

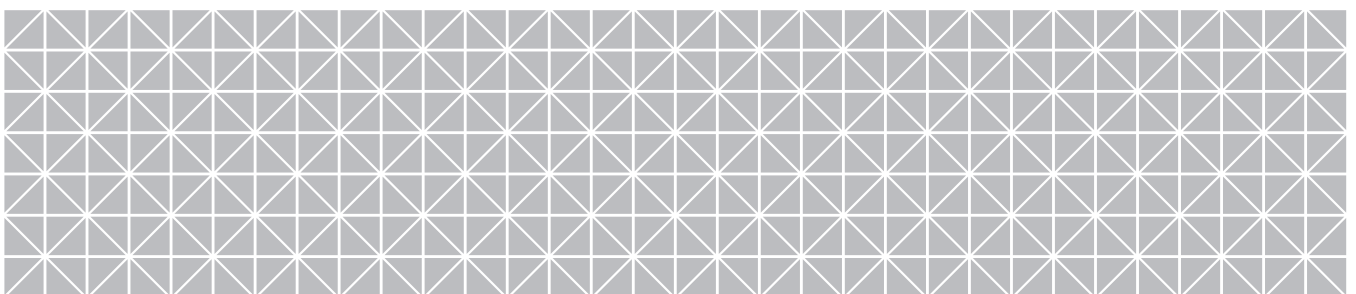


**FACULTY OF ECONOMICS
UNIVERSITY
OF WEST BOHEMIA**

FINANCIAL ACCOUNTING IN ENGLISH

Study support

Ing. Marie Černá, Ph.D.





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CONTENT

| | |
|--|----|
| INTRODUCTION..... | 10 |
| TOPIC 1: IMPORTANCE AND FUNCTIONS OF ACCOUNTING, ACCOUNTING FRAMEWORK | 11 |
| Importance of accounting..... | 12 |
| Methods of business activity registration..... | 12 |
| Subject and functions of accounting | 14 |
| Accounting - legislative framework..... | 16 |
| Classification of the accounting units | 18 |
| Control tasks..... | 19 |
| Literature | 21 |
| TOPIC 2: ACCOUNTING SYSTEM - ACCOUNTING RELATIONSHIPS, RELEVANCE OF ACCOUNTING..... | 22 |
| Accounting system | 22 |
| Accounting principles..... | 22 |
| Records of accounting transactions..... | 25 |
| Accounting documents..... | 25 |
| Accounting books..... | 28 |
| Accounting statements | 29 |
| Elements of accounting (accounting statements) - important definitions..... | 30 |
| Control tasks..... | 32 |
| Literature | 34 |
| TOPIC 3: ACCOUNTS, ACCOUNTING RECORDS, ACCOUNTING CONTROL SYSTEM | 35 |
| Account..... | 35 |
| Classification of accounts..... | 36 |
| Chart of accounts..... | 37 |
| Accounting schedule | 37 |
| Construction of the account..... | 38 |
| Double entry record and balance sheet equation..... | 40 |
| Double-entry accounting system..... | 41 |

| | |
|---|----|
| Control tasks..... | 43 |
| Literature | 46 |
| TOPIC 4: ASSETS..... | 47 |
| Assets..... | 47 |
| Fixed assets..... | 48 |
| Current assets | 49 |
| Balance sheet..... | 49 |
| Changes of balance sheet items..... | 52 |
| Control tasks..... | 53 |
| Literature | 56 |
| TOPIC 5: FIXED ASSETS (TANGIBLE, INTANGIBLE)..... | 57 |
| Fixed assets..... | 57 |
| Characteristics of fixed assets | 57 |
| Intangible fixed assets | 58 |
| Tangible fixed assets | 59 |
| Fixed assets evaluation..... | 59 |
| Fixed assets acquisition..... | 61 |
| Accumulated depreciation..... | 64 |
| Fixed assets depreciation..... | 64 |
| Accounting depreciation | 64 |
| Depreciation for tax purposes | 67 |
| Disposal of fixed assets | 68 |
| Control tasks..... | 72 |
| Literature | 76 |
| TOPIC 6: LONG-TERM FINANCIAL ASSETS | 77 |
| Long-term financial assets | 77 |
| Evaluation of long-term financial assets..... | 80 |
| Accounting on long-term financial assets..... | 80 |
| Control tasks..... | 82 |
| Literature | 84 |

| | |
|---|-----|
| TOPIC 7: INVENTORY | 85 |
| Inventory | 85 |
| Division of inventory according to the Czech accounting standards..... | 86 |
| Classification of inventory according to its acquisition..... | 87 |
| Evaluation of inventory | 88 |
| Evaluation of inventory decreases (consumption) | 88 |
| Inventory - inventory differences..... | 88 |
| Acquisition of inventory - accounting records..... | 89 |
| End of accounting period - specific accounting records related to inventory | 91 |
| Control tasks..... | 92 |
| Literature | 99 |
| TOPIC 8: SHORT-TERM FINANCIAL ASSETS, CASH AND SHORT-TERM LIABILITIES | 100 |
| Short-term financial assets and cash | 100 |
| Division of short-term financial assets and cash according to the Czech accounting standards | 101 |
| Short-term liabilities..... | 102 |
| Division of short-term liabilities according to the Czech accounting standards | 102 |
| Control tasks..... | 103 |
| Literature | 105 |
| TOPIC 9: ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE | 106 |
| Accounts receivable | 106 |
| Division of receivables according to the Czech accounting standards..... | 107 |
| Accounts payable | 108 |
| Division of payables according to the Czech accounting standards..... | 109 |
| Selected transactions reported under receivables or payables | 109 |
| Control tasks..... | 113 |
| Literature | 116 |
| TOPIC 10: EQUITY, LONG-TERM PAYABLES..... | 117 |
| Liabilities..... | 117 |

| | |
|---|------------|
| Capital accounts and long-term payables..... | 118 |
| Division of equity and long-term payables according to the Czech accounting standards..... | 119 |
| Distribution of profit | 120 |
| Control tasks..... | 121 |
| Literature | 123 |
| TOPIC 11: EXPENSES (COSTS), INCOME (REVENUES), ECONOMIC RESULTS (PROFIT/LOSS) | 124 |
| Expenses and income | 124 |
| Expenses..... | 124 |
| Income | 126 |
| Accounting on expenses (costs) and incomes (revenues) accounts..... | 127 |
| Material connection of costs and revenues | 129 |
| Accrual of expenses (costs) and revenues..... | 130 |
| Accounting for reserves (creation and settlement) | 131 |
| Accounting for adjustments (creation and settlement) | 132 |
| Control tasks..... | 133 |
| Literature | 135 |
| TOPIC 12: CLOSING OPERATIONS AND FINANCIAL STATEMENTS . | 136 |
| Preparatory work before the financial statements compilation..... | 136 |
| Closing operations..... | 136 |
| Financial statements and annual report | 137 |
| Annual report..... | 137 |
| Financial statements | 139 |
| Components of the financial statements | 140 |
| Scope of the financial statements | 140 |
| Statement of financial position (Balance sheet)..... | 141 |
| Statement of profit or loss and other comprehensive income for the period (Income statement)..... | 145 |
| Linking of individual parts of the financial statements..... | 148 |
| Control tasks..... | 149 |

Literature 151

INTRODUCTION

The objective of this study support is to make studies within the subject “Financial Accounting in English” for students of the Faculty of Economics of the UWB, especially ERASMUS students, more comfortable. The presented study support is not a comprehensive interpretation of the professional issues of the given subject. It represents study material focused on selected theoretical starting points and practical applications of issues relevant within the field of accounting and taxation in the Czech Republic. It is therefore necessary to supplement the obtained knowledge with other literary sources - especially with the sources listed at the end of each chapter. This study support can be used by students of various study programs or fields of study. The presented text is processed in accordance with the legislation valid on December 31, 2022.

All chapters included in this study support have the following structure:

- topic objective,
- key words,
- text on the problem being solved,
- control tasks,
- literature.

For easy orientation in the study support, the following symbols are used:

- Topic objective



Key words



Control tasks



Literature

Dear students, readers of this publication, I wish you pleasant and successful studies.

Plzeň, 2022

Marie Černá

TOPIC 1: IMPORTANCE AND FUNCTIONS OF ACCOUNTING, ACCOUNTING FRAMEWORK

After studying the topic, you should be able to:

- define the theoretical basis of accounting and the accounting system,
- characterize the functions and role of accounting,
- characterize selected elements of the accounting system.



Key words: accounting, accounting act, accounting framework, accounting system, functions of accounting.

Accounting as the scientific discipline may be described as a discipline providing economic information necessary for decision making related to present and future activities of the economic subjects. It is a system of interconnected elements (assets, liabilities, revenues, expenses, profit/loss).

Information about accounting was found in prehistoric times (Folta, 1997). In those days, accounting could be met in a form of primitive records on transactions relating to cattle breeding. As the tools enabling to record information about “debts” were used “notches” or “nodules” (Folta, 1997). After the invention of writing, the accounting could develop to greater detail, because of the possibility to use the unified tool to making accounting records. Other milestones were then invention of paper and historical printing technologies.

As the “father of accounting” is described Luca Pacioli, who lived in 15th century in Italy and wrote the book called “Summa de arithmetica, geometria, proportioni et proportionalita”. (Pacioli, 1523).

He was the man who developed and started to work with the accounting books:

- accounting journal - non-financial (memoriále),
- accounting journal - financial (giornále),
- ledger accounts (quaderno).

He also recommended to prepare annual accounting statements. Currently used

analytical evidence was, in his days, ensured by keeping record of each item in a special account.

Even if the way of keeping accounting records changes and accounting principles are improved or newly added, the basic principles set by Luca Pacioli are more or less used until today.

Importance of accounting

Accounting is defined by Štohl (2019) as “written recording of information about the economic phenomena of the accounting unit (in monetary units)”.

Economic transactions can also be recorded in other ways. It depends on the selected form of business activity. Forms of business activities defined by the Act No. 90/2012 Coll., Act on Business Corporations and Act No. 455/1991 Coll., Act on Entrepreneurship are summarized in the following chart (Chart no. 1).

Chart no. 1: Forms of business activities available in the Czech Republic

| Business of an individual <i>(business or other authorization)</i> | Individual (self-employed; sole trader) | | |
|--|--|------------------------------|--|
| Business corporation <i>(legal entity)</i> | Trading companies | Personal companies | Public trading company |
| | | | Limited partnership |
| | | Capital companies | Limited liability company |
| | | | Joint-stock company |
| | | | European company |
| | | | European Economic Interest Association |
| | Cooperatives | Cooperative | |
| | | European Cooperative Society | |

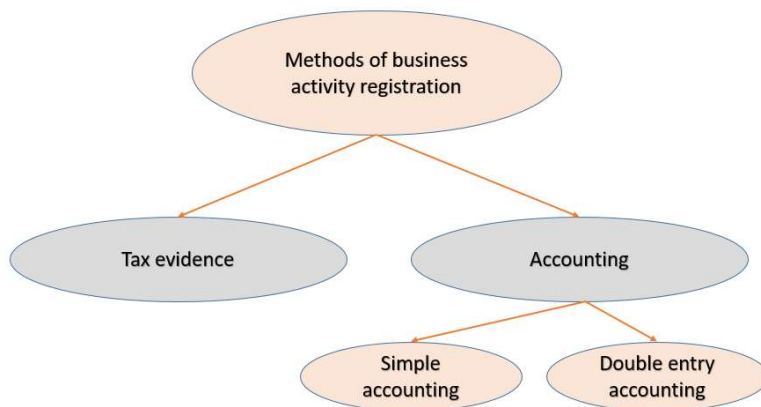
Source: own processing, 2022

With respect to this division of forms of business activities has to be selected also correct legislatively given method of business activity registration.

Methods of business activity registration

Because of the existence of wider range of legal forms of business, there exist also more methods that can be used for registration of transactions ensured within the business activity realization. These methods are shown in the next picture (Picture no. 1).

Picture no. 1: Methods of business activity registration



Source: own processing, 2022

Tax evidence

Tax evidence is regulated by the Income Tax Act. Paragraph 7b) of this legislative norm says that:

“(1) Tax records for income tax purposes mean records for the purposes of tax base and income tax determination. This record contains data on:

- a) income and expenses, in the division necessary to determine the tax base,
- b) property and debts.”

Tax records are kept by individual persons who register income from business and other self-employment (§7 - §10 of the Income tax act) and are not an accounting unit.

Accounting

Accounting represents recording of information about the economic transactions done by the accounting unit (in monetary expression). It is the system of linked elements.

Accounting provides static and dynamic information (assets, liabilities, income, expenses). Information provided by accounting is used in decision making.

Simple accounting

Simple accounting represents specific type of accounting that is regulated by the Accounting Act, paragraph 13b) and that can be used by accounting units specified in this legal norm.

Accounting act says to this type of accounting that: “(1) Accounting units in simple accounting keep these accounting books:

- a) cash journal,
- b) book of receivables and book of liabilities,
- c) auxiliary books on other items of property.”

The cash journal contains, with respect to the Accounting act, at least information about:

- “funds in cash and funds in accounts, especially in banks, savings and credit unions,
- income and expenses actually received or paid in the accounting period,
- interim items, which are considered to be movements of funds that are not final income or expenditure.”

Accounting units in simple accounting compile:

- overview of assets and liabilities,
- overview of income and expenses.

Double entry accounting

Double entry accounting represents accounting focusing on recording information about assets, liabilities, income, expenses and economic result of the accounting unit. This type of accounting and principles on which is this discipline based will be described in the following text.

The following text relates to conditions set for double entry accounting used by business entities.

Subject and functions of accounting

As was mentioned in relation to accounting generally, its objective is to record information on the state and movements of property and other assets, liabilities and other liabilities, costs and income and economic result (profit/loss).

Subject of accounting

When defining the subject of accounting, it is necessary to use the set legislative norm Accounting act (§ 2) defining subject of accounting using these words:

“(1) Accounting units that keep accounting in full or in a simplified form, account with double entries on the state and movement of assets and other assets, liabilities including debts and other liabilities, as well as on costs and revenues and on the economic result.

(2) The subject of simple accounting are expenses and income, assets and liabilities.”

Double entry accounting is characterized by these facts:

- accounting is kept per accounting unit,
- the accounting is kept for the accounting period,
- accounting is kept in monetary units (*according to the Czech regulations only in CZK*),
- accounting is kept in written form,
- accounting is kept for the purpose of providing information,
- ...

Accounting units have the duty to record accounting information correctly, to the given extent (in full), conclusively, understandably, clearly and using the methods ensuring stability of the accounting records.

Functions of accounting:

- a) Registration
- b) Information
- c) Documentation
- d) Control
- e) Tax
- f) ...

Ad a)

Accounting continuously records accounting transactions and archive these records.

Ad b)

Accounting provides information about the results of business activities of the business entity.

Ad c)

Accounting may be used as the proof during management of disputes.

Ad d)

Accounting enables to control the current state of property and management of the accounting unit. It is in fact kind of property management and its security.

Ad e)

Accounting serves as the information base for calculation of the tax base (income tax base).

Accounting system has to provide true and fair view of accounting reality and has to respect the tax legislative, because it is necessary for setting the income tax base.

Elements of accounting system:

- data (information) gathering,
- selection of relevant information,
- recording information,
- information analysis,
- information assessment,
- forecasting,
- provision of information to its users (reports and statements).

Users of financial accounting data:

Internal users

- Company owners
- Company managers
- Employees

External users

- State and other authorities
- Buyers (Customers)
- Suppliers
- Market and non-market surroundings of the enterprise (creditors, investors, public, competitors, ...)

Accounting - legislative framework

Czech accounting is regulated by the legislative standards mentioned below.

Act No. 563/1991 Coll., Accounting Act

(Significant changes since 1. 1. 2016, further changes expected in 2024.)

Decrees (The Chamber of Auditors of the Czech Republic, n.d.):

500/2002 Coll. - business entities

383/2009 Coll. - technical decree on accounting records

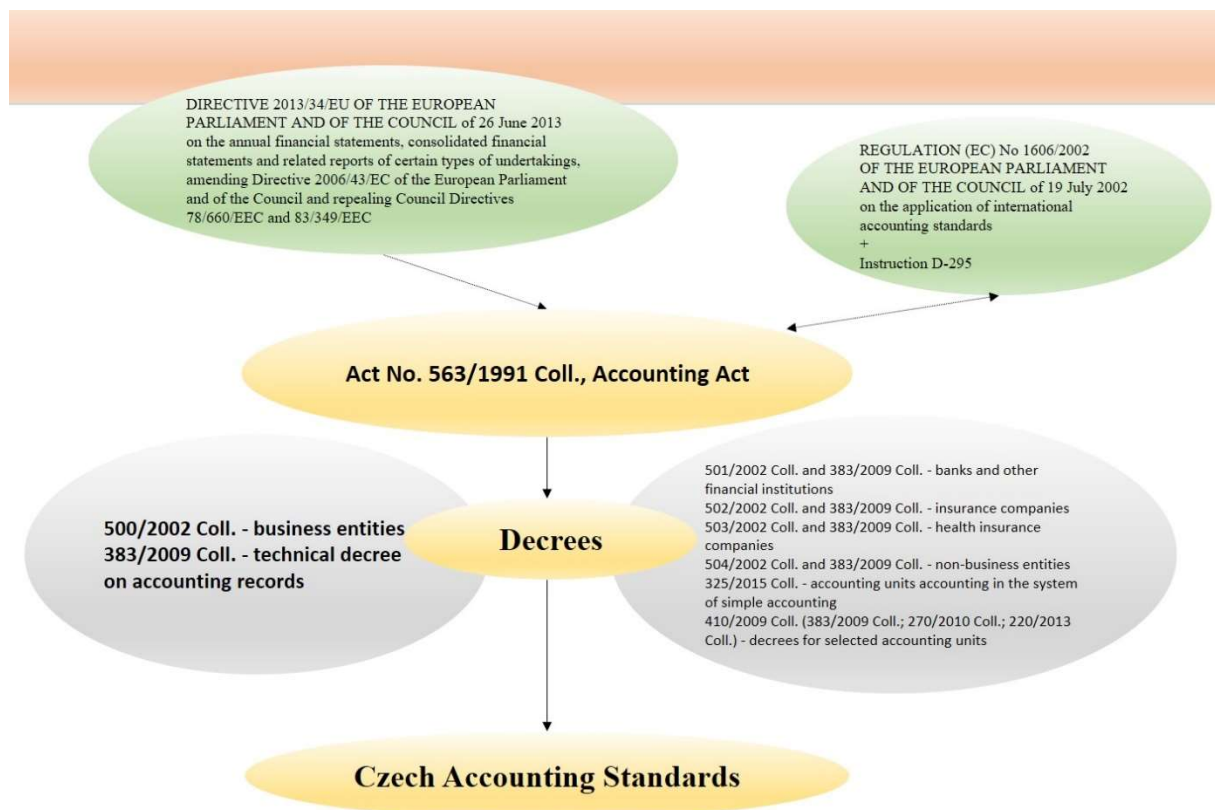
- 501/2002 Coll. and 383/2009 Coll. - banks and other financial institutions
- 502/2002 Coll. and 383/2009 Coll. - insurance companies
- 503/2002 Coll. and 383/2009 Coll. - health insurance companies
- 504/2002 Coll. and 383/2009 Coll. - non-business entities
- 325/2015 Coll. - accounting units accounting in the system of simple accounting
- 410/2009 Coll. (383/2009 Coll.; 270/2010 Coll.; 220/2013 Coll.) - decrees for selected accounting units

Czech Accounting Standards:

- for accounting units accounting in accordance with the decree 500/2002 Coll. (001 - 023)
-

This structure (legislative framework) is clearly presented in the following picture (Picture no. 2).

