Information letter
of accounting and taxation of purchased defect production from customer

According to the article 469 of Civil code suppliers should supply goods proper quality.

If this point is infringed and under sale contract supplier supply goods low quality, customer has right to return to supplier received goods. Transfer of ownership right is not happened in this case.

Let's consider accounting ways of purchased defected goods.

For example, in the result of purchasing of goods defected goods were found in the amount of 118 RUR. Customer applicable a claim to supplier and defected goods were returned.

1)Reimbursement of defected goods by supplier to customer is recorded by following transactions:

Name of transaction	Dr	Cr	Amount
Defected goods is located for safe custody	002		118
Complaint submitted to supplier	76-2	60	118
Defected goods are returned to supplier		002	118

Defected goods are recorded off balance sheet account 002. Customer submit a claim to supplier (Dr 76-2 Cr 60). After defected goods returned, it's cost is written off from account 002.

2) If good was defected on customer's store , written off defected goods is recorded by following transactions:

Name of transaction	Dr	Cr	Amount
Defect of goods is occasioned in the result of stores keeper. Writing off goods	91	41	100
Restored VAT of written off defected goods	19	68-VAT	18

Value of writing off defected goods can not be accepted for CIT purposes. As defected goods can not be sell, that's why VAT is not object of taxation and VAT, that was accepted before, has to be reclaimed.

Defected goods should be utilized. As defected goods are not used in activity, related to receiving income, utilization expenses do not use for corporate income tax purposes.

3) Sale of goods with partly loss of outside view.

For example, good was purchased for 118 RUR, including VAT 18%-18 RUR. During stocktaking goods, that have lost their outside view were found. Company decided to sell these goods at the price 59 RUR, including VAT 18% 9 RUR.

In accounting following transactions will be recorded:

Name of transaction	Dr	Cr	Amount
Purchasing of goods	41	60	100
VAT from received goods is recorded	19	60	18
VAT from purchased goods is accepted	68	19	18
Sale of goods, that have lost it's outside view	62	90	59
Writing off COGS	90-2	41	100
VAT, accrued from sold goods	90-3	68	9
Closing account 90	90-9	90-1	50
Lost from sales is recorded	99	90-9	50

4) Writing off purchased goods in the result of expire term of using:

according to pp. 49 p.1 art. 264 of Tax Code company is able to accept cost of value with expire term of using and utilization expenses for corporate income tax in other expenses. To accept these expenses company need to carry out an examination.

As firstly company purchase goods with term of using to receive income. Moreover sale of goods with expire date is prohibited (p.5 art. 5 Law №2300-1). So, taking off turnover goods with expire term of using is essential for company and utilization expenses are sufficient.

For example, company has found goods with expire term of using in amount 118 RUR, including VAT 18% and sent it for examination. Company paid for examination 20 RUR (including VAT 18% - 3 RUR). According to the results of examination company is able to utilize goods. Utilization value is 30 RUR (including VAT 18% - 6 RUR).

In accounting following transactions will be recorded for writing off expenses of goods with expire term of using:

Name of transaction	**Dr**	**Cr**	**Amount**
Goods with expire term of using are negotiated	41- Goods with expire term of using	41- Goods in storage	100
Goods, transferred for examination	91	41	100
Examination expenses are recorded	91	76	17
VAT from examination services	19	76	3
Examination expenses are recorded	91	76	24
VAT from utilization	19	76	6
Reimbursement VAT from writing off goods with expire term of using	19	68-VAT	18