

**REALITIES AND ACCOUNTING PERSPECTIVES IN ROMANIA  
REGARDING THE PRODUCTION OF FURNITURE**

**Sorin-Constantin DEACONU<sup>1</sup>, Sorin-Ciprian TEIUȘAN<sup>2</sup>**

*<sup>1,2</sup>1 Decembrie 1918 University, Alba Iulia, Romania*

---

**Abstract**

*This paper treats aspects concerning the evolution of turnover, costs and profitability in the furniture production sector. The purpose of the paper is to establish a certain link between the indicators presented in the financial statements prepared to the entities in the field of wood processing. In order to achieve such correlations, we will study the indicators of the Romanian entities whose object of activity is the production of furniture, with certain restrictions. The profitability of these types of entities has a sinuous aspect during the financial year, and expenditures on raw materials (timber, plywood) and consumables represent about 50% of sales in a given accounting period. The share of costs in sales made in a given period must not exceed 30% in this sector in order to ensure minimum profitability. We will use the case study method, the graphic method and other tools to highlight the evolution of turnover and costs in the field of wood processing. The study will be conducted on a number of approximately 2000 entities, regardless of whether they record a loss or profit for a given financial year. A specific aspect is the reverse charge operation that is used for the purchase of timber, as there are high tax risks in terms of value added tax. In this sense, we will provide excerpts from the VAT return and from the informative declaration regarding the deliveries / services and purchases made on the national territory. In this way we will present the correlations that must exist between the tax forms, as well as the existing correlations with the purchase journal and the sales journal. In the case of the furniture production sector, the stocks of finished products, raw materials and consumables are of particular importance, as their efficient management must be ensured.*

---

<sup>1</sup> Associate professor, Ph.D., "1 Decembrie 1918" University, The Faculty of Economic Sciences, Alba Iulia, [deaconu\\_sorin@uab.ro](mailto:deaconu_sorin@uab.ro)

<sup>2</sup> Lecturer, Ph.D., "1 Decembrie 1918" University, The Faculty of Economic Sciences, Alba Iulia, [ciprian.teiusan@uab.ro](mailto:ciprian.teiusan@uab.ro)

**Keywords:** turnover, furniture production, costs.

**JEL classification:** M20, M40

---

## 1. Introduction

The information presented in the financial statements influences users' decisions about future behavior. The indicators to be taken into account in the analysis of the activity of the entities in the furniture sector are multiple, but some are of great relevance, such as: turnover, number of staff, profitability, selling price of furniture, cost of purchasing timber, etc. (Please note that in the current period the purchase cost for timber has increased substantially, and as causes could be: increase in fuel prices, increase in electricity - for drying timber requires a period of at least 3 weeks).

The annual financial statements prepared by private entities are a set of documents prepared, as a rule, at the end of the financial year.

According to Order 1802/2014 with subsequent amendments and completions, the categories of reporting entities according to the size criteria are micro-entities, small entities, medium and large entities.

*Micro-entities* are entities that, at the balance sheet date, do not exceed the limits of at least two of the following three criteria:

- a) total assets: EUR 350, 000;
- b) net turnover: EUR 700, 000;
- c) the average number of employees during the financial year: 10.

This category of entities prepares the following components of the annual financial statements:

- abbreviated balance sheet (form 10);
- abbreviated profit and loss account (form 20);
- informative data (form 30);
- situation of fixed assets (form 40).

*Small entities* are entities that, at the balance sheet date, do not fall into the category of micro-entities and that do not exceed the limits of at least two of the following three criteria:

- a) total assets: EUR 4, 000, 000;
- b) net turnover: EUR 8, 000, 000;
- c) the average number of employees during the financial year: 50.

This category of entities prepares the following components of the annual financial statements:

- abbreviated balance sheet;
- profit and loss account;
- the explanatory notes to the annual financial statements.

*Medium and large entities* are entities that, at the balance sheet date, exceed the limits of at least two of the following three criteria:

- a) total assets: EUR 4, 000, 000;
- b) net turnover: EUR 8, 000, 000;
- c) the average number of employees during the financial year: 50.

This category of entities prepares the following components of the annual financial statements:

- balance sheet;
- profit and loss account;
- statement of changes in equity;
- cash flow statement;
- explanatory notes to the annual financial statements.

These documents present various information to users of accounting information. Users include state authorities, associations/shareholders, banking companies, etc.

