

II - Accounting for inventory advances

Advances refer to payments or monetary amounts made before the completion of a commercial transaction (purchase or sale), and they include the following:

- **Purchase advances:** these are amounts paid by the company to the supplier in advance before receiving the goods, either to confirm the order or to secure the agreed quantities.
- **Sales advances:** these are amounts received by the company from customers in advance before delivering the goods or providing the service, in order to confirm the order or ensure the execution of the sales transaction.

II-1 Accounting recognition from the buyer's perspective:

When the advance payment is made to the supplier, account 409 «Advances to suppliers » is debited against the cash/payment account credited according to the payment method used. Initially, these amounts are not considered inventory because ownership of the goods has not yet been transferred to the company. Therefore, they are recorded as an asset under the item “Advances to suppliers.”

When the invoice is received and the goods are actually delivered, the advance is reversed and offset, becoming a means of settling part of the amount payable. The following accounting entry is recorded:

409	5xx	Advances to suppliers	xxx	xxx
38x 4456	401/5xx 409	Advances to suppliers .Purchase Invoice No...	xxx xxx	xxx xxx

3x		//	xxx	
	38x	... Goods Receipt Note		xxx

II-2 Accounting recognition from the seller’s perspective:

When the advance payment is received from the customer, account 419 is credited against the cash/collection account debited according to the method of receipt. Initially, these amounts are not considered revenue because the sales transaction has not yet been completed and ownership has not been transferred. Therefore, they are recorded as a liability under the item “Advances from customers.”

When the sales invoice is issued and the goods are delivered, the advance account is reversed and offset. The following accounting entry is recorded:

5x			xxx	
	419	Advances from customers		xxx
5xx/411			xxx	
419		Advances from customers	xxx	
	70x			xxx
	4457	Sales Invoice No...		xxx
		//	xxx	
600/724				xxx
	30/35x	Dispatch Note No...		