PRELIMINARY ACCOUNTING WORKS FOR THE ESTABLISHMENT OF FINANCIAL STATEMENTS

HOLT GHEORGHE,
PROF. PHD., “CONSTANTIN BRÂNCUSI” UNIVERSITY OF TÂRGU JIU, ROMANIA
e-mail: alinaholt03@gmail.com

Abstract
The preparation of financial statements is a complex process of aggregation of data and accounting information in the perspective of establishing economic and financial indicators. The adoption of a uniform set of preliminary accounting work for the closure of the current financial exercises is the only way for romanian companies to ensure that their financial situations are reliable, and on this basis, the users can make the best decisions. According to IASB Framework, the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions: managers, shareholders, prospective investors, financial institutions, suppliers, customers, employees, competitors, general public, governments. The complexity of the accounting works preceding the financial statement preparation is determined by the large volume of theoretical and practical knowledge that can be influenced by the following factors: different accounting policies, accounting estimates, professional judgment, verifiability, measurability, fraud and error. The main objective of this scientific paper is to highlight the importance of preliminary accounting works for the annual financial statements establishment, focusing on the presentation of their chronological evidence.

Keywords: preliminary accounting works, financial statements, inventory, trial balance, financial result for the period

Clasificare JEL : M40, M41, M48

1. Introduction
Preparing financial statements is a complex process of aggregation of data in order to build economic and financial indicators regarding the entities patrimony situation and the results obtained. This process is reflected in a series of works, some of which having a preliminary character, and others relate to drafting of or proper complementing of the balance sheet. The accounting information obtained after going through the preliminary works for financial statements preparation is the basis of the balance sheet and profit and loss account establishment, and provide a true picture of the situation of assets, financial position, financial performance, changes in the financial position for the financial year to which they relate.

2. Delimitations concerning the preliminary work for the preparation of financial statements
The financial statements are official documents used for completing each financial year and, on their basis, to ensure a true, clear and complete image of the entities patrimony, the financial position and the outcome of the entity. These are synthesis accounting documents that provide common information necessary to most users.
Financial statements are a structured financial representation of the financial position and the operations of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of how the entity management used the resources entrusted them. To achieve this objective, financial statements provide information about the assets, liabilities, equity, income and expenses, including gains and losses, and the cash flows of an entity.
This information, along with other information included in the notes to financial statements, assists users in predicting future cash flows of the entity and, in particular, the moment and certainty in creating cash and equivalents thereof.
Preliminary works are called work for the closure of the current financial exercises, being structured as follows:
1. establishing balance accounts before inventory;
2. inventory of assets, liabilities and equity;
3. adjustment operations accounting:
   • inventory differences;
   • depreciation;
   • value adjustments;
   • provisions;
• exchange differences;
• delimitation of spendings in time;
4. establish balance accounts after inventory;
5. determining the financial result of the year and the distribution of profits or financing the losses;
6. elaborating financial statements;
7. auditing or verifying the financial statements;
8. the approval, signing and publication of annual financial statements.

2.1. Establishing accounts balance before inventory

For centralizing and to control the accuracy of the data recorded in the accounts shall be prepared the trial balance before the property patrimony inventory. Discussed from this point of view, the trial balance prepares the reference data required to compare the accounting inventory and the actual inventory. The accounts balance before inventory can be approached as an inventory accounting. Baseline in the actual inventory is actually a calculated final balances in the balance sheet. Control relationships specific to trial balance are those between debit and credit accounts, between the synthetic and analytical record. Of these, the relationship that provides control information about the registration into the accounts of all supporting documents is that the total turnover of the debit or credit balance must be equal to the total turnover calculated in the accounting journal.

The inventory has as main purpose the establishment of the real situation of all items such as assets, liabilities and equity of each entity and the goods and values held by any title belonging to legal entities or individuals, for drawing up the annual financial statements that must provide a true and fair view of the financial position and performance of the entity for the concerned financial year.

