maximum amount awarded through this grant programme is 1,500 lei. The company identifies an equipment which will fit in the budget and signs the grant agreement.

(a) Signing the grant agreement with the government for the purchase of a new equipment (June 15)

445. Grant receivables	=	475. Deferred revenue from government grants	1,500

(b) Purchasing the equipment (June 30)

2131. Equipment (packaging)	=	404. Payables to suppliers of long-lived assets	1,800

(c) Cash proceeds from government grant (August 10)

5121. Current bank account (RON)	=	445. Grant receivables	1,500

(d) Payment to the supplier of the equipment (August 15)

404. Payables to suppliers of long-lived assets	=	5121. Current bank account (RON)	1,800

(e) Recording the depreciation of the equipment – 3 years using the straight-line method (December 31)

6811. Depreciation expense for long-lived assets	=	2813. Accumulated depreciation of equipment and vehicles	1,800 / 3 years x (6/12) = 300

Where the grant relates to a non-current asset, value is credited to a deferred revenue account and is released to the profit and loss account over the expected useful life of the relevant asset.

(f) Matching the deferred revenue with the depreciation expense (December 31)

475. Deferred revenue from government grants	=	7584. Revenue from government grants	1,500 / 3 years x (6/12) = 250

26. Losses from natural disasters

The land and facility built outside Bucharest have suffered from a flood during the month of November 2015. The city council will subsidize part of the costs for the reconstruction of the access road to the facility. The former road was not evaluated separated from the purchased land, therefore the company cannot record losses from natural disasters. The land improvement will be depreciated starting in 2016 over a useful life of 20 years.

(a) The company hires a contractor to rebuild the access road (November 10)

2112. Land improvements	=	404. Payables to suppliers of long-lived assets	2,500

(b) Proceeds from government grant related to reconstruction (December 26)

5121. Current bank account (RON)	=	7581. Disaster rehabilitation revenue	1,500

(c) Partial payment for the invoice from the contractor (December 27)

404. Payables to suppliers of long-lived assets	=	5121. Current bank account (RON)	1,500

Annual depreciation of the land improvement (the road) = 2,500 / 20 years = 125 lei per year.

F. Measurements at the balance sheet date

27. Provisions

The company has been sued by a neighbor of the production facility located outside Bucharest for land contamination during construction work. The firm's lawyer has warned the manager that the settlement of the law-suit may amount to 1,500 lei + the environmental clean-up of 500 lei. In this respect, the company will to record a provisions for which:

- a present obligation (legal or constructive) has arisen as a result of a past event (the obligating event),
- payment is probable ('more likely than not'), and
- the amount can be estimated reliably.

6812. Provisions expense	=	1511. Provisions for litigation	2,000

28. Revaluation of the packaging equipment

The company applies the revaluation model and estimates the fair value of the packaging equipment to be 2,000 lei as at December 31. In the revaluation model an asset is initially recorded at cost but subsequently its carrying amount is increased to account for any appreciation in value. The net carrying value of the building = 1,800 – 300 = 1,500 lei.

(a) Writing-off the accumulated depreciation (December 31)

2813. Depreciation of equipment	=	2131. Equipment (packaging)	300

(b) Recording the revaluation surplus (December 31)

2131. Equipment (packaging)	=	105. Revaluation reserve	2,000 – 1,500 = 500

The remaining useful life of the equipment is 2 years and 6 months, or 30 months. Thus, the straight-line depreciation is: 1,500 / 30 months = 50 lei per month.

Note: In case the revaluation of the equipment yields a negative amount, the decrease in value is recorded as an expense (655. Revaluation losses) on the credit of the asset account.

29. Impairment of equipment

At the end of the year, the manager of the company plans to replace the existing oven with a high-end version. However, he would not be able to sell a second-hand oven at more than 6,000 lei (the fair value). For this purpose, the company uses the cost model and records an impairment.

The impairment test - the asset is written down to fair value (December 31)

The net book value of the asset is:

8,400 (cost) + 600 (capitalized expenditure) – 1,000 (accumulated depreciation) = 8,000.

The impairment is: 8,000 (net book value) – 6,000 (fair value) = 2,000.

6813. Impairment expense for long-lived assets	=	2913. Impairment loss for equipment	2,000

The remaining useful life of the equipment is 6 years and 2 months, or 74 months. Thus, the straight-line depreciation is: 6,000 / 74 months = 81 lei per month.

30. Writing-off an obsolete equipment

The tax authority announces that, starting January 1st 2016, the old version of cash registers will be obsolete. The company decides to write-off the equipment, even if it is not entirely depreciated (December 31):

%	=	214. Office equipment	2,400
2814. Accumulated depreciation of other tangible assets			500
6583. Losses from the write-off of long-lived assets			1,900

31. Inventory valuation at the end of the period

The ending inventory of raw materials is no longer usable for producing goods in 2016. Damaged, obsolete, and deteriorated items in inventory should also be assigned a unit cost that represents their current estimated net realizable value (sales price less costs to sell) if that is below cost. This rule is known as measuring inventories at the lower of cost or market (LCM).

