

LESSON 6:
**ACCOUNTING
REGULATIONS
RELATING TO INTERNAL
ACCOUNTING**



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BACKGROUND: GROUP 9 OF THE PGC OF 1973

IN GENERAL ACCOUNTING PLAN OF 1973: Develops internal accounting through Group 9. Analytical Accounting published in 1978. The application of Group 9 was always voluntary.

IN GENERAL ACCOUNTING PLAN OF 1990 AND 2007 (The latter in force since 01/01/2008): They do not develop the internal accounting (In the PGC of 2007 the G-9 dedicates it to Income directly attributable to the Net Worth).

It has never existed for companies in Spain the obligation to develop internal accounting or do it on the basis of an established legislation, but if there are external environmental standards related to the internal scope, both at national and international levels.

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INTERNATIONAL NORMS (IAS 2)

In the International sphere, the regulations related to Management Accounting are found in AIS 2 "Inventories". (Effective January 1, 2005)

This IAS / IFRS standard affects us as a full member of the EU

IAS.-International Accounting Standards

IFRS.- International Financial Reporting Standards.

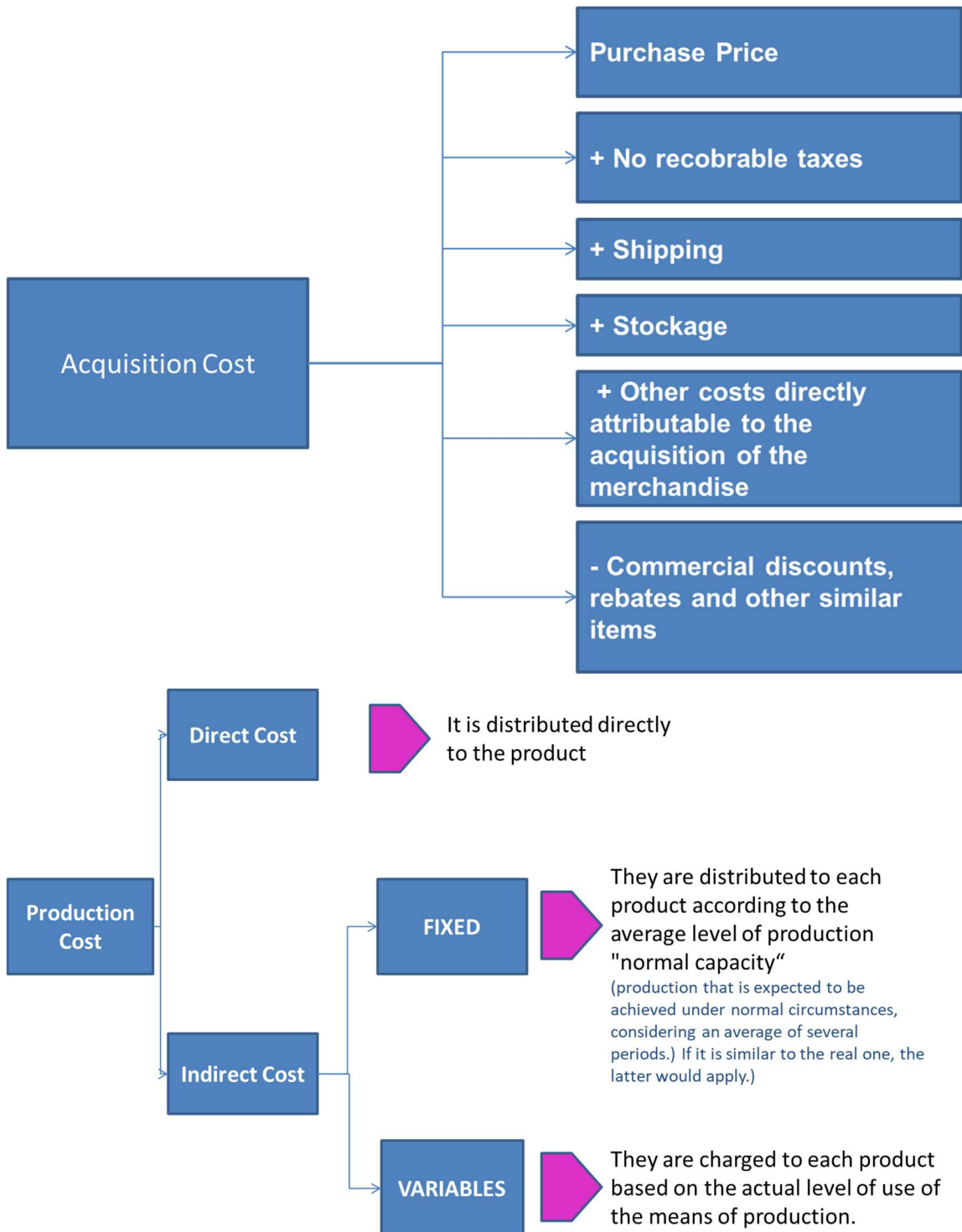
OBJETIVE: The objective of IAS 2 is to prescribe the accounting treatment for inventories. It provides guidance for determining the cost of inventories and for subsequently recognising an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Inventories will be valued at the lower of: the cost or net realizable value, whichever is less".

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The **cost of the Stocks**. It will include all the costs derived from their acquisition Cost and Production Cost, as well as other costs incurred to give them their current condition and location.

