THE ROLE OF STOCK-TAKING IN THE ANNUAL CLOSING OF ACCOUNTS IN ENTERPRISES

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Abstract: The annual closing of accounts in enterprises finds expression in the succession of carrying out a set of stages. During the stage of preparation for annual closing of accounts, the most important element is carrying out the annual stock-taking of assets, owner's equity and liabilities. The aim is to provide objectivity of the quality characteristics of the annual financial report in the economic subject, hence its reliability.

Keywords: annual closing of accounts, stock-taking, assets, owner's equity, liabilities, annual financial report.

JEL: M41.

ЗА РОЛЯТА НА ИНВЕНТАРИЗАЦИЯТА ПРИ ГОДИШНОТО СЧЕТОВОДНО ПРИКЛЮЧВАНЕ В ПРЕДПРИЯТИЯТА

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Резюме: В настоящата разработка се анализира същността на инвентаризацията в нефинансовите предприятия като средство за осигуряване на ръководството с информация за наличността и промените на

активите, капитала и пасивите и тяхното оценяване към определен момент, респ. установяване несъответствията между счетоводните и фактическите данни. Особено това е необходимо към датата на съставянето на финансовия отчет с оглед осигуряване на достоверна и честна картина за финансовото и имущественото състояние на стопанските субекти, намираща израз във верни и правилни годишни финансови отчети.

Ключови думи: годишно счетоводно приключване, инвентаризация, активи, собствен капитал, пасиви, годишен финансов отчет.

JEL: M41.

Accounting is concerned with the collection, classification, summarization and communication of financial information and the task of it is to provide a detailed financial information that will be manageable and understandable about an enterprise.[1]

The organization of the accounting process in enterprises is a consecutive, interrelated and lawful carrying out of current accounting reporting and periodical accounting reporting. The periodical reporting includes current periodical reporting and annual closing of accounts.[2] The annual closing of accounts finds expression in the transformation of information from current accounting reporting into summarized accounting information about the activity of the enterprise, comparison of income and expenses and respectively, establishing a financial result for the accounting period.[3]

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[1] <https://www.grossarchive.com/upload/1414587325.htm> last accessed on December 21, 2018; The role of internal auditors in stock taking (A case study of total nigeria limited).

[2] **Дочев, М., Александров, Ст.** Счетоводен анализ на финансовите отчети. В. Търново, Абагар, 2013, с. 36-37.

[3] **Душанов, Ив., Димитров, М.** Курс по счетоводство на предприятието. Седмо основно преработено и допълнено издание. С. Ромина, 2011, с. 719.

The annual closing of accounts in enterprises finds expression in the succession of carrying out a set of stages. During the stage of preparation for annual closing of accounts, the most important element is carrying out the annual stock-taking of assets, owner's equity and liabilities.

According to the Accounting Law, the stock-taking of assets and liabilities is carried out during each accounting period with the aim of their truthful representation in the annual financial report in response to the main requirement for the activity of enterprises – to present correctly and honestly their stock and financial state, the reported financial result and the changes in the cash flows.[4]

This issue is also normatively regulated in the Accounting Law where the following definition is drawn up: "Stock-taking is the process of preparation and factual check through various tools of the natural and value parameters of the assets and liabilities of the enterprise as of a particular date, comparing the received results to the accounting data and establishing the possible differences."[5] The aim is to provide objectivity of the quality characteristics of the annual financial report in the economic subject, hence its reliability.

