

## **METHODOLOGICAL FOUNDAMENTATIONS CONCERNING THE ACCOUNTANCY OF THE OPERATIONS OF PURCHASING STOCKS FROM COAL EXTRACTION**

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**Abstract:** In order to prepare this work, we considered the particular importance of accounting information in the process to performable management of ensuring operations of stocks necessary to normal development of production from coal extraction. On the other side, it was considered as being appropriate the highlighting of the way in which accounting information mentioned is influenced by the complexity and specificity of entry operations in management of consumables and own finished goods that, mainly, refer to: the organization of an adequate flow in order to enter into the management, the optimization of stocks on types of goods and costs that they produce, rigorous implementation of accounting policies and the attenuation of internal risks related to the stocks etc. The aspects mentioned are approached in terms of increasing the credibility of accounting information, so it will be used, to the adoption of the best management decisions regarding the stocks.

**JEL classification:** M41, M29, L72.

**Key words:** accounting information, major accounting objectives, stocks specific for coal extraction, delivery with consumables, entries of own finished goods

### **1. Introduction**

Stocks accountancy from coal extraction, as any other branch of economic activity, needs to be carefully organized, in a professional way, as to ensure, in a first place, the full satisfaction of information demand of important factors of the entity, both in terms of establishing, storage and consumption of all material current assets, under efficiency conditions, and in terms of the knowledge, analysis and attenuation of costs produced by these operations. Therewith, we shall consider, in an exigent way, the information demand of the third parties.

With reference to activities specific to stocks management, we note, as a first aspect, the fact that these stocks and, implicitly, the expenses occurred with them, directly influence economic and financial results, while the particularities of coal extraction place the material resources and the information related to stocks in a position of “major criteria for decisions adoption”.

Stocks, as it is known, represent quantities of material resources or products accumulated inside the entity's deposits in a certain volume and structure, for a determined period of time, in order to use them. During the storing, it is considered that

material resources are available, but they aren't used, so they are negative, placed outside the economic circuit, or they extend this circuit (considered a negative aspect). At the same time, the storing process is justified by the fact that in very few cases, the supply for daily consumption is profitable and possible, in order to avoid the formation of current stock.

It is imposed to carefully treat the entry process in management of stored goods as “necessary and objective” process, as a consequence of the need to develop the entity's activity and also for the fact that it imposes expenses concentered in the damage of some storage spaces, in transport-storage machines, in financial resources etc. Therewith, we may consider that stocks represent an investment for each economic entity, and funds thus used are immobilized for a greater or a lesser period of time and, implicitly, produce a significant cost that, in a justified way, enters in the category of essential managerial objectives.

Investment financial effort in stocks is commensurate by actual liquidity, considering the duration of immobilization, immediate breakup flows, storage costs and other expenses in order to finally assess the loss or the profit from ownership of material goods for production and sales. These aspects, and not only them, need to be analyzed, fact that, normally, can be achieved on the base of accounting information related to stocks, but the management capacity to correctly interpret and use this information decisively influences the effects of future economic decisions.

## **2. Essential accounting information regarding the stocks**

Issues analyzed within this work are orientated towards stocks, as they are defined in an accounting way, meaning that they represent material current assets for which, in the case of the practical study, it is met only one of these two conditions: they are provided from third parties in order to be used in the production process or they come from own production in order to be sold during the normal development of the activity.

With respect to the objectives of stocks accountancy and implicitly of information generated by them, we considered as being justified that they be approached in the context of general dispositions regarding the annual financial statements<sup>1</sup>, by means of which this information is communicated to those interested. In this sense, we note only the requirements regarding a true image and their qualitative features concentered in those attributes that determine their utility, namely: intelligibility, relevance, credibility and comparability.

In connection to these last statements, we consider as being relevant the opinion of the experts from the field<sup>2</sup> according to which “ in order to reach the objective of true image, the suppliers of annual accounts have to meet all regularity and sincerity requirements”, fact that, in our opinion, is valid also in the case of accounting information on stocks.

In other words, we consider beneficial to highlight the fact that, by means of synthetic and analytical accounts used in order to observe the stocks, are created the necessary premises for meeting these punctual objectives and, at the same time, the

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<sup>1</sup> Accounting regulations in accordance with European Directives, Section 1, approved by the Order of MFP no. 3055/2009, Official Gazette no. 766 bis/10.11.2009.