(a) Writing-off the inventory of raw materials

601. Raw materials expense	=	301. Raw materials	50

When the goods remaining in ending inventory can be replaced with identical goods at a lower cost, however, the lower replacement cost should be used as the inventory valuation. The replacement cost for the inventory of merchandise (cozonac) is now 4 lei / item (using the **FIFO assumption**).

Replacement cost = 40 items x 4 lei / item = 160 lei
Holding loss = 230 lei (ending inventory) – 160 lei = 70 lei

(b) Writing-down the merchandise inventory

6814. Expenses with write-downs of current assets	=	397. Adjustments for write-downs of inventories	70

32. Effect of exchange rate changes on cash and receivables

The export to Bulgaria generated cash in bank and trade receivables in Euros, which need to be adjusted at year-end at the closing exchange rate of 4.4 lei/Euro.

(a) Effect of exchange rate changes on the current account in Euros (historic exchange rate was 4.2 lei/Euro)

5124. Current bank account (EUR)	=	765. Gains from exchange rate differences	1,800 Euros x (4.4 – 4.2) = 360

(b) Effect of exchange rate changes on trade receivables (historic exchange rate was 4.2 lei/Euro)

411. Trade receivables	=	765. Gains from exchange rate differences	1,200 Euros x (4.4 – 4.2) = 240

33. Doubtful accounts

At the end of the year, trade receivables from the sale of merchandise (cozonac) are estimated to be collectible only in proportion of 70%, based on past experience with the customer.

Bad debt expense (doubtful accounts expense, uncollectible accounts expense, provision for uncollectible accounts) is the expense associated with estimated uncollectible accounts receivable. An adjusting journal entry at the end of the accounting period records the bad debt estimate.

6814. Expenses with write-down of current assets	=	491. Allowance for doubtful accounts	630 x 30% = 189

34. Trial balance for expenses and revenues before closing the accounts

Account	Ending debit balance	Closing credit balance
601. Raw materials expense	1,850	
6021. Expenses with auxiliary materials	4,000	
6022. Fuel expense	300	
6028. Expenses with other materials	140	
605. Electricity expense	3,600	
607. Merchandise expense	500	
611. Maintenance expenses	150	
612. Rent expense	4,516	
614. Research expense	1,500	
627. Bank fees expense	300	
628. Other services expense	13,000	
635. Other tax expense	400	
641. Salary expense	11,000	
6451. Pension fund contribution expense	1,738	
6452. Unemployment fund contribution expense	55	
6453. Health fund contribution expense	572	
6583. Losses from the write-off of long-lived assets	1,900	
665. Losses from exchange rates differences	540	
666. Interest expense	3,817	
6811. Depreciation expense for long-lived assets	6,980	
6812. Provisions expense	2,000	
6813. Impairment expense for long-lived assets	2,000	
6814. Expenses with write-downs of current assets	259	
701. Revenues from the sale of finished goods		36,140
704. Service revenues		500
706. Rental revenues		2,400
707. Merchandise sale revenues		630
711. Revenue from the production of finished goods		0
725. Revenue from the production of investment property		18,000
7581. Disaster rehabilitation revenue		1,500
7584. Revenue from government grants		250
762. Dividend revenue for short-term equity investments		750
7642. Gains on sale of short-term equity securities		1,500
765. Gains from exchange rate differences		600
767. Financial discount revenue		36

Closing the expenses and revenues accounts

7xx. All revenues accounts	=	%	62,306
		6xx. All expenses accounts	61,117
		121. Profit or loss	1,189

35. Recording income tax

Income tax = 16% x taxable income = 16% x 1,189 = 190

(a) Business income tax (December 31)

691. Income tax expense	=	441. Business income tax payable	190

(b) Closing the income tax expense account

121. Profit or loss	=	691. Income tax expense	190

Net income = 1,189 – 190 = 999

36. Distribution of profit to legal reserves

At year-end, a legal reserve of 20% of net income must be set up before declaring the dividends.

(a) Setting up the legal reserve (December 31)

129. Distribution of profit to reserves	=	106. Legal reserves	200

(b) Writing-off the distribution of profit to reserves (January 1, 2016)

121. Profit or loss	=	129. Distribution of profit to reserves	200

37. Declaring dividends

The distributable profit = 999 – 200 = 799 lei.

(a) Recording the distributable profit from the previous financial year (January 1, 2016)

121. Profit or loss	=	117. Retained earnings	799

(b) The dividend is declared after the General Meeting of Shareholders' decision on distributions (March 15, 2016)

117. Retained earnings	=	457. Dividends payable	799

38. The trial balance

An audit involves the examination of the financial reports (prepared by the management of the entity) to ensure that they represent what they claim to and conform to national legislation or international standards. In performing an audit, the independent CPA examines the underlying transactions and the accounting methods used to account for these transactions. Because of the enormous number of transactions involving a major enterprise, the CPA does not examine each of these transactions. Rather, professional approaches are used to ascertain beyond reasonable doubt that transactions were measured and reported properly.

