

THE ECONOMIC AND ACCOUNTING APPROACH TO SERVICES

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Abstract

Taking into account the current conditions of the national economic development, the economic sector of provided services represents a real/actual concern, both from the economic and accounting point of view. This sector and the accounting item-service are determined by a rare occurrence in researching by accounting professionals. This paper analyzes the economic and accounting approach regarding the services in order to be able to identify the actual problems and to present some solutions for improving the regulatory accounting framework. The issues of increased concern are: inadequate legislative regulation of the service sector and the need for amending legislation regarding the synthetic and analytical accounting records. The study covers the following issues: definition of services as accounting element approach and the working methodology for calculating the cost of services offered to individuals and companies, the definition of the services price, analysis of new accounting regulations for services according to international provisions. Information, as subject of investigation using the analysis, synthesis, grouping data, the conceptual comparison methods, provides a valuable presentation of services sector under the accounting approach.

Keywords: services, accounting, evaluation, costs, price.

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1. Introduction

Taking into account the actual background of national economic development, the service sector and particularly, the services present a significant analytical topic from conceptual and accounting point of view. This sector and its relevant accounting features rarely draw the attention of the accountants. Therefore, the attention of authors will be focused on research of the economic-accounting approach to services in order to identify the gaps in this area. The causes of increased concern are: the inadequate legislative regulation of the services sector and the need for amending the accounting legislation regarding the synthetic and analytical records. The study will cover the following issues: definition of services as an accounting item, establishment of price for services, analysis of new accounting regulations regarding the services compared to international provisions.

2. Accounting conceptual treatment of services

The evolution of society and the development of production relations, currently are focused on rendering services sector. The services are various and multiple [2] (recovery services of

recyclable waste, transportation services, storage and communications, financial intermediation, real estate services, rental and other services provided to enterprises, government and defense services, social compulsory educational services, health care and social assistance services, other community, social and personal services etc.)

It is reasonable to investigate the services from different points of view: as part of the industry, as a product of activity, as accomplished function. All aspects are important to outline the accounting methodology approach.

2.1. Analysis of services as notion

General definitions regarding services can be formulated under the provisions of the Classifier of Economic Activities of Moldova (CAEM, rev. 2) [2], adjusted according to the Nomenclature of Economic Activities in the European Community (NACE, 2 Revision). They represent the acronymic-based definitions used to establish the national statistical classification of economic activities in Moldova. The Classification of activities (with some deviations) corresponds to the classification of the results by type of activity in the form of products (goods and services), systematized in the Statistical Classification of Products (Goods and Services) of the Republic of Moldova (CSPM) [3].

In accordance with European Statistical Standard, the terminology of production represents carried goods, non-transportable goods and services. It can be mentioned that construction activities (works) occupy an intermediary place between goods and services, and are assigned as services by the decision of the European statisticians.

Some important production services like repair and installation works are classified by CSPM [3], as goods that represent the result of the production activity. However, not all repair services refer to the production activity, some of them being related to commercial services (maintenance and repair of motor vehicles, repair services of personal and household goods, repair and maintenance of office, accounting and computing machines).

The Law of the Republic of Moldova regarding domestic trade, no. 231 of 23.09.2010 [9], states that commercial activity represents an entrepreneurial activity based on established relationships regarding the sale of produced goods, processed or purchased, as well as resulting from the execution of various works and rendered services related to the sale of goods, with the aim to satisfy economic interests and to ensure a source of income.

Internal trade includes:

- 1) wholesale;
- 2) retail trade;
- 3) commercial services, including catering.

According to the mentioned Law, commercial services represent activities provided during the sale process ensuring certain benefits and satisfaction to the consumer, without any physical modifications to the form of material goods.

Similarly, catering refers to commercial services, identified as the activity of preparation, presentation and serving of food products as well as of confectionary goods, beverages and other products to be consumed in specialized units or outside them during the recreational activity associated with this process.