In order for the process of stock-taking to be accepted as an information and control means in the enterprise, it must comply to the specific aspects of economic activity, including, organizational, technological and natural[6], and at the same time subjected to the principles of: *lawfulness* (there must be a reason for carrying out stock-taking), *comprehensiveness* (all assets, owner's equity and liabilities must undergo stock-taking), *exactness* (the information of stock-taking must present truthfully the state of the enterprise) and *timeliness* (performing the

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[4] **According to the new Accounting Law** "Enterprises whose net income of sales does not exceed BGN 200,000 for the current accounting period, do not carry out a compulsory stock-taking. Stock-taking is carried out on a decision by the management of the enterprise, upon request by the organs of legal authority and other organs, when this is described in a law.
[5] **Accounting Law** (January 1, 2016; State Gazette 22/March 13, 2018).
[6] *Socio-economic* aspects do not affect stock-taking.

checks and preparing the results is carried out in compliance with the terms set in the stock-taking order).[7]

In non-fiscal enterprises, all assets, owner's equity and liabilities are subject to stock-taking. This is dictated by the circumstance that when stock-taking is carried out, the assets and liabilities are checked for diminution with a view of observing cautiousness. It requires every asset or liability to be entered in the balance sheet without being overrated or underrated. Without stock-taking being carried out, there can be no further assessment.[8] Besides, in the context of the applicable standards, it is clear that the aim of stock-taking is not only to establish the available assets and liabilities of the enterprise as of the date of preparing the financial report, but also to confirm whether all assets and liabilities are real.

The objects of annual stock-taking /with full compliance with the structure of the assets and liabilities of the enterprise/, as part of the preparatory stage of the realization of the annual closing of accounts in economic subjects are:

- assets, including: recorded, but not deposited capital, intangible assets, long-term tangible assets, long-term financial assets, tangible reserves, investments, monies and expenses for future periods.
- owner's equity – the aim is to ascertain correspondence between accounting data and the data that has found expression in the registration documentation of the economic subject and/or in the local court of registration; a

[7] За повече подробности вж.: **Чиприянов, М.** Методика за формулиране стратегията на диверсификация в предприятието. // Годишник. Стопанска академия Д. А. Ценов - Свищов, АИ Ценов, 2003, бр.CII, с.171-228; **Чиприянов, М.** Предимства на рейтинга на конкурентните сили за стратегическото управление. // Диалог, АИ Ценов, 2008, бр. 1, с. 45-57.

[8] **Българенска, С.** Особености при годишното счетоводно приключване на отчетната 2006 година в аграрните предприятия. – Б ъ л г а р с к и счетоводител, бр. 4, 2007, с. 3; Accounting Law (January 1, 2016; State Gazette 22/March 13, 2018); IAS 1 Presentation of Financial Statements; СС 1 Представяне на финансови отчети.

comparison is made on the income and expenses of the whole activity of the current accounting period in order for the accounting financial result to be determined.

- liabilities, including: provisions and related debts, debts, funding and income for future periods.

What not to include in annual stock-taking? – items have sold and title has passed to the buyers, items hold on consignment, items have ordered, but have not yet taken title to.[9]

In particular the annual stock-taking of receivables of enterprises from customers is a prerequisite for the seller enterprises to review risks in relation to their receivability. The accounting relationships of enterprises with third parties are characterized with great diversity in relation to the type, place of establishment, time of settlement and provisionality. In order to survive and be more competitive, an increasing number of enterprises today provide contractors with the option when they purchase and sell to delay and/or postpone in time the payment of the cost of the realized production, goods, services, etc.

According to the requirements of IAS 32 Financial tools: Presentation[10] and NAS Financial Instruments: Presentation 32[11] the receivables from customers are a financial asset; they are a contracted right treated as commercial receivables.

For every enterprise, the sale of assets leads to the receivables from customers, for which an accounting article is prepared as the account Customers is debited, while the accounts Income of sales and Tax on sales /if the enterprise is

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[9] <https://www.paychex.com/articles/finance/importance-of-a-year-end-physical-inventory> last accessed on January 05, 2019; Why It's Important to Perform a Year-End Physical Inventory?

