

Accounting

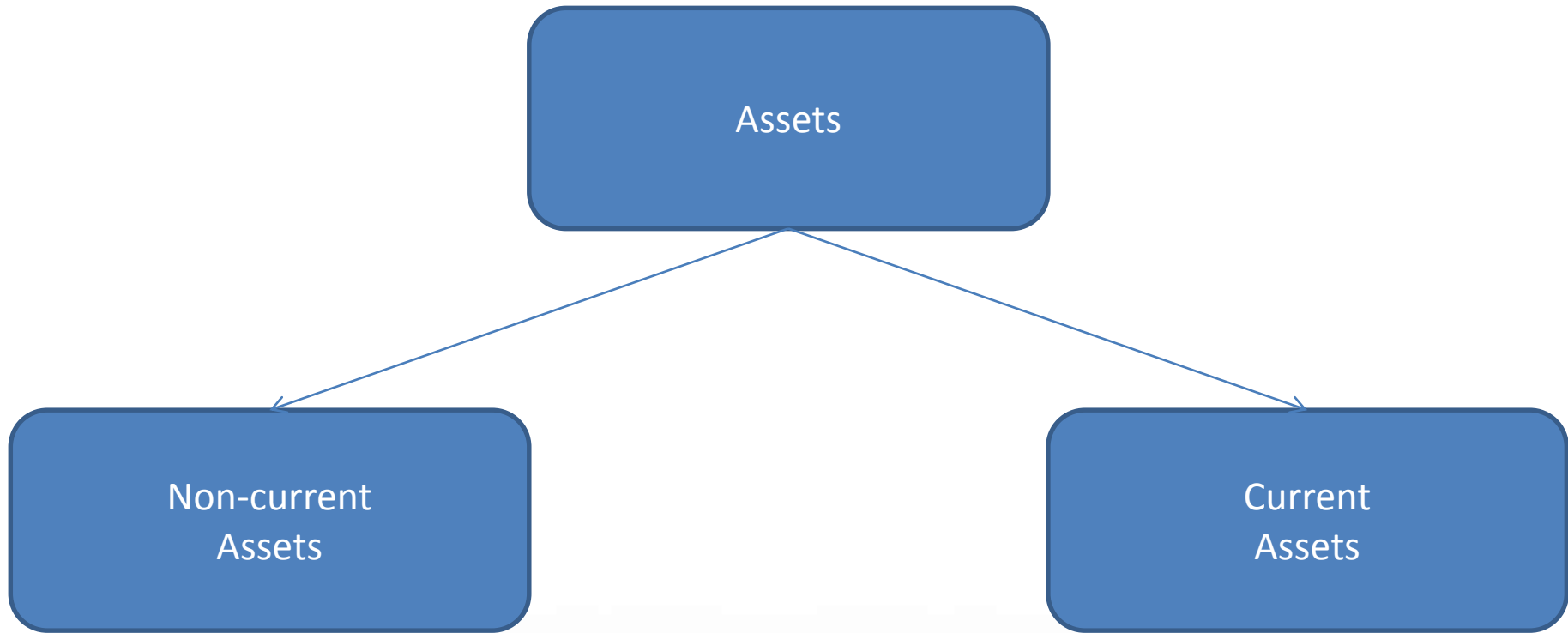
The purpose of accounting

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Assets

- Assets are the accounting representation of the enterprise's resources;
- Assets are those resources which can be used by the enterprise to generate economic effects, by:
 - increasing the value of owned resources,
 - using the production ability

Types of assets



Equity

- the source of financing of the economic activity of an enterprise,
- the owners' interest in the business,
- is equivalent with the net assets of an entity

Liability

- a current obligation of an enterprise arising from past events,
- an obligation that legally binds an enterprise to settle a debt,
- „A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits” - IASB

The accounting equation

Current Assets

+

Non-current
Assets

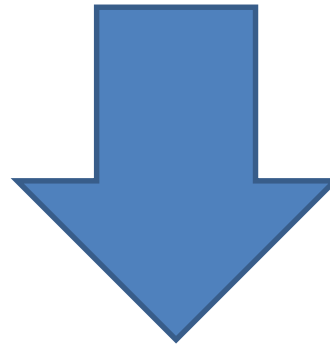
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Equity