2.2. Inventory of assets, liabilities and equities

The inventory of a company patrimony represent all the operations by which are determined the existence of all assets and liabilities, quantity-value or in value only. The inventory object is represented by all the assets of the company, or the assets of other companies that are temporarily available to the company. The responsibility for the organization of the work of inventory, according to the Accounting Law no. 82/1991, as amended and supplemented, and in accordance with applicable accounting regulations, rests with the manager, the authorizing officer or other person who is liable in the entity's management and which prepare and submit to the inventory committees written procedures tailored to the specific entity. People who provide the administration or the accounting of the goods submitted to the inventory can not be part of the inventory commission.

Annual inventory of assets and liabilities are usually done at the completion of the financial year. This includes: confronting the scripted reality with factual evidence and the valuation of assets and liabilities.

The inventory of assets, liabilities and equity are carried out by the inventory commission, appointed by written decision, issued by authorized persons. In the Nomination decision are mandatorily mentioned the composition of the Commission (name of the President and the committee members), how to perform the inventory, the method used for inventory, the subject of the inventory, the date of commencement and termination of the operations.

The inventory ledger (code 01.02.14) is an mandatory accounting document in which are signed up the results of the inventory of assets, liabilities and equity, grouped by their nature, according to balance sheet items.

The inventory results must be recorded in the technical-operational no later than seven working days from the approval date of the inventory minutes by the manager, officer or the person responsible for the management entity. The inventory results shall be entered in the accounts according to the Accounting Law and in accordance with applicable accounting regulations.

On the basis of the inventory ledger and the trial balance drawn up at the end of the financial year is established the balance sheet, which is part of the annual financial statements whose positions, in accordance with the Accounting Law and applicable accounting regulations, must correspond to the data registered in accounting, matched to the actual situation of the elements such as assets, liabilities and equity determined on the basis of the inventory.

2.3. Adjustment operations accounting

Adjustment operations accounting implies the following types of transactions:
a. operations regarding the registration of the surpluses and minuses found during inventory;
b. operations regarding the calculation of depreciation;
c. operations regarding the constitution, enlargement, reduction or cancellation of corresponding adjustments for the recorded impairments;
d. operations regarding the constitution, enlargement, reduction or cancellation of provisions;
e. operations regarding the delimitation of expenditure and revenue;
f. operations regarding assets and liabilities denominated in foreign currencies.

Surpluses detected during the inventory are recorded, usually, as inputs in the societies patrimony, the minuses been registered as outputs. When there is a likelihood of confusion between certain goods that were found surpluses
and minuses of inventory relating to the same time and the same management, can be made their compensation at the lowest value. In the event of shortcomings in the management attributable to the company’s employees, minus the value of goods recorded inventory is considered output. This is treated as a supply and therefore will be charged VAT.

In the event of shortcomings minuses attributable to the company's employees, the value of goods recorded minus at inventory is considered output. This is treated as a supply and therefore will be charged with VAT.

2.4. Establishing accounts balance after inventory

After performing the inventory and the adjustment operations accounting, the accountants must elaborate again the trial balance. Its aims is to prepare the necessary information to determine the outcome of the exercise and the annual financial statements. The last stage preceding the balance sheet draw up is the current centralization of accounting data using synthetic trial balance, which is a complex preliminary work and has an important role to obtain information fully consistent with reality. By drawing provisional general balance (synthetic) is checked the the accuracy of accounts turnovers and balances established for synthetic accounts. In this regard are envisaged equality between both series of columns for amounts and for debit and credit balances and the existence of the concordance with data obtained through analytical balances and those offered by records.