<sup>2</sup> Tabără N. Horomnea E. and Toma C. Annual accounts in decision making process, Tipomoldova Publishing House, 2001, pg. 49.

essential objectives of the accountancy of these material current assets, from which we remember those regarding:

1. The compliance with specific rules of management of main categories of material goods, namely: stocks from own production, stocks to third parties, by types, disparities between the delivery and the reception of goods, which certainly in the property of the entity, such as disparities between the selling and the delivery of goods; goods delivered or sold with reservation and ownership clauses.

2. The implementation of rules regarding the assessment and the registration of stocks in the accountancy;

3. The promotion of prudence principle with the occasion of the assessment at the inventory time and of the registration in the balance of the stocks.

In this context, we underline the fact that we can not ignore the general objectives chartered by the Accountancy Law<sup>3</sup>:

Therewith, we consider that, by using the stocks accounts, it is also realized „the reflectivity of external flows , by informational links with debts and receivables accounts, substantial transformations of current assets from material into liquidity and inversely”. This **legal extent of the stocks accountancy** is completed with the information referred to global result established to the end of each management period.

**Regarded as an economic rationality**, it is considered that, by means of ordering into accounts of information regarding the stocks and, at the same time, the accounts as such, will obtain a true image on economic and financial statement of the entity and, mainly, to the description of goods and to the modalities to obtain them. Certified users and those interested by information presented are represented by the managers of the company, respectively the internal users that can appreciate and decide over the status of the entity at a given moment.

### **3. The delivery accountancy with stocks specific to coal extraction**

In relation to the subject mentioned, we note that we'll orient the approach toward material current assets specific to the said extraction of coal, considering that there is not interesting the analysis of other aspects regarding the delivery with material goods used in other activities. At the same time, we underline that stocks elements we refer to have a reduced scope of coverage, being materialized only in consumables and in materials in the form of small inventory items, fact determining only the use of synthetic accounts presented below:

We consider that is not indicated to analyze the account **381** “Packaging” because it reflects only the packaging (for example metal containers, cartons, wooden pallets and PVC bags) in which are received the materials delivered that, usually, aren't significant and do not produce specific accounting operations.

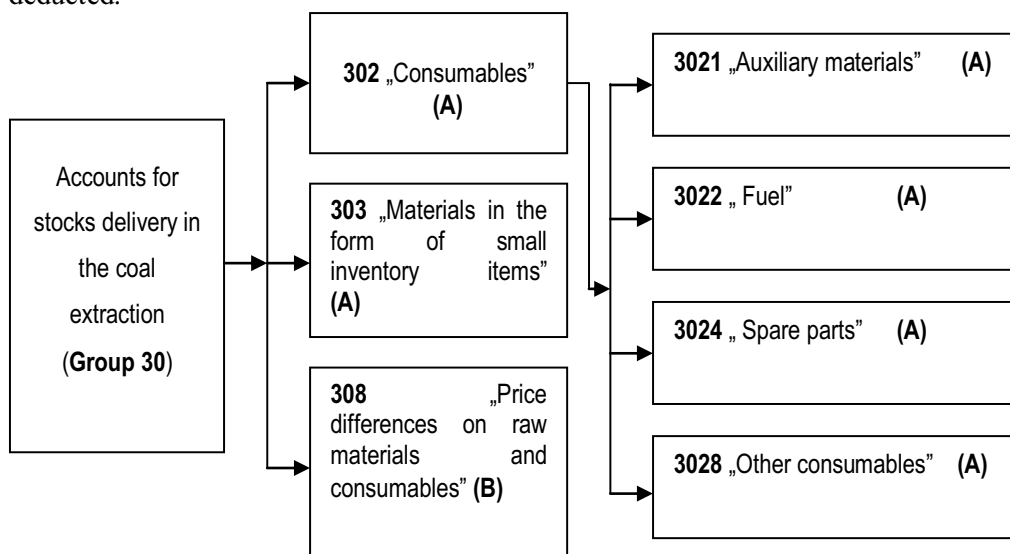
With respect to inventories (302, including its stocks, and 303) we should note as a first aspect the fact that, in the case of permanent inventory, they offer, by means of the debt, information reflecting the provenience of delivered goods<sup>4</sup>, namely: 401 “Suppliers” or 408 “Suppliers – invoices to be received”, for acquisitions from third

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<sup>3</sup> Accountancy Law no. 82/1991, republished, with subsequent amendments, Official Gazette no. 48/14.01.2005.

