BOOKKEEPING PECULIARITIES OF LOW-VALUE ITEMS AND OF THEIR DEPRECIATION CALCULATION AT PUBLIC CATERING UNDERTAKINGS

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The Article considers the bookkeeping aspects related to ***Low-Value Items*** *in terms of:*

- *their recognition and appraisal;*
- *reflecting the economic transactions related to recording in and withdrawal from the balance sheet accounts of low-value items;*
- *calculating and writing-off the depreciation.*

It is suggested to improve the bookkeeping records, i.e. to streamline deployment of such assets by calculating their full depreciation at the time of their entering into service. This approach is in line with the IASs and IFRS Directives.

Key words: *low-value items, depreciation/wear and tear, public catering, recognition, appraisal, recordkeeping.*

Introduction

According to the Domestic Trade Law (No.231 dated 23.09.2010), ***public catering*** is an activity carried out by specialized undertakings, which are assigned to different categories depending on the types of services provided to customers [3].

Public catering services are provided in compliance with the requirements set forth by **Government Decision** on **“Providing Public Catering Services” dated 08.11.2007** and cover preparation, cooking, and delivery of ready-to-serve food and confectioneries, drinks and other products for consumption within specialized undertakings and beyond, as well as associated activity for recreational purposes [9].

Issues and their discussion

Such services have got certain peculiarities and patterns, which are mirrored in the activities carried out by undertakings, namely production, sale, consumption and leisure-time arrangements. This proves that public catering undertakings combine these three functions, i.e. production, trade and service provision related to eating, within their premises.

Hence, bookkeeping reflects both production and trade processes. This means that public catering undertakings have the opportunity to apply one of the following methods of bookkeeping:

1) ***trade method*** *– bookkeeping is similar to the one applied by commercial enterprises;*
2) ***production method*** *– the costing of finished goods is determined like at production enterprises.*

The undertaking is entitled to decide independently which of the aforementioned methods to use as the regulatory framework does not cover such specificities. The only requirement is to state the method used in the enterprise accounting policy [1].

To ensure its activity, a public catering undertaking shall have the appropriate physical infrastructure in place comprising also low-value items.

The low-value items represent one of the main inventory components of any enterprise. Their composition, recognition, evaluation and recordkeeping are regulated by the National Accounting Standard (NAS) “Inventories”, by the provisions of the General Chart of Accounts and by the Guidelines for keeping records on production costs and on costing of products and services (the part on cost estimates of low-value items, manufactured by the entity) and by other regulatory acts [7].

According to par. 6 of NAS “Inventories”, there are two options for assigning the valuables to the category of low-value items; each undertaking shall choose the option individually and reflect it in its accounting policy [5]:

1) *low-value items comprise those valuables, which cost per unit falls below the threshold set forth by the legislation; at present, this threshold is laid down by the Tax Code, Art.26 (2) and amounts to 6000 MDL, regardless of their length of service or with the length of service less than one year regardless of their cost per unit [4].*
2) *low-value items include those valuables, which cost per unit does not exceed the materiality threshold, set forth by the accounting policy regardless of their length of service or having the length of service less than one year regardless of their cost per unit.*

While choosing this option, the entity shall set the *materiality threshold* in compliance with the NAS “Accounting policy, changes in accounting appraisals, errors and future events” [6]. This *materiality threshold* shall be established by the entity independently in a fixed value (for instance, 2000 MDL, 12000 MDL) or relative value (for instance, 1-2% of the cost of Inventories).

In accounting the low-value items shall be evaluated as per their initial cost, which, in compliance with § 15 of NAS “Inventories” shall include [5]:

- ✓ the purchase (contractual) price (without VAT) of low-value items;
- ✓ expenses related to the receipt of low-value items (for example, transportation and provisioning costs, insurance coverage for shipping, upload and unload costs, commission costs for intermediaries, non-refundable taxes and charges, customs charges, etc.);
- ✓ expenses incurred to shape and deliver the low-value items to the place of their consumption (such costs include direct tangible costs, direct personnel costs, other direct costs for refinement and enhancing the quality and technical features of low-value items).

All transactions with low-value items are subject to registration in primary documents as per the provisions of the Accounting Law and of other regulatory acts. In this case, the entity may use standard primary documents or individually developed forms of primary documents.

Documentary registration of low-value items and their recordkeeping at Restaurant “FRUTUCINO” is done in quantities and values.