The following activities are assigned as commercial services: repair and maintenance services for cars; trade intermediation (brokerage) services; repair services for household goods and personal items; various services of hotels and restaurants; travel agency and tourism guide services; travel assistance services, fee- or contract-based real estate agency services; rental of motor vehicles, other transport equipment, machinery and equipment, personal and household goods not included in special categories; photographic services; secretarial and translation services; other collective, social and personal services (hairdressing and other beauty services, funeral services, etc.) [3].

From the above mentioned one can conclude that there are various, multiple and diversified services. The same activities of rendered services can be assigned both to manufacturing and to the commercial sector.

There is no definite attitude towards the service sector, legislative standardization, and this affects the accounting organization sector.

2.2. Specific issues regarding accounting of services

With regard to accounting provisions, according to SNC 18 “Revenues” [1] *services* are works provided to other legal and individual persons in accordance with concluded agreements within established deadlines. These include, for example, transportation services, repair, brokerage, insurance, advertising, consulting, financial, installation works and maintenance of sold products and goods (machinery, equipment etc.).

Currently, Moldovan accounting system follows a period of transition to the new National Accounting Standards developed under EU Directives. Therefore, further, accounting rules regarding services will be also considered.

The same definitions are mentioned in the Methodical accounting production costs and costing of products and services [11] (optional from 01.01.2014 and mandatory from 01.01.2015). In terms of the mentioned act, *services* are works rendered by a company to third parties and/or to internal subdivisions (e.g. transportation, repair, brokerage, consulting, training, entertainment, sports, telephone, internet, travel, equipment installation works).

We will make some comparisons also with other legislative acts, considering that the accounting definition for services is superficial and does not reflect objective accounting investigated element.

The Tax Code of the Republic of Moldova no. 1163-XIII of 24.04.1997 [4], with additions and changes, regards *services* as tangible and intangible services, consumer and production services, including property offered for lease, transfer of rights on the use of any goods, construction and installation, repair, scientific research, experimental construction and other works. According to Art.970 of the Civil Code of the Republic of Moldova no. 1107-XV of 06.06.2002 [5], with subsequent amendments and completions, the service agreement provides that one party (provider) is obliged to perform in favor of the other party (the beneficiary) certain services also stipulating payment of agreed remuneration. To be noted that services contract regards services of any kind.

We could mention the following moments that could be considered important:

- service and work are not equivalent terms;
- services provided and works performed may have tangible and intangible nature;

- services are provided and works are performed in favor of other legal persons and individuals as well as in favor of company's internal subdivisions.

Thus, services can be provided and work can be performed for other legal and individual persons and not to third persons. The official Romanian language explanatory dictionaries give the following definitions of a third person:

- a person that does not appear directly as a party in documents, disputes or conventions or as a representative in any legal acts [6];
- a person that does not appear as a party in contractual relationships or commitments between two parties but may have some rights and obligations in terms of such documents/acts [7].

However, far more important is the matter of equality between the service and work. Not every service is work and not every work is service. According to the same dictionary, *service* is considered the action of serving or certain rendered service in the form of performed interest-based labor, and *work* represents the action of doing, physically or intellectually, particular topic study writing, writing, artistic or scientific work, operation or set of operations performed by machines, equipment etc., as well as the materials and workmanship for performing the reparation and transformation. Thus, the general opinion is that services sector has two components: services and works. Work involves performing certain intellectual actions higher than services and the product of works or works are unique objects of intellectual creativity. Several examples can be presented here, namely the architects' work, designers' work, construction, education, etc., excluding automaticity in performing the work. Moreover, rendered services can have a tangible and intangible nature.

In conclusion, we can consider that in accounting terms *services* should be defined as a summary of all rendered services, performed works of tangible and intangible nature to other individual persons or companies based on agreements or to own subdivisions, changing their value, respectively.

3. Accounting of rendered services and performed works

The accounting of rendered services and performed works is organized according to the provisions of the normative acts since the 1997-1999 period: SNC 3 "The structure of costs and expenses of a company", SNC 11 "Construction contracts", SNC 18 "Revenues", CNS 2 "Inventories of goods and materials", etc. Of course, the regulatory aspect regarding services activity in these acts was and still remains low.