[10] **Official journal of the EU**; <http://eur-lex.europa.eu> last accessed on 06 January 2019.
Изменения в **Официален вестник на Европейския съюз**.
<https://eur-lex.europa.eu/legal-content/BG/TXT/> last accessed on 15 January 2019.
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[11] **Постановление** на Министерски съвет № 394 от 30.12.2015 г. за изменение и допълнение на Националните стандарти за малки и средни предприятия, които вече се наричат Национални счетоводни стандарти. ДВ, бр. 3 от 12 януари 2016 г.

registered under the VAT Law/ are credited. The law on Payables and Contracts regulates that when a sale occurs, the seller shall transfer to the purchaser the property of an item or another right, against a price which the purchaser shall pay to the seller.[12] Bearing in mind the increased demand for free funds of enterprises and the increased share of receivables that are difficult to collect, over the last years, more and more often enterprises make deals for collecting the receivables.

Such deals, on the basis of the annual stock-taking of receivables of enterprises from customers for the next reporting period, can be said to be: 1) intercompany deductions of receivables and payables; 2) paying off the service of collecting the receivables to a third party enterprise /intermediary/ and 3) the sale of receivables to a third party enterprises whose main activity is the collection of doubtful receivables.

In the first case, each of the enterprises is both a supplier and a customer. Each of the two enterprises has at the same time receivables from and debts to the other enterprise and each of the sums /for enterprises registered under the VAT Law[13]/ consist of two components of the value of the contract /tax base/ and VAT.[14] A bilateral written statement for deducting the smaller sum on the invoice/s is drawn up. The difference in the values of the invoices becomes both a debt for one of the enterprises and a receivable for the other. For example, if an enterprise “A” is at the same time a supplier and a customer to enterprise “B” and the enterprise “B” is at the same time a customer and a supplier of enterprise “A”, then on the basis of the written statement, the accounting entries will be drawn up:

[12] **Закон** за задълженията и договорите, Обн. ДВ, бр. 275 от 22.11.1950 г. В сила от 01.01.1951 г., изм. ДВ. бр.96 от 1 Декември 2017г., доп. ДВ. бр.42 от 22 Май 2018г.

[13] **Закон** за данък върху добавената стойност. Обн. ДВ. бр. 63 от 4 Август 2006 г. изм. и доп. ДВ. бр. 24 от 16 Март 2018 г.

[14] **Кондова, М.** Факторинг – счетоводни и данъчни аспекти. // Делова седмица, 2000, бр. 13, с. 7.

In the accounting of enterprise “A”: first, account Suppliers against the crediting of account Other creditors, analytical account “Contractor B” is debited with a smaller sum than the value of the invoice/s on the deduction; second, account Other creditors, analytical account “Contractor B” against the crediting of account Customers will be debited with the same sum on the deduction; and third, account Suppliers against the crediting of account Current account will be debited with the sum which has remained as a debt of enterprise “A” to enterprise “B” after the deduction.

In the accounting of enterprise “B”: first, account Suppliers against the crediting of account Other creditors, analytical account “Contractor A” will be credited; second, account Other creditors, analytical account “Contractor B” against the crediting of account Customers will be debited with the same sum; third, account Current account against the crediting of account Customers will be debited with the sum which has remained as a receivable of enterprise “B” from enterprise “A” after the deduction.

The accounting logic is analogous when the enterprises which participate in the process amount to more than two. Another example is when analyzing the purchases and sales between enterprises “A”, “B” and “C”, when enterprise “B” has receivables from customers from enterprise “A”, and enterprise “C” has receivables from customers from enterprise “B”. In order to avoid funds being blocked, enterprise “B” can sign a contract with enterprise “C” for the transfer of receivables from customers from enterprise “A”. This is usually at a value lower than the value of the invoice, for which in its accounting, account Other creditors is debited while account Customers is credited, while the difference is entered in the debit of account Other expenses. Parallel to this enterprise “B” settles its debts to suppliers enterprise “C”. Then for enterprise “C”, receivables from customers from enterprise “A” will occur, which are entered in the balance sheet only by transferring the accounts of customers – account Customers, analytical account "enterprise A" is debited, while account Customers, analytical account "enterprise "B" is credited.

The other cases in the practice concern indications of doubtful receivables.