The arrival of low-value items from the Supplier at the undertaking premises shall be mirrored using the following bookkeeping entries:

1) The purchase price of low-value items (without VAT), i.e. kitchen utensils (stew pans – two units):
   Debit 213, subaccount 2131 “Low-value items in Inventories” – 2000 MDL (1000 MDL * 2 units);
   Credit 521, subaccount 5211 “Domestic commercial liabilities” – 2000 MDL;

2) The amount of VAT related to kitchen utensils taken into account:
   Debit 534, subaccount 5344 "VAT Liabilities" – 400 MDL
   Credit 521, subaccount 5211 "Domestic commercial liabilities" – 400 MDL.

The recordkeeping of operations related to the entry of low-value items in service depends on their costs – *not more than* and *more than 1/6 of the threshold* set forth by the legislation (hereinafter referred to as the *threshold*), i.e. 1000 MDL per unit. In this case the option chosen by the entity for assigning the valuables to low-value items does not matter [7].

In case of entering into service of low-value items with the cost per unit less than 1/6 of the threshold, their total cost shall be reported to operating expenses – paragraph 51 of NAS "Inventories" [5]. No depreciation shall be calculated for such items. Nonetheless, for monitoring purposes (how such items are used and preserved), it is necessary to keep operating in-kind records by the places of their use (bar, kitchen, confectionary unit).

The entering into service/operation of low-value items with the price per unit less than 1000 MDL shall be reflected as per the following bookkeeping entries:

1) Book value of stew pans conveyed to the kitchen:
   Debit 821 "Indirect production inventories" – 2000 MDL (1000 MDL * 2 units)
   Credit 213, subaccount 2131 "Low-value items in Inventories" – 2000 MDL.

When entering into service of low-value items with the price per unit exceeding 1/6 of the threshold, they are reported to operating expenses, having calculated/accrued their depreciation.

According to NAS "Inventories", the depreciation of low-value items shall be calculated [5]:

- mandatorily – for low-value items, which price per unit exceeds 1/6 of the threshold, i.e. 1000 MDL **(par. 52 of NAS "Inventories"**);
- voluntarily (according to the Accounting Policy) – for low-value items, which price per unit does not exceed 1/6 of the threshold (**par. 51 of NAS "Inventories")**.

Depreciation of low-value items shall be accrued in the amount of 50% of the item value, diminished by the sum of the supposed residual value – when the items are entered into service and 50% when such items are withdrawn (written-off) from service **(par. 53 of NAS "Inventories"**) [5].

Transactions related to the accrual of depreciation shall be reflected using the following bookkeeping entries:

1) The sum of accrued depreciation of a mixer entered into service, which value is 3000 MDL (without VAT):
   Debit 2141 "Depreciation of low-value items" – 1500 MDL (3000MDL*50%)
   Credit 821 "Indirect production inventories" – 1500 MDL.

Nonetheless, at the beginning of its activity, Restaurant "FRUTUCINO" failed to calculate/accrue depreciation as per NAS due to the following reasons:

1. Large quantity of low-value items were entered simultaneously into service at the restaurant start-up.
2. The list of low-value items in the area of public catering is diverse (furniture, tableware/cookware, equipment, staff work outfit etc.), including low-value items related to the production process.
3. While entering into service of low-value items, the undertaking using the production method to determine the cost of dishes, would increase the share of indirect production costs, and, accordingly, the cost of dishes.

We can analyse the impact of economic transactions on the cost of cooked dishes using the example below.

Example 1.

On 10 February 201X, the Restaurant "FRUTUCINO" started its activity and incurred the following costs for its kitchen: tangible costs – 130000 MDL, direct and distributed costs for labour remuneration - 51000MDL, indirect production costs (except for the costs of low-value items)- 170000 MDL. There was no work-in-progress (semi-finished products) inventory.

It is known that on 01 February 2017 low-value items with the total value of 450000 MDL were entered into service (of which 50000 MDL – low-value items with the cost per unit less than 1000 MDL and the remaining 400000 MDL – low-value items with the cost per unit over 1000 MDL. All those low-value items were related to the cooking process).

The example-related bookkeeping entries are displayed in Table 1.

Table 1

Bookkeeping entries for economic transactions related to dish costing process, including the costs of entering into service of low-value items during the month of February

