



Center for Analysis of
Economic Reforms
and Communication

June 2017

AZERBAIJAN ECONOMIC REFORMS REVIEW



THE GUIDELINE ON ACCOUNTING OF INCOME AND COSTS IN MANUFACTURING SECTOR FOR TAX PURPOSES



In accordance with the Decree of the President of the Republic of Azerbaijan signed on June 16, 2017, "the Guideline on accounting of income and costs in manufacturing sector for tax purposes" was approved.

This Guideline is prepared in accordance with Article 130.1-1 of the Tax Code of the Republic of Azerbaijan and regulated the relation with respect to accounting of income and costs in manufacturing sector. The purpose of this Guideline is to document incoming and outgoing commodities to identify income and costs of taxpayers involved in manufacturing activity as well as to increase transparency, accounting and accountability in manufacturing sector.

The terms used in this Law shall have the following meanings:

- accountable person - a person performing administrative and operational settlements including the purchase of goods and services;
- commercial (sales) representatives - a person representing the entrepreneur and signing the agreement on the entrepreneur's behalf with regard to the delivery of finished products to the customers ;
- manufacturing activity – a process of activity aimed at generating material assets
- production site – a manufacturing site where production of goods that are main purpose of the enterprise (individual business) are finalized;
- auxiliary site – a manufacturing site where components of (intermediate products) of the product which are considered main purpose of entrepreneurship activity of the enterprise (individual business), as well as works are done and services are provided to support production of those products;
- Working stock – materials used in

manufacturing process.

Other terms used in this Guideline have the meanings ascribed to them in the Tax Code of the Republic of Azerbaijan, the Customs Code of the Azerbaijan Republic, the law of the Republic of Azerbaijan "On Accounting" and other laws of the Republic of Azerbaijan.

Accounting of income and costs

In accordance with the approved Guidelines, pursuant to the Tax Code of the Republic of Azerbaijan, taxpayers of manufacturing sector shall ensure timely and accurate accounting of their income and costs, attribute their income and costs to the time they were earned or borne depending on the accounting method applied in accordance with the same Tax Code and shall arrange registry that would allow to identify the commencement, progress and completion of all operations in connection with manufacturing activity.

In addition, the manufacturing sector taxpayers shall ensure compliance with the duties with regard to the proper record of accounting, income (costs) and the taxation objects, including commodity and material stocks, preparation and storage of accounting documents stipulated in the Tax Code of the Republic of Azerbaijan and the Law of the Republic of Azerbaijan on "Accounting" as well as meet the requirements under other legislative acts adopted in accordance with them.

Documentation of incoming working stocks in manufacturing sector

- The working stocks purchased by taxpayers involved in manufacturing activity

from the taxpayers registered for manufacturing purposes, as well as from the sellers of goods and contractors shall be documented in the following manner:

□ where taxpayers involved in manufacturing activity purchase goods from the taxpayers not registered for the value added tax (VAT) purposes, an invoice or electronic invoice determined in the Tax Code of the Republic of Azerbaijan is required with respect to the purchase of those goods and their delivery to the stock is documented by an "Act of acceptance of goods" ;

□ where taxpayers involved in manufacturing activity purchase working stocks from the taxpayers registered for the value added tax (VAT) purposes, in addition to an invoice or electronic invoice determined in the Tax Code of the Republic of Azerbaijan, an electronic tax invoice is also required with respect to the purchase of those goods and their transfer to the warehouse is documented by an "Act of acceptance of working stocks".

• Where the working stocks are purchased from persons not registered with the tax authorities an "act on Purchase of working stocks " shall be prepared. It is mandatory to indicate the details of the seller's identity (PIN, serial number) in the "act on Purchase of working stocks". Transfer of such goods to the warehouse shall be documented by an "Act on acceptance of working stocks".

• Where the goods are purchased through the accountable person, such accountable person shall be provided with power of attorney. After a power of attorney is produced to the seller

for the purchase of the goods by the accountable person, the seller shall deliver the invoice or electronic invoice or electronic tax invoice or the "Act on Purchase of working stocks", with respect to the sale of goods documented for the name of the taxpayer granting such power of attorney, to the accountable person. Transfer of such goods to the warehouse by the accountable person shall be documented by an "Act on acceptance of working stocks".

• The income of imported goods into the warehouse shall be documented by a document evidencing the purchase price of the goods and an "Act on acceptance of working stocks". On the importation of the goods the customs declaration, the invoice and the contract for the imported goods shall be guiding. Agreement on transportation of imported goods, the document evidencing grant of the relevant powers where customs representation is carried out directly or indirectly, bills of lading, a document evidencing payment of customs duties or a guarantee for the payment of customs duties shall be added to those documents. The total of the purchase price (invoice), transportation, loading, unloading, transshipment and insurance costs are taken into account in accounting documents of the imported goods.

• Internal movements of goods (from one warehouse to another warehouse) belonging to a public catering taxpayers are documented through an "Invoice for the internal movement of working stocks". In case a manufacturing sector taxpayer has manufacturing, wholesale or retail business entities (objects) in addition to its public catering, then receiving or return of goods (prepared products) from or to those commercial entities shall be documented

- The entering of working stocks into warehouse books shall be done pursuant to accountable person, names (types, parties etc.), quantity or other quantitative indicators of goods and their storage place.