2.5. Determining the result of the financial year and the distribution of profits or financing the losses

Determining the results of the financial exercise involves the following steps:

- determining accounting result. Accounting result is obtained from closing the expenditure and revenue accounts. In accounting, the profit or loss is determined cumulative at the beginning of the financial year;

\[
\begin{align*}
\text{Profit (loss) for the period} & = \text{Expense accounts} = 121 \\
\text{Revenue accounts} & = \text{Profit (loss) for the period} = 7
\end{align*}
\]

- closing the revenue accounts:

\[
\begin{align*}
\text{Revenue accounts} & = \text{Profit (loss) for the period} = 121
\end{align*}
\]

\[
\begin{align*}
\text{Profit (loss) for the period} & = \text{Expense accounts} = 6
\end{align*}
\]

\[
\begin{align*}
\text{Revenue accounts} & = \text{Profit (loss) for the period} = 7
\end{align*}
\]

- determining the fiscal result. Fiscal result represents the taxable profit or tax loss of the fiscal year;

\[
\begin{align*}
\text{Fiscal result} & = \text{Revenues from any sources} - \text{Expenses incurred in carrying out revenues} - \text{Non-taxable income} + \text{Non-deductible expenses} \\
\end{align*}
\]

- determining the profit tax. In case the tax result takes the form of taxable income, is calculated the income tax, according to:

\[
\begin{align*}
\text{Income Taxes} & = \text{Taxable profit} \times \text{Tax rate} \\
\end{align*}
\]

- determining the result of the exercise, according to the formula:

\[
\begin{align*}
\text{The result of the exercise} & = \text{Accounting results} - \text{Income Tax} \\
\end{align*}
\]

\[
\begin{align*}
691 & = 4411 \\
691 & = \text{"Income tax"} = \text{"Current income tax"}
\end{align*}
\]

The final result of the financial year is fixed at its closure and represents the final balance of the profit or loss account.

3. Practical applications regarding accounting operations for financial statements preparation

3.1. Accounting operations regarding the inventory regularization

3.1.1. Accounting operations relating the regularization of inventory surpluses

a) Surluses of technical installations and transport facilities:

\[
\begin{align*}
\text{"Plant and machinery, motor vehicles, animals and plantations"} & = 4754 \\
\text{"Inventory surpluses in the form of non-current assets"} & = 2.500 \\
\end{align*}
\]

b) Surpluses of raw materials:

- available in warehouses:

\[
\begin{align*}
\text{"Raw materials"} & = 601 \\
\text{"Raw materials expenses"} & = 4.000 \\
\end{align*}
\]

- available in the production departments stores:
601 „Raw materials expenses” = 301 „Raw materials” 1.000

c) Surpluses of consumables:
302 „Consumables” = 602 „Consumables expenses” 2.200

d) Surpluses of semi-finished goods:
341 „Semi-finished goods” = 711 „Revenues associated with the costs of the completed production” 500

e) Surpluses of finished goods:
345 „Finished goods” = 711 „Revenues associated with the costs of the completed production” 2.500

f) Surpluses of biological assets such as stocks:
361 „Biological assets such as stocks” = 711 „Revenues associated with the costs of the completed production” 1.500

g) Surpluses of goods purchased for resale:
- in a wholesale unit:
371 „Goods purchased for resale” = 607 „Goods for resale” 3.000

- in a retail units:
371 „Goods purchased for resale” = % 607 5.000

„Goods for resale”
378 „Price differences on goods purchased for resale” 500
4428 „VAT under settlement” 950

h) Surpluses of packaging materials:
381 „Packaging materials” = 608 „Packaging costs” 150

i) Surpluses of availabilities in cash:
- at a private company:
5311 „Petty cash in lei” = 758 „Other operating revenues” 150

- at a public company:
5311 „Petty cash in lei” = 4481 „Other debts payable to the Treasury” 200

3.1.2. Accounting operations relating the inventory minuses

a) Minuses of technical installatons and transport facilities:
- fully depreciated:
281 „Depreciation of tangible assets” = 213 „Plant and machinery, motor vehicles, animals and plantations” 2.500

