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*Changes in corporate
resources*



CHANGES IN CORPORATE RESOURCES

- How can we process the changes??
- We record ALL these changes in **accounts**.
 - We set up accounts for all A, Eq, L, I & E
 - These accounts always **reflect the resource and the changes in the resource they were built on**
 - Example: Petty cash (or cash in hand) account
 - As the **functioning (behavior) of the accounts** is concerned, we may have:
 - Active or asset accounts
 - Passive or liability accounts, and
 - Bifunctional accounts

FUNCTIONING RULE OF ACCOUNTS

D	<i>Active accounts</i>	C	D	<i>Passive accounts</i>	C
Opening balance					Opening balance
Increases in the resource	Decreases in the resource		Decreases in the resource	Increases in the resource	
	Closing balance		Closing balance		



There should be a separate account in the general ledger for each type of asset, liability, equity, revenue, gain, expense and loss

- Example

- Assets:

- Cash
 - Accounts receivable
 - Inventory
 - Prepaid expenses
 - Land
 - Building
 - Equipment
 - Furniture
 - Goodwill

- Liabilities
 - Demand loan payable
 - Accounts payable
 - Salaries payable
 - Interest payable
 - Income tax payable
 - Unearned revenue / Deposits from customers
 - Current portion of long term debt
 - Loans payable
 - Bonds payable
 - Deferred Tax Credits / Future Tax Payable

- Revenues
 - Sales revenue
 - Service revenue
 - Interest revenue
- Gains (Losses)
 - Gain (Loss) on sale of fixed assets
 - Gain (Loss) on sale of investments
 - Gain (Loss) on repurchase of bonds

- Expenses
 - Cost of goods sold
 - Salaries expense
 - Rent expense
 - Repairs and maintenance
 - Office Supplies expense
 - Utilities expense
 - Interest expense
 - Income tax expense

DOUBLE-ENTRY BOOKKEEPING

- Newton' Third Law of Motion

For every action there is an equal and opposite reaction

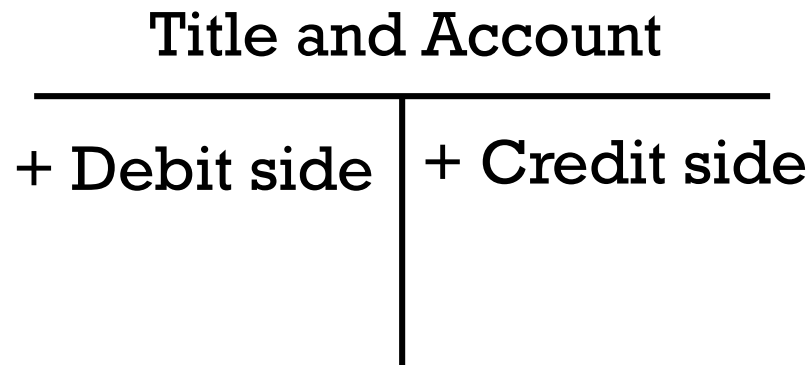
- Accounting rules

For every Debit there is an equal and opposite Credit recorded in the accounting records



DOUBLE-ENTRY BOOKKEEPING

- Double-entry bookkeeping is *the* accepted accounting mechanism for recording and classifying the monetary events of a business entity
- The T-account format:

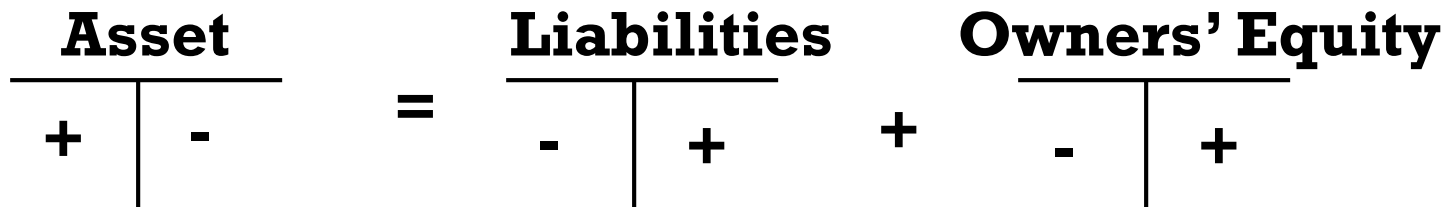


- For every monetary event there is at least one entry on the debit side of at least one account and the credit side of another account.