In the furniture production sector, a series of indicators can be followed that highlight the particularities of the assets and the particularities of the technological process. Among these indicators, we can mention turnover, production cost, cost of purchased raw materials, wage costs, profitability on each company and profitability on the entire furniture production sector, duration of wood drying, etc.

We do not intend to approach all the indicators, but we will present the evolution for a part of them in Romania's furniture production sector.

In the present paper for the research, we appealed to the case study method, the phenomenological presentation, the tabular method, etc.

We emphasize that we also called for a review of the literature:

- Hewitt-Dundas, N. (2001), "Strategic complexity and success – small firms' strategies in a mature market", *Journal of Small Business and Enterprise Development*, Vol. 8 No. 3, pp. 275-285.

The above paper presents ideas such that the business in a furniture production company depends on its internal resources. We agree with this assertion

because entities that produce furniture cannot become reliable companies without skilled labour and financial resources.

- Papadopoulos, I., Karagouni, G., Trigkas, M. and Beltsiou, Z. (2014), "Mainstreaming green product strategies: Why and how furniture companies integrate environmental sustainability?", *EuroMed Journal of Business*, Vol. 9 No. 3, pp. 293-317

Green strategies are a competitive advantage for companies in the furniture production sector. We agree with this conclusion reached by the authors because investments in environmental protection are necessary and have a strong social impact.

- Jeong, Y. and Lee, Y. (2010), "A study on the customer satisfaction and customer loyalty of furniture purchaser in on-line shop", *Asian Journal on Quality*, Vol. 11 No. 2, pp. 146-156.

The authors of the above paper studied the factors influencing the satisfaction of furniture buyers, and the diversity of products represents one determinant. In this regard, we complete and state that the large companies in the European Union (parent companies), whose object of activity is the production of furniture, open subsidiaries in various countries and place orders depending on the type of timber in the area (spruce, oak, walnut, cherry, ash, etc.)

- Zutshi, A., Creed, A., Holmes, M. and Brain, J. (2016), "Reflections of environmental management implementation in furniture", *International Journal of Retail & Distribution Management*, Vol. 44 No. 8, pp. 840-859.

The paper focuses on environmental impact and retail pressure on retailers.

- Tammela, I., Canen, A.G. and Helo, P. (2013), "Time-based competition: Relation to multiculturalism and logistics in international furniture companies", *Benchmarking: An International Journal*, Vol. 20 No. 5, pp. 588-606

The paper highlights the need for partnerships in this field little studied in the literature. Without a segment of established customers and lumber suppliers, such a business cannot be run efficiently. Moreover, the business should not be limited to a single customer or be based solely on deliveries to the parent company.

- Ratajczak-Mrozek, M. and Herbec, M. (2016), "To be independent or balance interdependence? Policy implications for micro and small enterprises", *IMP Journal*, Vol. 10 No. 2, pp. 260-275.

The paper focuses on cooperation with foreign entities and real support would be the political factor for initiating such contacts between partners.

In addition to these methods, we emphasize that we have done a series of data processing of companies in the furniture production sector based on indicators provided by over 2,000 companies.

## **2. Main concepts**

Order 1802/2014 presents the net turnover as representing the amounts obtained from the sale of products and the provision of services after deduction of commercial reductions and value-added tax and other taxes directly related to turnover.

From the outset, a distinction must be made between accounting turnover and tax turnover. The accounting turnover is presented in the profit and loss account; it is calculated based on all the amounts in the checking balance.

We present below an extract from the profit and loss account for a company whose activity code is furniture production.

**Table 1: Extract from the VAT return to 31.12.N (lei)**

<b>Indicators</b>	<b>2019</b>	<b>2020</b>
Net turnover	8.156.920	9.166.337
Sold production	2.916.847	8.218.820
Income from the sale of goods	5.240.073	947.517

Source: <https://mfinante.gov.ro/ro/web/site/info-pj-selectie-nume-si-judet>, June 2021

The table above shows that the entity recorded an increase in turnover in 2020 (pandemic year) compared to 2019. One of the explanations for the increase in sales is the increase in orders from German companies. German companies have also increased their sales on online orders, as the population is restricted in terms of travel and has focused on improving personal homes.

The fiscal turnover is defined by law 227/2015 and by the application norms: *When determining the turnover provided in art. 310 para. (1) of the Fiscal Code shall include invoices issued for receipted or uncollected advances and other invoices issued before the date of delivery/provision for the operations provided in art. 310 para. (2) of the Fiscal Code.*

In this respect, special attention is recommended to this definition provided by the tax law, as there are significant differences between the accounting turnover and the fiscal turnover.