Item	Transaction content	Correspondence of Accounts		Sum, MDL
		Debit	Credit	
1	2	3	4	5
1	Reflecting the amount of used raw materials (foodstuff)	811 "Operating activity"	211 "Materials"	130000
2	Reflecting the amount of staff wages Accrued wages of kitchen staff	811 "Operating activity"	531 "Staff wages liabilities"	40000
3	Accrued amounts of contributions to the Social Insurance Fund and to the Health Insurance Fund	811 " Operating activity"	533 "Social Insurance and Health Insurance liabilities"	11000
4	Reflecting the amount of indirect production costs	821 "Indirect production costs"	521.1 "Domestic commercial liabilities"	170000
5	Entering into service of low-value items with the price per unit less than 1000 MDL (the whole amount shall be reported to operating expenses as the price per unit is less than 1000 MDL)	821 "Indirect production costs"	213.2 "Low-value items in service "	50000
6	Entering into service (in the month of February) of low-value items with the price per unit over 1000 MDL	213.2 "Low-value items in service"	213.1 "Low-value items in Inventories"	400000
7	Calculation of depreciation of low-value items in the proportion of 50% of their value when entering them into service	821 "Indirect production costs"	214 "Depreciation of low-value items"	200000
8	The amount of indirect production costs written-off at the end of the month (170000 + 50000 + 200000)	811 "Operating activity"	821 "Indirect production costs"	420000
9	Reflecting the actual cost of cooked dishes (130000 + 40000 + 11000 + 420000)	216 "Production"	811 "Operating activity"	601000

Based on the aforementioned example one can say that the share of low-value items cost amounted to 41.60 % (250000:601000) of the actual cost of cooked dishes during February.

The situation can be explained by the fact that the whole cost of low-value items with the price per unit less than 1000 MDL was written-off in February, as well as 50% of the initial cost of low-value items with the price per unit over 1000 MDL. This was the case regardless of the fact that those assets would be in service throughout the year, while some of them would be in service for more than one year. This is an infringement of quality patterns – information reliability **(Art. 6 (2) (c) of the Accounting Law No. 113 of 27.04.2007)**.

Hence, the use of production method to keep records for low-value items as per NAS "Inventories" at the entity start-up is problematic.

According to our opinion, there is a plausible solution for this case. The costs of low-value items shall be reported to deferred costs and written-off at the end of the month proportionally to the released production. Such costs shall be reflected in the accounting policy.

This would allow distributing proportionally the costs throughout the period of using the low-value items and determining the real cost of dishes.

According to **Example 1** data and in compliance with the decision adopted by the Leadership in terms of low-value items length of service, it was decided to set the length of service of one year for the low-value items with the price per unit less than 1000 MDL, and the length of service of two years for the low-value items with the price per unit over 1000 MDL.

Table 2

Bookkeeping entries for economic transactions related to dish costing process, including the costs of entering low-value items into service during the month of February

Item	Transaction content	Correspondence of Accounts		Sum, MDL
		Debit	Credit	
1	2	3	4	5
1	Reflecting the amount of used raw materials (foodstuff)	811 "Operating activity"	211 "Materials"	130000
2	Reflecting the amount of staff wages Accrued wages of kitchen staff	811 "Operating activity"	531 "Staff wages liabilities"	40000
3	Accrued amounts of contributions to the Social Insurance Fund and to the Health Insurance Fund	811 "Operating activity"	533 "Social Insurance and Health Insurance liabilities"	11000
4	Reflecting the amount of indirect production costs.	821 "Indirect production costs"	521.1 "Domestic commercial liabilities"	170000
5	Writing-off the costs of low-value items with the price per unit less than 1000 MDL	261 "Deferred current expenses"	213.2 "Low-value items in service"	50000
6	Reporting the costs of low-value items to deferred costs related to the current month 50000: 12 months = 4167 – the cost rate per month	821 "Indirect production costs"	261 "Deferred current expenses"	4167
7	Entering into service of low-value items with the price per unit over 1000 MDL in February	213.2 "Low-value items in service"	213.1 "Low-value items in Inventories"	400000
8	Writing-off the costs to deferred expenses	171 "Deferred long-term expenses"	213.2 "Low-value items in service"	400000
10	Reporting the costs to deferred expenses of the current year (400000 : 24 months * 12 months = 200000)	261 "Deferred current expenses"	171 "Deferred long-term expenses"	200000
11	Reporting low-value items to costs for February (200000 : 12 months = 16667)	821 "Indirect production costs"	261 "Deferred current expenses"	16667
12	The indirect production costs written-off at the end of the month (170000 + 4167 + 16667)	811 "Operating activity"	821 "Indirect production costs"	190834
13	The real cost of outputs has been reflected (130000 + 40000 + 11000 + 190834)	216 "Production"	811 "Operating activity"	371834

Conclusions

The detailed analysis of low-value items enabled the Author to reveal that when entering low-value items into service, their cost write-off or accrual of depreciation shall not be reported to indirect production costs, Class 8 "Administrative Accounts" as this infringe the principle of due diligence and interdependence of the financial year. Such bookkeeping entries lead to artificial increase of costs and, afterwards, to the increase of dish costing and, finally, to the reduction of profits.

In light of the above, it was suggested to report the cost of low-value items to deferred costs for the low-value items with the length of service less than one year to account 261 " Deferred current expenses" and for the low-value items with the expected length of service exceeding one year – to account 171 "Deferred long-term expenses ".

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