Enterprise "A" might have receivables from customers (enterprise "B"). After a certain period of time, it can classify them as doubtful receivables and will go about engaging an enterprise-intermediary (enterprise "D") which will complete the service "collecting the receivables" on the basis of a contract for payment. In this case enterprise "A" does not sell receivables from customers, which is why no change might be entered in its accounting. Analogous is the situation with enterprise "D" which is an intermediary in the process and does not have a reason to register the receivables from customers as its own. We recommend an alternative option in which the accounting relations arising between enterprise "A" and enterprise "D" are registered off-balance:[15] in the accounting of enterprise "A" account Bailors are debited against the crediting of account Other liabilities off-balance accounts, while in enterprise "D", account Other asset off-balance accounts is debited, while account Debts to bailors is credited. The accounting of the service of collecting the receivable in enterprise "A" is possible in two ways. In the first, it is registered as expenses for external services, for which account Expenses for external services and account Tax for the purchases is debited against the crediting of account Suppliers, analytical account "enterprise "D". In the second, no expenses for external services are registered in enterprise "A", but in enterprise "D" the income from the sales of services on the credit of account Other incomes is registered and the sum is the difference between the receivables from customers and the obligation on the contract for collecting the trade receivables of enterprise "A". Does enterprise "D" owe VAT?

[15] **Златков, Ив.** Събиране на вземания – счетоводно и данъчно третиране. // Български счетоводител, 2009, бр. 4, с. 25-26.

Because enterprise “D” is an intermediary in the process of collecting the receivables, but it does not purchase them from enterprise “A”, according to the VAT Law[16], the deal is exempt of supply.

Over the last years, we observe a marked increase in the share of deals for the sale of receivables of third party enterprises, whose activity is the collection of doubtful receivables. In such a situation, the deal for the purchase and sale of receivables from customers (receivable of monies and money equivalents) is interpreted as cession or cession deal; the enterprise which sells receivables from customers – as a transferor; the enterprise-debtor – as a transferred debtor, while the enterprise that purchases receivables from customers with the aim of economic profit, is a cessionary[17] (in the practice, the colloquial term “collector enterprise” is used). According to a signed contract for the purchase of receivables, in the accounting of the transferor, a sale of doubtful receivables is registered as there is a cash flow to the debit of account Current account which is smaller than its accounting value. In the accounting of the transferred debtor, only the change in the analytical account Suppliers is registered. In the accounting of the cessionary, the purchased receivable shall be registered, which, according to IAS 32 Financial tools: Presentation[18], is at the price of acquisition. The fulfillment of cession contracts is accompanied by a supply of the financial service, the supplier of the service is the transferor, while the price at which the receivable is transferred is accepted as a tax base of the supply.[19]

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[16] **Закон** за данък върху добавената стойност. Обн. ДВ. бр. 63 от 4 Август 2006 г. изм. и доп. ДВ. бр. 24 от 16 Март 2018 г.

[17] По идеи от **Златков, Ив.** Отчитане цедирането на вземанията. // Български законник, 2001, бр. 10, с. 43.

[18] **Official journal of the EU**; <http://eur-lex.europa.eu> last accessed on 06 January 2019. Ibid. Изменения в Официален вестник на Европейския съюз.
<https://eur-lex.europa.eu/legal-content/BG/TXT/> last accessed on 15 January 2019.
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[19] **Златков, Ив.** Отчитане цедирането на вземанията. Цит. съч., с. 46-47.

Therefore, during the preparation stage for the annual closing of accounts in enterprises, the most important prerequisite is carrying out the annual stock-taking not only of assets, but of owner's equity and liabilities, as well with a view of guaranteeing the accuracy of the annual financial report, which presents the summarized economic state of the enterprise and it is not by accident that it is associated with the information database regarding the property and financial state, the reported financial result, the changes in the cash flows and owner's equity.[20]

The financial reports must be prepared clearly and in compliance with the requirements of the Accounting Law and the National Accounting Standards. For unsolved problems in the National Accounting Standards, the enterprise selects and applies accounting policy in compliance with the International Accounting Standards as it must announce this fact.