- partially depreciated:
% 281 „Depreciation of tangible assets” = 213 „Plant and machinery, motor vehicles animals and plantations ” 3.200
6583 „Net value of assets disposed of and other capital transaction” 2.200
1.000
### b) Minuses of raw materials:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>601</td>
<td>Raw materials expenses</td>
<td>301</td>
<td>500</td>
</tr>
</tbody>
</table>

### c) Minuses of consumables:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>602</td>
<td>Consumable expenses</td>
<td>302</td>
<td>300</td>
</tr>
</tbody>
</table>

### d) Minuses of semi-finished goods:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>711</td>
<td>Revenues associated with the costs of the completed production</td>
<td>341</td>
<td>600</td>
</tr>
</tbody>
</table>

### e) Minuses of finished goods:

- valued at production cost:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>711</td>
<td>Revenues associated with the costs of the completed production</td>
<td>345</td>
<td>500</td>
</tr>
</tbody>
</table>

- valued at standard price:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>Revenues associated with the costs of the completed production</td>
<td>345</td>
<td>750</td>
</tr>
</tbody>
</table>

### f) Minuses of biological assets such as stocks:

- obtained from own production:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>711</td>
<td>Revenues associated with the costs of the completed production</td>
<td>345</td>
<td>1,200</td>
</tr>
</tbody>
</table>

- obtained from acquisitions:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>606</td>
<td>Expenditure on biological assets such as stocks</td>
<td>361</td>
<td>800</td>
</tr>
</tbody>
</table>

### g) Minuses of goods purchased for resale:

- in a wholesale unit:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>607</td>
<td>Goods purchased for resale</td>
<td>371</td>
<td>600</td>
</tr>
</tbody>
</table>

- in a retail units:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>Goods purchased for resale</td>
<td>371</td>
<td>1,032</td>
</tr>
</tbody>
</table>

### h) Minuses of packaging materials:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>608</td>
<td>Packaging costs</td>
<td>381</td>
<td>200</td>
</tr>
</tbody>
</table>

### i) if the patrimonial asset items are identified as inventory shortages and are charged on the guilty persons, in addition to the records shown above is made the following recordings:

- when employees are being charged:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>4282</td>
<td>Other employee-related claims</td>
<td>%</td>
<td>476</td>
</tr>
</tbody>
</table>

- "Output VAT"
j) In the event that on the date of inventory completion cannot be determined the guilty party and is to determine subsequently the causes of the raw materials minuses, we use the following formula:

\[
\text{"Suspense account"} = \frac{\text{"Raw materials"}}{\text{"Output VAT"}}
\]

- when employees are being charged
\[
\text{"Sundry debtors"} = \frac{\text{"Other employee-related claims"}}{\text{"Suspense account"}}
\]

- when is imputed to outside parties:
\[
\text{"Output VAT"} = \frac{\text{"Sundry debtors"}}{\text{"Suspense account"}}
\]

3.2. Accounting operations relating depreciation and value adjustments

The amortization of fixed assets is calculated and recorded based on the amortization of fixed assets sheets. At the end of the financial exercise, when the general inventory of the patrimony is made, it is normal that the inventory value is equal with the remaining amortized value. If the inventory value is lower than the remaining amortized value, the difference is amortized as follows:

a) the registration of an additional depreciation for a unusable machine proposed for scrapping:

\[
\text{"Provisions"} = \frac{\text{"Depreciation of plant and machinery, motor vehicles, animals and plantations"}}{3.000}
\]

b) the registration of an adjustment for the impairment of assets in the case of a means of transport overvalued with 500 lei:

\[
\text{"Impairment losses on non current assets"} = \frac{\text{"Impairment of plant and machinery, motor vehicles, animals and plantations"}}{500}
\]

c) the registration of an adjustments for the value loss of certain bonds with 200 lei:

\[
\text{"Amortisation of premiums on redemption of debentures"} = \frac{\text{"Write-down of debentures"}}{200}
\]