DOUBLE-ENTRY BOOKKEEPING

$$A = L + OE$$



Account Type
Assets
Liabilities
Owners' Equity

+ Debit Effect	+ Credit Effect
Increase	Decrease
Decrease	Increase
Decrease	Increase

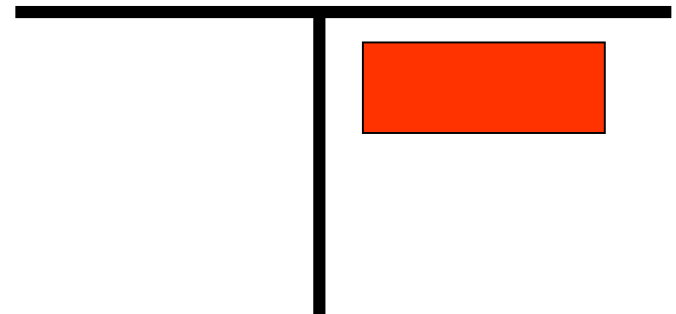
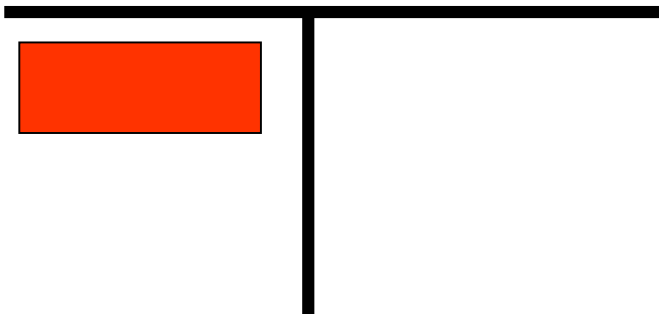


RELATION BETWEEN ACCOUNTS

General journal entries

- method of recording transactions in the accounting records
- two columns needed for amounts
 - left column for debit entries
 - right column for credit entries

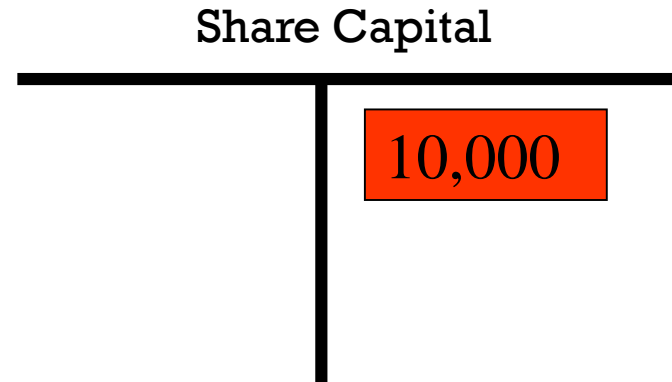
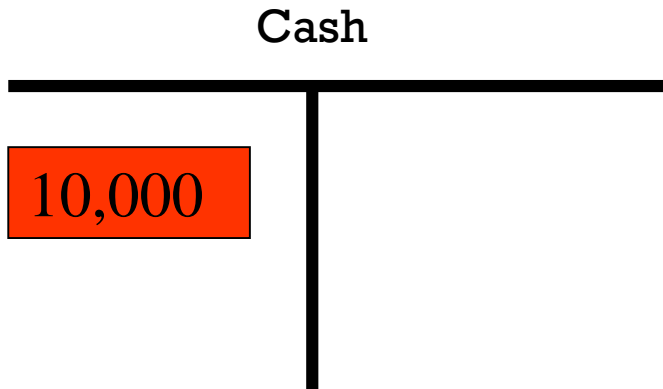
D (....) account – C (....) account