Picture no. 2: Broader view of the accounting legislative framework



Source: own processing, 2022

Classification of the accounting units

Accounting unit is defined comprehensively by the accounting act. Categories of accounting units and categories of groups of accounting units are described by §1b - §1c of the accounting act (Picture no. 3).

Accounting units are divided to these groups:

- Micro.
- Small.
- Medium sized.
- Large.

Criteria dividing accounting units to 4 set groups:

- Total assets netto.
- Annual net turnover.
- Average number of employees.

Picture no. 3: Classification of accounting units (Accounting act § 1b to § 1c)

| Limit values/ Categories of accounting units | Micro | Small | Medium sized | Large |
|--|--------------|-------------------------------|----------------------------------|-----------------|
| Total assets netto (in CZK) | ≤ 9,000,000 | > 9,000,000 ≤ 100,000,000 | > 100,000,000 ≤ 500,000,000 | > 500,000,000 |
| Annual net turnover (in CZK) | ≤ 18,000,000 | > 18,000,000 ≤ 200,000,000 | > 200,000,000 ≤ 1,000,000,000 | > 1,000,000,000 |
| Average number of employees | ≤ 10 | > 10 ≤ 50 | > 50 ≤ 250 | > 250 |

Source: own processing, 2022



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

1. What is “accounting”? Define this term.

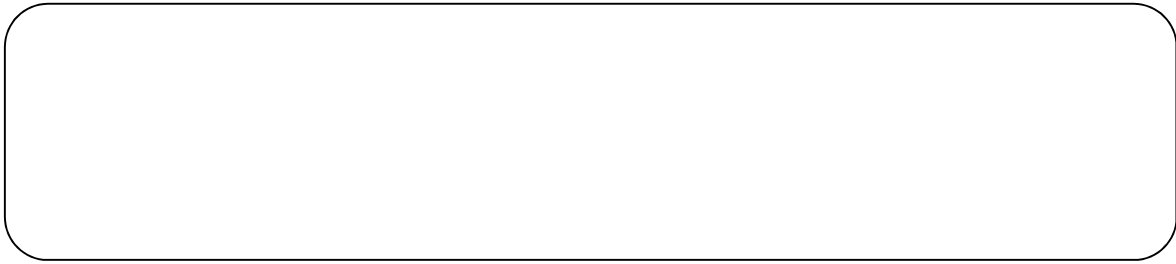
2. Who are the users of accounting information?

3. How do entrepreneurs and companies register their business activity?

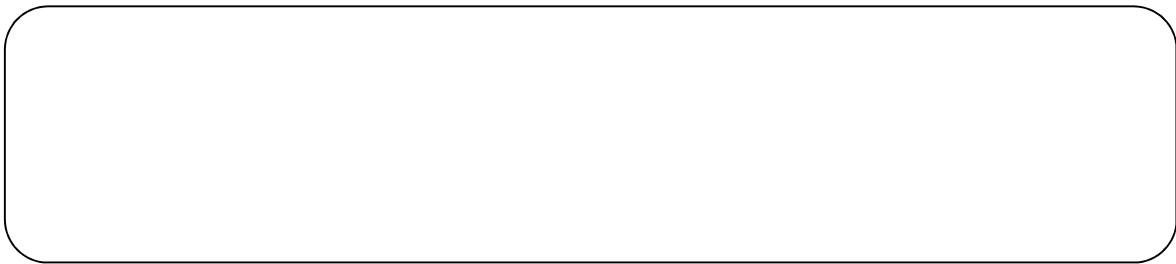
4. Is accounting realized by all entrepreneurs and all businesses entities?



5. How is the accounting unit defined by the accounting act?



6. What are the elements of accounting system?





Literature

Act No. 90/2012 Coll., Act on Business Corporations (CZ).

Act No. 455/1991 Coll., Act on Entrepreneurship (CZ).

Act No. 563/1991 Coll., Accounting Act (CZ).

Act by CNC No. 586/1992 Coll., Income Tax Act (CZ).

Czech accounting standards for accounting units that account in accordance with Decree No. 500/2002 Coll., as amended (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

Folta, J. (1997). Věstonická vrubovka. *Vesmír*, 76.

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Štohl, P. (2019). *Maturitní okruhy z účetnictví 2019. (Accounting graduation courses 2019)*.

Ing. Pavel Štohl s.r.o.

The Chamber of Auditors of the Czech Republic. (n.d.). Decrees. Retrieved November 9, 2022 from <https://www.kacr.cz/vyhlasiky>

TOPIC 2: ACCOUNTING SYSTEM - ACCOUNTING RELATIONSHIPS, RELEVANCE OF ACCOUNTING

After studying the topic, you should be able to:

- define and explain the accounting system and its principles,
- characterize accounting documents,
- characterize accounting books,
- characterize accounting statements.



Key words: account, accounting, accounting system, duality, relevance of accounting.

Accounting system

The accounting system has to give a true and fair view of reality and has to respect the tax legislation, because it provides the data that is needed for income tax base calculation.

Accounting units are required to keep correct, complete, evident, comprehensible, clear accounting in a manner guaranteeing the permanence of accounting records (Accounting act).

Accounting units specify also selected accounting period. Accounting period set by the accounting act is defined as 12 consecutive months. It can therefore be standard calendar year or business year which is defined as different 12 consecutive months starting on 1st of another selected month except January. There may be also exceptions, longer or shorter accounting period in specific situations as change of accounting period, conversion of the accounting unit, etc.

Accounting principles

Accounting operates with generally accepted accounting principles explained in relevant legislation (Accounting act).

Generally accepted accounting principles represent set of certain rules, basic principles of accounting thinking, which are complied with by all accounting units

when keeping accounts and compiling reports.

To these principles belong:

- Economic entity assumption.
- Going concern concept.

And further:

- The principle of true and fair view of the accounting and financial position of accounting unit.
- Conservatism (prudence concept).
- Correctness in applying applicable regulations and procedures.
- Balance sheet continuity principle.
- Accrual principle.
- Principle of consistent methods (consistency principle).
- The principle of content over form priority.
- Principle of prohibition of offsetting.

Economic entity assumption

Accounting works with definition of the economic unit for which is accounting ensured, assets and liabilities are observed, subject of accounting is recorded and accounting statements are compiled and submitted.

Going concern concept

An accounting unit is required to use accounting methods in a manner based on the assumption that the accounting unit will continue in its activities and that there are no limitations in the foreseeable future to do so.

The principle of true and fair view of the accounting and financial position of accounting unit

Accounting units are required to keep accounting records in a way enabling to ensure that the financial statements compiled on its basis provide true and fair picture of the subject of accounting and the financial situation of the accounting unit.

Conservatism (prudence concept)

The basis of this principle is to evaluate property with respect to possible risks. (Not overestimating assets and income, not underestimating liabilities and costs and thus not creating a fictitious profit.)

In accounting, this principle is ensured by creating:

- reserves,
- adjustments to assets,
- depreciation.

Correctness in applying applicable regulations and procedures

The accounting unit has to be able to assess correctly, for example: “fixed asset repair” vs. “technical evaluation of the property”.

Balance sheet continuity principle

The closing balances of the balance sheet accounts must equal the opening balances to balance sheet account balances in the next accounting period

Accrual principle

Costs and revenues have to be accounted for in the period, with which they are related in terms of time and material.

In order to comply with the accrual principle, accounting uses:

- estimated accrued accounts,
- reserves,
- accruals accounts.

Principle of consistent methods (consistency principle)

Methods of accounting for accounting cases, methods of valuation, methods of depreciation, the content of relevant items in statements, etc. have remain the same not only during the accounting period, but also between individual accounting periods in order to ensure comparability.

Any changes are possible only from the first day of the following accounting period, each change must be justified by effort on the improvement of the displayed reality and described in the attachment in the financial statements.

The principle of content over form priority

The most important aspect is the content of accounting information, the form is also essential, but it is of the secondary importance.

Principle of prohibition of offsetting

Accounting transactions have to be recorded to the correct sides of the accounts, whereby assets and liabilities or costs and revenues cannot be offset against each

other. There is no possibility to account only for their difference. (There is no possibility to record just the difference between interest paid (cost) and interest received (revenue)).

Records of accounting transactions

To be able to record and present information about the accounting transactions accounting uses:

- Accounting documents.
- Accounting books.
- Accounting statements.

Accounting documents

Each accounting transaction is recorded on the basis of the existence of an accounting document. It is an evidential tool that captures and verifies accounting transactions.

Form of accounting documents

- a) Written form. (*Handwriting, typewriter, printerreprographic technology - content is readable for the physical person.*)
- b) Technical form. (*Record made by electronic, optical or otherwise, enables conversion into a form which is readable for the physical person.*)

Division of accounting documents

Accounting documents can be divided by:

- Types.
- Number of documented accounting transactions (cases).
- Place of origin.

Division of accounting documents by their types:

Invoice received (IR/“FAP”).

Invoice issued (II/“FAV”).

Bank account statement (BAS/“BÚ”).

Income cash voucher/Income receipt (“PPD”).

Receipt of expenditure (“VPD”).

Internal accounting document (IAD/“VÚD”) ... (depreciation, accounting and payroll),

Receipt (proves receipt of stock in the warehouse).

Delivery note (documents the delivery of stock from the warehouse).

Division of accounting documents by the number of documented accounting transactions (cases):

Individual documents.

Summary documents.

Division of accounting documents by their places of origin:

External.

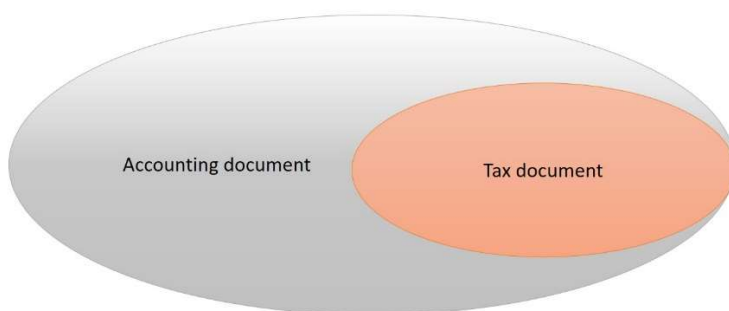
Internal.

Accounting document contains these requisities (Accounting Act §11):

- a) “identification of the accounting document,
- b) content of the accounting transaction, the participants,
- c) cash amount or information about price and quantity,
- d) date of the accounting document issue,
- e) date of the transaction,
- f) signatures of the responsible persons (person responsible for the accounting transaction, person responsible for accounting of this transaction),
- g) ... (*further specification by the Accounting Act*)”.

There is a difference between ***accounting document*** and ***tax document*** visible in the following picture (Picture no. 4).

Picture no. 4: Accounting versus tax document



Source: own processing, 2022

Tax document contains these requisities (Value Added Tax Act §29):

- a) “identification of the person who performs the performance,
- b) tax identification number of the person performing the performance,
- c) identification of the person for whom the performance is being carried out,
- d) tax identification number of the person for whom the performance is carried out,
- e) registration number of the tax document,
- f) scope and subject of the performance,
- g) date of issue of the tax document,
- h) the day of performance or the day of receipt of payment, if before the performance the obligation to declare tax arose on the date of receipt of payment or to declare payment, if it differs from the date of issue of the tax document
- i) unit price without tax and discount, if not included in the unit price,
- j) tax base,
- k) tax rate,
- l) amount of tax; this tax is stated in Czech currency,
- m) ... (*further specification by the Value Added Tax Act*)”.

Date of transaction represents the date when the accounting transaction occurs:

- a) fulfillment of deliveries under the contract,
- b) payment of debt (payables), issuance of receivables,
- c) acceptance of inventories to the stock, removal from stock,
- d) advances provision, acceptance of advance,
- e) the movement of assets within the company,
- f) ...

Accounting documents cycle

Accounting documents cycle is the process of preparation, respectively adoption of an accounting document classification, control of records, archiving and shredding.

Control of documents

- a) in material terms (focus on the content),
- b) in formal terms (focus on document requisities).

Accounting units have to select persons responsible for individual phases of accounting document cycle.

Accounting books

Accounting records are, with respect to the Accounting Act, placed in the accounting books. Records are done using the *Czech currency*, accounting is kept in the *Czech language*.

Accounting books classification:

- Accounting journal (Financial diary).
- Ledger accounts (Main book).
- Books of analytical accounts (evidence).
- Book of off-balance sheet accounts.

Accounting journal

Accounting records are kept in chronological order they took place (chronologically).

Ledger accounts

Comprising an arrangement of accounting entries in material terms (systematically). It contains the synthetic accounts according to the chart of accounts.

Ledger accounts provides at least the following information:

- a) opening balance of accounts (OB),
- b) aggregate turnover of the debit and credit side of accounts at least for one calendar month,
- c) closing balances of accounts (CB).

Books of analytical accounts

Books of analytical accounts contain more detailed information on ledger account records.

Book of off-balance sheet accounts

Book of off-balance sheet accounts contain accounting records that are not involved in accounting journal and ledger account. However, they record facts significant for assessing the property situation of the company and its financial resources (*accounts of leased assets, assets for safekeeping, ...*).

Checking the accuracy of accounting entries

Formal control is carried out at the last day of month for the past month and during the reporting period.

Used tools:

- trial balance,
- control (inventory) list.

Trial balance controls:

- compliance with dual accounting entries,
- compliance with numerical aggregation of the amounts in individual documents accounted in accounting journal with the total turnover of the accounts in the ledger account for the same period.

Control (inventory) list controls compliance of data recorded to synthetic accounts and sums recorded to the analytical accounts.

Material control is focused on control of:

- accounting of all accounting documents and their compliance with accounting journal,
- if the state of assets and liabilities in their accounts reflects reality (stocktaking).

Corrections of accounting records

If there are any incomplete, inconclusive, inaccurate or misunderstandable accounting records, accounting unit has to ensure their correction without undue delay. Corrections have to be performed in order to determine:

- person responsible for the correction,
- date of correction,
- content of corrected accounting record before the correction,
- content of corrected accounting record after the correction.

Accounting statements

Accounting statements are prepared with respect to the explained principles. They represent the final output of accounting activities. Rules for compilation of accounting statements are set by the accounting act (§ 18) and Decree No. 500/2002 Coll. (§ 3). Each component of the accounting statements should be clearly identified.

A complete set of financial statements comprises:

- Balance sheet (Statement of financial position).
- Income statement (Statement of profit or loss and other comprehensive income).
- Attachment in the financial statements.

- Statement of changes in equity.
- Cash flow statement.

Statements provided by financial accounting focus on provision of information on:

- financial position,
- financial performance,
- changes in financial position of the company.

Elements of accounting (accounting statements) - important definitions

Financial statements include information about *basic elements of accounting*:

- Assets - property of the accounting unit.
- Liabilities - financial sources covering the assets of accounting unit.
- Incomes (Revenues)
- Expenses (Costs)
- Economic result (Profit/Loss)

Asset is a “resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise”. (Hussey, 2011).

“An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.” (Conceptual Framework for Financial Reporting 2018).

Liability is a “present obligation of an entity resulting from past events, the settlement of which is expected to be an outflow from the entity of resources embodying economic benefits”. (Hussey 2011).

“A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity

resources embodying economic benefits.” (Conceptual Framework for Financial Reporting 2018).

Revenue (Income) is an inflow of economic benefits arising from the ordinary operating activities of an entity.

Revenues are defined by IAS 18 as: “the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an entity (such as sales of goods, sales of services, interest, royalties, and dividends).” (IAS 18).

Expense represents the **cost** incurred in the process of producing or offering a primary business operation.

Economic result (Profit/loss) can be explained as the difference between incomes and expenses. It is defined by IAS 1 as “the total of income less expenses, excluding the components of other comprehensive income”.

For recording information related to above mentioned basic elements of accounting statements are used accounts. Account is taken as the basic tool of accounting enabling to record all transactions ensured by the accounting unit using double entry record. It means that each amount will be recorded to two different accounts, to the credit side of the first account and to the debit side of the second related account.

Document summarizing the synthetic accounts is called **chart of accounts**.

Both mentioned terms, **account** and **chart of accounts**, are further explained in the following chapter.



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

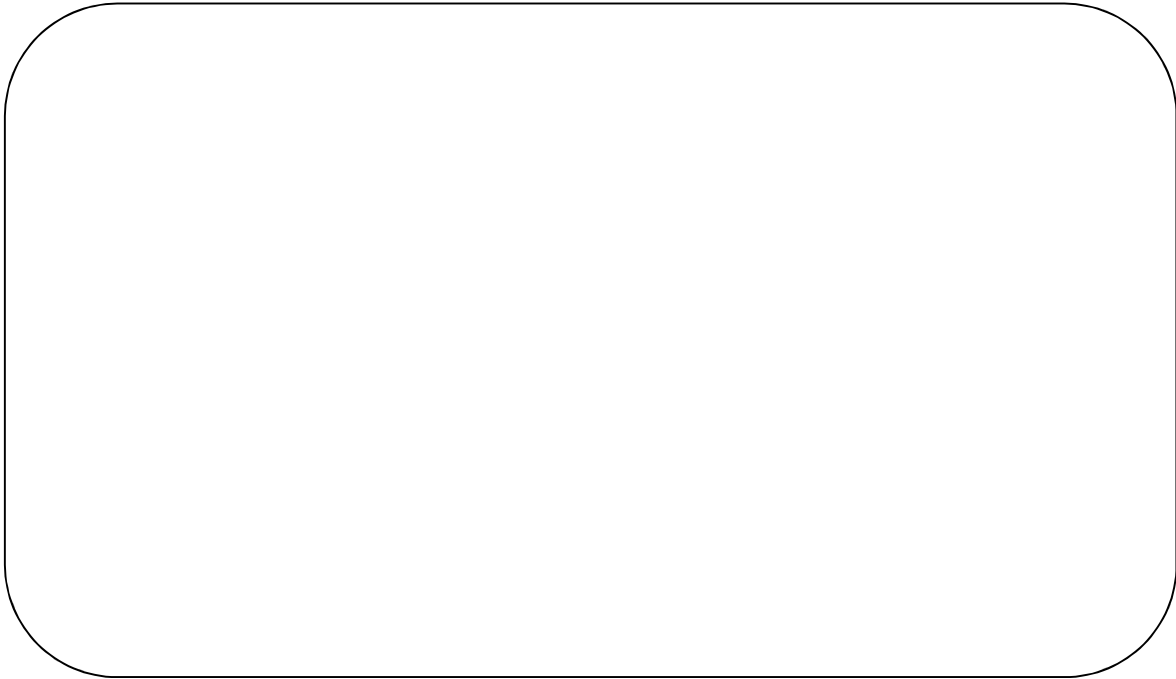
1. Name and explain accounting principles.