External auditors examine the company's records on a test, or sample, basis. To maximize the chance of detecting any errors significant enough to affect users' decisions, CPAs allocate more of their testing to transactions most likely to be in error.

The task is to audit the trial balance for assets, liabilities and shareholders' equity by examining the underlying transactions.

Account	Debit ending balance	Credit ending balance
1011. Unpaid share capital		0
1012. Paid-in share capital		110,000
1041. Capital in excess of par		4,000
105. Revaluation reserve		500
106. Legal reserves		200
121. Profit or loss		999
129. Distribution of profit to reserves	200	
1511. Provisions for litigation		2,000
1621. Long-term bank loan		25,500
167. Lease payable		6,121
201. Startup expenses	1,500	
205. Concessions, patents and trademarks	12,000	
208. Other intangibles	7,800	
2111. Land	20,000	
2112. Land improvements	2,500	
212. Buildings	18,000	
2131. Equipment	11,000	
2133. Vehicles	30,000	
214. Office equipment	0	
2801. Amortization of startup expenses		300
2805. Amortization of concession, patents and trademarks		1,000
2808. Depreciation of other intangibles		780
2813. Accumulated depreciation of equipment and vehicles		3,500
2814. Accumulated depreciation of other tangible assets		600
2913. Impairment loss for equipment		2,000
301. Raw materials	0	
3021. Construction materials	1,000	
3028. Other materials	0	
345. Finished goods	0	
371. Merchandise	230	
397. Adjustments for write-downs of inventories		70
401. Trade payables		14,100
404. Payables to supplies of long-lived assets		1,676
4093. Prepayments for tangible assets	0	
4094. Prepayments for intangibles	0	
411. Trade receivables	5,910	
421. Salaries payable		746
4311. Employer’s payables to pension fund		158
4312. Employee’s payables to pension fund		105
4313. Employer’s payables to health fund		52
4314. Employee’s payables to health fund		50
4371. Employer’s payables to unemployment fund		5
4372. Employee’s payables to unemployment fund		5
441. Business income tax payable		190
444. Personal income tax payable		94
445. Grant receivables	0	
446. Other tax payables		0
456. Receivables from stockholders	0	
461. Other short-term receivables	1,000	
471. Prepaid expenses	500	
472. Deferred revenue		0
475. Deferred revenue from government grants		1,250
491. Allowance for doubtful accounts		189
501. Short-term investment in equity securities	2.500	
5121. Current bank account (RON)	**54,130**	
5124. Current bank account (EUR)	7,920	
531. Cash in hand	0	