•Example

Heather contributes \$10,000 cash to her business, Heather's Shoes, Ltd. and receives 1,000 shares

	<u>Debit</u>	<u>Credit</u>
Cash	10,000	
Share Capital		10,000



DOUBLE ENTRY ACCOUNTING

Every entry into a double entry accounting system must balance

- If cash is received, the source must be recorded
- If cash is paid out, the use must be recorded
- If a sale is made on account, the receivable must be recorded
- If a purchase is made on account, the debt must be recorded

Transaction analysis

1. determine whether an **event** should be recorded in the accounting records at this time
2. if yes, determine **which accounts** are affected
3. determine whether each account affected is increased or decreased by this transaction
4. requires significant professional judgement in the real world

BOOKKEEPING

- We can keep the books in two ways:
 - Chronologically, as the events appear in time
 - We use the General journal for this purpose

Or

- Systematically, as the events affect resource items
 - We use the General ledger to reflect these operations.

STANDARD CHART OF ACCOUNTS

Section 1 of the accounts

Section 2 of the accounts

Section 3 of the accounts

Section 4 of the accounts

Section 5 of the accounts

Section 8 of the accounts

Section 9 of the accounts

Section 0 of the accounts

Accounts for Assets

Accounts for Equity and liabilities

Accounts for costs

Accounts for expenses

Accounts for incomes

Account for registry

Balance sheet Accounts

Acts like active accounts

Acts like active accounts

Acts like passive accounts



THE PURPOSE OF THE STANDARD CHART OF ACCOUNTS:

to facilitate the organization of the accounting of the economic entity by incorporating into a standard system the assets and liabilities of the economic entity and the effect of business operations on its profits and losses, and to provide the basic information necessary for the annual account to be prepared.

- **Section 1 of the accounts** includes the accounts used for the registration of intangible assets, tangible assets (including also assets not put into operation and assets in course of construction), and financial investments.
- **Section 2 of the accounts** includes purchased and self-manufactured stocks.
- **Section 3 of the accounts** includes current assets other than inventories (liquid assets, securities, trade debtors, debtors, employees and members, the central budget and other organizations), and deferred expenses and accrued income.
- **Section 4 of the accounts** contains the sources of assets. It includes own funds, reserves, long-term and short-term liabilities, and accrued expenses and deferred income.
- **Section 5 of the accounts** contains the expenses, itemized by costs, broken down per the following categories: raw materials, contracted services, other services, wages and salaries, other employee benefits, contributions on wages and salaries, and depreciation.
- **Section 8 of the accounts** contains material costs [including raw materials and consumables, contracted services, other services, the cost value of goods sold, and the value of services sold (intermediated)] staff costs (including wages and salaries, other employee benefits, contributions on wages and salaries), depreciation write-off and other expenses, expenses on financial transactions and the amount of tax payable for the profit and loss account prepared by the total cost method.
- Sales revenues, other income, income from financial transactions shall be shown under **section 9 of the accounts**.
- **Section 0 of the accounts** contains the records of accounts, items of which do not affect the balance sheet profit or loss figure of the financial year in question nor the amount of own funds on the balance sheet date.

SYSTEM OF ACCOUNTS

- the economic entity keeping double-entry books shall establish a system of accounts, according to which the keeping of books fully ensures the preparation of the annual account.