To highlight the implications and differences between the two notions, we will present an example.

### *Case 1*

An entity that does not pay value-added tax records the following information at the end of the financial year:

- Accounting turnover: 200.000 lei
- The amount of advance invoices issued: 150.000 lei

From a fiscal point of view, we consider the registration ceiling for VAT purposes of 300,000 lei

What obligations does the non-VAT entity have at the end of the financial year?

We determine the tax turnover:

Fiscal turnover = Accounting turnover +/- fiscal corrections (1)

$$\text{Fiscal turnover} = 200.000 + 150.000 = 350.000 \text{ lei}$$

As the fiscal turnover of 350,000 lei exceeds the ceiling of 300,000 lei, the entity must register for VAT purposes from the beginning of the following financial year. However, in practice, many companies do not take into account tax turnover and do not register for VAT purposes. The question is, what are the consequences of not registering as a VAT payer. We will answer this question by presenting the following case.

### *Case 2*

An entity that registered a fiscal turnover at the end of the financial year of 350,000 lei (exceeds the ceiling of 300,000 lei) did not take steps to register for VAT purposes with the tax authorities. After three years, the entity is subject to fiscal control. In 3 years, the entity registered purchases of 120,000 lei and sales of 200,000 lei. Both purchases and sales were recorded in the purchase journal and the sales journal without deducting or collecting VAT, and the entity, of course, did not file a VAT return. What are the tax consequences for non-registration for VAT purposes by the entity three years ago?

The tax inspection bodies establish the following as a result of non-registration for VAT purposes:

$$\text{Deductible VAT} = 120.000 \times 19/119 = 19.160 \text{ lei}$$

$$\text{VAT collected} = 200.000 \times 19/119 = 31.933 \text{ lei}$$

The entity will be obliged to pay the state budget the difference between the collected VAT and the deductible VAT in the amount of 12,773 lei. To this amount will be added the accessories during the three years and fines for non-declaration, respectively non-submission of the VAT return (form 300), an informative declaration on deliveries/services and purchases made on national territory (form 394).

The consequences are devastating from a financial point of view for the company, and we recommend to all accounting professionals, at the end of the financial year, to analyze with greater attention the fiscal turnover.

### **3. Turnover and profitability in the furniture production sector**

Turnover and profit are presented in the financial statements through the income statement. The profit and loss account is the component that compares income and expenses in order to determine profit or loss. The profit and loss account shall be drawn up based on the total amounts of the expenditure and revenue accounts taken from the checking balance and presented in a vertical format. Often, profit is confused with an entity's treasury. This confusion is the result of a misperception of the concepts of income and expenditure. There is a tendency to attribute to any payment the meaning of expenditure and to collect the meaning of income. The time gap

between sales, purchases and receipts, respectively payments, must be taken into account. Thus, income is recognized, as a rule, when a debt is incurred; an expense is recognized when a debt is incurred (accrual accounting principle). There may be a situation when an entity records a profit (due to the state budget tax), but only a tiny part of it can be found in the treasury of the economic unit. (Feleagă, 2002: p. 69).

Below we present a table with indicators for a company whose object of activity is the production of furniture:

**Table 2: Financial indicators for a company in the furniture production sector (lei)**

<b>Indicators</b>	<b>January, year N</b>	<b>Percentage</b>
Exercise production	914.809,53	
Income from the sale of goods	4.103,99	
Expenditures on raw materials	311.210,08	
Expenses with cons. materials	118.601,94	
Expenditure on inventory items	7.464,73	
Expenditure on goods	1.747,10	
Other expenses with the services performed.	23.299,36	
<b>Total material expenses</b>	<b>462.325,21</b>	<b>50,31</b>
Staff costs	296.072	
Expenses with other taxes and duties	1.866	
Expenditures on contributions related to salaries	6.662	
Meal ticket expenses	20.745	
<b>Staff costs</b>	<b>325.365</b>	<b>35,41</b>
<b>Depreciation expenses</b>	<b>11.223,70</b>	<b>1,22%</b>
Energy and water costs	36.414,10	
Rent and royalties	13.194,76	