<sup>4</sup> Dragan C. Brabete V. – Bazele Contabilitatii, Universitaria Publishing House, Craiova, 2006, pg. 139.

parties and 542 “Cash advances”, with supplying from advances in order to be deducted.



**Figure no. 1. Synthetic accounts specific for the delivery with stocks in coal extraction**

Correspondences for the debt of account 302 “Consumables” regarding the deliveries specific for coal extraction are also valid in the case of **its subaccounts** (synthetic accounts of II nd degree), according to their economic content, as presented below.

1. 3021 „Auxiliary materials”: technical acetylene, SP300 station battery, concentrated antifreeze, rubber band for general use, welding power cable, flexible cable sleeve, Rossel thermal probe, mineral water, non-carbonized water etc. Regarding the article „rubber band for general use”, it is mentioned that it is used in order to make repairs to „transporter bands”, that are included in the category of fixed ways (code: 2.3.6.4.1), with the use duration of 7 years a linear amortization regime.

2. 3022 „Fuel”: Premium unleaded fuel, diesel, alloy oil, oil for auto transmission, slush for bearings etc.

3. 3024 “Spare parts”: auto accumulator, clutch shaft, power shaft, engine block, control cable, cylinder head, polygonal loader bucket, track element, electric engine, hydraulic pump, gear, gear wheel, power transformer, voltmeter etc.

4. 3028 “Other consumables”: needle path changer, truck tire, alkaline battery, tractor room, bunker wear plate, special plate switch, discharge valve, concrete sleepers, pexal pipe etc.

In turn, the account 303<sup>13</sup> „Materials in the form of small inventory items” mainly refers to: protective boots with slip resistant soles, anti-acid socks and boots, high voltage electrical boots, low voltage electrical boots, winter or summer simple overalls outfit, wadded costume made of polyester cotton mix fabrics, hidro-phobizing, welder leggings, welding mask of mine, goggles, protective shoes made of slip sole, waterproof protective apron, reminder jacket, etc.

<sup>13</sup> Dragan C. Brabete V. – Bazele Contabilitatii, Universitaria Publishing House, Craiova, 2006, pg. 140

Regarding some goods identified as being spare parts or materials in the form of small inventory items, but having individual values, even more than 36.000 lei, much more than those minimal, of 1.800 lei, established for fixed ways and also use durations greater than one year, we note that we intend to make a distinctive study allowing to find a solution according to which the inclusion of related values in the effective production cost won't affect the meeting of prudence and independence principles, meaning to avoid the registration of their integrated value into expenses to their issuance in common.

If it is applied the intermittent inventory method, the first account mentioned, together with their subaccounts, based on methodological rules of use of accounting accounts, is used only at the end of the year in progress and to the begin of the following year. It is debited with the value, to the registration price, afferent to consumables existing in the stock, value that is established by means of inventory, in correspondence with the credit of the account 602 "Consumables".

A situation that is supposed to be highlighting regards the registration of delivery and consumption of materials in the form of small inventory items and it consists in the fact that it renounced to rectification value account that accumulated the depreciation of these goods, that was an intermediary in the correspondence with the debt of account with afferent expenses. It was considered that, although the period to use the materials in the form of small inventory items could be prolonged to several financial years, their existence in the patrimony can be followed by the help of analytical accounts.

In order words, we note that delivered stocks for which weren't received bills are registered on the base of "The notice of reception and finding of differences" in the debt of stocks accounts and the credit of the account 408 "Suppliers – invoices to be received", to the goods value estimated in this document.

The VAT related to these entries is reflected in the debt of the account 4428 "VAT under settlement", corresponding to the estimated value. Subsequently, to the reception of the bill, are registered only possible differences between the value initially estimated and the value from the bill, and also the obligation to the supplier, according to accounting formula known.