The system of accounts shall contain the following:

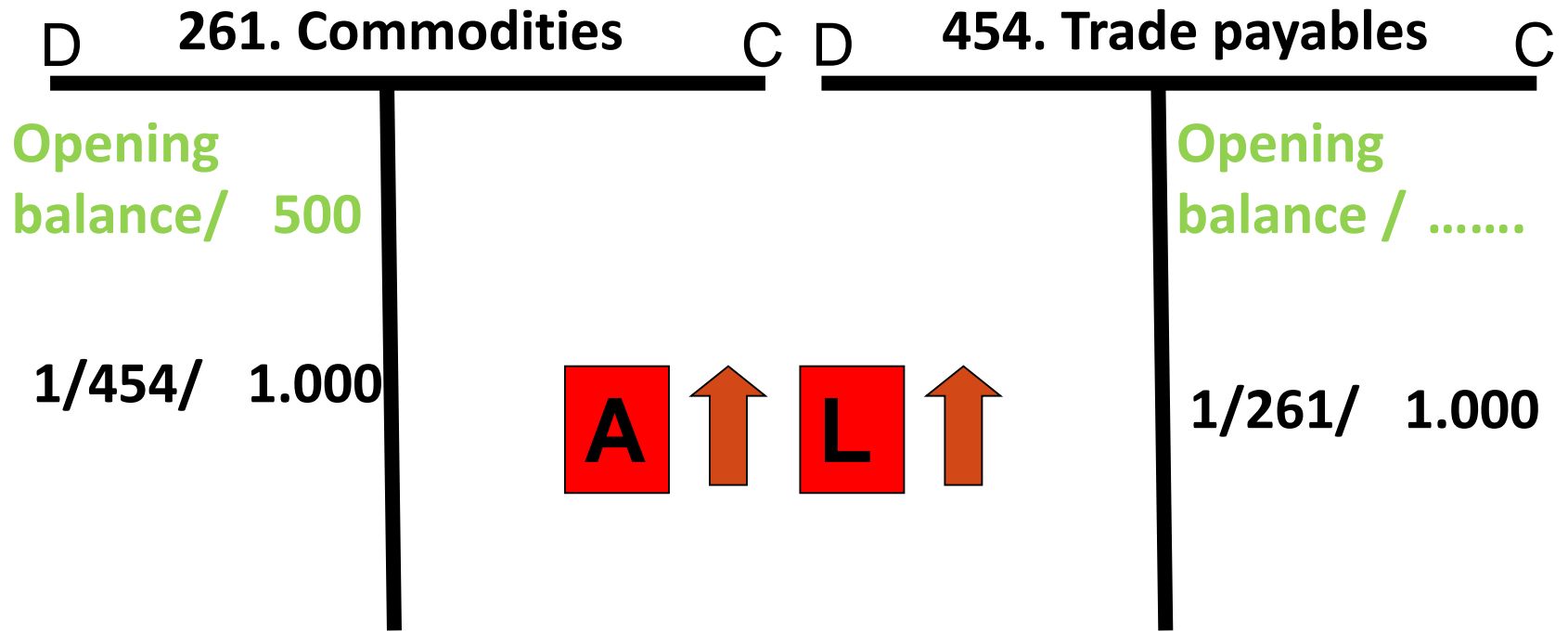
- a) number and description of all accounts designated for use,
- b) content of the account, should it not follow clearly from the description of the account, and the titles of any increase or decrease in the amount under the account, the economic events that affect the account and their relation with other accounts,
- c) connection between the general ledger account and the analytic registers,
- d) the system of documentation in support of the system of accounts.