A large, empty rounded rectangular box with a thin black border, intended for the student to write their answer to the first question.

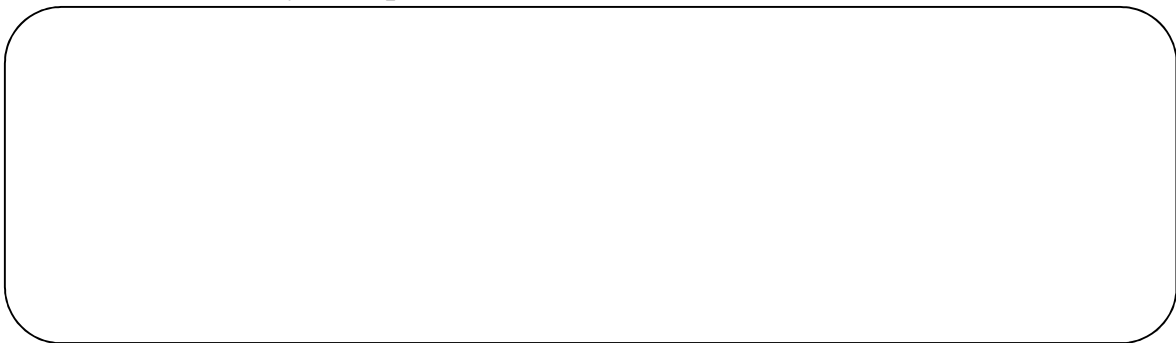
2. Which accounting books are used by financial accounting?

A large, empty rounded rectangular box with a thin black border, intended for the student to write their answer to the second question.

3. Define tools used to conduct the formal control of accounting documents.



4. How would you explain the “account”?



5. How would you explain the “economic result”?





Literature

Act No. 235/2004 Coll., Value Added Tax Act (CZ).

Act No. 563/1991 Coll., Accounting Act (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

Hussey, R. (2011). *Fundamentals of International Financial Accounting Reporting*. Singapore.

IAS 1. Presentation of financial Statements (EU).

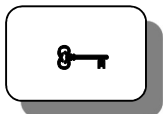
IAS 18. Revenue. Superseded by IFRS 15 effective in January 2017 (EU).

Conceptual Framework for Financial Reporting 2018. (EU).

TOPIC 3: ACCOUNTS, ACCOUNTING RECORDS, ACCOUNTING CONTROL SYSTEM

After studying the topic, you should be able to:

- define and explain the account,
- define and explain the basic elements of accounting and their relations,
- characterize the accounting control system.



Key words: account, assets, economic result, costs, expenses, income, liabilities.

Account

Account represents the basic tool of double entry accounting enabling to record all transactions ensured by the accounting unit using double entry record. It enables to record changes of economic reality.

Account - forms

Account can be met in different forms. T-form of account is used very often for school purposes, to explain clearly the accounting relationships (Picture no. 5). Debit/credit form is visible when processing accounting using accounting information system (Picture no. 6).

Picture no. 5: T-form of account

| Debit | Number and Heading of account | Credit |
|-----------|-------------------------------|------------|
| (D) | | (Cr) |
| (Debet) | | (Credit) |
| (Debited) | | (Credited) |

Source: own processing, 2022

Picture no. 6: Debit/credit form of account provided by information systems

| Account no.: | | Title: | | | | | |
|--------------|------|----------|------------------------|----------|--------|----------|--------|
| Row | Date | Document | Accounting transaction | Turnover | | Turnover | |
| | | | | Debit | Credit | Debit | Credit |
| | | | | | | | |
| | | | | | | | |

Source: own processing, 2022

Classification of accounts

Accounts are classified as:

- Balance sheet accounts
 - Asset accounts
 - Liability accounts
- Income statement accounts
 - Expenses (Costs)
 - Incomes (Revenues)
- Final accounts
 - Opening balance account
 - Closing balance account
 - Profit and loss account
- Off balance sheet accounts

Other type of classification of accounts is classification to accounts of:

- Assets
- Liabilities
- Expenses
- Income (Revenue)
- Equity

Chart of accounts

Chart of accounts sets the generally used division of accounts to groups and classes of accounts. It includes 10 accounting classes (0 – 9).

Classes 0 – 4 represent balance sheet items, classes 5 and 6 represent income statement items, class represents balancing items and classes 8 and 9 represent off-balancing items (usually used by management accounting).

Chart of accounts is legislatively given, defined by § 14 of the Accounting act and available in the disclosure to the Decree No. 500/2002 Coll. Chart of accounts summarizes all existing accounts. It includes just specification of accounting classes and groups.

Accounting act says that: *“On the basis of the indicative chart of accounts, the accounting units are obliged to draw up an accounting schedule, in which they list the accounts necessary for the accounting of all accounting transactions and to draw up the financial statements in the given accounting unit.”*

Accounting schedule

Accounting schedule represents extract from the chart of accounts, includes just those accounts that are really used by the accounting unit (accounts for which has the accounting unit content).

Accounting schedule can be widened during the accounting period. Other relevant accounts can be added.

The level of account detail:

Accounting class (f.e.: 1)

Group of accounts (f.e.: 11)

Synthetic account (f.e.: 112)

Analytical account (f.e.: 112.100)

Construction of the account

In the following part of the learning support is explained construction of individual accounts (synthetic accounts) and the manner in which the accounts are handled (Pictures no. 7 - 12).

Picture no. 7: Assets

| Debit | Asset account | Credit |
|-----------------------------|---------------|------------------|
| Opening balance (OB) | | |
| Increases | | Decreases |
| Closing balance (CB) | | |

Source: own processing, 2022

Picture no. 8: Liabilities

| Debit | Liability account | Credit |
|------------------|-------------------|-----------------------------|
| | | Opening balance (OB) |
| Decreases | | Increases |
| | | Closing balance (CB) |

Source: own processing, 2022

Picture no. 9: Income (Revenue) and Expense (Cost)

| D Expense (Cost) Cr | | D Income (Revenue) Cr | |
|---------------------|-------------|-----------------------|---|
| + | 31/12 | 31/12 | + |
| + | transfer | transfer | + |
| + | to | to | + |
| | profit/loss | profit/loss | |
| | account | account | |

Source: own processing, 2022

Picture no. 10: Opening balance account

| D Opening balance account | Cr |
|----------------------------------|-----------------------------|
| OB of Liabilities | OB of Assets |

Source: own processing, 2022

Picture no. 11: Profit and loss account

| D Profit and loss account | Cr |
|---|--|
| Expenses (Costs) for the acc. period | Income (Revenues) for the acc. period |
| Loss | Profit |

Source: own processing, 2022

Picture no. 12: Closing balance account

| D | Closing balance account | Cr |
|--------------------|-------------------------|-------------------------|
| CB of Assets | | CB of Liabilities |

Source: own processing, 2022

Double entry record and balance sheet equation

Double entry record means that each amount will be recorded to two different accounts, to the credit side of the first account and to the debit side of the second related account.

For example, accounting transaction “Payment to suppliers” will be recorded to the debit side of “Bank account” and to the credit side of “Suppliers” (Accounts payable).

The reason for this is necessity to maintain the balance sheet equality. Balance sheet equation represents the basis of double-entry accounting and is explained by the following:

$$\sum \text{Assets} = \sum \text{Liabilities} \quad (1)$$

Other variants of balance sheet equation:

$$\text{Assets} = \text{Equity} + \text{Debts} \quad (2)$$

$$\text{Equity} = \text{Assets} - \text{Debts} \quad (3)$$

Increases and decreases are recorded on individual accounts during the accounting period. Accounting enables to observe also the turnovers of individual accounts.

Turnover means the movement (increases and decreases) on the account for a certain period. The initial state (opening balance) is not counted in them.

Related equation:

$$CB = (OB + \text{turnover of the Debit side}) - \text{turnover of the Credit side} \quad (4)$$

Where:

CB ... closing balance

OB ... opening balance

Double-entry accounting system

Following pictures (Picture no. 13 - 14) explain the way used for recording accounting information during selected phases of the accounting period.

Picture no. 13: Compiling the initial balance sheet and opening the balance sheet accounts

| Assets | Initial balance sheet to ... | Liabilities | D Opening balance account Cr | |
|-------------------------|------------------------------|------------------------------|------------------------------|--------|
| Assets of the acc. unit | | Liabilities of the acc. unit | Liabilities | Assets |
| (Non-current assets) | | (Equity) | | |
| (Current assets) | | (Debts) | | |
| | $\sum \text{Assets}$ | $= \sum \text{Liabilities}$ | D Asset accounts | Cr |
| | | | OB | |
| | | | D Liability accounts | Cr |
| | | | | OB |

Source: own processing, 2022

The accounting unit has to open all the balance sheet accounts => opening balance sheet account will be balanced and the balance sheet equation will be constantly valid.

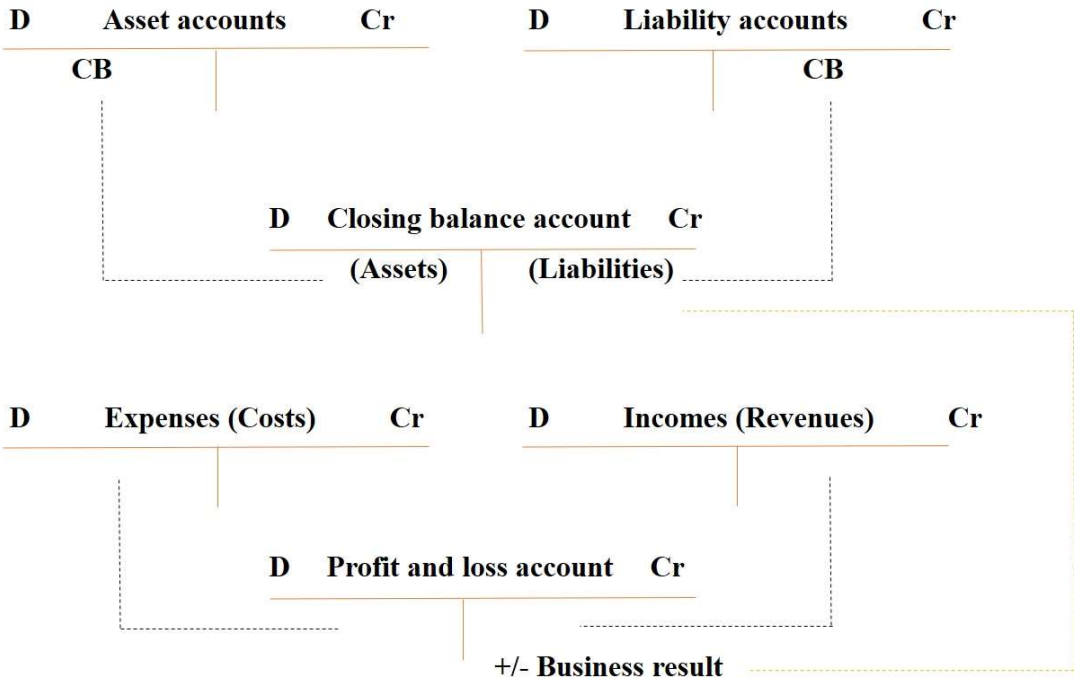
During the accounting period records the accounting unit information about all transactions to relevant accounts (asset accounts, liability accounts, expenses (costs), incomes (revenues)). Asset and liability accounts have opening and closing balances. Closing balances of these accounts are at the end of the accounting period moved to Closing balance account.

Accounts of expenses (costs) and incomes (revenues) have no opening and closing balances. Records made to these accounts are summarized and moved at the end of the accounting period to the Profit and loss account and next accounting period starts with 0.

Summarization of the records made to accounts of expenses (costs) and incomes (revenues) represents the calculation of economic result of the accounting unit (profit/loss). This number is visible in the profit and loss account. This economic result is further moved to the Closing balance account as the liability accounts belonging to the equity.

Closing balance account is the basis for compilation of the Balance sheet. Profit and loss account is the basis for compilation of the Income statement.

Picture no. 14: Transactions at the end of the accounting period



Source: own processing, 2022

At the end of each accounting period are, with respect to the Accounting act, compiled Financial statements. Financial statements are explained in the following chapters.



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

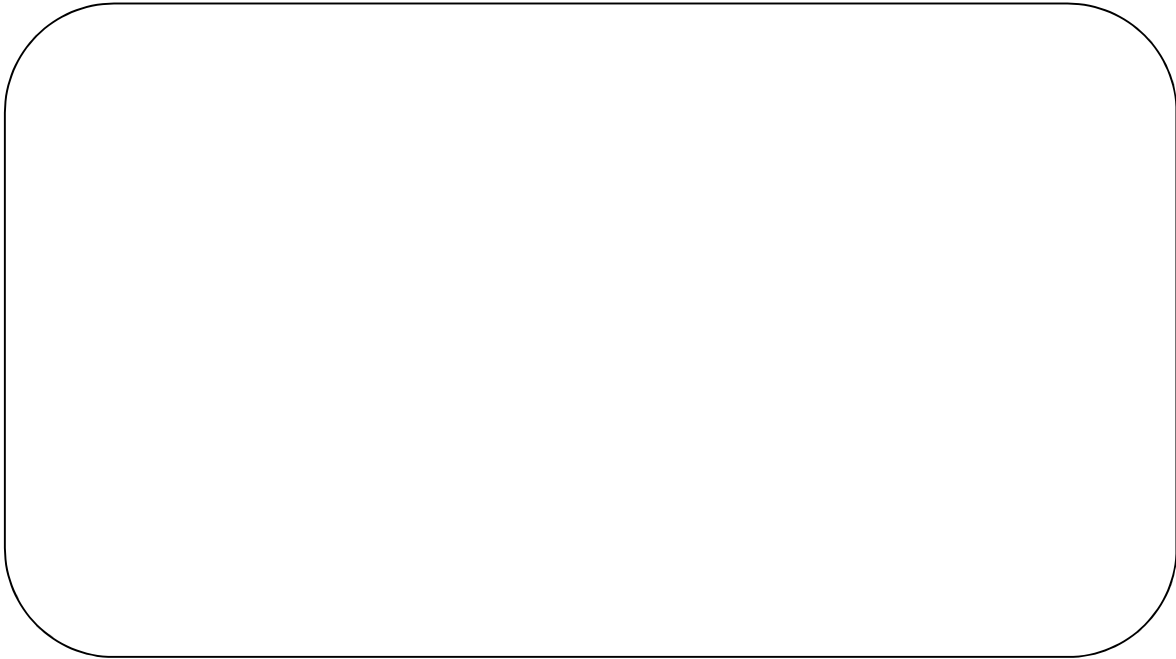
1. How would you define “Account”?

A large, empty rounded rectangular box with a thin black border, intended for the student's answer to question 1.

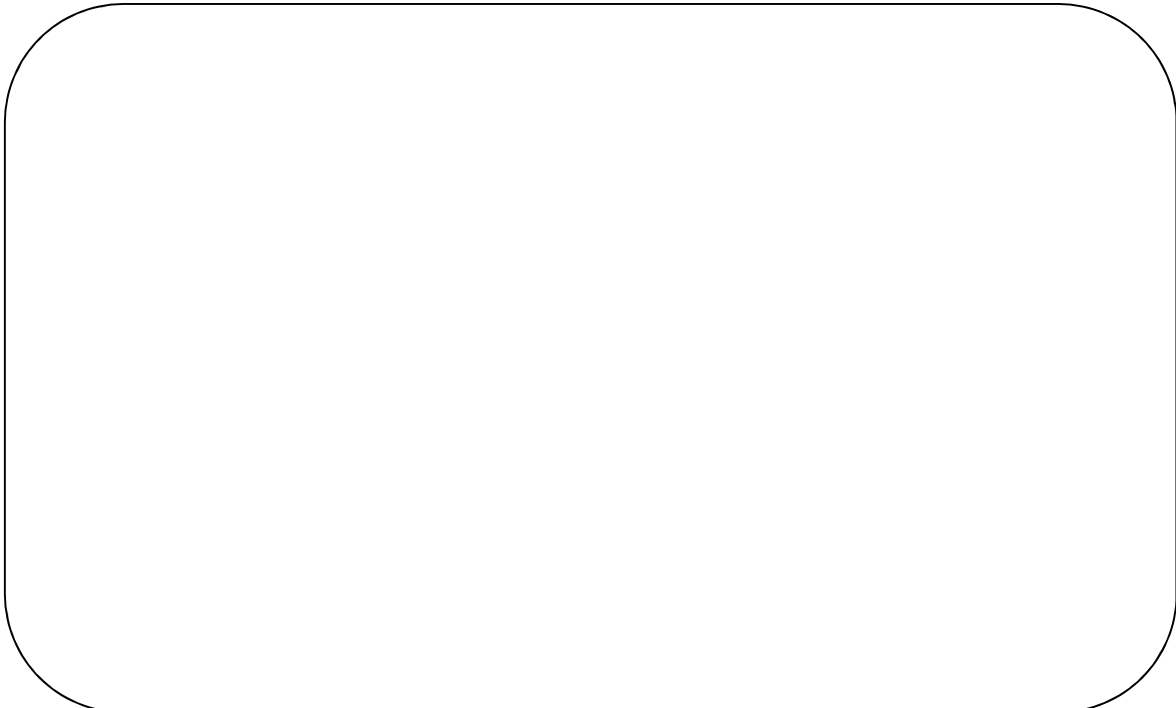
2. Which types of accounts do you know?

A large, empty rounded rectangular box with a thin black border, intended for the student's answer to question 2.