+

Liabilities

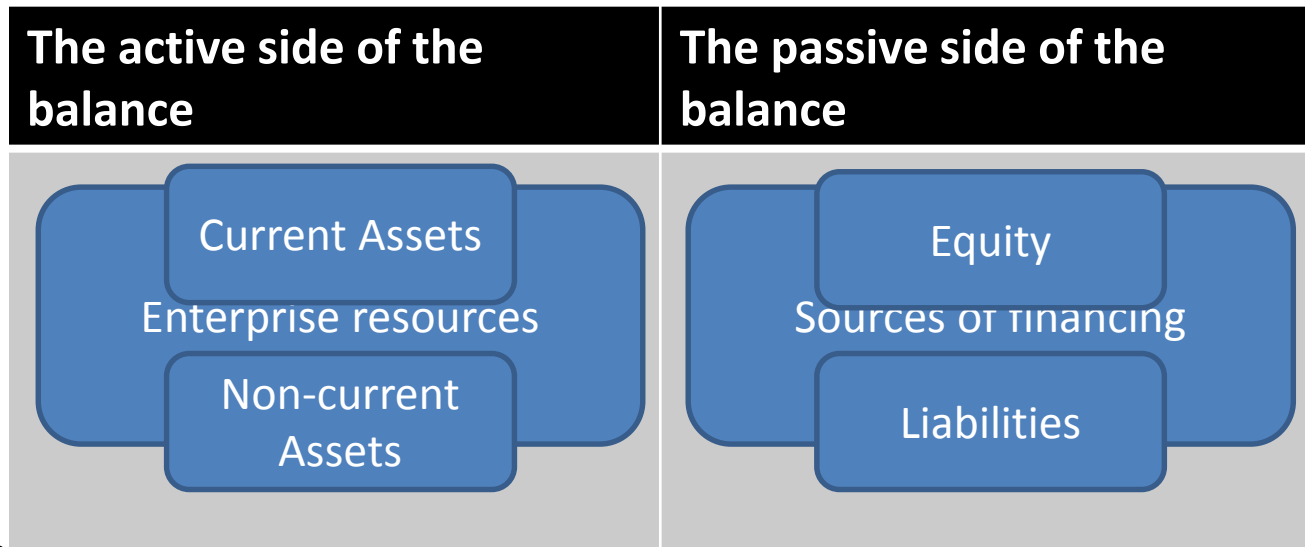
The accounting equation



Balance sheet

Balance sheet

- One of four basic financial statements



- **Both sides have to be equal!**

Task

- First three students will be awarded bonus points!
- Prepare a simplified balance sheet picking out the important information from the list below:

| Account | Value (PLN) | Account | Value (PLN) |
|-------------------------|-------------|-----------------|-------------|
| Paid-in capital | 265000 | Banking account | 28000 |
| Net cash flows | 4500 | Income Tax | 22000 |
| Grinding machine | 60000 | Bank credit | 50000 |
| Warehouse | 120000 | Accrued payroll | 5000 |
| Repayment of borrowings | 55000 | Motor vehicle | 40000 |
| Revenue | 25000 | | |
| Stock capital | 100000 | | |
| Financial costs | 45000 | | |
| Royalties | 6000 | | |
| Chainsaw | 45000 | | |
| Timber | 30000 | | |
| Spare parts | 10000 | | |
| Sale of assets | 20000 | | |
| Land | 50000 | | |
| Accounts receivable | 35000 | | |
| Cash | 2000 | | |

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Economic events

An economic event (from an accounting point of view) is
a change
of the value of enterprise assets
or
their source.

Economic operations

Those economic events
which are priced
and
recorded.

- simple operations – connected with one event,
- complex operations – connected with multiple events.

Operations – type and extent

- balance operations,
- profit/loss operations.

Operations accounting - balance

Regardless of the operation, the balance equilibrium has to remain intact ($A = P$)

Four types of operations:

- active/active,
- passive/passive,
- +active/+passive,
- -active/-passive.

A/A operation

- changes occur on the active side of the balance sheet,
- the balance sum remains the same,
- one element of the assets increases its value,
- another one decreases its value by the same amount,
- e.g. buying raw materials for cash

P/P operation

- changes occur on the passive side of the balance sheet,
- the balance sum remains the same,
- one element of the equity or liabilities increases its value,
- another one decreases its value by the same amount,
- e.g. allocating earnings from the previous year as a stock capital.

+A/+P operation

- changes occur on both sides of the balance sheet,
- the balance sum increases,
- one element of the assets increases its value,
- one element of the equity/liabilities increases its value,
- e.g. buying raw materials on credit

-A/-P operation

- changes occur on both sides of the balance sheet,
- the balance sum decreases,
- one element of the assets decreases its value,
- one element of the equity/liabilities decreases its value,
- e.g. paying off a bank loan using the bank account

Example

An enterprise owns certain assets and finances them in the following way:

| | |
|-----------------------------|------|
| property, plant & equipment | 4000 |
| raw materials | 1000 |
| finished goods | 1200 |
| cash | 2100 |
| accounts payable | 2000 |
| accounts receivable | 400 |
| stock capital | 4200 |
| bank credit | 2000 |
| accrued payroll | 500 |