The new accounting standards did not cover the gaps inherited from the substituted acts.

Methodological guidelines regarding the accounting of production costs and the calculation of cost of services and works [11] represent a very important document for accountants. Before the elaboration of these guidelines, costs accounting was performed according to the Soviet tradition, therefore, the mentioned guidelines establish a complex accounting methodology for calculating and accounting production costs.

3.1. General information regarding the calculation of costs for services and works

The costs of services represent the expressed value of certain resources consumed for services provision.

These costs are identified using the accounting accrual principle in the period when they were effectively incurred. These costs are evaluated based on the accounting value of the consumed stocks, the amount of calculated salaries for employees involved directly in the process of providing the services, the amount of social contributions and health insurance contributions related to calculated salaries, the level of depreciation of fixed assets for production purposes, the value of the services purchased from other companies, etc.

The accurate and timely information regarding services costs represents a specific work done by the accounting department by means of calculations. The cost calculation itself is performed based on cost items covered by methodical guidelines regarding production costs accounting and calculation of works and services [11] (Figures 1, 2 a, 2 b).

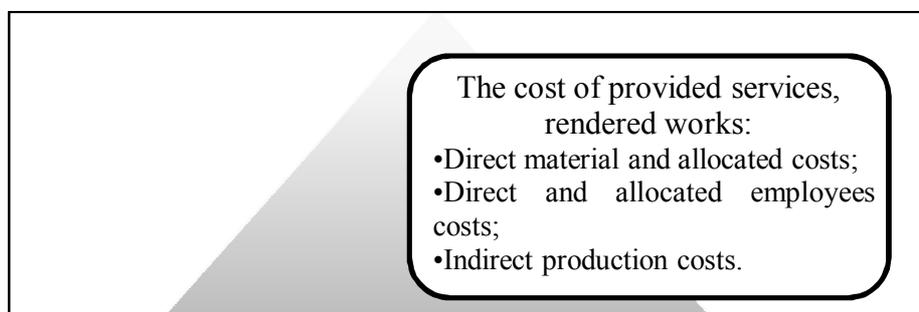


Figure 1: Cost structure of provided services

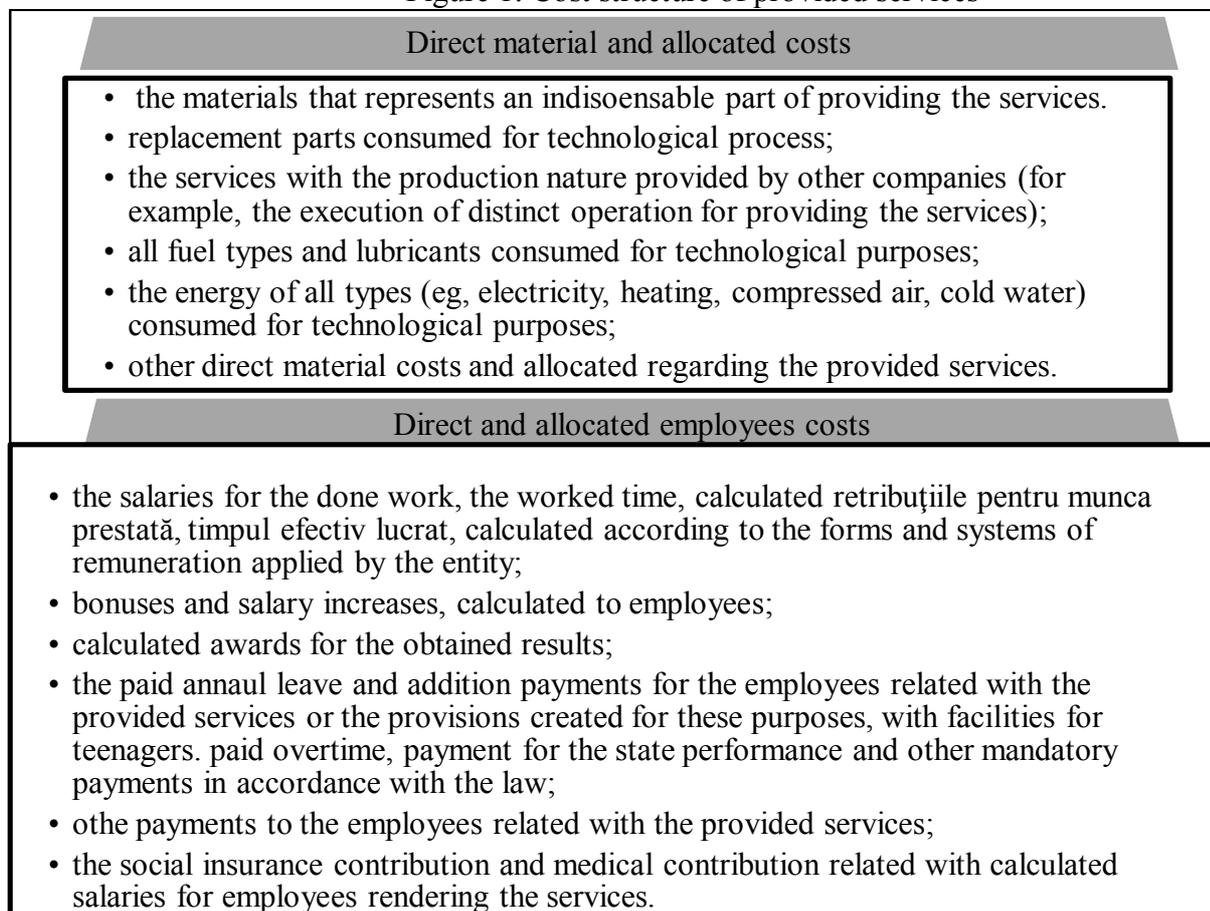


Figure 2a: Structure of costs in services department – *Direct costs*

Indirect production costs

- the amortization of intangible and fixed assets with production destination;
- maintenance and repair costs for the fixed assets with production destination;
- the calculated salaries and social and medical insurance taxes for administrative employees of production subdivisions of the company;
- the costs of technology improving, organization of production, improve quality of services;
- cost (depreciation) of small value and short term assets used in subdivisions to provide services;
- insurance costs for health and safety procedures and normal working conditions of its production subdivisions;