EXAMPLES OF OPERATIONS

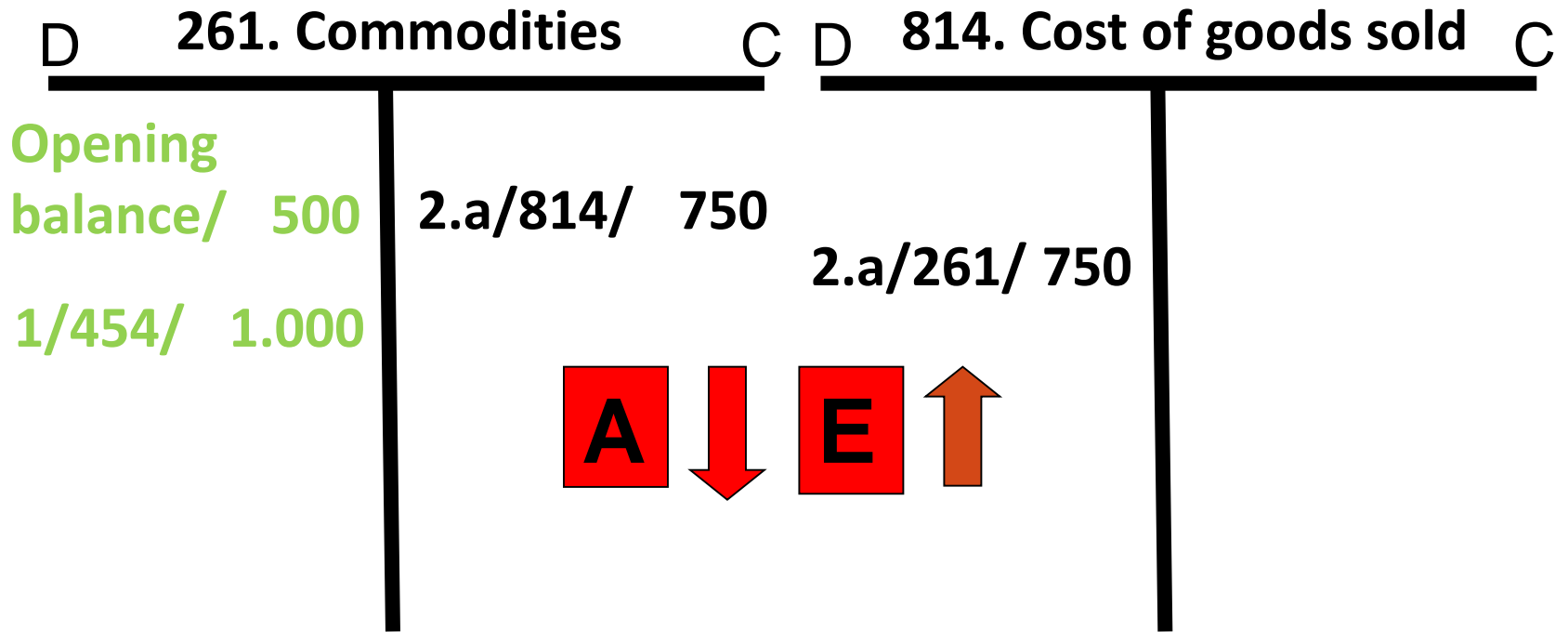
- We have an initial inventory of commodities of 500€, financed from equity.
 1. We purchase commodities on credit for 1.000€.
 2. We sell half of the inventory for 1.400€ on credit.
 3. We receive 1000€ in cash.
 4. We pay our supplier 800€ in cash.

