



Center for Analysis of  
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# AZERBAIJAN ECONOMIC REFORMS REVIEW





# THE GUIDELINE ON ACCOUNTING OF INCOME AND COSTS FOR TAX PURPOSES IN WHOLESALE TRADE SECTOR



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 wholesale trade. The purpose of this Guideline is to document incoming and outgoing commodities to identify income and costs of wholesale trade taxpayers as well as to increase transparency, accounting and accountability in wholesale trade.

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

- Wholesale – commercial activity carried out with the presentation of invoice, e- invoice and e-tax invoice pursuant to the Tax Code of the Republic of Azerbaijan when goods are sold to buyer as part of entrepreneurship activity;

- accountable person - a person performing administrative and operational settlements including the purchase of goods and services;

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, wholesale trade taxpayers 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 wholesale trade.

In addition, the wholesale trade 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 goods in wholesale trade**

- The working stocks purchased by wholesale trade taxpayers 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 wholesale trade taxpayers 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 wholesale trade taxpayers 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 goods".

- Where the working stocks are purchased from persons not registered with the tax authorities an "act on Purchase of goods " 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 goods".

- 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 goods ", 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 goods "

- 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 goods ". 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 goods". In case a wholesale trade taxpayer, in addition to wholesale trade, has also been involved in production (including production of agricultural goods) activity, then receiving or return of goods from or to those commercial entities (facilities) shall be documented through an "Invoice for the internal movement of goods ".

- 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".

- In case the goods provided by a wholesale trade taxpayer are returned in accordance with the Civil Code of the Republic of Azerbaijan, the Law of the Republic of Azerbaijan on " Protection of the Consumers' Rights" and the other laws of the Republic of Azerbaijan, such goods shall be entered into the books of a warehouse or other commercial entities (objects) where such goods are stored anew and refund of their value shall be taken into account

- If the goods that have been entered into the books by a wholesale trade taxpayer are returned in accordance with the contract on sale

of such goods, their expiry or other reasons, the parties shall prepare a "Return of Goods Act"

- Wholesale traders shall document the goods which they have received for commission or accountable storage by an "Act of acceptance of goods" and register them under the prices indicated in those documents. The parties shall enter into an agreement in connection with acceptance of the goods under commission.

- The entering of goods 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.

- The goods should be accounted for based on their purchase or sale price. Where the goods are accounted for based on their sale price, the difference between the purchase price and sale price shall be accounted for in the mark-up account.

- In case the wholesale trade taxpayer is also engaged in other trade activities, shall taxpayer shall separately account for the goods in accordance with their designation. In this case, such goods shall be entered in to the books as the "goods in the warehouse", the "goods in wholesale trade", "full and empty packages", the "purchased products", "goods for rent (in transit)" and other designations.

#### **Documentation of provision of goods in wholesale trade**

- Provision (sale) of goods by retail trade commercial entities (objects) is carried out through invoice or electronic invoice or electronic tax invoice as specified by the Tax Code of the

Republic of Azerbaijan. Where the price of the goods is paid in a cashless form (through a POS terminal), the buyer (consumer) is provided with receipt from POS terminal in addition to cash register receipt (with respect to individual or corporate entrepreneurs, an invoice, e-invoice or tax invoice, upon their request).

- If the goods are provided at the taxpayer's commercial entity retail and wholesale forms, accounting of their incoming and outgoing (sale) is done separately.

- Goods from wholesale and distributing markets, and warehouses are delivered to trade facilities based on the purchase order of the responsible person. The Order shall be signed by the responsible person. Transfer of goods from one responsible person to another shall be documented through the "invoice on internal movement of goods".

- Transfer of goods and imported goods by accountable person to the warehouse, as well as loss, lack, damage or spoilage of 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

- 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 costs of a wholesale trade taxpayer**

- Goods owned by a wholesale trade taxpayer shall be attributed to the income of the person carrying out such wholesale trade based on information documented in accordance with this Guideline.
- The timing of income for taxation purposes shall be determined in accordance with Articles 132 and 135 of the Tax Code.
- Costs incurred by a wholesale trade taxpayer in connection with sale of goods, including the cost of goods, turnover costs (excluding amounts distributed among the remainders of goods by the end of the reporting period) shall be attributed to the costs of the person carrying out such activity.
- The timing of the costs incurred for taxation purposes shall be determined in accordance with Articles 133 and 136 of the Tax Code.

### **Determining the remainder of goods at the warehouse owned by a wholesale trade taxpayer**

In accordance with the approved Guideline, the remainder of goods at the wholesale trade taxpayer's warehouses is determined by running an inventory for each accountable person.

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, is 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", "Cargo vehicle waybill", "Return of goods Act", "Act on lost, missing, damaged or spoiled goods", "Act on lost, missing, damaged or spoiled goods in force majeure events", are considered to be strict accountability documents and in accordance with the aforementioned Decree, such documents are approved the Ministry of Finance of the Republic of Azerbaijan.





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