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Accounting of Capital Circulation at the Phase of Distribution

The article deals with the problems of recording of distribution process in accounting as the final stage of capital circulation at enterprise level. A review of interpretations given to capital circulation process by economists and accountants is contained. The features of distribution accounting according to the national accounting standards and International Financial Reporting Standards are outlined. Particular attention is paid to use of computer technology for distribution accounting purposes. The proposals for optimizing capital circulation by improving the existing accounting practices are given. It is concluded that the primary issue in accounting of distribution is not information scopes but its timeliness and compliance with the managerial needs.

Keywords: *accounting, capital circulation, distribution, computerized accounting, international standards for financial reporting.*

Problem setting. Information support for marketing and logistics procedures requires compilation and communication of full, timely and sufficient data on stocks and values of finished goods, values of paid or unpaid shipped products, market segments and marketing costs, to respective levels of management. The necessary information is supplied by the accounting system that records the transactions with finished products, stocks of finished goods by group and analytical position. Basically, the accounting information contains much more data than used in management system.

The process of capital circulation has the following phases: acquisition, production and distribution. These phases change the form of capital, each ones being important in the circulation process. According to K. Marx, the initial capital can take any form of good or value. However, capital is not just any value but the prepaid value reflecting the interest of an entrepreneur to advance funds for market promotion of goods, which may involve risk and loss of the advanced value. The circulation of economic goods is their continuous movement in which they move from one production phase to another, with changing their form and constantly returning to the primary form [1, p. 35].

Models of capital circulation reflect the patterns of movement of capital values in business transactions. Modification of economic goods and enhancement of their value is shown in a simplified form in the schemes of resources transformation at each phase of circulation. The significance and role of distribution process increases in economies undergoing market-based transition and fostering of competitive environment. A manufacturer has to make a comprehensive analysis of the market needs when planning the output for a specific market segment.

Distribution is the final stage in the capital circulation process, enabling companies to renew manufacturing process, make obligatory payments and evaluate business performance.

Analysis of recent research and publications. Advanced value is not capital. It may become capital, provided that it creates added value which ensures profit after distribution. Capital, according to Karl Marx, is autonomously growing value [8]. Therefore, in the capital circulation, it is critical to create not only added value, but to provide for its distribution, in order to make profit that is a central objective of a company.

When considering issues related to capital movement as a whole and the distribution phase in particular, and their implications for accounting, experts focus on implications for financial results.

V. Kyvachuk and Yu. Slapyk analyzed capital circulation from the perspective of circulation of the assets used in business [5]. They emphasized that capital is constantly moving in performing its functions. The principles of the theory of capital circulation are set out as follows:

- (i) starting the movement in monetary form (M), the capital is used to acquire the necessary factors of production (G), organization of production processes (P) and distribution of the output (C), then it returns in form of proceeds from distribution to its initial monetary form (M');
- (ii) production activities of an enterprise can be presented in the three main relatively autonomous but parallel processes – acquisition, production and distribution.
- (iii) capital features circular movement, with spiral expansion; in fact, capital circulation is circular movement of capital from and back to the initial monetary form;
- (iv) capital circulation $M - M'$ can be formalized in the way: $M - G.. P.. C - M'$ [3].

Because the distribution phase is supposed to transform the added value generated in the production phase into profit and bring new products to meet consumer demand, appropriate economic information is needed about these processes, to put them under control [7].

The objective of accounting is to systematize information about the properties of capital in its various forms. Yet, little attention has been paid so far to movement and transformation of capital values at the distribution phase. Typically, negative performance of a company results from unbalanced capital values at various phases of capital circulation. With reference to K. Marx's theory, it should be emphasized that capital is an autonomously growing value. That is, capital circulation is supposed to accrue the capital values advanced in business.

M. Medvediev [9] is right in emphasizing that use of historical values in accounting leads to biased estimates of financial results at enterprise level. Because the production costs, when added to the advanced capital, are estimated in the current values. The book valuation of the commodity capital being formed in this way, future profits are estimated as the difference between advanced and historical values. This approach fails to provide a sound estimate of the real value the property (assets) or the financial performance at enterprise level.

The aim of the article is to study peculiarities of accounting of distribution as a phase in the capital circulation, in the context of innovation processes.

Results. The final phase of capital circulation at enterprise level is the process of distribution based on supplier contracts, which constitutes a series of transactions to bring finished products (works, services) to customers. In the process of distribution, physical form of a product takes monetary form. The process of distribution determines business results.