1. WE PURCHASE COMMODITIES ON CREDIT FOR 1.000 €



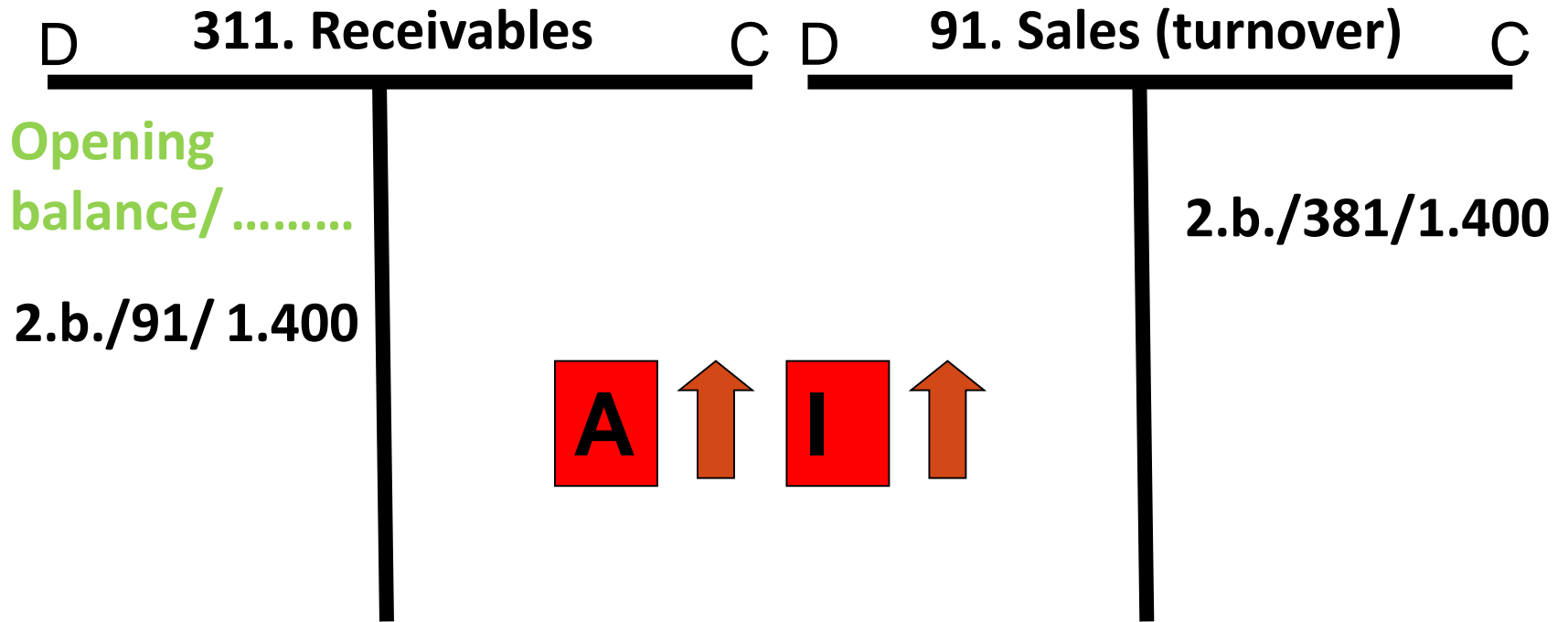
Number of event	Transaction	Debit account	Credit account	Sum
1.	purchasing commodities	261. Commodities	454. Trade payable	1.000