#### **4. The accountancy of entry in management of finished goods**

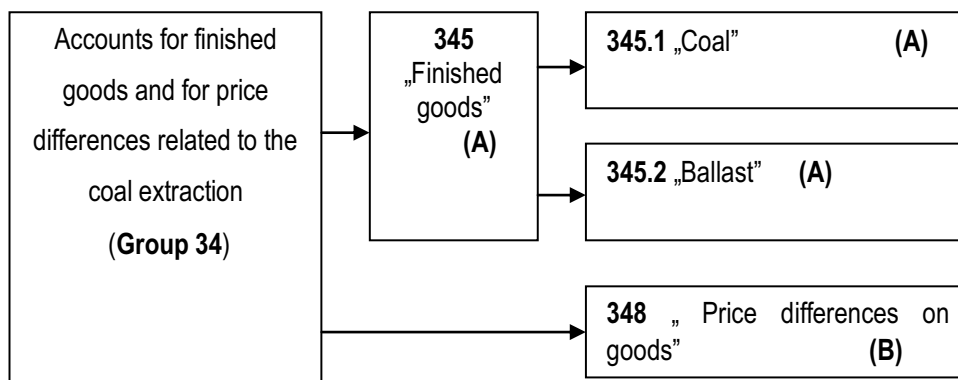
Exploitations and mining pits from coal extraction are organized to S.N.L. Oltenia, and their basic activity is to obtain the coal stock, as main product, and also the ballast stock, as secondary product, which give rise to accounting operations and information specific to their entry in the management of some deposits especially organized.

Usually, these deposits are organized in charging-discharging stations, delivery stations or as small technological deposits, located either inside the coal extraction pits or to the mine mouths. In terms of organization, they can have concrete flat platform or a pavement on the ground, by leveling and cylindering the surface, in order to avoid the degradation of coal by blending it with the store pavement. The design of any deposit requires the establishing of a sufficient number of supporting landmarks, located around and near the deposit, and also its shape (geometric or irregular), which is particularly important for regularly determining the quantity of coal existent in the stock and, implicitly, for verifying its integrity, by comparison with data recorded in the accounts. For deposits with a specific geometric shape it is used the method of determining that

amount, and in the case of irregular shapes, are applied the topographic and photogrammetric models that reach to vertical or horizontal sections. Moreover, the amount of coal thus determined allows calculating the production achieved so the entries in the management of the store, but using the following formula:

$Pf = Sf + L - Si$ , where: Pf = physical output achieved, Sf = existent stock to the end of the month, L = deliveries to beneficiaries, Si = stock from the beginning of the month.

This last calculus is valid also in the case of secondary product, named ballast and, in both cases, it is justified by the fact that during the month, are daily issued, for each excavator “Informative notes regarding the output achieved and entered in the management of the store”. But, this needs to be checked in order to avoid possible errors and in order to obtain a correct calculus necessary in order to establish the wages of the working staff.



**Figure no 2. Accounts specific for the entry of goods in the management of the entity**

We consider that, for beginning, we shall mention a general aspect according to which accounting correspondences occurred by the accounts mentioned for the charging in management of finished goods obtained from own input activity are those established by applicable regulations, previously listed, with the accentuation that in this sense, we must use the account 711 „ Revenues related to the costs of stocks of goods”.

Onwards, we consider that, within the limit of available space, is enough to remember only some essential aspects relating to accounting correspondence of accounts of stocks mentioned, without being presented examples of accounting registrations.

Thus, we underline the fact that both analytical accounts of finished goods (345.1 and 354.2) reflect, in the debt, the output cost pre-established, related to the coal and ballast entered in the management of the deposit, by the credit of the account 711,, Revenues related to the costs of stocks of goods”.

On the other hand, to the end of the month, it is used the account 348 “Price differences on goods” that is debited or credited by correspondence with the account 711 „ Revenues related to the costs of stocks of goods” for the difference between effective output cost and pre-established output cost, as this last one is lower and respectively higher.

**5. Conclusions**

The authors had the intention and considered that, in a large measure they succeeded to answer to the questions from this work. We argue this statement by the fact that, in general context regarding the importance of accounting information from managerial process, was highlighted some essential aspects regarding its opportunity in the case of the entry of stocks in the management of the entity from coal extraction. Among these aspects, were also assigned the objectives for solving of which analyzed accounting information contributes.

We also appreciate that the clear highlighting of the specificity of entry of stocks in the management of entities we refer to was facilitated by their delimitation depending on how it is obtained, respectively by purchase from third parties and obtained by own input, under the form of materials designed to productive consumption and finished goods designed to the delivery to the third parties, as coal or ballast.

For materials from the first category, consumables and materials in the form of small inventory items, were carefully made necessary identification on goods and their grouping on synthetic accounts of stocks, to which debt they are recorded and also some own comments there where appropriate.

Finally, we express our view according to which this work brings a modest contribution in terms of knowledge and credibility increase of accounting information specific for the entry in management of stocks corresponding to coal extraction.

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