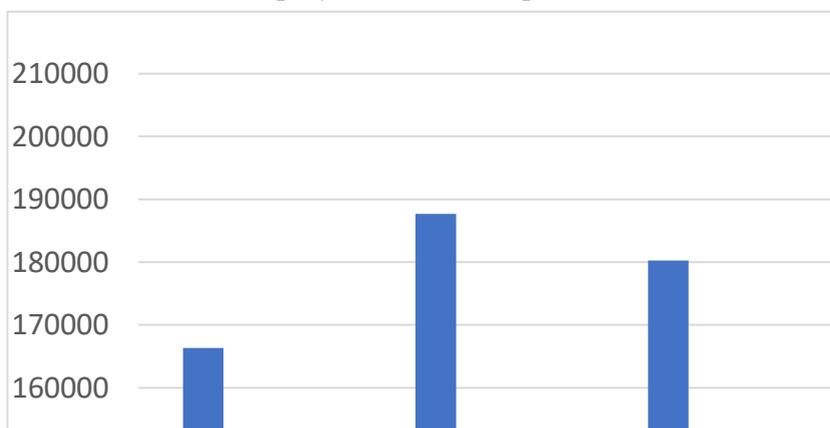
Insurance expenses	6.254,88	
Protocol expenses, advertisement	12,99	
Shipping costs	4.434,18	
Postage and telecommunications charges	1.138,09	
Banking expenses	547,98	
Other operating expenses	1.899,65	
<b>Total external expenses</b>	<b>63.896,43</b>	<b>6,95%</b>
Financial income	76,91	
Financial expenses	4.992,44	
Tax	0	
<b>The net result</b>	<b>51.189,65</b>	<b>5,57%</b>

Source: own processing according to the financial data of the private company

From the table above, we can deduce the following assertions:

- a. The predominant revenues recorded by the company are from the sale of finished products, which is an advantage for the support of credit lines;

**Figure 1. Turnover for a company in the furniture production sector (euro)**



Source: the company's financial data

In the figure above, we presented the accounting turnover in the pandemic to ascertain the evolution or involution of sales. In furniture production, January, February and March are periods of modest sales, as the population does not turn to this sector in the winter season. We can conclude that sales have a sinuous aspect in this sector, as the population focuses on the purchase of furniture in specific periods. However, in specific periods (August, for example), the population is not interested in this sector because it is the holiday period.

To expand our research, below we present an excerpt from a table where accounting information was centralized for a number of over 2,000 companies with the activity classification code 3109, respectively the manufacture of furniture. Due to lack of space, we present only an excerpt from this table (information was collected on turnover, profit, inventories, income and expenses for the years 2017, 2018, 2019, 2020) which formed the basis of the conclusions in our research.

**Table 3: Indicators for companies whose object of activity is the production of furniture (lei)**

<b>Entity no.</b>	<b>Fiscal value 2020</b>	<b>Profit 2020</b>	<b>Stocks 2020</b>	<b>Income 2020</b>	<b>Expenses 2020</b>
1	1183797690	56777932	133339679	1225516998	1163290223
2	306278744	12390266	68246556	321235226	308225132
3	280951342	10560576	23989680	290397175	279875926
4	225171687	9898411	29135138	227585193	215792597
5	183459550	11768559	13866822	188419670	176651111
6	177095984	4134467	44289806	191450195	186680697
7	163279494	7043300	18823443	167886353	160302978
8	156629964	12816843	40546799	215546586	200598356
9	153615463	4113347	18813703	158217064	154103717
10	137631032	12920160	34248476	138092457	122894924

Source: <https://www.listafirme.ro/>, June 2021

Based on the data presented and their association, the following statements result for companies whose object of activity is furniture production. The turnover has a sinuous character during a financial year. Profit or loss can be judged by the value of sales and expenses (within these

expenses, a significant share is represented by material expenses, and they must not exceed 55% for the entity to record minimum profitability of 3- 6%). A sensitive aspect for these types of entities is the value of inventories. As a rule, timber and furniture stocks have significant values in the case presented. One of the reasons stocks have high values is obsolete stocks, challenging to sell, respectively, furniture that can no longer be capitalized. For this type of furniture, the entities should make adjustments for the loss of value, or there may be the solution of inventory and discharge, but we must also consider the fiscal side, namely the collection of VAT which is a debt to the state budget. Another cause for large stocks of existing timber in accounting (and in reality, these assets do not exist) may be furniture sale without supporting documents. In this case, which can be verified only by physical inventory within each company, the fiscal implication is represented by the loss of the right to deduct the value-added tax. Thus, when purchasing the timber, registering the accounting formula  $4426 \text{ deductible VAT} = 4427 \text{ VAT collected by losing the right to deduct}$  ( $635 \text{ Expenses with other taxes, duties and assimilated payments} = 4426 \text{ deductible VAT}$ ), the company will record in the VAT return an amount of payment to the state budget. This will affect the company's treasury.

b. Material costs represent approximately 50-55% of sales value. Material costs, in this case, include timber costs, plywood costs, hardware costs, varnish and paint costs, etc. In connection with timber, we specify that the acquisitions are made with reverse charge (in the situation where both partners are registered for VAT purposes). For the fiscal reflection, we present an extract from the VAT return.