BALANCE SHEET AT DECEMBER 31, 2015

A. Long-Lived Assets		
I. Intangible Assets (acc. 201+203+205+2071+208+233+234-280-290-2933)	1	19.220
II. Tangible Assets(acc. 211+212+213+214+223+224+231+232-281-291-2931)	2	75.400
III. Financial Assets (acc. 261+263+265+266+267* - 296*)	3	0
Long-Lived Assets - TOTAL (lines 01 + 02 + 03)	4	94.620
B. Current Assets		
I. Inventories (acc. 301 + 302 + 321 + 322 + 303 + 323 +/- 308 + 328 + 331 + 332 + 341 + 345 + 346 +/- 348 + 351 + 354 + 356 + 357 + 358 + 361 + 326 +/- 368 + 371 + 327 +/- 378 + 381 +/- 388 - 391 - 392 - 393 - 394 - 395 - 396 - 397 - 398 + 4091 - 4428)	5	1.160
II. Receivables (acc. 267*- 296* + 4092 + 411 + 413 + 418 + 425 + 4282 + 431** + 437** + 4382 + 441** + 4424+4428** + 444** + 445 + 446** + 447** + 4482 + 451** + 453** + 456** + 4582 + 461 + 473** - 491 - 495 - 496 + 5187)	6	6.721
III. Short-Term Investments (acc. 501 + 505 + 506 + 507 + 508 + 5113 + 5114 - 591 - 595 - 596 - 598)	7	2.500
IV. Cash and Current Bank Accounts (acc. 5112+512+531+532+541+542)	8	62.050
Current Assets - TOTAL (lines 05 + 06 + 07 + 08)	9	72.431
C. Prepayments (acc. 471)	10	500
D. Short-Term Liabilities (acc. 161 + 162 + 166 + 167 + 168 - 169 + 269 + 401 + 403 + 404 + 405 + 408 + 419 + 421 + 423 + 424 + 426 + 427 + 4281 + 431*** + 437*** + 4381 + 441*** + 4423 + 4428*** + 444*** + 446*** + 447*** +4481+451***+453*** +455+456***+457+4581+462+473***+509+5186+519)	11	24.279
E. Net Current Assets or Net Current Liabilities (lines 09 + 10 - 11 - 19)	12	48.652
F. Total Assets less Current Liabilities (lines 04 + 12)	13	143.272
G. Long-Term Liabilities (acc. 161 + 162 + 166 + 167 + 168 - 169 + 269 + 401 + 403 + 404 + 405 + 408 + 419 + 421 + 423 + 424 + 426 + 427 + 4281 + 431*** + 437*** + 4381 + 441*** + 4423 + 4428*** + 444*** + 446*** + 447*** + 4481 + 451*** + 453*** + 455 + 456*** + 4581 + 462 + 473*** + 509 + 5186 + 519)	14	24.523
H. Provisions (acc. 151)	15	2.000
I. Deferred Revenue - TOTAL (lines 17 + 18 + 21 + 22)	16	1.250
1. Investment Grants (acc. 475)	17	1.250
2. Deferred Revenue (acc. 472) - total (lines 19+20)	18	0
Amounts to be transferred to revenues in less than 12 months (acc. 472*)	19	0
Amounts to be transferred to revenues in more than 12 months (acc. 472*)	20	0
3. Deferred Revenue Pertaining to Assets Transferred From Clients (acc. 478)	21	0
Negative Goodwill (acc. 2075)	22	0
J. Shareholders' Equity		
I. Share Capital (lines 24 + 25 + 26 + 27)	23	110.000
1. Contributed Capital (acc. 1012)	24	110.000
2. Unpaid Share Capital (acc. 1011)	25	0
3. Capital of State-Owned Companies (acc. 1015)	26	0
4. Capital of Research Institutes (acc. 1018)	27	0
II. Share Premiums (acc. 104)	28	4.000
III. Revaluation Reserves (acc. 105)	29	500
IV. Reserves (acc. 106)	30	200
Treasury Shares (acc. 109)	31	0
Gains Related to Equity Instruments (acc. 141)	32	0
Losses Related to Equity Instruments (acc. 149)	33	0
V. Retained Earnings - Profit (acc. 117 C)	34	0
Loss (acc. 117 D)	35	0
VI. Net Income for the Period - Profit (acc. 121 C)	36	999
Loss (acc. 121 D)	37	0
Distribution of Profit to Reserves (acc. 129)	38	200
Shareholders' Equity - TOTAL (lines 23+28+29+30-31+32-33+34-35+36-37-38)	39	115.499
State Capital (acc. 1016)	40	0
Equity - TOTAL (lines 39+40) (lines 13-14-15-17-20-21-22)	41	115.499
Basic accounting equation (13-14-15-16 = 41)		**115.499**
*) Depending on the nature of the accounting elements		
**) Debit ending balances of respective accounts.		
***) Credit ending balances of respective accounts.		

INCOME STATEMENT FOR 2015

Net sales (lines 02 + 03 - 04 + 05 + 06)	1	39.670
Production and services sold (acc. 701+702+703+704+705+706+708)	2	39.040
Merchandise sold (acc. 707)	3	630
Sales discounts awarded (acc. 709)	4	0
Interest revenues for obsolete entities which still carry leasing activities (acc. 766*)	5	0
Operating grants pertaining to net sales (acc. 7411)	6	0
2. Revenues from the production of finished goods (acc. 711 + 712)		
Credit ending balance	7	0
Debit ending balance	8	0
3. Revenues from the production of long-lived assets (acc. 721+ 722)	9	0
4. Revenues from the revaluation of fixed assets (acc. 755)	10	0
5. Revenues from the production of investment property (acc. 725)	11	18.000
6. Revenues from operating grants (acc. 7412 + 7413 + 7414 + 7415 + 7416 + 7417 + 7419)	12	0
7. Other operating revenues (acc. 758+7815)	13	1.750
- of which, revenue from negative goodwill (acc. 7815)	14	0
- of which, revenue from investment grants (acc. 7584)	15	250
Operating Revenues – TOTAL (lines 01 + 07 - 08 + 09 + 10 + 11 + 12 + 13)	16	59.420
8. a) Materials expenses (acc. 601 + 602)	17	6.290
Other materials expenses (acc. 603+604+606+608)	18	0
b) Other external expenses (energy and water) (acc. 605)	19	3.600
c) Merchandise expenses (acc. 607)	20	500
Received trade discounts (acc. 609)	21	0
9. Employment expenses (lines 23 + 24)	22	13.365
a) Salaries and indemnities (acc. 641+642+643+644)	23	11.000
b) Social contributions expenses (acc. 645)	24	2.365
10.a) Value adjustments for tangible and intangible assets (lines 26 - 27)	25	8.980
a.1) Expenses (acc. 6811 + 6813 + 6817)	26	8.980
a.2) Revenues (acc. 7813)	27	0
b) Value adjustments for current assets (lines 29 - 30)	28	259
b.1) Expenses (acc. 654+6814)	29	259
b.2) Revenues (acc. 754+7814)	30	0
11. Other operating expenses (lines 32 la 37)	31	21.766
11.1. External services expenses (acc. 611 + 612 + 613 + 614 + 615 + 621 + 622 + 623 + 624 + 625 + 626 + 627 + 628)	32	19.466
11.2. Tax expenses (acc. 635 + 6586*)	33	400
11.3. Environmental expenses (acc. 652)	34	0
11.4. Revaluation expenses (acc. 655)	35	0
11.5. Disaster losses (acc. 6587)	36	0
11.6. Other expenses (acc. 6581 + 6582 + 6583 + 6588)	37	1.900
Refinancing expenses for obsolete entities still carrying leasing activities (acc. 666*)	38	0
Provisions (lines 40 - 41)	39	2.000
- Expenses (acc. 6812)	40	2.000
- Revenues (acc. 7812)	41	0
Operating Expenses – TOTAL (lines 17 la 20 - 21 + 22 + 25 + 28 + 31 + 39)	42	56.760
Net Operating Income:		
- Profit (lines 16 - 42)	43	2.660
- Loss (lines 42 - 16)	44	
12. Revenues from equity instruments (acc. 7611 + 7612 + 7613)	45	0
- of which, for subsidiaries	46	0
13. Interest revenues (acc. 766*)	47	0
- of which, from subsidiaries	48	0
14. Expenses for interest grants (acc. 7418)	49	0
15. Other financial expenses (acc. 7615 + 762 + 764 + 765 + 767 + 768)	50	2.886
- of which, from other financial assets (acc. 7615)	51	0
Financial Revenues – TOTAL (lines 45 + 47 + 49 + 50)	52	2.886
16. Value adjustments for long-term financial assets and other investments held as current assets (lines 54 - 55)	53	0
- Expenses (acc. 686)	54	0
- Revenues (acc. 786)	55	0