As a result of the above, we can distinguish two types of costs:



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COSTS EXCLUDED FROM THE PRODUCT:

- Abnormal amounts of waste materials, labor or other production costs.
- Storage costs (P.A), unless they are necessary in the production process, prior to a subsequent elaboration process.
- The indirect costs of administration that have not contributed to give inventories their current condition and location.
- The costs of sale.
- Interest costs, IAS 23 identifies the limited circumstances in which financial costs are included in the cost of inventories (Non-production related).

In addition, IAS 2 deals with:

JOINT PRODUCTION:

It uses the same calculation methods studied in Lesson 4.

"Method of distribution"

"Subtraction method"

"Method of recovery"

THE INVENTORY COSTS FOR A SERVICE PROVIDER:

The services are valued for the costs involved in their production. Mainly labor and other costs of personnel directly involved in the provision of the service, including supervisory personnel and other indirect attributable costs (eg electricity, telephone, etc.).

The costs related to sales and general administration are not included but go directly to the profit and loss account.

VALUATION OF STOCKS:

The identifiable products are valued in inventory through the specific identification of their individual costs.

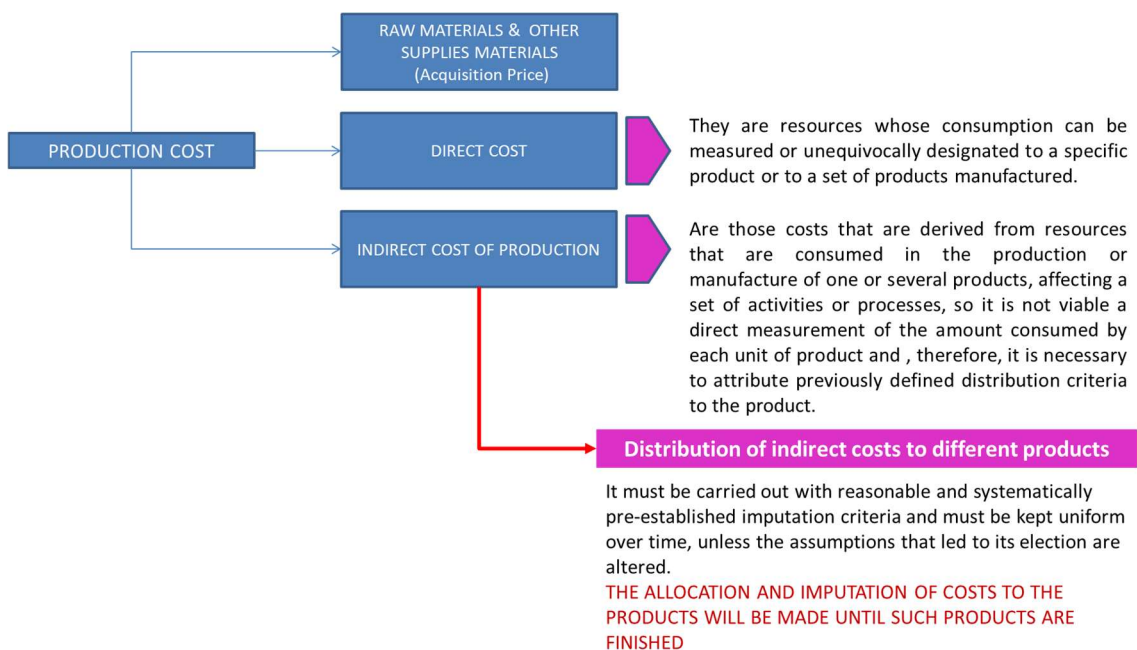
The products that can not be identifiable with each other, will be assigned using the FIFO or Weighted Average Cost methods.

3 NATIONAL NORMS

At the National level, the existing regulations related to Management Accounting are found in the RESOLUCIÓN DE 14 DE ABRIL DE 2015 DEL ICAC -Instituto de Contabilidad y Auditoría de cuentas (RICAC) (BOE 23/04/2015)- POR LA QUE SE ESTABLECEN CRITERIOS PARA LA DETERMINACIÓN DEL COSTE DE PRODUCCIÓN (sustituye a la Resolución de 9 de mayo de 2000)

OBJETIVE: *To establish norms for the determination of the cost of production of the stocks, understanding as such both the goods produced and the services provided by the company.*

Likewise, it will also be applicable for the determination of the cost of production of the elements of the fixed assets manufactured or built by the company.



COSTS EXCLUDED FROM THE PRODUCT: they are directly imputed to the result of the year

- Marketing expenses.
- Expenses after the sale of the product due to sales returns, repair guarantees, reviews and other analogous items.
- General expenses of administration or company management.

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- Financial expenses (Except for exceptions, those not related to production).
- It is only allowed to incorporate foreign financial expenses in products whose manufacturing process is more than one year -constructions- without counting the interruptions and provided that these expenses have accrued before the stocks are able to be destined for final consumption or its use by other companies.
- Sub-activity costs.

Also in the RICAC -Resolution of the Institute of Accounting and Audit of accounts- are treated:

JOINT PRODUCTION:

The allocation of costs to co-products will be based on the most objective criteria possible. In general, the costs attributable to each product must be the most proportional to the net market value or realization of the said product. "Distribution method".

The by-products, waste, recovered materials, etc. They are valued the same as the previous ones, unless their value is of secondary importance that can be valued by the net value of realization or replacement. "Method of subtraction" or "Method of recovery".

VALUATION OF STOCKS:

When stocks are not identifiable individually, the weighted average price method will be adopted.

The FIFO is acceptable if the company considers it more convenient for its management.

The standard cost is not admitted, unless there are no significant differences with the permitted methods.