Documentation of the release of working stocks into main and auxiliary production sites

- Working stocks are entered into the main and auxiliary production sites based on order of the responsible person (industrial engineer, chief engineer, and head of production site). Such orders (request) are prepared based on standards signed by the responsible person (industrial engineer, chief engineer, head of production site) and approved by the head of enterprise (or its authorized representative). In this case, the responsible person shall prepare an "Requisition on release of working stocks of goods. That requisition shall be approved by responsible person (industrial engineer, chief engineer and head of production site) to transfer the warehouse for working stocks.
- Based on requisition drafted by a person responsible for working stocks warehouse, the workings stocks are prepared, and "the invoice for release of working stocks to production" shall be prepared to transfer the working stocks to customer (industrial engineer for manufacturing the goods, and head (deputy head) of workshop for packing the finished products.
- A written order is prepared for auxiliary manufactured products required for production of finished products by a responsible person of main site, and that order shall be approved by responsible persons (industrial engineer, chief

engineer and head production site).

- Products manufactured upon an order, shall be transferred to main production site following the "invoice for release of auxiliary goods into the main production" is prepared by a person responsible for auxiliary production site.

- In case the warehouses or commercial entities (objects) owned by a public catering taxpayer are located outside of the commercial entity doing retail trade and goods are carried by transportation vehicles, such vehicle shall be provided with "Cargo vehicle waybill".

Documentation of the receipt of finished products into a warehouse

- The finished products shall be transferred to a warehouse intended for such products. In this case, the finished products are transferred by the responsible person of manufacturing site (head (deputy head) of workshop, etc.) to responsible person of warehouse signing the "Act on acceptance of finished products".
- The products in the "Act on acceptance of finished products" are indicated with their quantity.
- Once the reporting month for finished products transferred to warehouse is over, they are registered based on their estimated actual production costs.
- Concerning the spoilage of products during production, an "Act on spoiled products" shall be prepared by the responsible person of the manufacturing site (head (deputy head) of workshop, etc.).

- The spoiled products which could be fixed or used as a material stock, shall be delivered the responsible person of warehouse with signing of the “Act of acceptance of spoiled products”.

- The loss, lack, damage or spoilage of finished goods and stolen goods are documented by an "Act of lost, missing, damaged, spoiled or stolen goods ". Such act shall approved by the signatures of the taxpayer (or such taxpayer's representative), the financial accountable person and the person who handed over the goods to the warehouse

Documentation of finished products

- Finished products manufactured by an enterprise or individual business shall be delivered from warehouse based on Purchase order of Buyer accompanied by invoice or electronic invoice prepared in accordance with the rules of the Tax Code of the Republic of Azerbaijan.

- Where the producer of finished product is registered for VAT, apart from an invoice or electronic invoice, the electronic tax invoice shall be issued to customer.

- Where the finished goods are purchased through the accountable person, such accountable person shall be provided with power of attorney. After a power of attorney is produced to the seller for the purchase of the goods by the accountable person, the seller shall deliver the invoice or electronic invoice or electronic tax invoice on sale of finished goods documented for the name of the taxpayer granting such power of attorney, to the accountable person.

- Where the producer sells the finished products through its companies (facilities), shipment of those goods to such companies (facilities) shall be documented with the “Invoice of internal movement of finished goods”.

- If the goods are lost, missing, damaged or spoiled as a result of a force majeure event, such goods can be deleted from the accountable person's account based on an inquiry from the relevant state authorities. In this case the "Act on lost, missing, damaged or spoiled goods in force majeure events" shall be drawn.

Determining income and expenditures of taxpayers involved in manufacturing activity

- Turnover arising from the provision of the ready goods produced by the taxpayer involved in manufacturing activity to buyers, based on the documentation stipulated in this Guideline, is attributed to the income of the person carrying out such activity

- The timing of income for taxation purposes shall be determined in accordance with Articles 132 and 135 of the Tax Code of the Republic of Azerbaijan.

- Expenditures for finished goods submitted by a taxpayer involved in manufacturing activity, including the direct expenditures regarding the works done and services provided, expenditures of auxiliary productions, service to main production and indirect expenditures associated with its management, losses caused spoilage, etc. shall be attributed to expenditures of a person carrying out such activity.

- The timing of the costs incurred shall for taxation purposes, be determined in accordance with Articles 133 and 136 of the Tax Code of the Republic of Azerbaijan.

- Where individual accounting is not kept for finished products, value for finished products deducted from income shall be determined by average prime cost as per the Article 139.4 of the Tax Code of the Republic of Azerbaijan.

Determining the remainder of goods at the warehouse owned by a taxpayer involved in manufacturing activity

In accordance with the approved Guideline, the remainder of goods at the public catering taxpayer's warehouses is determined by running an inventory for each warehouse.

Furthermore, when determining the quantity of goods remaining at an accountable person's material responsibility, the remainder of the goods indicated under accounting, based on incoming and outgoing documents set by this Guideline, are compared to actual remainders revealed pursuant to the inventory, and depending on the results, relevant adjustments are made to the records.

Finally, it should be noted that invoice, "Act of acceptance of goods", "Purchase of goods act", "Invoice for the internal movement of goods", power of attorney, "Cargo vehicle waybill", "Return of goods Act", "Purchase order", "Invoice on the issue of goods from the warehouse to the kitchen", "Act of return of goods from the kitchen to the warehouse", "Act on lost, missing, damaged or spoiled goods", "Act on lost, missing, damaged or spoiled goods in force majeure events", "Act on writing off goods (products) based on the result of sale" are considered to be strict accountability documents and in accordance with the aforementioned Decree, such documents are approved the



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