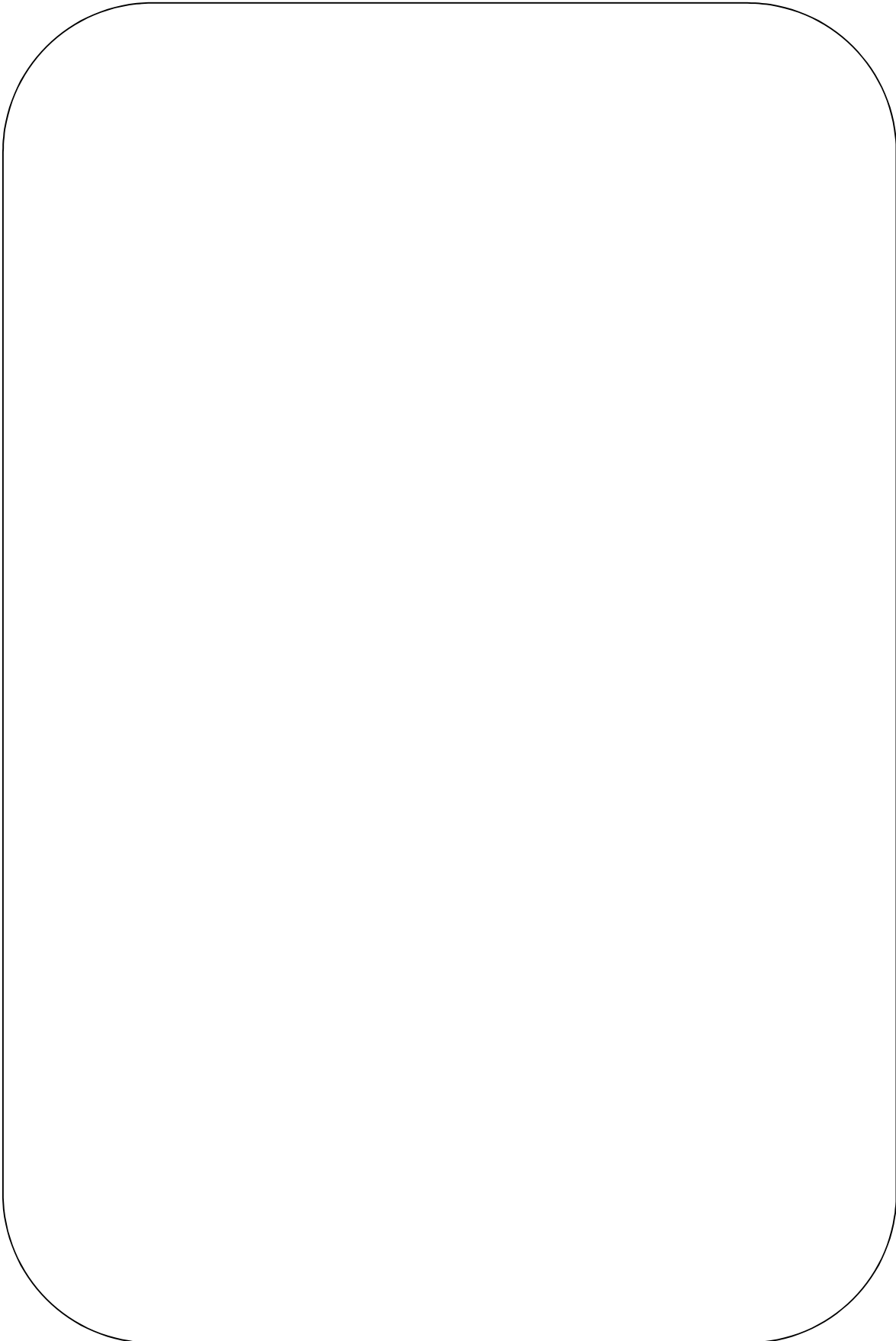
3. Define “Chart of accounts”?



4. What is “Accounting schedule”? Is accounting schedule set by the accounting legislation?



5. Describe records of accounting transactions provided by the accounting unit since the beginning till the end of the accounting period.





Literature

Act No. 563/1991 Coll., Accounting Act (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

TOPIC 4: ASSETS

After studying the topic, you should be able to:

- define and explain the concept of an asset,
- recognize the type of asset,
- assign the asset to the relevant account, relevant item of the balance sheet.



Key words: account, assets, accounting schedule, balance sheet, current assets, fixed assets, non-current assets, evaluation, evaluation base, liquidity of assets, long-term assets, short-term assets, structure of assets.

Assets

Assets represent the property of the accounting unit (everything that the accounting unit owns). It represents everything that the accounting unit acquired through past activities and that is expected to bring future economic benefits. It is possible to explain them also as economic resources divided primarily by their substantive nature. (The type structure of property in monetary terms.)

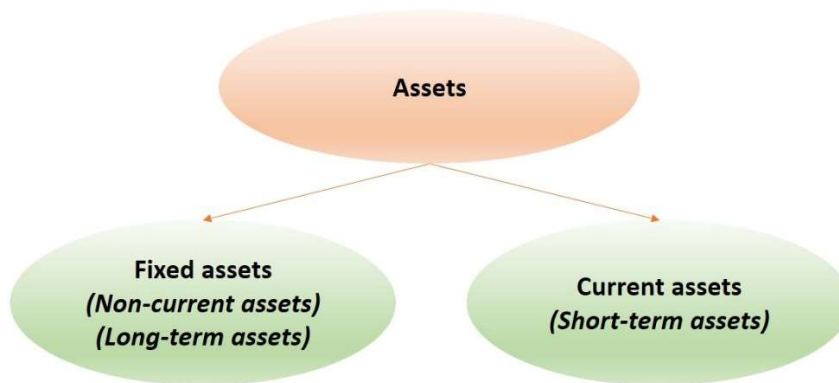
Accounting as a system structures assets by their substantive nature and further by turnover rate and their economic function within the use of economic resources.

The turnover rate assessment enables to divide the assets to:

- Fixed assets (Non-current assets, Long-term assets)
- Current assets

See Picture no. 15.

Picture no. 15: Assets - division



Source: own processing, 2022

Fixed assets

(Non-current assets, Long-term assets)

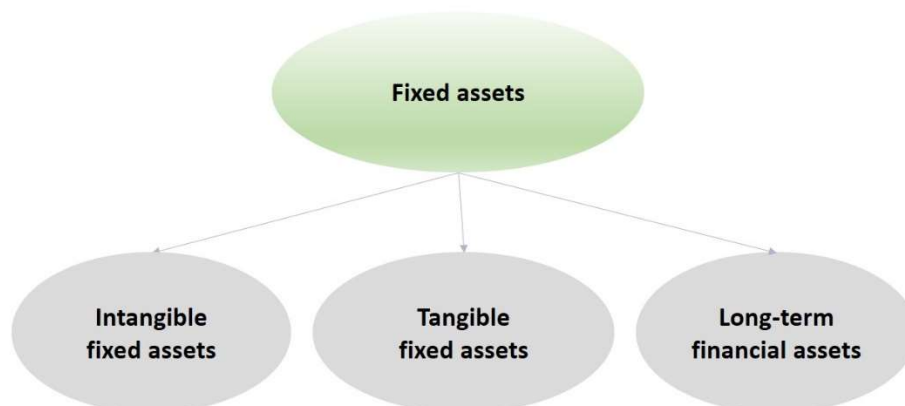
Fixed assets are assets with useful life longer than one year. Further requirements on fixed assets are defined by the Accounting act, Decree no. 500/2002 Coll. and Czech accounting standards.

Criteria for classification of fixed assets

- Useful life of asset longer than 1 year.
- Evaluation set by the accounting unit (for the purposes of accounting).
- Selected property regardless of the amount of evaluation (f.e.: buildings, breeding animals, etc. belong to long term assets in any event).

Fixed assets are further divided as visible in the following picture (Picture no. 16).

Picture no. 16: Fixed assets - division



Source: own processing, 2022

Fixed assets are further explained in the following chapters (Chapter 5 and 6).

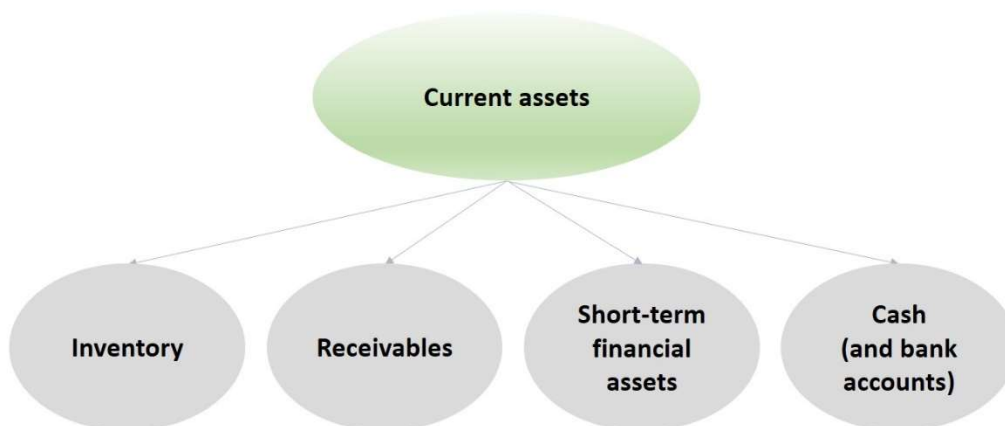
Current assets

(Short-term assets)

Current assets are assets whose substance usually changes. Their useful life (turnover time) is shorter than one year.

Current assets are further divided as visible in the following picture (Picture no. 17).

Picture no. 17: Current assets - division



Source: own processing, 2022

Current assets are further explained in the following chapters (Chapters 7, 8 and 9).

Balance sheet

A balance sheet is an accounting statement that provides an overview of the state of assets and liabilities, always on a certain date, the balance sheet date.

Forms of balance sheet:

- Form of account (T form)
- Accounting statement
- (Working reports)

Balance sheet equation, explaining that total assets have to equal to total liabilities, was mentioned in the previous chapter. This may be also explained other way (as visible in Pictures no. 18 and 19):

Total of property by type (valued in monetary units) equals Total of sources from which the given property was purchased (financed).

Assets are divided with respect to their liquidity. Liabilities are divided with respect to the ownership the accounting unit has with them.

Picture no. 18: ABC Inc. - overview of assets (property) and liabilities (financial sources of property)

| Property (Assets) | | Financial sources (Liabilities) | |
|------------------------------|-----------|--|-----------|
| • Fixed assets | | • Equity | |
| • Construction | 1,500,000 | • Registered capital | 1,700,000 |
| • Equipment | 160,000 | | |
| • Current assets | | • Other sources | |
| • Inventory | 220,000 | • Liab. to credit inst. | 360,000 |
| • Bank account | 190,000 | • Trade payables | 140,000 |
| • Cash | 130,000 | | |
| • Total | 2,200,000 | • Total | 2,200,000 |

Source: own processing, 2022

Picture no. 19: Example of the balance sheet (December 31, xxxx)

| Assets | Liabilities |
|--------------------------------|---------------------------------|
| Receivables from subscriptions | |
| Fixed assets | Equity |
| Intangible fixed assets | Registered capital |
| Tangible fixed assets | Share premium and capital funds |
| Long-term financial assets | Funds from earnings |
| | Profit/loss - previous years |
| | Profit/loss - current year |
| Current assets | Other sources |
| Inventory | Reserves |
| Receivables | Payables |
| Short-term financial assets | |
| Cash and bank accounts | |
| Accruals | Accruals |
| Deferred expenses | Accrued expenses |
| Complex deferred costs | Deferred revenues |
| Deferred income | |

Source: own processing, 2022

Types of balance sheet

- **Initial** ... It is compiled at the time of the company's setting (date of registration in the commercial/trade register).
At the beginning of the activity of the accounting unit.
- **Opening** ... It is compiled at the beginning of the accounting period.
- **Closing** ... It is compiled at the end of the accounting period.
- **Interim** ... In cases of preparation of interim financial statements, accounting entities do not close the books of account and carry out an inventory only for the purpose of expressing the valuation.
(Accounting act).

In the Czech accounting is the form of balance sheet directly set by the Ministry of Finance. Each accounting unit therefore fill in directly given preprint. (Decree no. 500/2002 Coll.). It is conducted in thousands of CZK (Picture no. 20).

Picture no. 20: Example of the first page of the Czech form of balance sheet

STATEMENT OF FINANCIAL POSITION

in a full format

as of date _____ name and registered office of the accounting entity: _____

ID number: _____

Compiled on: _____ In liquidation: _____

Legal form of the accounting entity: _____

Subject of business of the accounting entity: _____

| a | ASSETS b | Row c | Current accounting period | | | Part accounting period |
|-------|--|-----------|---------------------------|------------------|------------|------------------------------|
| | | | Brutto 1 | Corrections 2 | Netto 3 | Netto 4 |
| | TOTAL ASSETS (A.+B.+C.+D.) | 01 | | | | |
| A. | Receivables from subscriptions | 02 | | | | |
| B. | Fixed assets (B.I.+B.II.+B.III) | 03 | | | | |
| B.I. | Intangible fixed assets (sum B.I.I.-B.I.5.2.) | 04 | | | | |
| 1. | Research and development | 05 | | | | |
| 2. | Valuable rights | 06 | | | | |
| 2.1. | Software | 07 | | | | |
| 2.2. | Other valuable rights | 08 | | | | |
| 3. | Goodwill (+/-) | 09 | | | | |
| 4. | Other intangible fixed assets | 10 | | | | |
| 5. | Advance payments for intangible fixed assets and intangible fixed assets under construction | 11 | | | | |
| 5.1. | Advance payments for intangible fixed assets | 12 | | | | |
| 5.2. | Intangible fixed assets under construction | 13 | | | | |
| B.II. | Tangible fixed assets (sum B.II.1.-B.II.5.2.) | 14 | | | | |
| 1. | Land and Constructions | 15 | | | | |
| 1.1. | Lands | 16 | | | | |
| 1.2. | Constructions | 17 | | | | |
| 2. | Equipment | 18 | | | | |
| 3. | Adjustment to acquired assets | 19 | | | | |
| 4. | Other tangible fixed assets | 20 | | | | |
| 4.1. | Perennial crops | 21 | | | | |
| 4.2. | Breeding and draught animals | 22 | | | | |
| 4.3. | Other tangible fixed assets | 23 | | | | |
| 5. | Advance payments for tangible fixed assets and tangible fixed assets under construction | 24 | | | | |
| 5.1. | Advance payments for tangible fixed assets | 25 | | | | |
| 5.2. | Tangible fixed assets under construction | 26 | | | | |

Source: own processing according to MFCR (2022), 2022

Changes of balance sheet items

Any change in economic reality will change selected balance sheet item. Change should not affect the balance sheet Equation ($\Sigma \text{Assets} = \Sigma \text{Liabilities}$).

Four types of changes:

- changes only in items of assets (+, -),
- changes only in items of liabilities (+, -),
- changes in assets and liabilities (-, -),
- changes in assets and liabilities (+, +).

Next chart (Chart no. 2) summarizes all possible changes of balance sheet items.

Chart no. 2: Changes of balance sheet items

| Assets | Liabilities |
|------------|-------------|
| + | + |
| - | - |
| + / - | No change |
| No change | + / - |
| ΣA | ΣL |

Source: own processing, 2022

Examples of balance sheet items changes:

Changes only in the items of assets (+, -):

- *Purchase of material on cash (cash).*
- *Accounting document: income cash voucher.*
- *+ Material (Inventory), - Cash*

Changes only in items of liabilities (+, -):

- *Creation of the reserve fund of profit (profit).*
- *+ Reserve fund, - Profit*

Changes in assets and liabilities (-, -):

- *Payment of loan from current bank account.*
- *Accounting documents: bank account statement, credit account statement.*
- *- Current bank account, - Credit account*

Changes in assets and liabilities (+, +):

- *Purchase of goods on credit.*
- *Accounting document: invoice received.*
- *+ Goods (Inventories), + Trade payables*



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

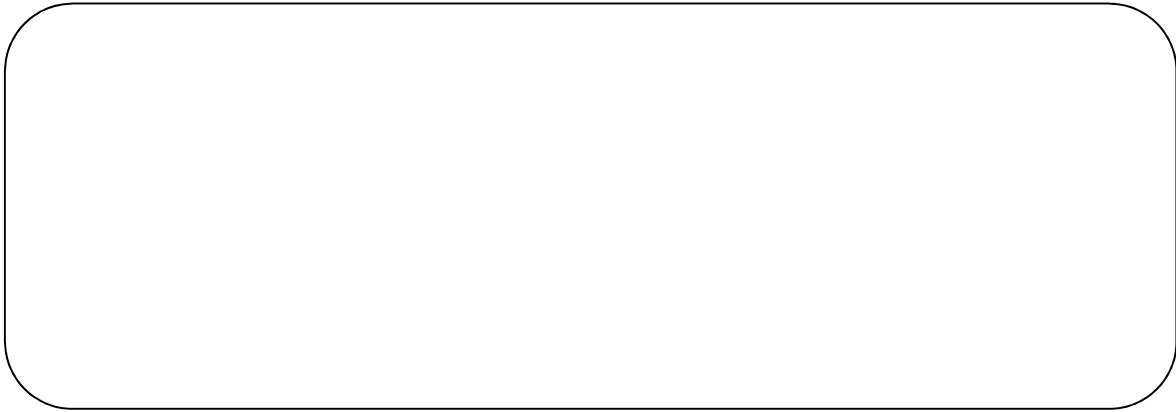
1. How would you define “Assets”?

A large, empty rounded rectangular box with a thin black border, intended for the student's answer to the first question.

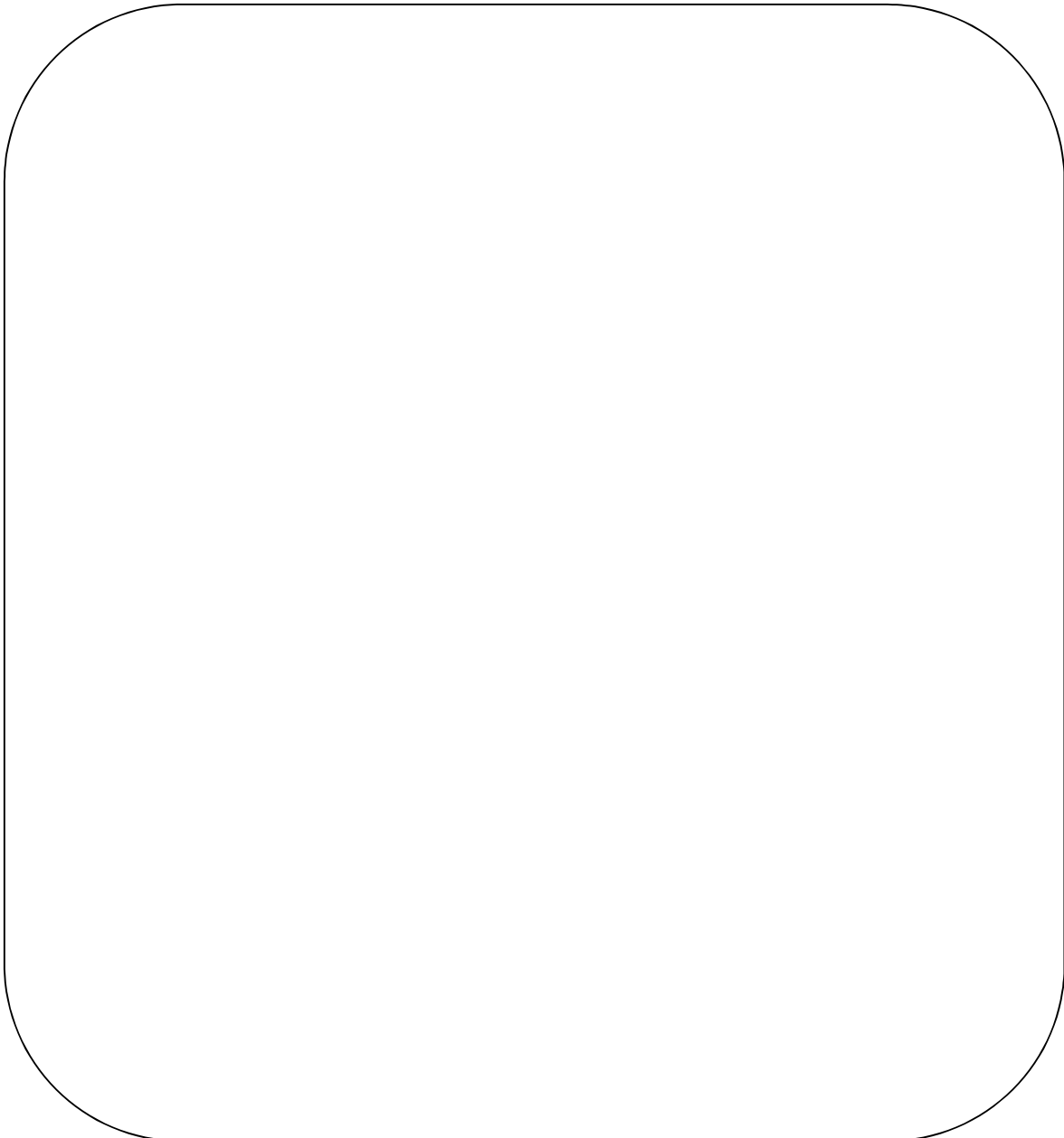
2. How would you divide “Assets”?