17. Interes expenses (acc. 666*)	56	3.817
- of which, for subsidiaries	57	0
Other financial expenses (acc. 663 + 664 + 665 + 667 + 668)	58	540
Financial Expenses – TOTAL (lines53 + 56 + 58)	59	4.357
Net Financial Income		
- Profit (lines 52 - 59)	60	
- Loss (lines 59 - 52)	61	1.471
Total Revenues (lines 16 + 52)	62	62.306
Total Expenses (lines 42 + 59)	63	61.117
18. Gross Income		
- Profit (lines 62 - 63)	64	1.189
- Loss (lines 63 - 62)	65	
19. Income tax (acc. 691)	66	190
20. Other tax from above (acc. 698)	67	0
21. Net Income for the Period		
- Profit (lines 64 - 66 - 67)	68	999
- Loss (lines 65 + 66 + 67 or lines 66 + 67 - 64)	69	

Bank statement

5121		*Type*	*Inflows*	*Outflows*	*Balance*
January					
5	Receivables stockholders (1)	FIN	60.000		
6	Startup expenses (2)	OP		500	
10	Solicitor's fee (2)	OP		1.000	
30	Prepaid rent (5)	OP		2.016	
30	Rent warranty (5)	OP		1.000	
					55.484
February					
15	Purchase oven (7)	OP		8.400	
28	Franchise fee (3)	OP		12.000	
					35.084
March					
1	Cash register (12)	OP		2.400	
1	Prepaid royalty fee (3)	OP		3.000	
1	Raw materials (9)	OP		1.764	
3	Deferred revenue - catering (15)	OP	2.000		
8	Fuel costs	OP		30	
15	Transportation (9)	OP		50	
15	Electricity (6)	OP		300	
15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
30	Sale of finished goods (13)	OP	1.800		
					30.125
April					
1	Gifts (4)	OP		70	
1	Long term bank loan (17)	FIN	29.700		
8	Fuel costs (15)	OP		30	
15	Prepayment - land purchase (18)	INV		8.000	
15	Electricity (6)	OP		300	
15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
30	Land purchase - outstanding debt (18)	INV		12.000	
30	Sale of finished goods (13)	OP	1.800		
30	Purchase of securities (23)	OP		7.500	
					32.510
May					
8	Fuel costs	OP		30	
15	Electricity (6)	OP		300	
15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
30	Sale of finished goods (13)	OP	1.800		
31	Architectural fee - investment property (19)	OP		1.400	
					31.365
June					
8	Fuel costs	OP		30	
15	Electricity (6)	OP		300	
15	Dividends earned (23)	OP	750		

15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
30	Prepayment financial lease (21)	FIN		500	
30	Bank loan & interest (17)	FIN		2.700	
30	Sale of finished goods (13)	OP	1.800		
					29.170
July					
8	Fuel costs	OP		30	
15	Electricity (6)	OP		300	
15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
30	Sale of finished goods (13)	OP	1.800		
					29.425
August					
8	Fuel costs	OP		30	
10	Cash proceeds from government grant (25)	OP	1.500		
15	Payment to the supplier of the equipment (25)	INV		1.800	
15	Electricity (6)	OP		300	
15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
25	Materials cost - investment property (19)	OP		5.000	
30	Sale of finished goods (13)	OP	1.800		
					24.380
September					
8	Fuel costs	OP		30	
15	Electricity (6)	OP		300	
15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
30	Bank loan & interest (17)	FIN		2.640	
30	Sale of finished goods (13)	OP	1.800		
					21.995
October					
1	Operating lease unearned revenue (20)	OP	2.400		
8	Fuel costs	OP		30	
15	New issuance of common stock (22)	FIN	24.000		
15	Electricity (6)	OP		300	
15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
30	Sale of finished goods (13)	OP	1.800		
					48.650
November					
8	Fuel costs	OP		30	
15	Electricity (6)	OP		300	
15	Sale of securities (23)	OP	6.500		