The process of distribution consists of a series of transactions related with distribution of the company's output to other businesses and organizations (buyers). Buyers reimburse the production costs by paying a fixed price. Prices are usually fixed in a way to recover production and distribution costs and receive profit required for business expansion [11].

The process of distribution can be formalized in the following way. At the production phase, a new product is designed, which takes form of a commodity ready for distribution, and has a new value $W = c + v + m$, including the surplus value (m), which is the basis of capital increase. This additional value of capital returns to the owner at the third phase, which is distribution ($C' - M'$), where the value of a commodity form takes monetary form, thus finishing the capital circulation cycle. This change occurs on a new basis, because a newly produced commodity has a new value embodied in it, which is higher than the value advanced at the first phase. Once this commodity is distributed, the manufacturer will receive additional value (m'), which is financial

result in form of profit, which, in economic theory, should be higher than the value by a part marked ('); it is the surplus value (m') supposed to increase the owner's capital in every cycle of circulation.

The third phase of capital turnover is denoted $C' - D'$, where C' means that a produced commodity includes surplus value. At this phase, a capitalist acts as a seller of a commodity produced by his company. As a result of its sale, the capital takes back its original form, which is monetary form. The additional value of the commodity takes the monetary value. Therefore, the capital in its movement takes the three sequential forms: monetary, productive and commercial, which corresponds to three phases of capital circulation. One of these phases relates to production, the other two – to circulation. The third phase of capital circulation is characterized by embodiment materialized and live labor. The exchange takes place on a new basis, because the commodity distributed includes added value. Production results are shown in the accounts as the earlier production costs (materialized labor) and live labor invested, which constitutes the production costs. A peculiarity of accounting of distribution is that the accounts should show not only the transaction specific to distribution, but also the accrued advanced capital. If this is done, users of financial information will be able to estimate the amount of profit.

The process of distribution consists of the following economic transactions: shipment, acceptance act, write-off of the production and distribution costs; write-off of distribution costs; adjustments for VAT; estimation and write-off of the financial results.

The objectives of accounting of distribution-related transactions are: (i) recording of relevant information; (ii) recording and control of contractual obligations pertaining to distribution; (iii) recording of charges and payments of taxes and duties; (iv) estimation of prices and financial performance, including by category of product, work or service.

The process of distribution covers shipment by manufacturer (seller) to buyer, receipt of cash or its equivalents and its recording in seller's accounts. Sales are estimated in the two ways, production costs and selling price, with their comparison allowing for estimating the financial results of distribution (profit or loss).

The economic meaning of each phase of capital circulation is clearly shown in the system of accounts. The main accounts include: output is shown on the account 26 "Finished goods", which is debited in the account of 90 "Production costs of distributed output". Customer invoices are recorded in the debtor account 36 "Settlements with buyers and customers" and credit account 70 "Revenues from distribution". Results from distribution are recorded in the account 79 "Financial results".

Synthetic account 90 "Production costs of distributed output" aggregates production costs of distributed products (works, services). The debit of this account records production and distribution (without trade margin) costs, the credit writes off the costs to the account 79 "Financial results".

Because overheads, distribution costs and other operating expenses are not included into the production costs, information on these costs is summarized in the accounts 92 "Overheads", 93 "Distribution costs", 94 "Other operational expenses". At the end of the month, the debit amount in the account 90 "Distribution costs" is deducted from the credit to debit account 79 "Financial results".

In the accounting of the process of distribution, the most important account is 791 "Financial results" and its analytical accounts. Its debit records production costs of distributed output and overheads, which together make up the total cost of distributed output, and the credit records revenues from sales.

In the account "Financial results", sales are compared, estimated as the total cost (in debit) and selling prices (in credit). The difference between debit and credit of the account "Financial results" is the result of distribution: profit when credit exceeds debit; otherwise a loss recorded in the equity, in the account 44 "Retained earnings (accumulated losses)".

Methodological principles for the accounting information about distribution process at Ukrainian enterprises are fixed in NAP(S) 15 "Revenue" and NAP(S) 16 "Expenses" and in provisions AP 1 "General requirements for financial reporting".

Comparison of the basic provisions NAP(S) 15 "Revenue" and IAS 18 "Revenue" shows that they are almost identical. However, AP 15 does not contain a definition of income [12].

According to paragraph 7 of IAS 18, revenue is defined as the gross inflow of economic benefits in a given period from conventional activities of an entity, when equity increase results from this revenue but not from contributions from equity holders [2]. In accounting, revenues must be linked to expenditures, by recording in the same reporting period. Therefore, if shipped goods can be considered as distributed, because they are not in stock and have already been charged for, then revenue needs to be recorded in the same period, i.e. to show the income whether shipped goods have been actually paid for or not.