A particular emphasis is placed on the quality characteristics of financial reports regarding the usefulness of the information provided in the financial reports (creating this information is not as an end in itself, but is oriented towards meeting the needs of making economic decisions by users) and the usefulness of quality characteristics. [21]

A new moment is outlined with the *Conceptual framework of financial reporting*[22], which shifts the emphasis from *financial reports* to *the purpose of*

[20] **Accounting Law** (January 1, 2016; State Gazette 22/March 13, 2018); IAS 1 Presentation of Financial Statements, СС 1 Представяне на финансови отчети; <https://www.iasplus.com/en/standards/ias/ias1> last accessed on January 10, 2019.

[21] **Грозева, Н.** Нематериални активи и качество на финансовото оповестяване. // Народностопански архив, бр. 4, АИ Ценов, 2015, с. 92.

[22] **CHRISTENSEN, J.** Conceptual Frameworks of Accounting from an Information Perspective. Accounting and Business Research. Vol. 40, № 3, 2010, p. 287-299; Conceptual Framework for Reporting. Statement of Financial Accounting Concepts, № 8, September 2010; A Framework for Financial Reporting Standards: Issues and a Suggested Model. Commentary. Accounting Horizons, Vol. 24, № 3, 2010 p. 195-220.

financial reporting. The purposes of financial reporting are a prerequisite for defining the information in financial reports as useful.[23]

The quality characteristics of the financial reports according to the regulations of the General regulations for the preparation and presentation of financial reports (The working framework of the Council under IAS, respectively, IASB)[24] express the usefulness of the information which is presented to the users in financial reports and find expression in comprehensiveness, relevance, reliability and comparability.[25]

The quality characteristics of financial information according to the Conceptual framework for financial reporting[26] are expressed in the possibility for analysis of economic phenomena in space and time, deciding whether a certain article is presented reliably, and whether the financial information is at the disposal of users so that they realize their usefulness.

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In conclusion, we can form the opinion that during the stage of preparation of annual closing of accounts and the final annual taxation in non-fiscal

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[23] **Мусов, М.** За качествените характеристики на полезността на финансовата информация и за полезността на качествените характеристики. Качество и полезност на счетоводната информация. Сборник с доклади от научна конференция. Варна, Наука и икономика, 28-29 септември 2012 г., с. 270.

[24] **Мирца, А., Орел, М., Холт, Г. и други**. МСФО / IFRS. Международни стандарти за финансова отчетност. Ръководство, коментари, практическо приложение. Първо издание. С., Калибри, 2009, с. 28-29.

[25] **Грозева, Н.** Някои критерии определящи качеството на финансовото оповестяване. // Известие на съюза на учените – Варна серия „Хуманитарни науки" 1/2009, с. 27.

[26] **CHRISTENSEN, J.** Conceptual Frameworks of Accounting from an Information Perspective. Accounting and Business Research. Vol. 40, № 3, 2010, p. 287-299; Conceptual Framework for Reporting. Statement of Financial Accounting Concepts, № 8, September 2010; A Framework for Financial Reporting Standards: Issues and a Suggested Model. Commentary. Accounting Horizons, Vol. 24, № 3, 2010 p. 195-220.

enterprises, the emphasis is placed on the annual stock-taking and tax regulation of the effects arising from the assessment and reporting of tangible assets.[27]

On the basis of the performed analysis of the essence of stock-taking, we could form the opinion that stock-taking in non-fiscal enterprises is a means of providing the management with information about the availability and changes of assets, owner's equity and liabilities and their assessment as of particular moment. It is a tool for establishing the discrepancies between accounting and factual data which stem from various economic processes. This is particularly necessary as of the date of preparing the financial report with a view of providing truthful and honest picture of the financial and property state of economic subjects finding expression in precise and correct annual financial reports.

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