**Table 4: Extract from the VAT return (lei)**

Indicators	January, year N	VAT
Intra-Community deliveries	882.006	
Acquisitions of goods and services subject to simplification measures for which the beneficiary is obliged to pay	191.761	37.575

VAT (reverse charge), of which:		
---------------------------------	--	--

Source: tax returns filed by a company in the furniture production sector

Based on the VAT return, the entity purchased the timber of 191,761 lei during the respective fiscal period. This value must coincide with the amount provided in the purchase journal and the amounts broken down by suppliers in form 394. The amount of 37,575 lei will not be deducted but will be registered in the company's accounting formula 4426 = 4427. Thus, a simple look at company A's VAT return will quickly identify reverse charge purchases, and we need to look at these values carefully, as they present a high tax risk.

Below we present some aspects regarding affiliate relationships. It is known that, in Romania, many EU companies have opened "subsidiaries" in order to control them. The control is usually carried out through a foreign legal entity because the tax authorities encounter legal difficulties when analyzing transactions between affiliated persons.

According to Law 227/2015 on the Fiscal Code, the affiliated person is defined as follows: a person is affiliated if his relationship with another person is defined by at least one of the following cases:

a) a natural person is affiliated with another natural person if they are spouses or relatives up to and including the third degree;

b) a natural person is affiliated with a legal person if the natural person holds, directly or indirectly, including the holdings of affiliated persons, at least 25% of the value/number of participation titles or voting rights of a legal person or if it controls in effectively the legal person;

c) a legal person is affiliated with another legal person if at least it holds, directly or indirectly, including the holdings of affiliated persons, at least 25% of the value/number of participation titles or voting rights in the other legal person or if it controls effectively that legal person;

d) a legal person is affiliated with another legal person if a person holds, directly or indirectly, including the holdings of affiliated persons, at least 25% of the value/number of participation titles or voting rights in the other legal person or if it controls ineffectively that legal person.

At present, Order no. 442/2016 on the number of transactions, deadlines for preparation, content and conditions for requesting the transfer pricing file and the procedure for adjusting/estimating transfer pricing,

Official Gazette no. 74/2016. From our point of view, it is necessary to verify the transactions between the fiscally affiliated persons, but not as the fiscal bodies proceed. Thus, the tax authorities request this file of transfer pricing, especially from entities that record accounting losses, but most of the time, the inspectors make their estimates based on the rate of profit in the branch in which the economic agent operates. (Deaconu, 2021: p. 116).

Below is a case of delivery to other entities in the European Union.

### *Case 3*

Entity A, registered for VAT purposes, with its registered office in Romania (applies the standard VAT system), sells a set of furniture to entity B registered for VAT purposes in Germany, with the selling price of 5,000 euros, at an exchange rate of 4.92 lei/euro. The German entity holds 95% of the capital of company A. The production cost is 22,000 lei. Record the transactions in the accounting of entity A and analyze the situation in which the furniture set is sold on a similar market at a negotiated price of 9,000 euros.

- registration of the invoice for the sale of the furniture set (5.000 euro x 4,92 lei/euro):

<u>4511.1 "Settlement between affiliated entities"</u>	=	<u>7015 "Sales of finished goods"</u>	24.600
--------------------------------------------------------	---	---------------------------------------	--------

- discharge:

<u>711 "Revenues associated with the costs of the completed production"</u>	=	<u>345 "Finished goods"</u>	22.000
-----------------------------------------------------------------------------	---	-----------------------------	--------

The selling price of 24,600 lei is close to the production cost value, which is evident that the parent company controls the price and the cost. In this way, the tax authorities have the opportunity to request the Transfer Pricing File. The taxpayer can draw up this document, and the tax authorities can ignore this file. The company, in this case, avoids a fine for not filing the file, but the tax authorities have the opportunity to estimate profitability by

consulting domestic bases with prices for various products. These estimates are made without considering the supporting documents prepared but using a series of information presented in databases to which the private taxpayer does not have access. From the beginning, the private taxpayer is a loser, as he will find himself in a situation of receiving a tax decision from the tax authorities with significant values and, of course, follows the procedure of appeal, court actions, which involves financial resources allocated for an action whose purpose is uncertain.