2. WE SELL HALF OF THE INVENTORY FOR 1.400 € ON CREDIT.



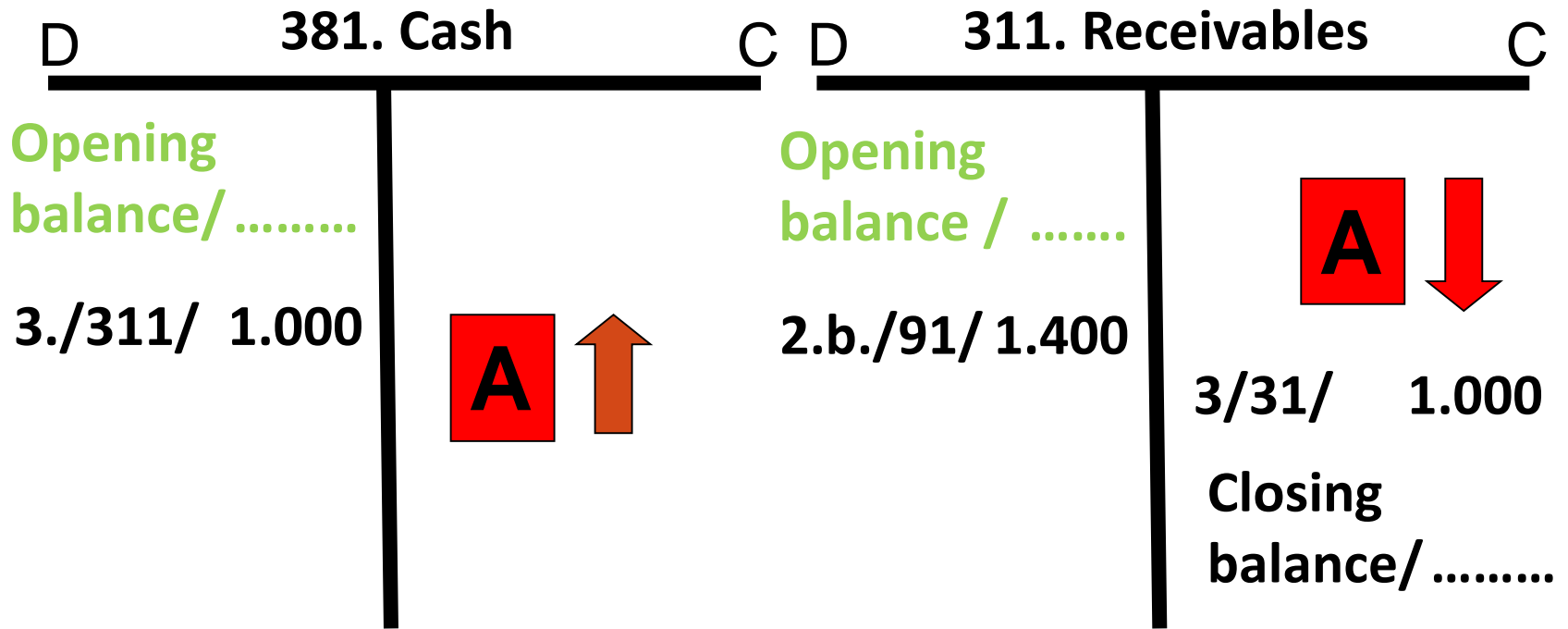
Number of event	Transaction	Debit account	Credit account	Sum
2. a	Selling commodities	814. Cost of goods sold	261. Commodities	750

2. WE SELL HALF OF THE INVENTORY FOR 1.400 € ON CREDIT.



Number of event	Transaction	Debit account	Credit account	Sum
2. b	Selling commodities	311. Receivables	91. Sales (turnover)	1.400

3. WE RECEIVE 1000€ IN CASH.



Number of event	Transaction	Debit account	Credit account	Sum
3.	Receiving cash	381. Cash	311. Receivables	1.000

4. WE PAY OUR SUPPLIER 800 € IN CASH.

D		381. Cash		C		D		454. Trade payables		C	
Opening balance/								Opening balance /			
3/311/ 1.000		4./454/ 800				L		1/261/ 1.000			
		A				↓					
		4./381/ 800									
Closing balance/						Closing balance/					

Number of event	Transaction	Debit account	Credit account	Sum
4.	Paying for supplier	454. Trade payables	381. Cash	800