A very large, empty rounded rectangular box with a thin black border, intended for the student's answer to the second question.

3. What are the criteria for fixed assets classification?



4. Which changes in balance sheet items may occur? Give examples of related transactions.





Literature

Act No. 563/1991 Coll., Accounting Act (CZ).

Czech accounting standards for accounting units that account in accordance with Decree No. 500/2002 Coll., as amended (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

Ministry of Finance of the Czech Republic. (MFCR). (n.d.). Forms to download. Retrieved November 29, 2022 from <https://www.formulare-ke-stazeni.cz/formulare-ministerstvo-financi.html>

TOPIC 5: FIXED ASSETS (TANGIBLE, INTANGIBLE)

After studying the topic, you should be able to:

- define and explain the concept of fixed assets,
- recognize this type of asset,
- assign the fixed assets to the relevant accounts,
- record simple accounting transactions using fixed asset's accounts,
- record information about asset wear and tear (depreciation).



Key words: account, assets, accounting schedule, balance sheet, depreciation, fixed assets, non-current assets, evaluation, evaluation base, long-term assets, wear and tear.

Fixed assets

Fixed assets (Non-current assets; Long-term assets) represent part of the property of the accounting unit. It is a kind of property that the accounting unit owns and that meet requirements set by the accounting legislation enabling the accounting unit to include this type of property to fixed assets.

As was mentioned in the previous chapter, fixed assets are further divided to:

- Intangible fixed assets
- Tangible fixed assets
- Long-term financial assets

Long-term assets (intangible and tangible) are used by the accounting unit to support the expansion of its business activities. It is not primarily intended for sale. Long-term financial assets are intended to increase the revenues of the accounting unit (to bring further benefits in the form of revenue).

Characteristics of fixed assets

Fixed assets in double-entry accounting are understood as long-term tied-up capital in various forms of property with useful life longer than 1 year.

The useful life (period of applicability) is the period during which the property

is usable for current or can be preserved for further activity or can serve as a basis or part of improved or other procedures and solutions, including the period of verification of results. (Decree no. 500/2002 Coll.).

Fixed assets are explained by the Decree No. 500/2002 Coll., as amended (§ 6, 7 and 8) and by the Czech accounting standards (013 and 014). Evaluation of fixed assets is solved by the Accounting act (§ 24 and 25) and by the Czech accounting standards. Notes related to depreciation of fixed assets that has to be assessed with respect to the records of fixed assets wear and tear in accounting are foundable in the Czech accounting standards. Information to fixed assets depreciation are also included in the Income Tax Act (§ 26-32). It is described there from a tax perspective.

Intangible fixed assets

Decree No. 500/2002 Coll., as amended (§ 6) defines intangible fixed assets as “intangible development results, software, assessable rights and goodwill with a useful life of more than one year and from the valuation determined by the accounting entity, with the exception of goodwill, and upon fulfillment of the conditions set forth below and upon fulfillment of obligations set forth by law, in particular respecting principle of materiality and faithful and honest presentation of the asset. It also includes emission allowances and preferential limits.”

Characteristic features of intangible fixed assets:

- property of an intangible nature,
- the useful life period longer than one year,
- reaches the valuation limit set by the accounting entity.

Division of intangible fixed assets according to the Czech accounting standards:

B.I. Intangible fixed assets

B.I.1. Research and development

2. Valuable rights

2.1. Software

2.2. Other valuable rights

3. Goodwill

4. Other intangible fixed assets

5. Advance payments for intangible fixed assets and intangible fixed assets under construction

- 5.1. Advance payments for intangible fixed assets
- 5.2. Intangible fixed assets under construction

Tangible fixed assets

Decree No. 500/2002 Coll., as amended (§ 7) defines tangible fixed assets using the list of items with additional explanation to these individual items of tangible fixed assets and their content.

Characteristic features of tangible fixed assets:

- property of a tangible nature,
- the useful life period longer than one year,
- reaches the valuation limit set by the accounting entity.

Division of intangible fixed assets according to the Czech accounting standards:

B.II. Tangible fixed assets

B.II.1. Lands and constructions

1.1. Lands

1.2. Constructions

2. Equipment

3. Adjustment to acquired assets

4. Other tangible fixed assets

4.1. Perennial crops

4.2. Breeding and draught animals

4.3. Other tangible fixed assets

5. Advance payments for tangible fixed assets and tangible fixed assets under construction

5.1. Advance payments for tangible fixed assets

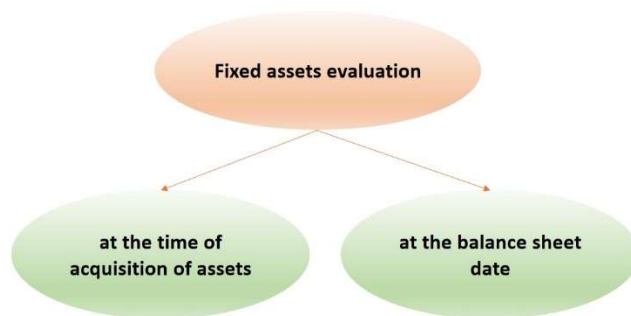
5.2. Tangible fixed assets under construction

Fixed assets evaluation

Fixed intangible and tangible assets evaluation has to be done with respect to the requirements given by § 25 and 27 of the Accounting act and § 47, 61 and 61a of the Decree No. 500/2002 Coll., as amended.

Evaluation is divided with respect to the moment of its implementation (Picture no. 21).

Picture no. 21: Fixed assets evaluation with respect to the moment of its implementation



Source: own processing, 2022

Evaluation at the time of acquisition of assets:

1) Purchase price

The acquisition costs + related costs
(For externally acquired assets.)

Related costs include:

Transportation, assembly, customs, licenses, interest on loans tests before putting the property into use, design, consulting, exploration and geological work, removal of land from the ground. (Decree no. 500/2002, § 47).

Related costs don't include:

Repair and maintenance expenses (costs), exchange rate differences, expenditure on inventory to purchased investment, costs of training workers, ...

The purchase price of fixed assets is reduced by the subsidies provided for its acquisition.

The purchase price of fixed assets is increased by expenses for completed technical assessment, always in the year of completion and acceptance of these works into use.

The purchase price also includes the costs of decommissioning existing buildings or their parts as a result of new construction.

For cumulation of individual parts of purchase price are used special accounts:

- Intangible fixed assets under construction.
- Tangible fixed assets under construction.

2) Own costs

Actually incurred or established on the basis of calculations of its own costs.

(For internally acquired assets.)

3) Reproduction purchase price (Replacement cost)

The price that the property has at the time of accounting record.

(In specific cases - donation, finding or surplus in the inventory, etc.)

***) CZK 1**

Evaluation base used for cultural monuments, museum collections, objects of cultural value and church buildings, if their purchase price is not known.

Evaluation at the balance sheet date:

1) Historic price

Price based on the fact that economic operations have already taken place and their valuation is clearly and unambiguously documented.

2) Fair value

Is the amount for which it is possible to sell an asset or settle a liability between independent informed parties willing to implement the transaction, under conditions where the transaction is implemented under normal market conditions.

3) Equivalence (counter value)

Is a method for determining the fair value of a business share in business companies for evaluation purposes at the balance sheet date.

If the asset does not reach the valuation limit specified by the accounting unit, in the case of intangible assets will be recorded service, in the case of tangible assets will be recorded current assets or material consumption.

Fixed assets acquisition

There are several options how to acquire fixed assets:

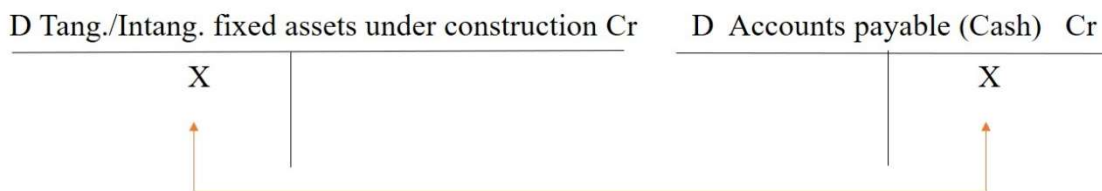
- By purchase (by supplier).
- By own activity (own production).
- Acquiring rights to results of intellectual activity.
- Gratuitous acquisition, Donation, Heritage (free transfer).
- Investment in business (01., 02., 03. / 41. (411, 413)).

- Transfer according to legal regulation.
- Transfer from personal to business use (01., 02., 03. / 491).
- By leasing agreement.

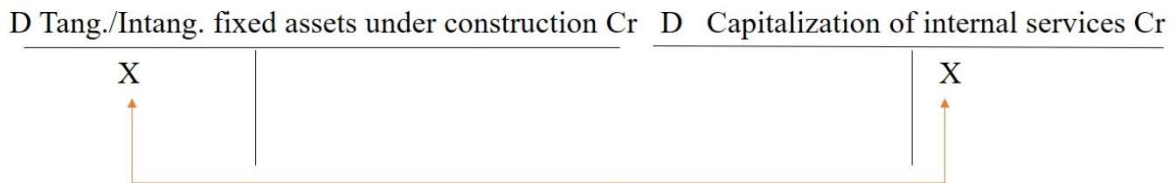
Selected ways of acquisition of assets are explained in the following pictures (Pictures no. 22 - 25).

Picture no. 22: Fixed assets acquisition by purchase and by own activity

- By purchase (By supplier) ... 042 (041) / 321 (211)



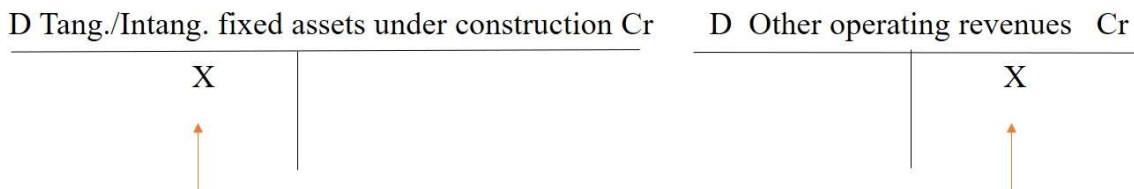
- By own activity ... 042 (041) / 588 (587)



Source: own processing, 2022

Picture no. 23: Fixed assets acquisition - donation

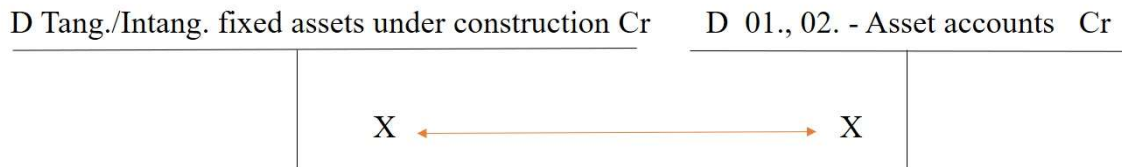
- Donation ... 042 (041) / 648



Source: own processing, 2022

Picture no. 24: Transfer of property to use

- Transfer of property to use ... 01.; 02.; 03 / 042 (041)



Source: own processing, 2022

Protocol on the inclusion of property to use (Protocol on taking over and putting the property into use)

Picture no. 25: Protocol on taking over and putting the property into use

| Protocol on taking over and putting the property into use | |
|--|------------------------|
| Accounting unit: | Accounting period: |
| Department: | Protocol number: |
| Placement: | Date of acquisition: |
| | Date of commissioning: |
| Inventory number: | |
| Price: | Method of acquisition: |
| | Evaluation: |
| Technical description: | |
| Other data: | |

Source: own processing, 2022

Accumulated depreciation

(Accounting groups 07. and 08.)

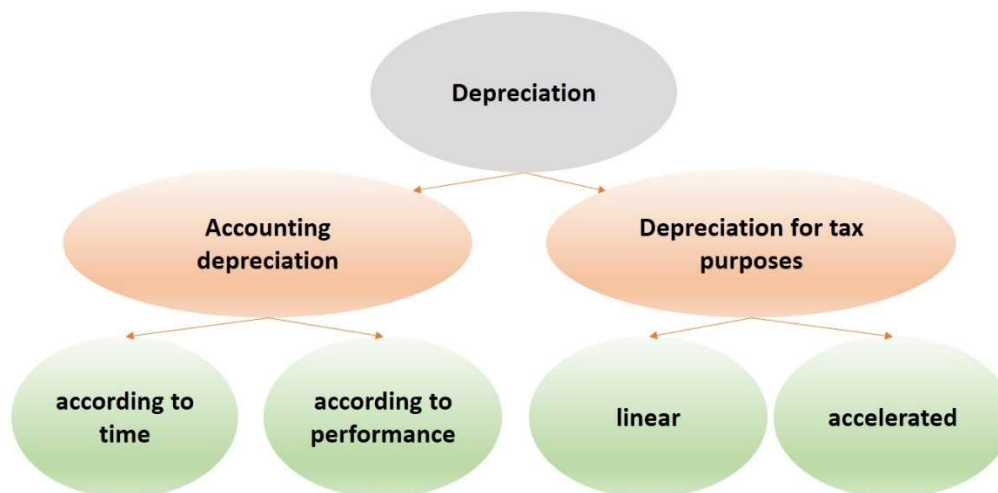
Accounting groups 07. and 08. are “Corrective balance sheet accounts” used for corrections of the purchase price of asset. It is a kind of asset account, but with character of liabilities (records on the credit side of the account). In the list of assets is this account recorded with the minus sign, in the balance sheet is this item visible as correction.

Closing balance of accumulated depreciation account equals the cumulative value of depreciation for the current period of use of the asset (property wear and tear).

Fixed assets depreciation

Fixed asset is not consumed during the production cycle, but it wears. Depreciation of fixed assets represents the permanent wear and tear of such assets that has to be recorded in accordance with set accounting principles (“true and fair view”). Depreciation is divided as visible in the following picture (Picture no. 26).

Picture no. 26: Depreciation



Source: own processing, 2022

- Accounting depreciation - reflects the actual depreciation of the assets used by the accounting unit.
- Depreciation for tax purposes - is used to quantify the tax base, primarily is not involved in accounting records.

Accounting depreciation

Accounting depreciation is category recorded by double-entry accounting and expressing the real wear and tear of fixed assets. Accounting unit prepares depreciation schedule. Depreciation schedule establishes the amount

of accounting depreciation in individual years.

Depreciation can express:

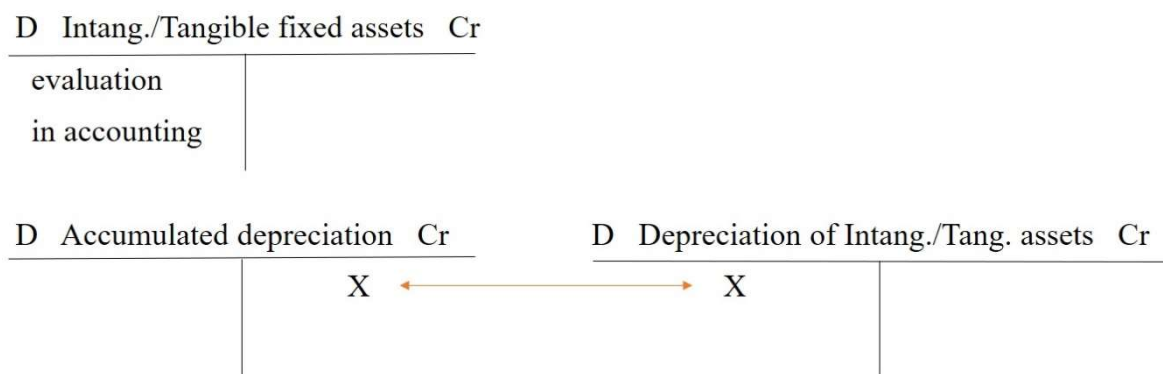
- physical depreciation of assets,
- obsolescence of property.

Rules for counting the depreciation are set by the internal directive of the accounting unit. Depreciation is used in relation with accounting groups 01 - Intangible fixed assets and 02 - Tangible fixed assets - depreciable. Accounting group 03 - Tangible fixed assets - non depreciable (land, art works, ...) is not, similarly as long-term financial assets (06), subject to depreciation.

Accounting depreciation is expressed by cost account “Depreciation of intangible and tangible fixed assets” and by the account “Accumulated depreciation” as visible in Picture no. 27. *(A so-called depreciation schedule is established.)*

Picture no. 27: Depreciation in double-entry accounting

- Depreciation ... 07., 08. / 551



Source: own processing, 2022

Accounting depreciation can be processed (counted) using two approaches:

- 1) Accounting depreciation according to time.
- 2) Accounting depreciation according to performance.

Accounting depreciation according to time

These methods are based on the assessment of the useful life of depreciated asset. Accounting depreciation is usually counted per month.

The asset can be depreciated to the 100 % of the purchase price. The accounting unit can also set the estimated residual value and the asset will be then depreciated to the amount counted as the difference between purchase price and estimated residual value (purchase price - residual value).

The most often used variant of calculation is calculation with the assumption of no residual value of the asset, respectively depreciation to the 100 % of the purchase price.

$$\text{Residual value (accounting)} = \text{purchase price (accounting)} - \text{depreciation (accounting)} \quad (5)$$

Estimated Residual value

For the purposes of Decree no. 500/2002 Coll., the estimated residual value is the positive estimated amount justified by the accounting entity, which the accounting entity could obtain at the time of the anticipated disposal of the asset (by sale, after deducting the estimated costs associated with the disposal).

Methods of depreciation:

Straight line method

$$\text{Depreciation (per year)} = \frac{\text{Purchase price} - \text{Residual value}}{\text{Estimated useful life}} \quad (6)$$

Double declining balance method (DDB)

$$\% \text{ DDB} = 2 \times \frac{100 \%}{\text{Estimated useful life}} \quad (7)$$

$$\text{Depreciation (per year)} = \% \text{ DDB} \times \text{Residual value} \quad (8)$$

Sum of the year's digits (SYD)

$$\text{Depreciation (per year)} = \text{Purchase price (Deductible amount)} \times \frac{\text{Number of years until the end of the asset's useful life}}{\text{Cumulative sum of the individual years of asset's life}} \quad (9)$$

Another possibility used for specific types of assets described by the Decree no. 500/2002 Coll. is “component depreciation”.