- security costs for subdivisions of the company related with provided services;
- delegation costs for production purposes of employed workers for rendering the services;
- the cost of the complementary services;
- other indirect costs related with the management of the subdivisions.

Figure 2b: Structure of costs in services department – *Indirect costs*

The nomenclature of costs can be changed depending on particular organizational, technological, informational needs as well as on significance of certain types of costs. According to company's accounting policies the inventories consumed to provide services can be recorded as separate operations out of stock. In this case the value of consumed inventories will not be included in the cost of services.

3.2. Accounting of costs for provided services and executed works

In terms of new accounting regulations [11], accounting of the costs of services can be performed in accordance with the accounting policies of the company using two methods:

- 1) Applying management accounts;
- 2) Without applying management accounts.

The accounting method regarding costs of services activity is chosen by each company independently taking into consideration its size, organizational and technological peculiarities as well as its needs of information required for decision-making.

Accounting of costs for services activity applying management accounts is recommended to companies that provide different types of services or perform different types of works.

Applying the second method of accounting services costs without applying management accounts is recommended to companies that provide only one type of service (homogeneous group services). In this case production costs are directly recorded in the accounts of financial accounting and are accounted for as inventories increase (production in progress) and increase of current liabilities, depreciation of fixed assets, inventory reduction, etc. The authors consider that in the case when the moment of provided services or rendered works coincides with the period of reporting, the accounts could use the method of recording the cost directly to current expenditure account 711 "Cost of sales".

Given the accounting policy of the company, consumed inventories for rendered services can be recorded as separate operations of stock outputs in terms of SNC "Inventories" provisions.