#### **4. Conclusions**

Furniture production is a sector that depends mainly on timber obtained from cut trees. In this respect, it is a sensitive area for each country's strategy regarding the supply of raw materials to these wood processing plants.

*First conclusion:* from the concept point of view, a distinction must be made between accounting turnover and fiscal turnover. The accounting turnover is presented in the profit and loss account, and the fiscal turnover is calculated extra-accounting and is mandatory to be established at the end of each financial year. Tax revenue helps judge an entity whether or not it can be recorded for value-added tax purposes.

*The second conclusion:* the company's turnover depends on the value of orders in a specific accounting period. Turnover has a sinuous evolution during a financial year due to factors such as consumer interest in improving personal comfort during the pandemic, days off for employees, etc.

*Third conclusion:* the profitability of companies in the furniture production sector is around 3-6% over an accounting period. The small size of the profit percentage of these companies can be explained by the share of raw material (timber) relatively consistent in the value of total expenses. This reasonable percentage can be between 50% and 55%. Any percentage higher than 55% will lead the company in furniture production to record losses.

*Fourth conclusion:* special attention must be paid to affiliate relationships. At present, parent companies open subsidiaries controlled both in terms of sales prices and costs (consulting costs, for example). The selling prices of Romanian subsidiaries to parent companies in the European Union are approximately equal to the value of production costs. In this respect, there is a high tax risk for subsidiaries to be subject to controls by the competent

authorities, and tax decisions can be issued by estimating a rate of profitability based on specific internal databases held by them.

*Fifth conclusion:* stocks are a significant asset in these companies that are pretty difficult to manage in specific periods. Old stocks existing in documents may be explained by the lack of orders or the sale without supporting documents.

As future research directions, we can consider the intra-community deliveries of timber and the export of timber. In this way, we can present the Intrastat declarations (both the shipping flow and the introduction flow) and the recapitulative declarations regarding the intra-community acquisitions and deliveries.

## **5. References**

- Deaconu, S.C (2021) *Contabilitate și gestiune fiscală*. Editura C.H. Beck: București.
- Feleagă, N. ș.c (2002) *Bazele contabilității – o abordare europeană și internațională*, Editura Economic: București.
- Hewitt-Dundas, N. (2001) Strategic complexity and success – small firms’ strategies in a mature market, *Journal of Small Business and Enterprise Development*, Vol. 8 No. 3, 275-285.
- Jeong, Y. and Lee, Y. (2010) A study on the customer satisfaction and customer loyalty of furniture purchaser in on-line shop, *Asian Journal on Quality*, Vol. 11 No. 2, 146-156.
- Papadopoulos, I., Karagouni, G., Trigkas, M. and Beltsiou, Z. (2014) Mainstreaming green product strategies: Why and how furniture companies integrate environmental sustainability?, *EuroMed Journal of Business*, Vol. 9 No. 3, 293-317.
- Tammela, I., Canen, A.G. and Helo, P. (2013) Time-based competition: Relation to multiculturalism and logistics in international furniture companies, *Benchmarking: An International Journal*, Vol. 20 No. 5, pp. 588-606.
- Ratajczak-Mrozek, M. and Herbec, M. (2016) To be independent or balance interdependence? Policy implications for micro and small enterprises, *IMP Journal*, Vol. 10 No. 2, pp. 260-275.
- Zutshi, A., Creed, A., Holmes, M. and Brain, J. (2016) Reflections of environmental management implementation in furniture, *International*

*Journal of Retail & Distribution Management*, Vol. 44 No. 8, pp. 840-859.

- Law no. 227/2015 on the Fiscal Code, as subsequently amended and supplemented, Official Journal no. 688/2015.
- Order no. 442/2016 on the amount of transactions, the deadlines for drawing up, the content and conditions for requesting the transfer pricing file and the procedure for adjusting / estimating transfer pricing, Official Journal no. 74/2016.  
Order no. 1802/2014 for the approval of the accounting regulations for the individual financial situations and the consolidated financial regulations, Official Journal no. 963/2014.
- <https://www.listafirme.ro/>, iunie 2021.
- <https://mfinante.gov.ro/ro/web/site/info-pj-selectie-nume-si-judet>, iunie 2021.