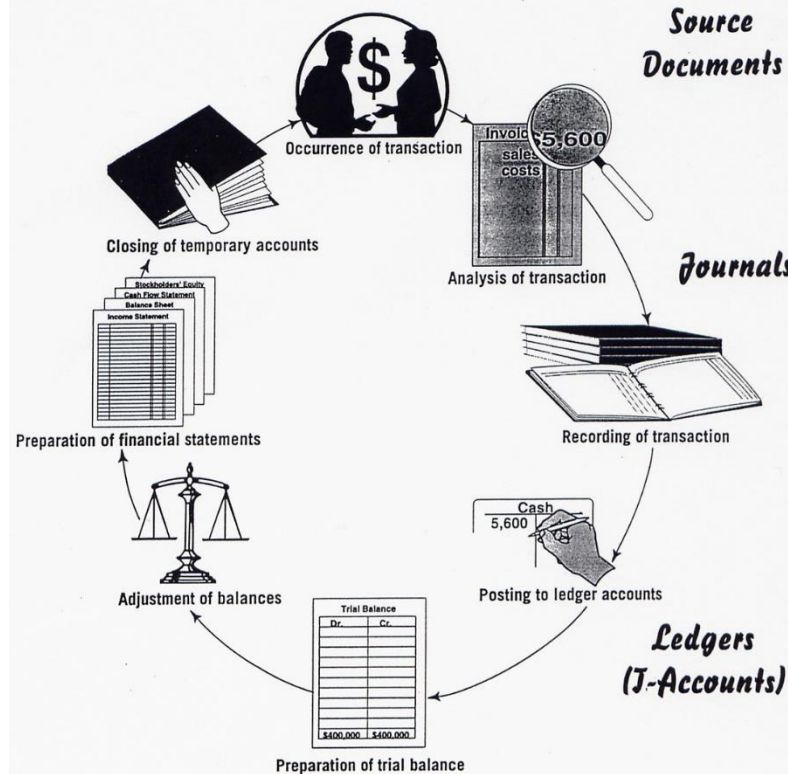
BALANCE SHEET

Assets			Owners' equity
A. Non-current assets			A. Owners' equity
I. Intangible assets			I. Share capital
II. Tangible assets			II. Share premiums
III. Financial assets			III. Reserves
B. Current assets			IV. Retained earnings (Net income)
I. Inventories			- 750 1.400
a. Commodities 500 €			
	1.000	- 750	
II. Receivables	1.400	-1000	
III. Securities			
IV. Cash	1000	- 800	
C. Prepayments			
			Liabilities
			B. Provisions
			C. Long term liabilities
			I. Long term bank loans
			II. Debentures
			D. Short term liabilities
			I. Trade payable
			1.000 - 800
			II. Salaries
			III. Taxes
			E. Accruals

INCOME STATEMENT

Expenses	Income
<p>A. Operating expenses</p> <ul style="list-style-type: none">I. Cost of raw materials and energy consumedII. Cost of goods sold 750III. Wages & social contributionsIV. Depreciation & impairmentV. Others (taxes, charges) <p>B. Financial expenses</p> <ul style="list-style-type: none">I. Interests paidII. Impairment of financial assets	<p>A. Operating income</p> <ul style="list-style-type: none">I. Sales (turnover) 1.400II. Change in internally generated inventoriesIII. Capitalized value of assets <p>B. Financial income</p> <ul style="list-style-type: none">I. Dividends receivedII. Income from sale of sharesIII. Interests received
<p>Net income (profit or loss for the financial year) 650</p>	

The Accounting Cycle



Closing Journal Entries

- journal entries prepared at the end of the fiscal year of the business
- the temporary equity accounts (revenues, expenses, gains and losses) are closed into Retained Earnings
 - they accumulate the transactions for the year only, and then their balances are closed to Retained Earnings to allow the next year's transactions to be accumulated
 - temporary account balances are reduced to zero
 - retained earnings increased by net income amount, or reduced by amount of loss
 - if dividends declared are recorded in a temporary account, it is closed to Retained Earnings, reducing the retained earnings balance
- ASSETS, LIABILITIES, SHARE CAPITAL and RETAINED EARNINGS (or OWNER'S CAPITAL) are referred to as permanent accounts because they carry forward on the Balance Sheet from one year to the next

Preparation of the financial statements

1. Income Statement prepared first
2. Statement of Retained Earnings prepared second
 - need net income from income statement
3. Balance Sheet prepared third
 - need retained earnings balance at end of period
4. Cash Flow Statement prepared last
 - uses information from other statements
5. Notes prepared parallel

**THANK YOU FOR YOUR
ATTENTION!**