Accounting of the process of distribution is linked to income accounting. Therefore, the time of distribution is important, since it is crucial for tax calculation [6]. Under IAS, enterprises are free in timing the distribution and, accordingly, in choice of method for revenue recognition: a method of calculation (at the time of shipment) or cash basis (cash-desk) [10]. According to the Ukrainian regulation on accounting, shipment is fixed as the date of revenue increase.

In accordance with section 11 NAP(S) 16 "Expenditures", the production cost of distributed output consists of: production cost of goods (work, services) distributed in a reporting period; retained constant overheads; extra normal production costs.

Accordingly, the production costs include the costs directly related to production output due to production technology and organization (direct costs on materials and parts, direct labor costs, other direct costs), variable overheads and constant overheads.

The overheads are included in the production costs of distributed output after the distribution, which procedure is given in Annex 1 to NAP(S) 16. The constant overheads are distributed on the basis on the normal capacity [13], whereas retained constant overheads are included in the costs of distributed output in the period when they occur. Variable overheads are distributed to each category of costs on the basis of the actual capacity, using the chosen basis for distribution (wages, output etc.).

Products (goods, work or services) are recorded as distributed once the respective documents (invoices, consignment notes, certificates) are filled, which ascertain the transfer of ownership, with the corresponding business transaction recorded in accounting. In retail trade and restaurants, where payments are carried out in cash, the revenue from sales is recorded pay-as-you-get cash. In accounting, the cost of goods sold (goods, work and services) is recorded under recognition of income from distribution.

As for the extra normal production costs, the cost of distributed output includes extra normal costs not related to shortages, damages, non-technological use and violation of storage standards. That is, the concept of production costs of distributed output is broader than the concept of production costs, because the former includes not only the production costs but other categories of expenses.

The production costs of distributed output do not include overheads, distribution costs other operating costs. They are recorded separately in the accounts 92, 93, 94, with writing off to financial results at the end of a reporting period.

Once the output is shipped, the process of distribution proceeds with settlements. At the time of sale, the seller sends the buyer the necessary supporting documentation and accounting documents. In accounts, invoices that are billed to customers and clients, along with the amount for the goods, there is a separate line for tax (excise tax, value added tax, etc.) or discount.

The time of submitting accounting documents or their payment is recognized as revenue from the distribution, with debiting accounts 36 "Accounts with buyers and customers", 30 "Cash", 31 "Accounts in banks" etc., and crediting accounts 70 "Revenues from sales", 71 "Other operating income", 74 "Other income" etc. The value of products, goods received by the seller from the buyer is called income or proceeds from sales. In parallel, the accounts of income from sale (70, 71) are debited on the amount due to the payment of taxes and duties from sales, and the account 64 "Accounts on taxes and payments" is credited.

The account 70 "Revenues from distribution" aggregates the data on income from distribution, customers' discounts and other deductions from income (indirect taxes, duties). Credit of this account records, on the monthly basis, the total income (revenue), indirect taxes and duties included in the sale price, and the debit records due amount of indirect taxes and duties to be transferred to their recipient (usually the budget), monthly transfer of net income to the account 79 "Financial results".

The account 70 "Revenues from distribution" is, therefore, nominal; it records data on gross and net revenues from distribution, to make financial and tax reporting.

Income and expenditures accounts accumulate information by product group. At the end of the month (reporting period), income and expenditure accounts are closed by writing off the data to financial results. The account 70 "Revenues from distribution" is debited and the account 79 "Financial results" is credited by net proceeds; the account 79 "Financial results" is debited and the account 90 "Production costs of distributed output" is credited on the amount of costs incurred. The account 79 "Financial results" is, therefore, nominal, with credit recording net income from distribution and debit recording production costs of distributed output, overheads, distribution costs, and other operating expenses. The financial performance is derived by comparison of the income received and the expenses incurred: the excess of the net proceeds received over gross expenditures shows profit and gross excess of expenditure over net income shows a loss. At the end of the reporting period (month, quarter), balance of the account 79 "Financial results" is transferred to the account 44 "Retained earnings (accumulated losses)", and account 79 "Financial results" is thereafter closed. The accounting of distribution is illustrated in Fig. 1.