15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
30	Sale of finished goods (13)	OP	1.800		
					55.405
December					
1	Gifts (4)	OP		70	
8	Fuel costs	OP		30	
15	Electricity (6)	OP		300	
15	Salaries payable (4)	OP		746	
25	Pension fund (4)	OP		263	
25	Health fund (4)	OP		102	
25	Unemployment fund (4)	OP		10	
25	Income tax (4)	OP		94	
25	Maintenance & repairs oven (8)	OP		750	
25	Receivables - catering (15)	OP	3.500		
25	Payables - merchandise (16)	OP		730	
26	Grant related to reconstruction (26)	OP	1.500		
27	Payment to contractor (26)	INV		1.500	
30	Sale of finished goods (13)	OP	1.800		
30	Bank loan & interest (17)	FIN		2.580	
30	First installment - financial lease (21)	FIN		900	
					54.130
5124			*Inflows*	*Outflows*	*Balance*
August					
15	Bulgarian customer (14) 1,800 Euro	OP	7.560		
December					
31	Adjusting cash account (32)	EX	360		
					7.920
512					**62.050**

Cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of IAS 16 Property, Plant and Equipment are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Operating activities (OP)	
a) cash receipts from the sale of goods and the rendering of services;	31.060
b) cash receipts from royalties, fees, commissions and other revenue;	5.400
c) cash payments to suppliers for goods and services;	43.450
d) cash payments to and on behalf of employees;	12.150
e) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities (net);	0
f) cash receipts and payments from contracts held for dealing or trading purposes (net).	-250
Net cash flow from operating activities	*-19.390*
Investing activities (INV)	
a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;	23.300
b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;	0
c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);	0
d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);	0
e) cash advances and loans made to other parties;	0
f) cash receipts from the repayment of advances and loans made to other parties.	0
Net cash flow from investing activities	*-23.300*
Financing activities (FIN)	
a) cash proceeds from issuing shares or other equity instruments;	84.000
b) cash payments to owners to acquire or redeem the entity's shares;	0
c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;	29.700
d) cash repayments of amounts borrowed;	7.920
e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.	1.400
Net cash flow from financing activities	*104.380*
The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency (EX)	360
Net cash flow for the period	62.050
Opening balance of cash and equivalents	0
Closing balance of cash and equivalents	62.050

1. Treasury shares

The company repurchases a part of its shares from the shareholders, 500 shares, 10 lei par value, repurchase cost 12 lei per share. Treasury shares don't pay dividends, don't hold voting rights and are not included in outstanding shares calculations.
Treasure shares are a contra-equity account with a negative balance in the equity section. Gains or losses from repurchase of own shares are not included in the income statement, and are recognized as elements of equity.

(a) Recording the repurchase of own shares

109. Treasury shares	=	5121. Current bank account	6,000

The company can keep the treasury shares up to a maximum amount indicated by the law, or can cancel them against the paid-in share capital account.

(b) Cancelling the treasury shares from the paid-in capital account

%	=	109. Treasury shares	6,000
1012. Paid-in share capital			5,000
149. Losses related to the repurchase of equity instruments			1,000

(c) In case the company has some reserves on 1068. Other reserves, it can cover the losses recognized above.

1068. Other reserves	=	149. Losses related to the repurchase of equity instruments	1,000

2. The purchase of a dedicated software

The contract contains the following details: value of the application package (7,500 lei), the installation of this software (800 lei), technical assistance until the software starts functioning (700 lei). The total cost of the purchase is 9,000 lei.

(a) Recording the purchase of software (May 1)

208. Other intangibles	=	404. Suppliers of intangibles	9,000

(b) The amortization of the software (December 31)

6811. Depreciation expense for long-lived assets	=	2808. Amortization of other intangibles	9,000 / (5 years x 12 months) x 8 months = 1,200

1. Capital contributions

OMF 1802 / 2014

75. - (1) La data intrării în entitate, bunurile se evaluează şi se înregistrează în contabilitate la valoarea de intrare, care se stabilește astfel:
(...)
c) la valoarea de aport, stabilită în urma evaluării - pentru bunurile reprezentând aport la capitalul social.

Libby, Libby & Short (2011)

Stockholders' equity indicates the amount of financing provided by owners of the business and earnings. The investment of cash and other assets in the business by the owners is called contributed capital.

Definitions

- Authorised Share Capital = the maximum value of securities that a company can legally issue.
- Issued Shares = the total of a company´s shares that are held by shareholders.
- Outstanding shares = are those issued shares which are not treasury shares.
- Treasury shares = are those issued shares which are held by the issuing company itself, the usual result of a buyback.
- Ordinary shares = any shares that are not preferred shares and do not have any predetermined dividend amounts. An ordinary share represents equity ownership in a company and entitles the owner to a vote in matters put before shareholders in proportion to their percentage ownership in the company.
- Preferred shares = capital stock which provides a specific dividend that is paid before any dividends are paid to common stock holders, and which takes precedence over common stock in the event of a liquidation.