3.3. Accounting operations relating provisions

a) increases of a provision for guarantees granted to customers in addition to 3.000 lei:

\[
\text{"Provisions"} = \frac{\text{"Provisions for guarantees to customers"}}{3.000}
\]

b) Is canceled a 200 lei provision for litigation for bad debts:

\[
\text{"Provisions for litigation"} = \frac{\text{"Write back of provisions"}}{200}
\]

3.4. Accounting operations relating exchange differences

In 2015 are made the following operations: invoicing goods: 10.000 euro, exchange rate at the invoice date: 4,20 lei/euro; acquisition of raw materials: 20.000 euro, exchange rate at the acquisition date: 4,30 lei/euro. The exchange rate at the closure of the financial year was 4,40 lei/euro. In 2016 take place the settlement of transactions at the rate of 4,50 lei/euro.
a) Recognition of receivables:
   4111 = 707 = 42.000
   "Customers" "Sale of goods purchased for resale"

b) Recognition of debts:
   301 = 401 = 86.000
   "Raw materials" "Suppliers"

c) Registration of exchange differences resulting from the valuation of receivables at the end of 2015:
   4111 = 765 = 2.000
   "Customers" "Foreign exchange gains"

d) Recording of exchange differences resulting from the valuation of liabilities at the end of 2015:
   665 = 401 = 2.000
   "Foreign exchange losses" "Suppliers"

Settlements registration in 2016:

a) cashing customers:
   5124 = 4111 = 45.000
   "Cash at bank in foreign currencies" "Customers"

   4111 = 765 = 1.000
   "Customers" "Foreign exchange gains"

b) paying suppliers:
   401 = 5124 = 90.000
   "Suppliers" "Cash at bank in foreign currencies"

   665 = 401 = 2.000
   "Foreign exchange losses" "Suppliers"

3.5. Accounting operations relating time delimitation of revenues and expenditures

a) recording expenditures for maintenance and repair in amount of 3,500 lei detected at the closure of the current financial exercises like being related to the following financial exercise:
   471 = 611 = 3,500
   "Accrued expenses" "Maintenance and repair expense"

b) recording the due share of expenditure taken from the previous financial year regarding postage and telecommunications fees, in amount of 250 lei:
   626 = 471 = 250
   "Postage and telecommunications" "Accrued expenses"

c) recording expenditures during the current financial exercise directly in 471 account and transferred over the expenditures of the current closed year, in amount of 150 lei:
   621 = 471 = 150
   "Externally contracted manpower" "Accrued expenses"

d) recording deferred income from rentals during the current financial exercise directly in 472 account, in amount of 2,500 lei:
   4111 = 472 = 2,500
   "Customers" "Deferred income"

e) recording deferred income in the regularization account and transferred to the current year exercise, from rentals, venituri înregistrate în contul de regularizare și transferate asupra exercițiului curent, provenite din chiriile, in amount of 250 lei:
   472 = 706 = 250
   "Deferred income" "Rental and royalty income"

4. Conclusion

Preparation of financial statements is a process of aggregation of data that results in a series of preparatory work, being called closure the current financial-accounting year works. At the end of the financial year, a company is required to prepare financial statements according to their size. In order to ensure the reality of the financial statements, so the consistency of the indicators that the financial statements contains with the economic and financial situation.
undertaking, requires the verification of full reflection in accounting of all operations carried out during the reporting period, the correctness of entries in the primary documents and summary data in chronological order. Going chronologically through all eight works preceding annual financial statements establishment, all of them have a well defined role, providing necessary information for financial and accounting department. The implementation of this complex process results in a series of works, some of which are preliminary, and others relate to drafting or completing proper balance sheet.

**Bibliography**

*** The order of the Minister of Finance no. 1802/2014 for the approval of Accounting regulations on the annual individual financial statements and annual consolidated financial statements, published in Official Gazette no. 963/30.12.2014, with subsequent amendments and additions

*** Accounting Law no. 82/1991, republished in the Official Gazette no. 454 / 18.06.2008, with subsequent amendments and additions