Accordingly, the value of consumed materials is not included in the cost of services. If the share of direct and allocated material costs used for providing services and works is essential, they are recorded separately for each object of recording and costing. These costs are recognized in the period of actual use of inventories or other material in the services, performing work and are recorded as basic activity cost increase and inventory reduction or current liabilities increase. The consumed inventories are assessed in accordance with SNC “Inventories”. Distributable material costs appear at the processing stage of the materials, in case when one type of material is consumed at the same time for different type of services and works.

Employee’s costs, direct and distributable, represent salaries, contributions and other payments related to employed staff directly involved in the provision of services and execution of works. Direct employee costs (e.g. wages of basic workers calculated according to the contract) are included in the cost of services and performed works. Other relevant costs are included in the cost of services and work proportionately with the (normative) wage rates or with other remuneration calculated in accordance with established basic values in terms of company’s accounting policies.

Indirect production costs are recorded separately from the main and ancillary activities and shall be allocated according to the provisions of SNC “Inventories”.

The following example presents a complex methodology for the distribution of indirect production costs regarding services activity.

Example: During December 201X a company provided two types of services: X and Y. Indirect production costs were recorded as a total amount of 124000 MDL and variable costs - 72000 MDL.

Table 1: Information on company's ability to render services

Type of services	Normal production capacity, services	Volume of provided services
X	120	130
Y	200	180

Table 2: Distribution of indirect production costs

Type of services	Normal production capacity, services	Volume of rendered services, units	Indirect production costs, MDL				
			Fixed cost, total amount	inclusive related		variable	Included in the cost of services
				With the cost of provided services	With the current expenses		
1	2	3	$4[(3 : \sum 3) \times \sum 4]$	$5 [(3 : 2) \times 4]$	$6(4-5)$	$7[(3:\sum 3) \times \sum 7]$	$8(5+7)$
X	120	130	52000	52000	0	30193,55	82193,55
Y	200	180	72000	64800	7200	41806,45	106606,45
Total	320	310	124000	116800	7200	72000	188800

The importance of normative regulation on this cost allocation methodology is indisputable.

4. Formation of price on the provided services and performed works

Services and works price formation represents a complex process structured according to the following stages:

- ☑ Identification of purpose for services and works' price formation;
- ☑ Determination of demand for services and works;
- ☑ Assessment of costs of the company providing services and works;
- ☑ Analysis of prices for services and works of the competing companies;
- ☑ Selection of services and works' price formation method;
- ☑ Calculation of basic price (value, cost);
- ☑ Evaluation of additional factors;
- ☑ Approval of the final price, etc.

Business experience of companies rendering works and providing services shows that there are different methods of price formation for services and works. The basic methods are:

- Cost method (costs plus profit (benefit));
- Market method (average market prices for the same services);
- Parametric method (evaluation by an expert of the cost of services using basic values, service parameters values).

Another services sector element, public catering, presents differences regarding the pricing methodology. The methods employed are:

- Traditional method – calculation is performed for a number of portions (10.20.50.100) based on calculation sheets developed using the following methods:
 - Products consumed according to receipts are reflected for each position by the procurement price (cost of entry) and then the total commercial margin of catering is added;
 - Products consumed according to receipts are reflected for each position by the selling price (the procurement price adding the commercial margin);
- Market method – the selling price is not established through a calculation method but is based on the actual demand, competition, customer payment capability etc.;
- Combined method – combines the traditional and market methods.

The cost method is the most difficult method of pricing for services provided and work performed; however, it is the most accurate.

5. Conclusions

Finally, we can conclude that services sector is variable and not definitively established both conceptually and legally, thus causing problems for identification of different problems. New accounting rules related to services operation and execution of more complex works, being complete and clear will allow accountants to apply more advanced accounting methods to provide users with more qualitative information for effective decision-making. The new accounting rules regarding services contain certain gaps in terms of general interpretations and special treatment of services sector. Accountants can solve the problems not covered in accounting rules regarding services and works through analysis and modification of company's accounting policies.

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