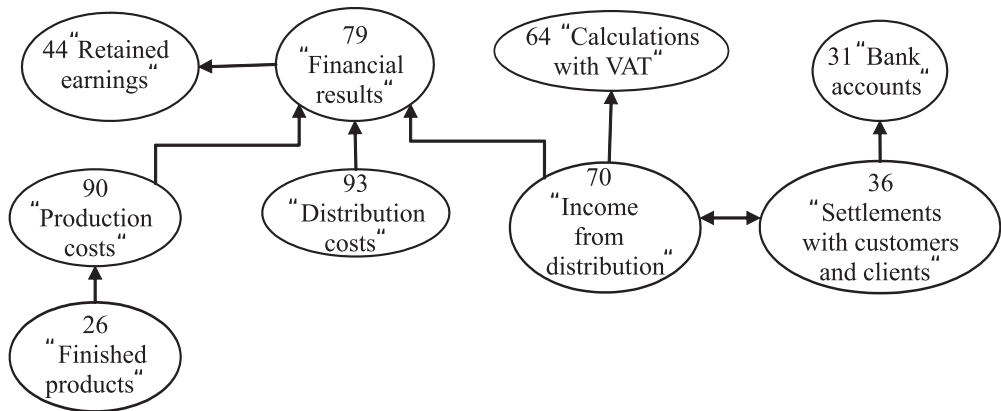


Figure 1. Information on the distribution process in accounts

Source: developed by the author.

An enterprise is recommended to have a computer technology able to identify a unit of finished product. Use of this technology is essential since it allows one to have information about time and place of any operation [4, p. 155]. In our opinion, use of this technology is important, because information is recorded and processed in real time and the system of administrative accounting quickly reacts to possible changes in key performance indicators. It makes it possible to handle the dynamic system of changing the place of storage and processing of finished products, to be completely aware about the range of input and output inventory flows at any time. Use of computer technology at many industrial enterprises makes it possible to keep records of distribution without summarizing the documents, with the exception of turnover balance sheet on the account 26 "Finished goods". This document contains information on the turnover and finished goods inventory balance. But this is not enough, so we consider it appropriate to make up registers of documents on distribution on the basis of primary documents. Registers should be made by product and customer group. Daily recording in these registers will enable routine control of distribution, pricing and revenue.

Use of such non-cash payment forms will guarantee timely receipt of money from distribution transactions, with pre-payment and letter of credit being the most convenient forms [3, p. 45]. We believe that both forms of non-cash payments are the safest and prevent the emergence of bad accounts receivable.

At some industrial enterprises, particularly the ones with significant output and sales, it is advisable to use the methods and techniques of logistics and management of output and sales, because distribution activities and their information support, often referred to as logistic service, bring the best results.

Conclusions. Scopes and quality characteristics of accounting information seems to be less essential than its adequate use to evaluate performance parameters at enterprise level, especially ones pertaining to output and distribution. This information has been used insufficiently in industry for decision making and adjustment purposes. That is why it is advisable to study information needs of management units, generate operational data in form of reports and use them to optimize capital circulation at an enterprise.

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Облікове відображення кругообороту капіталу на етапі реалізації продукції

Стаття присвячена проблемам відображення в бухгалтерському обліку процесу реалізації продукції як завершального етапу кругообороту капіталу підприємства. Здійснено узагальнення поглядів вчених-економістів та обліковців на процес реалізації. Визначено особливості обліку реалізації готової продукції згідно з національними стандартами бухгалтерського обліку та міжнародними стандартами фінансової звітності. Особливу увагу приділено питанням використання комп'ютерної техніки для потреб обліку реалізації продукції. Надано пропозиції щодо оптимізації кругообороту капіталу шляхом удосконалення обліку реалізації.

Ключові слова: бухгалтерський облік, кругооборот капіталу, реалізація продукції, автоматизація обліку, міжнародні стандарти фінансової звітності.

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Учетное отражение кругооборота капитала на этапе реализации продукции

Статья посвящена проблемам отражения в бухгалтерском учете процесса реализации продукции как завершающего этапа кругооборота капитала предприятия. Осуществлено обобщение взглядов ученых-экономистов и бухгалтеров на процесс реализации. Определены особенности учета реализации продукции согласно национальным стандартам бухгалтерского учета и международным стандартам финансовой отчетности. Особое внимание уделено использованию компьютерной техники для нужд учета реализации продукции. Предоставлены предложения для оптимизации кругооборота капитала через усовершенствование учета реализации.

Ключевые слова: бухгалтерский учет, кругооборот капитала, реализация продукции, автоматизация учета, международные стандарты финансовой отчетности.