Accounting depreciation according to performance

In this method is depreciation derived from the amount of performance that the accounting unit obtains through the given asset. (It is an estimate.) Important is calculation of the depreciation per unit of performance.

Method of depreciation:

Units of production

$$\text{Depreciation per unit of performance} = \frac{\text{Purchase price}}{\text{Estimated amount of units of performance}} \quad (10)$$

$$\text{Depreciation (per year)} = \text{Depreciation per unit of performance} \\ \times \text{amount of units of performance per year} \quad (11)$$

Depreciation for tax purposes

In addition to accounting depreciation, there is also depreciation for tax purposes. This approach is used to help to quantify the tax base of the accounting unit. Depreciation for tax purposes is usually counted per year.

Depreciation for tax purposes is carried out on a non-accounting basis for the purposes of determining the tax base. Legislative Framework providing rules for counting this depreciation is the Income Tax Act (§ 26-32). It represents part of the state fiscal policy.

Selected terms used by the Income Tax Act:

$$\text{Residual value (tax)} = \text{entry price (tax)} - \text{depreciation (tax)} \quad (12)$$

Methods of depreciation:

Counting tax depreciation means classification of assets into depreciation groups defined by the Annex of the income tax act and then select one of two used methods of depreciation calculation:

Linear method

$$\text{Depreciation (per year)} = \frac{\text{Entry price} \times \text{Annual depreciation rate}}{100} \quad (13)$$

Annual depreciation rate is set by the Income Tax Act for the first year of depreciation and next years of depreciation as the different number (coefficient).

Accelerated method

$$\text{Depreciation (per 1st year)} = \frac{\text{Entry price}}{\text{Depreciation rate for the 1st year}} \quad (14)$$

$$\text{Depreciation (per next years)} = \frac{(2 \times \text{Residual value})}{(\text{Depreciation rate for the next years} - n)} \quad (15)$$

n ... number of years of depreciation over which is an asset already depreciated

Note:

Subsidies on long term assets (granted or received) reduce the acquisition costs connected with purchase of long term assets (the value which is used as the input for depreciation calculation).

Example: Company received the subsidy (CZK 130,000) for the equipment with purchase price of CZK 470,000 (confirmation from supplier). Price used as the starting point for depreciation calculation is then CZK 340,000 (470,000-130,000).

Stocktaking (inventory) of fixed assets represents comparison of the actual state with the accounting state of fixed assets (Accounting act § 29 and § 30).

1) Periodic inventory:

- to a given date (to the balance sheet day, ...),
- physical inventory within the statutory period (-4, +2).

2) Continuous inventory

- inventory in constant motion (eg. cars) with no permanent place where they belong,
- performed at least once per accounting period, at the discretion of the accounting unit. (Fixed tangible movable property.)

Disposal of fixed assets

Disposal of property is often recorded as two accounting operations:

- 1) accounting for net book value to expenses (in the amount of net book value),
- 2) disposal of long term asset from use (in the amount of purchase price).

Causes of disposals:

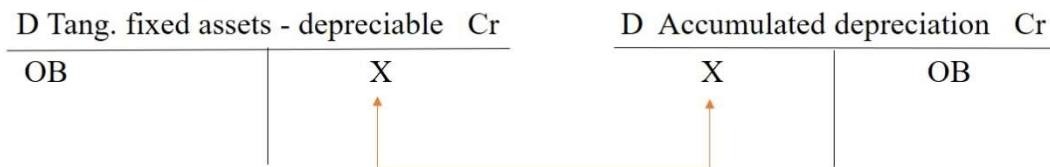
- The wear of property.
- Sale of assets.
- Destruction of property (natural disaster).

- Donating property.
- The transfer of business assets to personal property of the accounting unit or transfer to another corporation or cooperative.
- Theft of property.

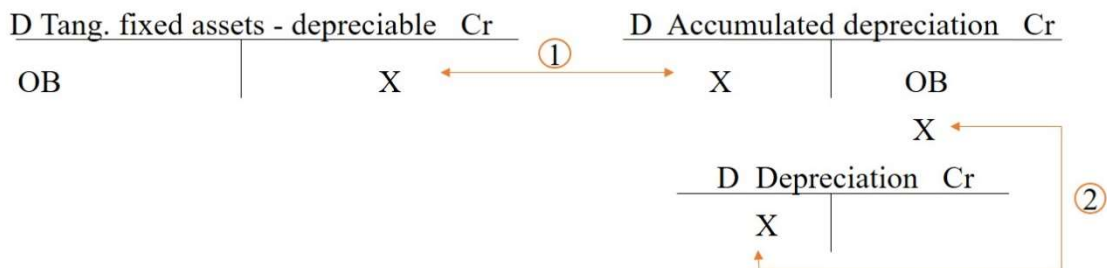
The method of recording of disposal of asset depends on the reason for its disposal. Selected ways of disposal of assets are explained in the following pictures (Pictures no. 28 - 31).

Picture no. 28: Fixed asset disposal because of the wear of property

- Because of the wear of property - fully depreciated asset ... 08. / 02.



- Because of the wear of property - not fully depreciated asset ... 08. / 02.,
551 / 08.

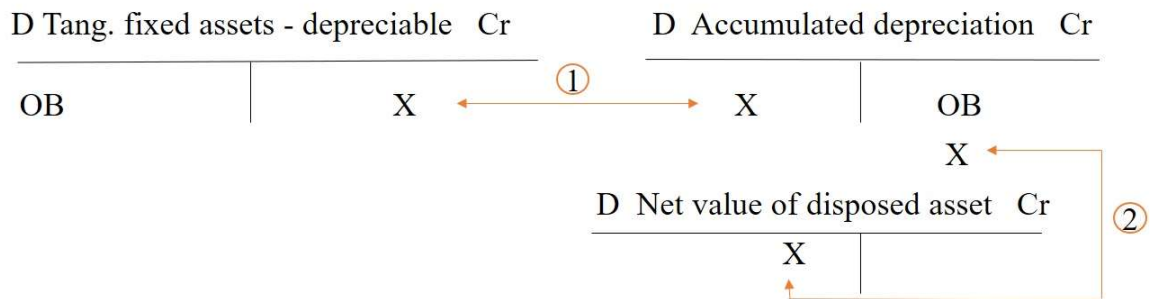


Source: own processing, 2022

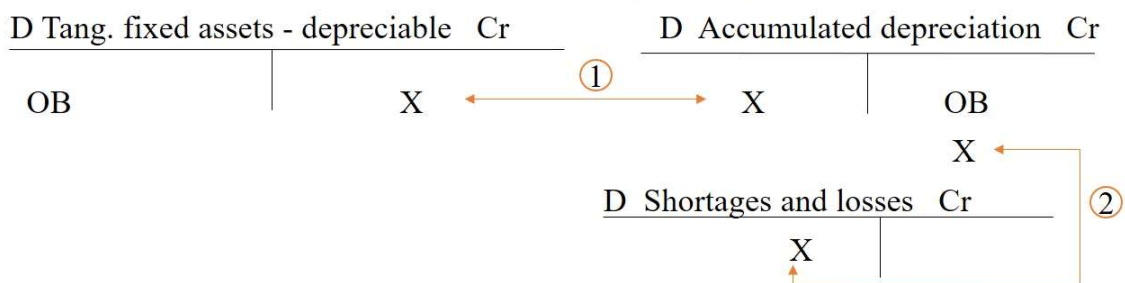
1) Disposal in the entry price. 2) One-time write-off of the residual value.

Picture no. 29: Fixed asset disposal because of the sale, destruction or theft of property

- Because of the sale of property ... 08. / 02., 541 / 08.



- Because of the destruction or theft of property ... 08. / 02., 549 / 08.

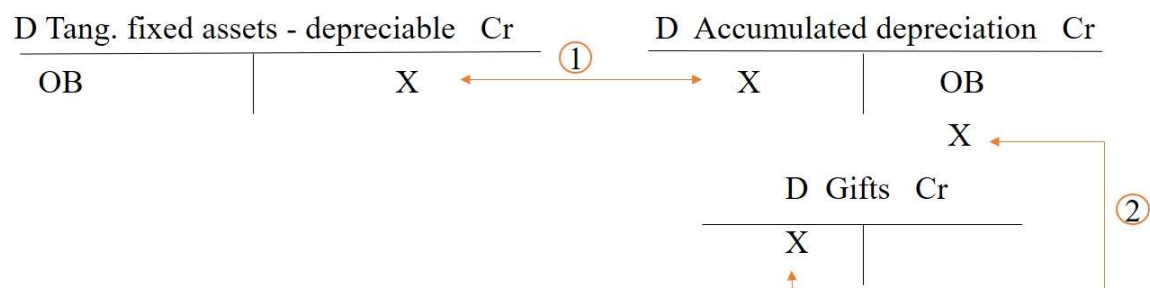


Source: own processing, 2022

1) Disposal in the entry price. 2) One-time write-off of the residual value.

Picture no. 30: Fixed asset disposal because of the donation of property

- Because of the donation of property ... 08. / 02., 543 / 08.

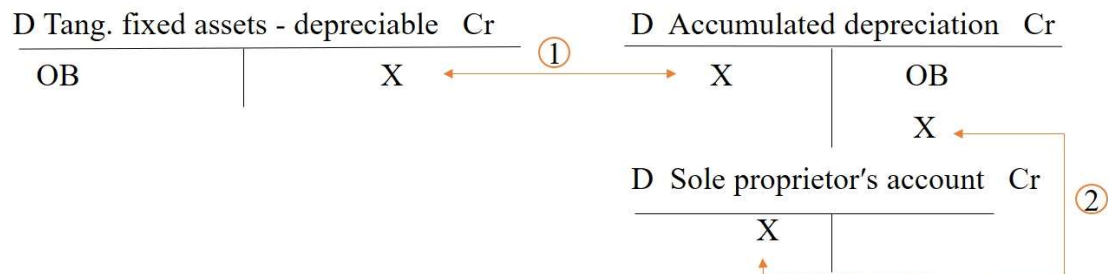


Source: own processing, 2022

1) Disposal in the entry price. 2) One-time write-off of the residual value.

Picture no. 31: Fixed asset disposal because of the transfer of business assets to personal property of the accounting unit or transfer to another corporation or cooperative

- Because of the transfer of business assets to personal property ... 08. / 02., 491 / 08.



Source: own processing, 2022

1) Disposal in the entry price. 2) One-time write-off of the residual value.



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

1. How would you define “tangible assets”?

A large, empty rounded rectangle with a thin black border, intended for the student to write their answer to the question above.

2. How would you define “intangible assets”?

A large, empty rounded rectangular box with a thin black border, intended for the user to write their definition of intangible assets.

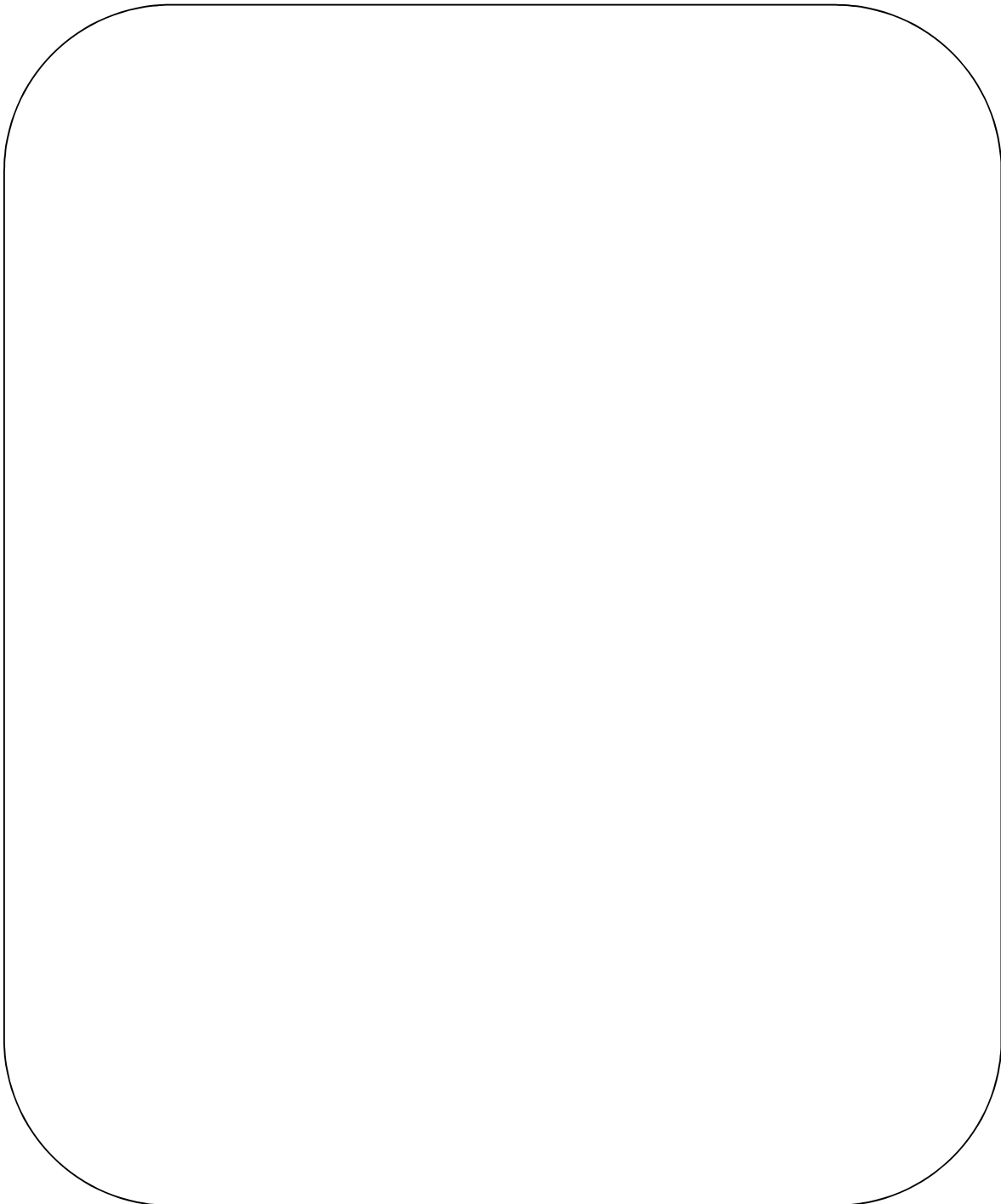
3. The accounting unit owns an administrative building (further information below). Count accounting and tax depreciation of this assets, use all suitable (and possible) methods (compile depreciation schedule).

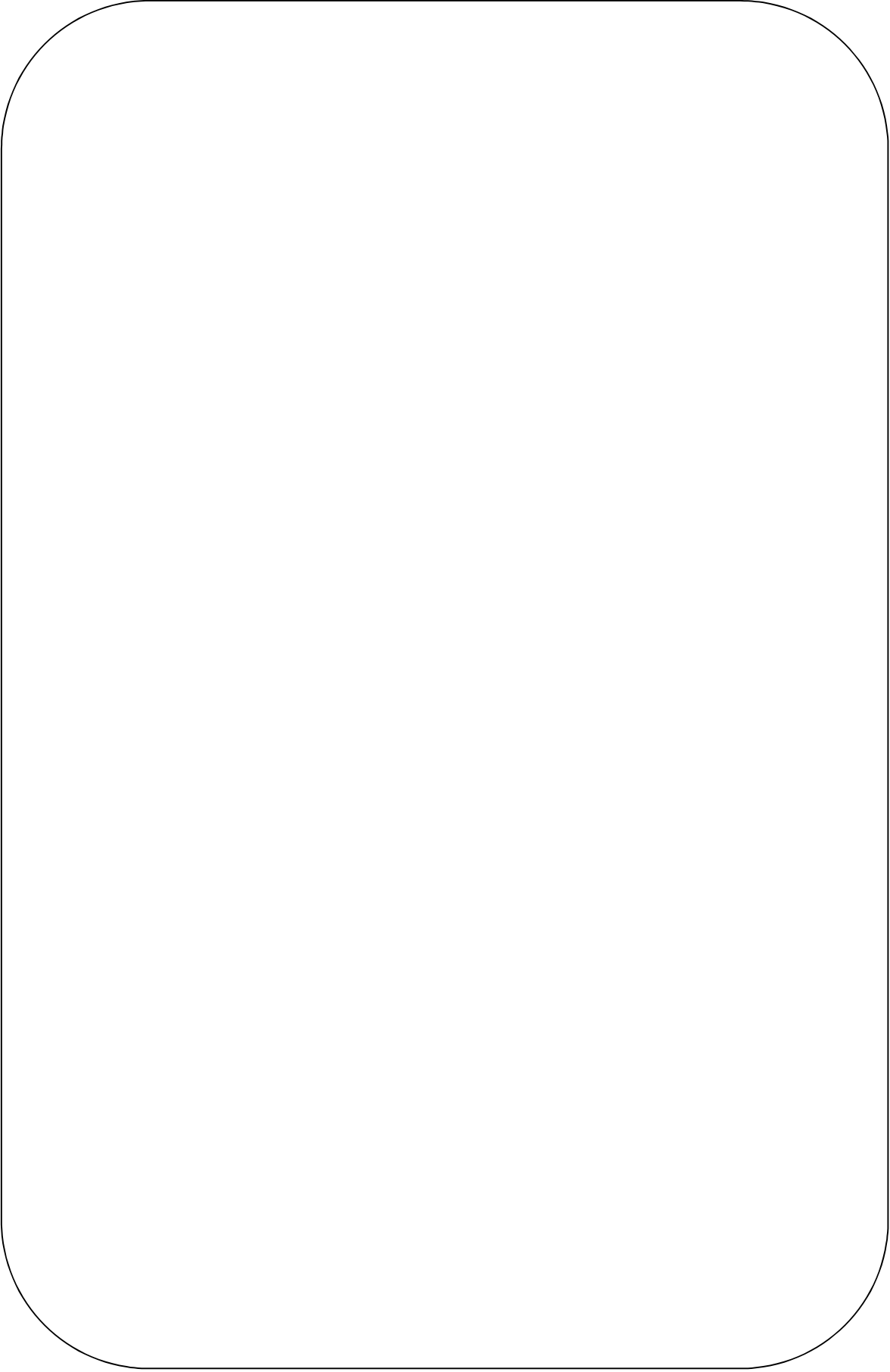
Building:

Purchase price ... CZK 1,550,000

Useful life ... 50 years

Put into use ... June, XXXX







Literature

Act No. 563/1991 Coll., Accounting Act (CZ).

Act by CNC No. 586/1992 Coll., Income Tax Act (CZ).

Czech accounting standards for accounting units that account in accordance with Decree No. 500/2002 Coll., as amended (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

TOPIC 6: LONG-TERM FINANCIAL ASSETS

After studying the topic, you should be able to:

- define and explain the concept of long-term financial assets,
- recognize this type of asset,
- assign the long-term financial assets to the relevant accounts,
- record simple accounting transactions using long-term financial asset's accounts.



Key words: account, assets, accounting schedule, balance sheet, fixed assets, non-current assets, evaluation, evaluation base, long-term assets.