The balance sheet

| Active side | | | | Passive side | | | |
|---------------------|-------------|--------|----|------------------|-------------|--------|----|
| Account | OB | Change | CB | Account | OB | Change | CB |
| PP&E | 4000 | | | Stock capital | 4200 | | |
| Raw materials | 1000 | | | Bank credit | 2000 | | |
| Finished goods | 1200 | | | Accounts payable | 2000 | | |
| Accounts receivable | 400 | | | Accrued payroll | 500 | | |
| Cash | 2100 | | | | | | |
| SUM | 8700 | | | SUM | 8700 | | |

Task

- Determine the type of the following operations, value its impact on the balance sheet, calculate the changes and draw up the closing balance

Operations

1. taking up a bank credit of 800 PLN and paying the accounts payable with it.
2. buying a machine with adjourned payment for 1000 PLN
3. paying an overdue salary to a worker with cash (300 PLN)
4. receiving a payment for a sold product (200 PLN)
5. receiving ordered raw materials worth 400 PLN with adjourned payment
6. updating the value of owned machines by 800 PLN
7. paying a liability connected with a worker's business trip (50 PLN)
8. bank transfer to a supplier connected with the payment for materials (500 PLN)

Account

- An account is the basic instrument used in recording economic operations,
- An accounting system consists of various accounts (account plan or general ledger) which are used to register the changes of value of enterprise assets, liabilities and equity.

Account

- Consists of
- numerical symbol which makes it easy to identify it
- And
- The name which reflects the events registered.

Forms

- T-account – simplified version,
- Table form

T-account

| Dt (Debit) | Number, Account name | Ct (Credit) |
|------------|----------------------|-------------|
| 300 (OB) | | |
| 400 (1) | | |
| | | 300 (2) |

Table form

| Dt | | | | 310, Raw materials | | | | Ct |
|-----------|-----------------------------|-----------------------|-------|---------------------------|-----------------------------|-------------------------------------|-------|-----------|
| Date | Name and number of document | Contents | Value | Date | Name and number of document | Contents | Value | |
| 01.01.14 | | Balance | 9000 | | | | | |
| 05.01.14 | External Inflow „6” | Purchase of materials | 6000 | | | | | |
| | | | | 10.01.14 | Internal outflow „11” | Giving out material into production | 8000 | |

Account operations

- Opening balance (usually from the balance sheet),
- Particular operations on both sides,
- Closing balance.

Account rules

- Each operation has to be recorded on the basis of accounting evidence,
- The rule of double-entry bookkeeping applies – each operation has to be recorded:
 - On two different accounts,
 - On the opposing sides of those accounts,
 - In the same amount, equal to the value of the operation.

Buying raw materials on credit

| Dt | Accounts payable | Ct |
|----|------------------|----|
| | 1000 | |

| Dt | Raw materials | Ct |
|----|---------------|----|
| | 1000 | |

Buying raw materials and goods for resale on credit from the same supplier

| Dt | Accounts payable | Ct |
|----|------------------|------|
| | | 1000 |

| Dt | Goods for resale | Ct | Dt | Raw materials | Ct |
|----|------------------|----|----|---------------|----|
| | 300 | | | 700 | |

Turnover and balance

- The turnover is the sum of all records on one side of the account:
 - Debit turnover,
 - Credit turnover;
- The closing balance is the difference between all the records on one side and all the records on the other side of the account:
 - Debit closing balance,
 - Credit closing balance.

An example (without the corresponding accounts)

| Dt | Banking account | | Ct |
|---------------------|-----------------------|--|-------------------|
| Debit turnover | 300 (OB) ← 400 (2) | 250 (1) 100 (3) 50 (4) | } Credit turnover |
| OB + Debit turnover | | Credit turnover Closing balance (Debit) | |
| | | 300 | |

Account types

- Balance accounts:
 - Active,
 - Passive,
 - Active-Passive,
- Profit and loss accounts,
- Corrective accounts,
- Outside accounts,
- Settlement accounts.

Balance accounts – active accounts

- If there is an opening balance, it is a debit one,
- Increase of the value of an asset recorded on the debit side,
- Decrease of the value of an asset recorded on the credit side,
- If there is a closing balance, it is a debit one.

Balance accounts – passive accounts

- If there is an opening balance, it is a credit one,
- Increase of the value of liability or equity recorded on the credit side,
- Decrease of the value of liability or equity recorded on the debit side,
- If there is a closing balance, it is a credit one.

Profit and loss accounts

- Non-balance accounts,
- Used to record operations which generate revenues or costs,
- Costs are recorded on the debit side,
- Revenues are recorded on the credit side,
- No opening balance,
- The turnover is transferred to the financial result account.