2. Startup costs

OMF 1802 / 2014

185 (1). O entitate poate include cheltuielile de constituire la "Active", caz în care poate imobiliza cheltuielile de constituire. În această situație, cheltuielile de constituire trebuie amortizate în cadrul unei perioade de maximum 5 ani.

185 (2). Cheltuielile de constituire sunt cheltuielile ocazionate de înființarea sau dezvoltarea unei entități (taxe și alte cheltuieli de înscriere și înmatriculare, cheltuieli privind emisiunea și vânzarea de acțiuni și obligațiuni, precum și alte cheltuieli de această natură, legate de înființarea și extinderea activității entității).

IAS 38 Intangible assets

69. In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. (...) Other examples of expenditure that is recognised as an expense when it is incurred include:

(a) Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) or expenditures for starting new operations or launching new products or processes (ie pre-operating costs).

Conclusion

Romanian regulation allows the recognition of start-up costs as intangible assets, to be amortized for a maximum of 5 years. IAS 38 does not allow the capitalization of start-up costs, even if it admits that start-up costs provide future economic benefits.

3. Franchises and other intangible assets

OMF 1802 / 2014

Categorii de imobilizări necorporale
174. - În cadrul imobilizărilor necorporale se cuprind:
- cheltuielile de constituire;
- cheltuielile de dezvoltare;
- concesiunile, brevetele, licențele, mărcile comerciale, drepturile şi activele similare, cu excepția celor create intern de entitate;
- active necorporale de explorare şi evaluare a resurselor minerale;
- fondul comercial pozitiv;
- alte imobilizări necorporale; şi
- avansurile acordate furnizorilor de imobilizări necorporale.

176. - (1) Concesiunile, brevetele, licențele, mărcile comerciale, drepturile şi activele similare reprezentând aport, achiziționate sau dobândite pe alte căi, se înregistrează în conturile de imobilizări necorporale la costul de achiziție sau valoarea de aport, după caz. În această situație valoarea de aport se asimilează valorii juste.

(3) Brevetele, licențele, mărcile comerciale, drepturile şi alte active similare se amortizează pe durata prevăzută pentru utilizarea lor de către entitatea care le deține.

Achiziția separată
157. - (1) În mod normal, prețul pe care o entitate îl plătește pentru a dobândi separat o imobilizare necorporală va reflecta așteptările privind probabilitatea ca beneficiile economice viitoare preconizate ale imobilizării să revină entității. În aceste situații entitatea preconizează o intrare de beneficii economice, chiar dacă plasarea în timp a sumei generate de intrare este nesigură. Astfel, imobilizările necorporale dobândite separat îndeplinesc întotdeauna criteriul referitor la probabilitatea ca beneficiile economice viitoare preconizate atribuibile imobilizării să revină entității.

(2) În plus, costul unei imobilizări necorporale dobândite separat poate fi în general evaluat în mod credibil. Acest lucru se întâmplă mai ales când contravaloarea achiziției ia forma numerarului sau a altor active monetare.

158. - (1) Costul unei imobilizări necorporale dobândite separat este alcătuit din:
a) costul său de achiziție, inclusiv taxele vamale de import și taxele de achiziție nerambursabile, după scăderea reducerilor și rabaturilor comerciale; și
b) orice cost direct atribuibil pregătirii activului pentru utilizarea prevăzută.

(2) Exemple de costuri direct atribuibile sunt:
a) cheltuielile cu personalul determinate de aducerea activului la starea sa de funcționare;
b) onorariile profesionale care decurg direct din aducerea activului la condiția sa de funcționare; și
c) costurile de testare a activului privind funcționarea sa în mod corespunzător.

IAS 38 Intangible assets

9. Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

119. A class of intangible assets is a grouping of assets of a similar nature and use in an
entity's operations. Examples of separate classes may include:
(a) brand names;
(b) mastheads and publishing titles;
(c) computer software;
(d) licences and franchises;
(e) copyrights, patents and other industrial property rights, service and operating rights;
(f) recipes, formulae, models, designs and prototypes; and
(g) intangible assets under development.

25. Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for separately acquired intangible assets.

26. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

27 The cost of a separately acquired intangible asset comprises:
(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
(b) any directly attributable cost of preparing the asset for its intended use.

28 Examples of directly attributable costs are:
(a) costs of employee benefits (as defined in IAS 19) arising directly from bringing the asset to its working condition;
(b) professional fees arising directly from bringing the asset to its working condition; and
(c) costs of testing whether the asset is functioning properly.

Conclusion

Regarding intangible assets which are separately acquired (such as franchises and other rights), there is convergence between the Romanian regulation and IAS 38.