Long-term financial assets

Financial asset can be defined as “liquid asset” that derives value from a contractual claim. Financial assets do not necessarily have physical form.

Types of financial assets:

- bank deposits,
- stocks,
- bonds,
- loans.

Long-term financial assets are different than tangible and intangible fixed assets. Long-term financial assets are usually intangible represented by agreement, usually a piece of paper. This asset may not have value until it is converted into cash, the value can fluctuate, especially in the case of stocks.

Characteristic features of long-term financial assets:

- property you can own,
- property of monetary value
(monetary value is derived from a contractual claim),
- useful life (intention to hold this asset) longer than 1 year.

Long-term financial asset is defined as the asset which is purchased by the accounting unit with the intention to be held for more than one year. It is expected that the accounting unit obtains benefits (dividends) from this ownership, but also the right to control management, participation on the liquidation balance, etc. These assets are intended to be used as a source of further benefits enabling extension or improvement of activities provided by accounting unit. (Their useful life period is expected to be longer than one year.)

Long-term financial assets are explained by the Decree No. 500/2002 Coll., as amended (§ 8) and by the Czech accounting standards (014, partially 008, 009). Evaluation of fixed assets is solved by the Accounting act (§ 25 and 27), by the Decree No. 500/2002 Coll., as amended (§ 48 and 51) and by the Czech accounting standards. Czech accounting standards solve also the accounting records related to long-term financial assets.

Long-term financial assets may therefore be also defined as long-term resources of financial nature hold by the company and recorded in the group of accounts with the number 06 - Long-term financial assets.

Decree No. 500/2002 Coll., as amended (§ 8) defines long-term financial assets this way:

“(1) The item “B.III.5. Other securities and shares” mainly contains shares that are not reported in the items “B.III.1. Shares - controlled and controlling organization” and “B.III.3. Shares - substantial influence”, debt securities for which the accounting entity has the intention and ability to hold them until maturity, as well as other long-term securities for which, as a rule, the intention of the accounting entity is not known at the time of acquisition. For the purposes of this decree, a debt security is a security of a credit nature, for example a bond with a fixed interest rate, a bond where the interest yield is determined by the difference between the nominal value and its lower issue rate, and a bill of exchange.”

“(2) The item “B.III.7.1. Other financial investments” mainly contains precious metals and stones, or objects made of precious metals and stones, if they are not reported in the item “B.II. Tangible fixed assets” or “C.I. Inventory”.”

“(3) The item “B.III.7.2. Advance payments for long-term financial assets” contains short-term and long-term advances and promissory notes provided

for the acquisition of long-term financial assets.”

Division of long-term financial assets according to the Czech accounting standards:

B.III. Long-term financial assets

B.III.1. Shares - controlled and controlling organization

2. Loans - controlled and controlling organization

3. Shares - substantial influence

4. Loans - substantial influence

5. Other securities and shares

6. Other loans

7. Other financial investments

7.1. Other financial investments

7.2. Advance payments for long-term financial assets

Controlled and controlling organization

Controlled and controlling organization is defined by the Act on business corporations (§ 22, par. 1-4):

“It is considered that the controlling organization is an organization that can appoint or remove the majority of organizations that are members of the statutory body of a business corporation or organizations in a similar position or members of the control body of a business corporation of which it is a partner, or can this appointment or appeal enforce.

It is considered that the controlling organization is the one that disposes of a share of voting rights representing at least 40 % of all votes in the business corporation, unless the same or a higher share is disposed of by another organization or other organizations acting in agreement.

Organizations acting in agreement that together dispose of a share of voting rights representing at least 40 % of all votes in a business corporation are deemed to be controlling organizations, unless the same or a greater share is disposed of by another organization or organizations acting in agreement.

It is considered that the controlling organization or organizations is also the organization that, alone or together with the organizations acting with it in agreement, disposes of a share of voting rights representing at least 30 % of all votes in the business corporation and that this share represented at the last 3

consecutive meetings of the highest body of this organization more than half of the voting rights of the organizations present.”

Substantial influence

Substantial influence is defined by the Accounting act (§ 22, par. 5):

“Substantial influence means such a significant influence on the management or operation of the accounting unit, which is neither decisive nor common; unless proven otherwise, a disposition with at least 20 % of the voting rights is considered to have significant influence.”

Evaluation of long-term financial assets

- Purchase price
-
- Fair value
- Equivalence (counter value)

Long-term financial assets are evaluated at the date of acquisition using purchase price. These assets are recorded directly to individual asset accounts. With respect to legislative standards at the end of the balance sheet date the accounting unit has to revalue long-term financial assets by fair value or equivalence.

Fair value is market price determined in an active market, qualified estimate or an expert's opinion, valuation determined by special legal regulations. It is used for assets recorded to account 063.

Equivalence (counter value) is used for evaluation of assets recorded to accounts 061, 062. This method is used for the revaluation of equity investments (or significant influence on decision making in other legal entity). Equivalence represents the equivalent based on company's share in controlled or controlling organization.

Accounting on long-term financial assets

There are several options how to acquire long-term financial assets:

- By purchase of securities.
- By gift or other free transfer.
- Deposit of long-term assets from another person.
- By granting a loan.
- By transferring funds to long-term deposits.

The acquisition of long-term financial asset is recorded to the debit side of the relevant account of accounting group 06 - Long-term financial assets and to the credit side of corresponding account, for example, accounts of accounting group 37.



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

1. How would you define “long-term financial assets”?

A large, empty rounded rectangle with a thin black border, intended for the student to write their answer to the question above.

2. How would you evaluate “long-term financial assets”?

3. Record the transactions below to the relevant accounts.

| No. | Transaction | Debit | Credit |
|-----|---|-------|--------|
| 01 | Purchase of shares | | |
| 02 | Payment for purchased shares (bank account) | | |
| 03 | Obligation to pay dividends | | |
| 04 | Tax deduction from profit share | | |
| 05 | Dividend payment from a bank account | | |
| 06 | Entitlement to receive dividends | | |
| 07 | Receiving dividends to the bank account | | |
| 08 | Sale of shares - selling price (controlled and controlling organization) | | |
| 09 | Disposal of securities (in purchase price) | | |



Literature

Act No. 90/2012 Coll., Act on Business Corporations (CZ).

Act No. 563/1991 Coll., Accounting Act (CZ).

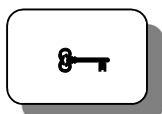
Czech accounting standards for accounting units that account in accordance with Decree No. 500/2002 Coll., as amended (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

TOPIC 7: INVENTORY

After studying the topic, you should be able to:

- define and explain the concept of inventory,
- recognize this type of asset,
- assign the individual current assets to the “inventory” class of accounts,
- record simple accounting transactions using inventory accounts.



Key words: account, assets, current assets, evaluation, evaluation base, inventory, short-term assets.

Inventory

Inventory belongs to current assets as explained in previous text in picture no. 17. It is a kind of asset which useful life (turnover time) is shorter than one year. Current (short-term) asset should be explained as an asset that is to be sold, converted to cash, or liquidated to pay for liabilities within one year. Inventory represents one of the most important assets of a business. Turnover of inventory represents one of the primary sources of revenue generation and subsequent earnings for the company's shareholders.

Inventory is explained by the Decree No. 500/2002 Coll., as amended (§ 9) and by the Czech accounting standard (015 and partially 005, 007). Evaluation of inventory is solved by the Accounting act (§ 25 and 26).

Decree No. 500/2002 Coll., as amended (§ 9) defines individual items belonging to the inventory. This division is described in the following text. Decree also focuses on treating with inventories and sets two approaches to recording transactions related to inventory, evidence of inventory by method A (continuous) and method B (periodic).

Inventory is recorded in the account class 1 - Inventory. (Inventory account is visible in Picture no. 32.) In the same class are also recorded “minor tangible fixed assets”, those assets that don't meet the requirement of entry price necessary

for recording these items to fixed assets (accounting class 0).

Picture no. 32: Inventory account

| Debit | Inventory account | Credit |
|--|-----------------------------------|--------|
| Opening balance (OB) Purchase Production Closing balance (CB) | Consumption Sale | |

Source: own processing, 2022

Division of inventory according to the Czech accounting standards

Accounting standard 015 divides inventory as follows:

C.I. Inventory

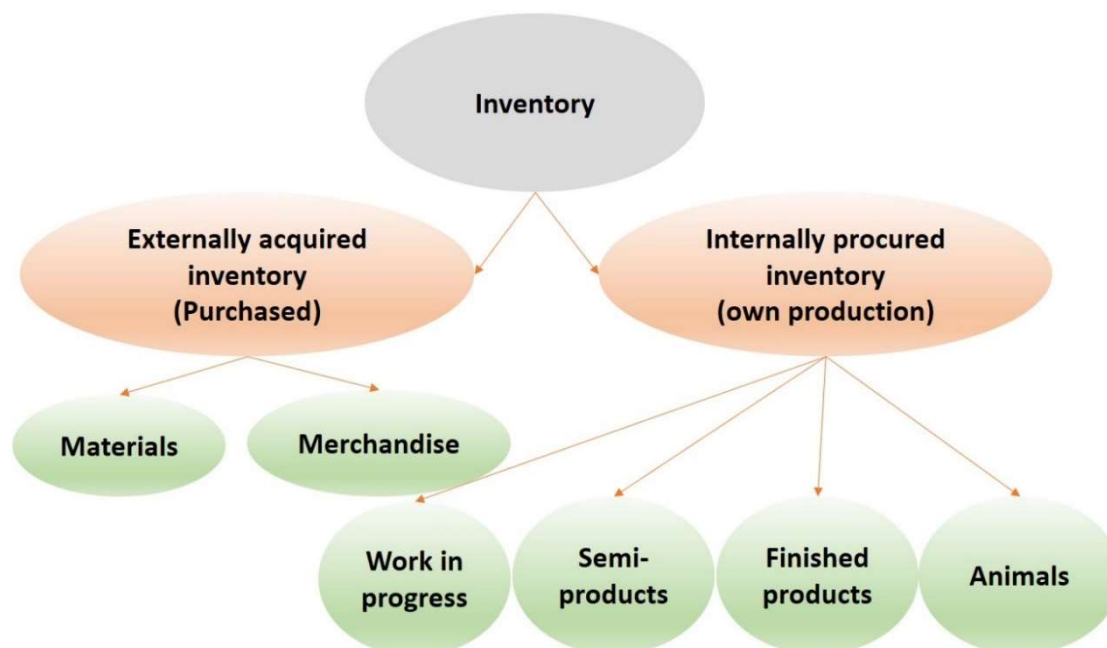
C.I.1. Materials

2. Work in progress and semi-products
3. Finished products and merchandise
 - 3.1 Finished products
 - 3.2 Merchandise
4. Animals
5. Advance payments for inventory

Classification of inventory according to its acquisition

Inventory is usually divided also with respect to the way of its acquisition as visible in the following picture (Picture no. 33).

Picture no. 33: Inventory by its acquisition



Source: own processing, 2022

Externally acquired inventory (purchased inventory)

Materials:

To materials belong raw materials (basic material used in production process), auxiliary substances used in production, substances needed to ensure the operation of the accounting unit (lubricants, fuel, cleaning agents), spare parts, packaging and packaging materials, other movables with a useful life of one year or less (regardless of the valuation amount), minor tangible assets, experimental animals.

Merchandise:

To merchandise belong movable property and animals, acquired for the purpose of sale, if the accounting unit trades in these property and animals.

Internally procured inventory (own production)

Work in progress:

Work in progress represents products that have gone through one or more stages of production and are no longer materials, but are not yet finished products. This item also includes unfinished activities that do not result in tangible products.

Semi-products:

Semi-products represent separately registered products, semi-finished products, that have not yet passed through all the production stages and will be completed or completed into finished products in the next production process of the accounting unit.

Finished products:

To finished products belong self-produced items intended for sale or consumption within the accounting entity.

Animals:

To animals belong animals and their groups, including slaughter animals, which are not reported in the items “B.II.4.2. Breeding and draught animals”, “C.I.1. Materials” and “C.I.3.2. Merchandise”.

Evaluation of inventory

Externally acquired inventory (purchased inventory) evaluation

1) Purchase price

(The acquisition costs + related costs)

Related costs include for example transportation fee, customs and insurance, costs of adjustments to stored inventory.

Related costs don't include for example exchange rate differences or contractual penalties and interest for delay.

2) Reproduction purchase price (Replacement cost)

Internally procured inventory (own production) evaluation

1) Own costs

Evaluation of inventory decreases (consumption)

In the case of the same type of inventory is used one of the following evaluation methods:

- weighted arithmetic average,
- FIFO. (Method where the first price for the valuation of the asset increase is used as the first price for the valuation of the loss of the asset.)

Inventory - inventory differences

The **inventory process** determines the actual state of all assets and liabilities and verifies whether the established actual state corresponds to the state of assets and liabilities in accounting.

“Inventory differences mean differences between the actual state and the state in accounting, which cannot be proven in the manner established by the Accounting act, when:

- the actual balance is lower than the balance in the accounting and the difference is referred to as a shortage, or a deficit for cash and valuables, or
- the actual balance is higher than the balance in the accounts and the difference is referred to as a surplus.” (Accounting act, § 30)

Inventory differences:

Identified can be these inventory differences:

- shortage to the norm of natural losses (*recorded as standard consumption ... 50.*),
- shortage above the norm of natural losses (*recorded as shortages and losses from operating activities ... 549 or exceptional operating expenses ... 547 (in a case of natural disaster)*),
- surpluses (*recorded as other operating revenues ... 648*).

Acquisition of inventory - accounting records

Externally acquired inventory (purchased inventory) - accounting records

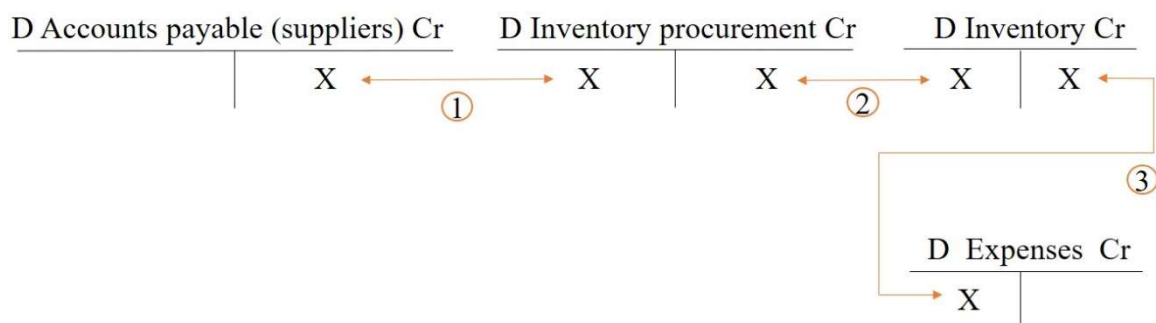
There are two methods for recording transactions related with the external purchase of inventory, method A and method B.

Method A (continuous)

Inventory accounts are used to recording all transactions related to inventory during the whole accounting period. (See picture no. 34.)

Picture no. 34: Inventory accounting - method A (without VAT)

- (1) 1.. / 3.. invoice received; (2) 1.. / 1.. receipt; (3) 5.. / 1.. delivery note.



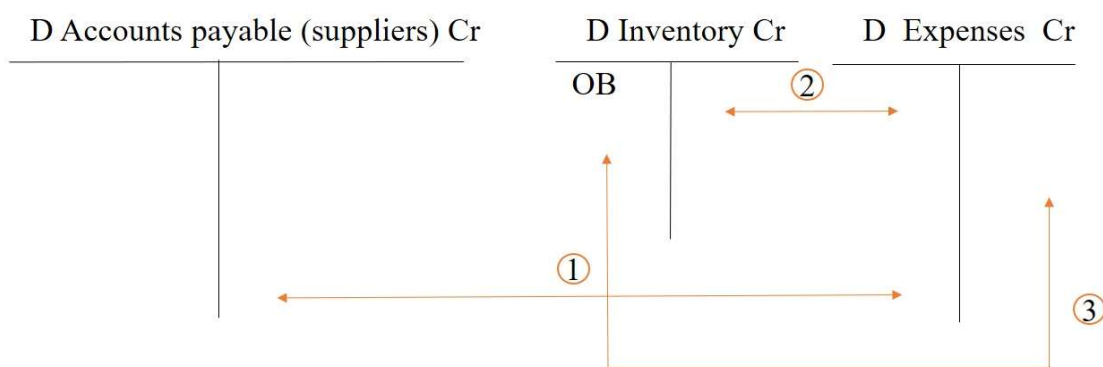
Source: own processing, 2022

Method B (periodic)

It represents recording of invoices received (IR/“FAP”) directly to costs. Costs are corrected at the end of the accounting period for a Change in inventory (58.). (See picture no. 35.)

Picture no. 35: Inventory accounting - method B (without VAT)

- (1) 5.. / 3.. invoice received (during the accounting period);
- (2) 5.. / 1.. transfer of OB (end of accounting period);
- (3) 1.. / 5.. transfer of CB (end of accounting period).



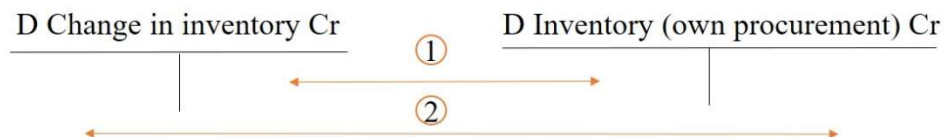
Source: own processing, 2022

Internally procured inventory (own production) - accounting records

Recording transactions related with the own production of inventory are shown in the following picture. (See picture no. 36.)

Picture no. 36: Inventory - own production

- (1) 1.. / 58. increase in inventory (by own production);
- (2) 58. / 1.. decrease in inventory (of own production).



Source: own processing, 2022

End of accounting period - specific accounting records related to inventory

2 specific situations can be identified:

1) We have documents, but material has not arrived yet.

(It is necessary to use account Material in transit.)

Method A:

Material in transit / Material procurement

Method B:

Material consumption was recorded. (Consumed material / Accounts payable)

End of the accounting period ... Material in transit / Consumed material

2) The inventory arrived, but invoices for supplies are not available.

(It is necessary to use Estimated accrued expenses.)

Method A:

Expected income (Material procurement / Estimated accrued expenses)

Next accounting period ... Estimated accrued expenses / Accounts payable) ...

I have the invoice currently.

Method B:

Expected income (Consumed material / Estimated accrued expenses)

Next accounting period ... Estimated accrued expenses / Accounts payable) ...

I have the invoice currently.



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

1. How would you define and divide “inventory”?

A large, empty rounded rectangle with a thin black border, intended for the student to write their answer to the question above.

