



Center for Analysis of  
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# AZERBAIJAN ECONOMIC REFORMS REVIEW



# THE GUIDELINE ON ACCOUNTING OF INCOME AND EXPENSES IN PUBLIC CATERING SECTOR



In accordance with the Decree of the President of the Republic of Azerbaijan signed on April 19, 2017, "The Guideline on accounting of income and expenses in public catering sector for taxation purposes" was approved.



This Guideline is prepared in accordance with the Article 130.1-1 of the Tax Code of the Republic of Azerbaijan and assigned to regulate the relationship with respect to accounting system of income and expenses in public catering sector for taxation purposes. The purpose of this Guideline is to document incoming and outgoing commodities in order to identify profits and expenditures of taxpayers in public catering sector, as well as to increase transparency, accounting and accountability in public catering sector.

The terms used in this Law have the following meanings:

- public catering activity - entrepreneurial activity related to providing buyers with prepared (cooked) food products at the facility, where such service is provided or in a mobile facility;
- 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;

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 expenses**

In accordance with the approved Guidelines, pursuant to the Tax Code of the Republic of

Azerbaijan, public catering taxpayers shall ensure timely and accurate accounting of their profits and expenditures, 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 public catering activity.

In addition, taxpayers performing in the public catering sector shall ensure compliance with the duties regarding 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 and outgoing goods in public catering sector**

- The goods purchased by taxpayers performing in public catering sector from the taxpayers registered for the public catering purposes, as well as from the manufacturers, wholesalers, retail sellers shall be documented in the following manner:

1. where public catering 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" ;

2. where public catering taxpayers purchase goods (services, works) 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 goods are purchased from persons not registered with the tax authorities a "Purchase of goods act" shall be prepared. It is mandatory to indicate the details of the seller's identity (PIN, serial number) in the "Purchase of goods act". Transfer of such goods to the warehouse shall be documented by an "Act of 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 an invoice or electronic invoice or electronic tax invoice or the "Purchase of goods act", 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 of acceptance of goods".
- The income of imported goods into the warehouse shall be documented by a document evidencing the purchase price of goods and an "Act of acceptance of goods". During the transfer, the customs declaration, the invoice and the contract shall be

guiding for the imported goods. 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 public catering 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 through an "Invoice for the internal movement of goods".
- In case if the warehouses or commercial entities (objects) owned by a public catering taxpayer are located outside of the commercial entity doing retail trade and if goods are carried by transportation vehicles, such vehicle shall be provided with "Cargo vehicle waybill".
- If a public catering taxpayer provides goods to the organizers of the events in connection with such events based on an agreement, which allows the organizers to return the unused part of the goods, and where such unused goods are subsequently returned in accordance with the agreement, the taxpayer shall enter them into the books of the

warehouse or storage of another commercial entity (facility).

- If a public catering taxpayer purchases the goods in accordance with purchase orders under the agreements concluded with the taxpayers, documentation of such goods are performed through adjustment of relevant provisions in connection with these Guidelines.
- 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.

#### **Documentation procedures of sale of goods or their use in manufacturing operations performing in public catering sector**

- Goods from the warehouse of a public catering taxpayer are accepted for the preparation of prepared product (meal) based on order of the accountable person (chef). Such orders are prepared based on receipts signed by the responsible person (chef) and approved by the head of enterprise (or its authorized representative). In case there are no such receipts, the request of the accountable person (chef) for the release of goods from the warehouse shall serve as the basis. In this case, in accordance with the order and the accountable person's (chef's) request, the person accountable for the warehouse shall prepare an "Invoice on the issue of goods from the warehouse to the kitchen". The goods provided to the kitchen are transferred to material responsibility of the ordering person (chef).
- If the received goods are not totally used for the preparation of ready product (meal)

and it is necessary to return goods, such goods are returned to the warehouse. This operation is documented through "The act of return of goods from the kitchen to the warehouse".

- Provision (sale) of goods at public catering entities (facilities) is carried out through (sale) cash machines and POS terminals. Where the services are paid in cash, the buyer (consumer) is provided with cash register receipt, and where the services are paid through a POS terminal, the buyer (consumer) is provided with receipt from POS terminal in addition to cash register receipt.
- In order to document the costs borne by legal persons and individual entrepreneurs, invoice and electronic invoice or electronic tax invoice shall be provided, upon their request, in addition to cash register receipt and receipt from POS terminal.
- Public catering establishments providing draught alcohol shall do so using appropriate trade equipment, measuring devices or containers. Sale of non-draught alcoholic beverages or sale of alcoholic beverages without opening the package is prohibited at such facilities.
- If the sale of goods is based on orders received through commercial representatives from various taxpayers (catering services), delivery of goods to the customers is documented by invoice, electronic invoice or electronic tax invoice.
- 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 in public catering are documented by an "Act of lost, missing, damaged, spoiled or stolen goods". Such act



shall be 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.
- Writing off goods based on the result of sales in public catering is carried out by an "Act on writing off goods (products) based on the result of sale" prepared in accordance with the receipts approved by the accountable person (chef).
- In the absence of an approved receipt, attributing such goods to costs is carried out based on writing them off in accordance with the result of the sale of goods. In this case, the quantity of goods at the beginning of the reporting month is calculated through deduction of the remainder of goods at the end of the reporting month from the incoming goods received in accordance with this Guideline. Difference between them is attributed to the goods sold and is documented through the "Act on writing off goods (products) based on the result of sale" drawn by the accountable person (chef). The value of the written-off goods, is determined by their average original cost in accordance with Article 139.4 of the Tax Code of the Republic of Azerbaijan, where no personal accounting is being applied.

### **Determining income and costs of a taxpayer performing in public catering sector**

- Turnover arising from the provision of the ready goods produced by the public catering taxpayer 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.
- Costs incurred by a public catering taxpayer in connection with sale of ready products, including the cost of goods written off during the preparation of ready product, 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 shall, for taxation purposes, be determined in accordance with Articles 133 and 136 of the Tax Code of the Republic of Azerbaijan.

### **Determining the remainder of goods at the warehouse owned by a taxpayer performing in public catering sector**

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 Ministry of Finance of the Republic of Azerbaijan.





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