4. Recognition and initial measurement of fixed assets

OMF 1802 / 2014

190. - (1) Imobilizările corporale reprezintă active care:
a) sunt deținute de o entitate pentru a fi utilizate în producerea sau furnizarea de bunuri ori servicii, pentru a fi închiriate terților sau pentru a fi folosite în scopuri administrative; și
b) sunt utilizate pe parcursul unei perioade mai mari de un an.

191. - (4) Piesele de schimb și echipamentul de service sunt, în general, contabilizate ca stocuri şi recunoscute în contul de profit şi pierdere atunci când sunt consumate. Totuși, piesele de schimb importante şi echipamentele de securitate sunt considerate imobilizări corporale atunci când o entitate preconizează că le va utiliza pe parcursul unei perioade mai mari de un an.

226. - (1) O imobilizare corporală recunoscută ca activ trebuie evaluată inițial la costul său determinat potrivit regulilor de evaluare din prezentele reglementări, în funcție de modalitatea de intrare în entitate.

(2) Exemple de costuri care se efectuează în legătură cu construcția unei imobilizări corporale,
direct atribuibile acesteia, sunt:
a) costurile reprezentând salariile angajaților, contribuțiile legale şi alte cheltuieli legate de acestea, care rezultă direct din construcția imobilizării corporale;
b) cheltuieli materiale;
c) costurile de amenajare a amplasamentului;
d) costurile inițiale de livrare şi manipulare;
e) costurile de instalare şi asamblare;
f) cheltuieli de proiectare şi pentru obținerea autorizațiilor;
g) costurile de testare a funcționării corecte a activului, după deducerea încasărilor nete provenite din vânzarea elementelor produse în timpul aducerii activului la amplasamentul şi condiția de funcționare (cum ar fi eșantioanele produse la testarea echipamentului);
h) onorariile profesionale plătite avocaților şi experților, precum şi comisioanele achitate în legătură cu activul etc.

(3) Exemple de costuri care nu sunt costuri ale unui element de imobilizări corporale sunt:
a) costurile de deschidere a unei noi instalații;
b) costurile de introducere a unui nou produs sau serviciu (inclusiv costurile în materie de publicitate şi activități promoționale);
c) costurile de desfășurare a unei activități într-un loc nou sau cu o nouă clasă de clienți (inclusive costurile de instruire a personalului);
d) costurile administrative şi alte cheltuieli generale de regie;
e) costurile reamplasării sau reorganizării parțiale sau totale a activităților entității.

IAS 16 Property, plant and equipment

6. Property, plant and equipment are tangible items that:
(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) are expected to be used during more than one period.

8. Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

16 The cost of an item of property, plant and equipment comprises:
(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

17 Examples of directly attributable costs are:
(a) costs of employee benefits (as defined in IAS 19 Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;
(b) costs of site preparation;
(c) initial delivery and handling costs;
(d) installation and assembly costs;
(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
(f) professional fees.

19. Examples of costs that are not costs of an item of property, plant and equipment are:
(a) costs of opening a new facility;
(b) costs of introducing a new product or service (including costs of advertising and promotional activities);
(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
(d) administration and other general overhead costs.

Conclusion

The relevant elements in OMF 1802 and IAS 16 are totally harmonized.

5. Trade and cash discounts

OMF 1802 / 2014

76. - (1) Reducerile comerciale acordate de furnizor şi înscrise pe factura de achiziție ajustează în sensul reducerii costul de achiziție al bunurilor. Atunci când achiziția de produse şi primirea reducerii comerciale sunt tratate împreună, reducerile comerciale primite ulterior facturării ajustează, de asemenea, costul de achiziție al bunurilor.
(2) Reducerile comerciale primite ulterior facturării corectează costul stocurilor la care se referă, dacă acestea mai sunt în gestiune.

(7) Reducerile comerciale pot fi, de exemplu:
a) rabaturile - se primesc pentru defecte de calitate şi se practică asupra prețului de vânzare;
b) remizele - se primesc în cazul vânzărilor superioare volumului convenit sau dacă cumpărătorul are un statut preferențial; şi
c) risturnele - sunt reduceri de preț calculate asupra ansamblului tranzacțiilor efectuate cu acelaşi terț, în decursul unei perioade determinate.

77. - (1) Reducerile financiare sunt sub formă de sconturi de decontare acordate pentru achitarea datoriilor înainte de termenul normal de exigibilitate.
(2) Reducerile financiare primite de la furnizor reprezintă venituri ale perioadei indiferent de perioada la care se referă. (contul 767 "Venituri din sconturi obținute"). La furnizor, aceste reduceri acordate reprezintă cheltuieli ale perioadei, indiferent de perioada la care se referă (contul 667 "Cheltuieli privind sconturile acordate").

IAS 2 Inventories

Costs of purchase

11. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Conclusion

According to Romanian regulation, cash discounts (= settlement discounts, i.e. discounts received from quick payment) are recognized by the buyer as a finance income.

In IAS 2, cash discounts reduce the cost of inventories (that means that if you receive a discount as a reduction in the purchase price of inventories, then you should deduct it from their costs).