2. How would you record transactions related to own production of inventory?



3. Record the following accounting transactions (example focused on inventory).

In selected project office were during the financial year recorded following movements of office paper dividers:

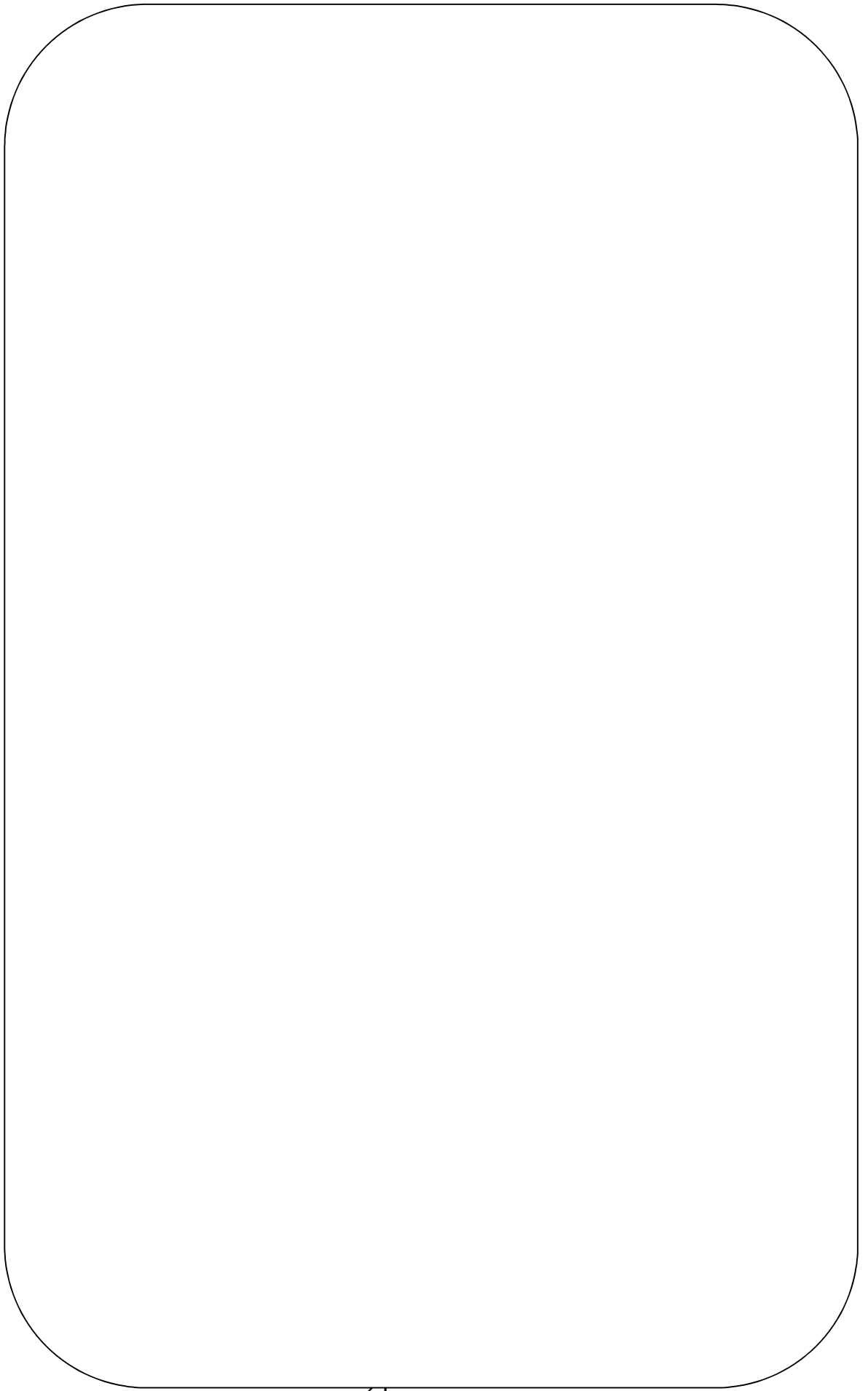
- a) Invoice for supply A, 40 boxes - CZK 420 per box, transportation - 500 CZK. (VAT ... CZK 3,633)
- b) Invoice for supply B, 95 boxes - CZK 380 per box, transportation - 300 CZK. (VAT ... CZK 7,644)
- c) To the warehouse was received in order delivery A (In accordance with invoiced data).
- d) The invoice for supply of C, 50 boxes - CZK 400 per box, transportation CZK 600. (VAT ... CZK 4,326)
- e) Acceptance of supply C (50 boxes) by the warehouse.
- f) Acceptance of supply B.
- g) Office paper dividers consumption - CZK 50,000.

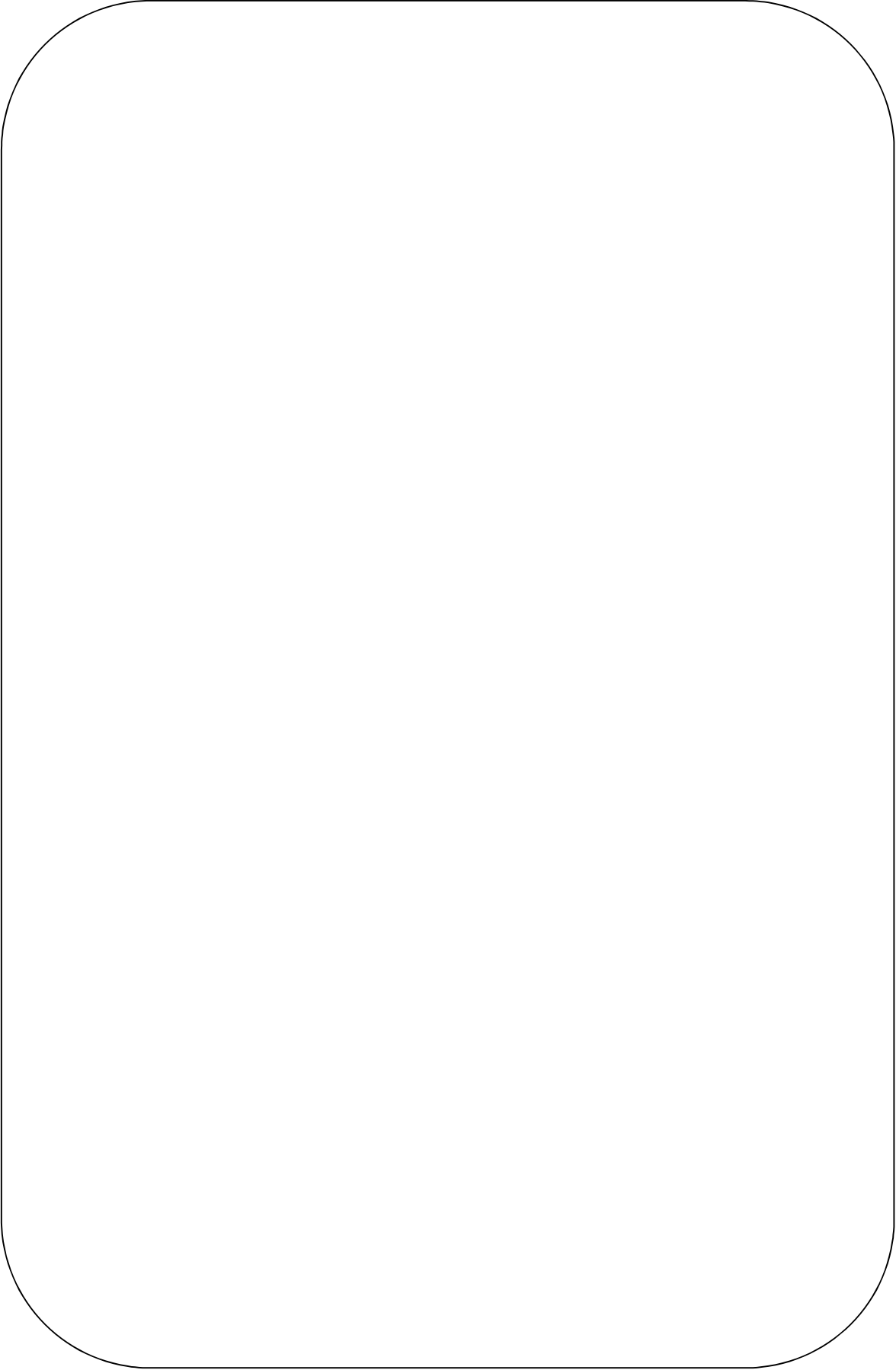
Use both ways of inventory evidence.

At the beginning of the accounting period, there were no office paper dividers, final supply of inventory was in accordance with control CZK 24,300.

How will the records change, if during the period did not happen transaction e)?

How will the records change, if during the period did not happen transaction d)?





4. Record the transactions below to the relevant accounts.

| No. | Accounting transaction | Document | CZK | D | Cr |
|-----|--|----------------|---------|---|----|
| 01 | Unfinished products - warehouse receipt | IAD | 420,000 | | |
| 02 | Decrease of 6,000 pieces of unfinished prod. | IAD | 400,000 | | |
| 03 | Completion of 6,000 products | IAD | 400,000 | | |
| 04 | Decrease of 5,000 products | IAD | 380,000 | | |
| 05 | Invoice to supplier for sold products (5,000 pieces) | Invoice issued | 500,000 | | |

5. Record the following accounting transactions (example focused on inventory).

Opening balance of material in stock is CZK 15,000. The supply amounts to 1,500 kg of material. During the accounting period arise these transactions:

- Accepted to the store - 150 kg of material.
- Material cost is CZK 1,650; delivery is CZK 150 (Supply A).
- Invoice for the second delivery of material - CZK 1,800.
- Receipt of material - 600 kg of material.
- Expected price CZK 5,460, CZK 1,200 transport (Supply B).
- Invoice per 65 kg of material per 780 CZK (Supply C).
- Total material consumption is 1,650 kg.

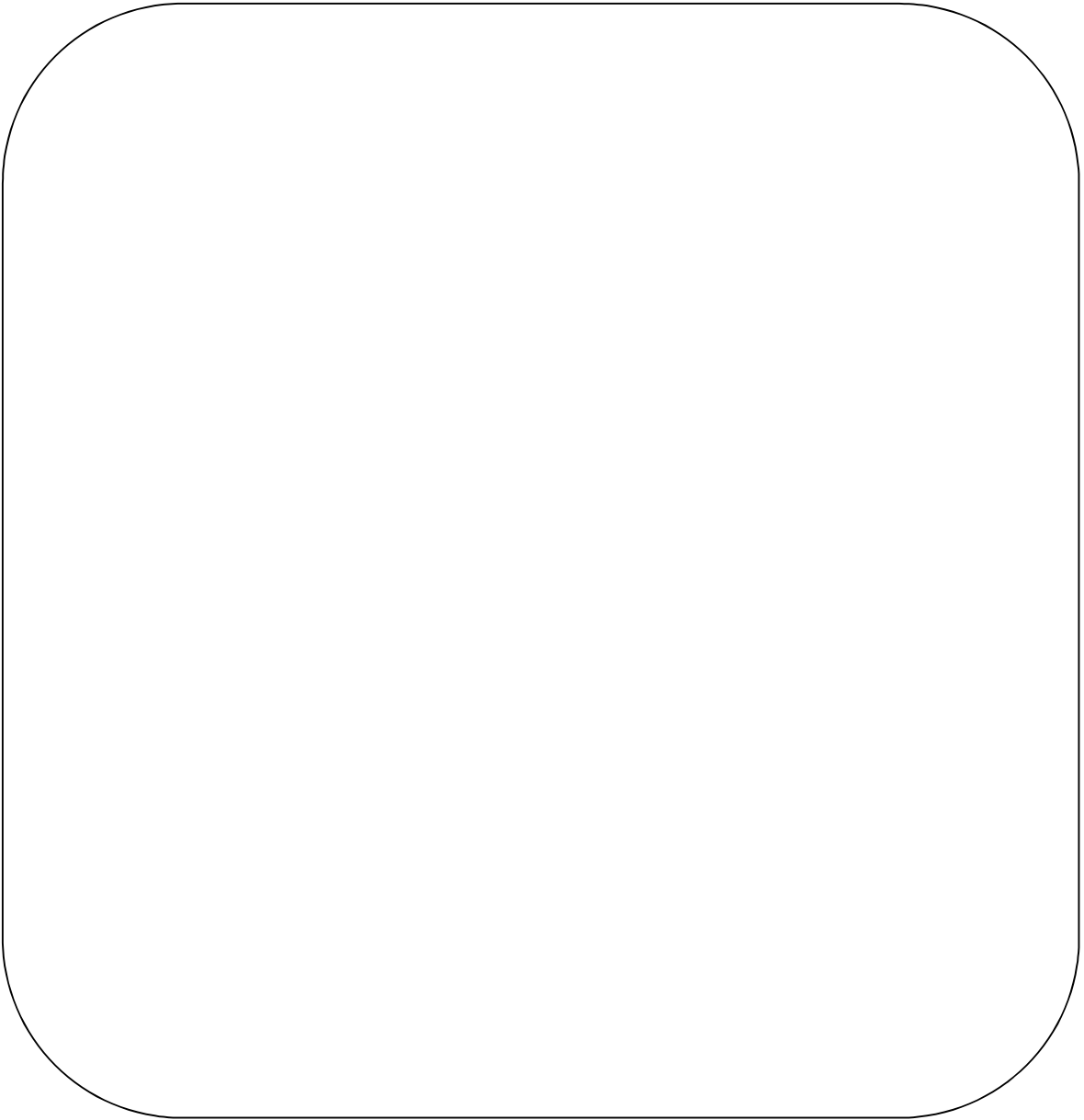
Record to the relevant accounts referred carrying cases and calculate the value of consumed material in the following ways:

a) FIFO

b) a weighted average,

c) LIFO.

Record to the relevant accounts also accounting transactions at the end of accounting period. (Do not include VAT.)



6. Record the following accounting transactions (example follows the previous example).

Stock-taking detected current state of material in stock is 500 kg, standard natural decrease of consumption is 5%. Record to the accounts inventory differences of material assuming valuation of material consumption by:

- a) FIFO,
- b) a weighted average,

- c) LIFO.

Accounting state: 600 kg
 Current state: 500 kg
 Shortages: 100 kg
 Natural decrease: $0.05 \times 1\ 650 = 82.5$ kg
 Caused shortages: $100 - 82.5 = 17.5$ kg

| Evauation method | Consumption | Shortages to standards | Shortages above standards |
|-------------------------|--------------------|-------------------------------|----------------------------------|
| FIFO | | | |
| Weighted average | | | |
| | | | |
| LIFO | | | |



Literature

Act No. 563/1991 Coll., Accounting Act (CZ).

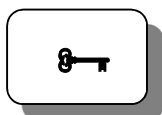
Czech accounting standards for accounting units that account in accordance with Decree No. 500/2002 Coll., as amended (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

TOPIC 8: SHORT-TERM FINANCIAL ASSETS, CASH AND SHORT-TERM LIABILITIES

After studying the topic, you should be able to:

- define and explain the concept of short-term financial assets and short-term liabilities,
- recognize this type of asset or liability,
- assign the individual assets to the “short-term financial assets” class of accounts,
- assign the individual liability to the “short-term payables” groups of accounts,
- record simple accounting transactions using above mentioned accounts.



Key words: account, assets, cash, current assets, current liabilities, evaluation, evaluation base, payables, short-term assets, short-term liabilities.

Short-term financial assets and cash

Similarly as inventory, it is a kind of asset which useful life (turnover time) is shorter than one year. Current (short-term) asset should be explained as an asset that is to be sold, converted to cash, or liquidated to pay for liabilities within one year. Short-term financial assets and cash are explained by the Decree No. 500/2002 Coll., as amended (§ 12 and § 12a) and by the Czech accounting standard (016). Evaluation of these items is solved by the Accounting act (§ 25).

Decree No. 500/2002 Coll., as amended (§ 12) defines individual items belonging to the **short-term financial assets** as “securities that the accounting entity holds for the purpose of trading with the aim of reaching profit from price differences in the short term horizon, no more than twelve months, debt securities with a maturity of one year or less, for which the accounting entity has the intention and ability to hold them until maturity, and other short-term securities and shares, for which the intention of the accounting entity is not known at the time of acquisition. Purchased warrants are also reported here.”

Decree No. 500/2002 Coll., as amended (§ 12a) defines individual items belonging to the **cash** as “money in the cash register and valuables, or money in transit related to this item” and **bank accounts** as “closing balances of funds in accounts, especially in banks or in savings and credit cooperatives, or money in transit related to this item”.

The passive (negative) balance of the bank account at the end of the balance sheet day represents then the content of short-term liabilities “payables to banks”.

Short-term financial assets and cash are recorded in the account class 2 - Short-term financial assets and cash. These assets are evaluated using in the case of cash and bank accounts nominal value and in the case of short-term financial assets purchase price.

Division of short-term financial assets and cash according to the Czech accounting standards

Accounting standard 016 divides **short-term financial assets** as follows:

C.III. Short-term financial assets

C.I.1. Shares - controlled and controlling organizations

2. Other short-term financial assets

Accounting standard 016 divides **cash** as follows:

C.IV. Cash and bank accounts

C.IV.1. Cash

2. Bank accounts

Money in cash register are reported in the local currency (CZK) or foreign currency (money in cash). For foreign currency is usually used analytical evidence.

Currency conversion:

- Initial reporting - at the exchange rate of the Czech National Bank or commercial banks (daily, fixed).
- To the balance sheet date - at the exchange rate of the Czech National Bank to the balance sheet date.

Bank account - local currency (CZK) or foreign currency (money in bank account). Currency conversion works the same way as when dealing with cash. Analytical evidence - by the currencies used or bank institutions.

Short-term liabilities

Short-term financial liabilities are explained by the Decree No. 500/2002 Coll., as amended (§ 18) and by the Czech accounting standard (016). Evaluation of these items is solved by the Accounting act.

Decree No. 500/2002 Coll., as amended (§ 18) defines individual items belonging to the **short-term liabilities** as:

“C.II. Short-term payables including debts that, at the moment when the financial statements are prepared, have a maturity of one year or less.”

The definition of the content of short-term liabilities is similar to the definition of the content of long-term liabilities.

Short-term liabilities are recorded in the account class 2 - Short-term financial assets and cash, in the groups 23 - Short-term loans and 24 - Short-term financial assistance. These liabilities are evaluated using nominal value.

Division of short-term liabilities according to the Czech accounting standards

Accounting standard 016 divides **short-term liabilities** as follows:

A.I.2. Ownership interests

C.II.2. Payables to banks

C.II.8.2. Short-term assistance

Long-term liabilities to credit institutions with a residual maturity of one year or less (item “C.II.2. Payables to banks”) are solved by the Czech accounting standard 018 - Capital accounts and long-term payables.



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

1. How would you divide “short-term financial assets” and “cash”?

2. How would you define and divide “short-term liabilities”?

3. Record the transactions below to the relevant accounts.

| No. | Transaction | Document | D | Cr |
|------------|--|------------------------|----------|-----------|
| 01 | Withdrawal of cash from a current account to the cash register | Income cash voucher | | |
| 02 | Withdrawal of cash from a current account to the cash register | Bank account statement | | |
| 03 | Purchase of post stamps | Receipt of expenditure | | |
| 04 | Received revenue for services in cash | Income cash voucher | | |
| 05 | VAT to received revenue for services in cash | Income cash voucher | | |
| 06 | Purchase of gasoline for cash | Receipt of expenditure | | |
| 07 | VAT to purchase of gasoline for cash | Receipt of expenditure | | |
| 08 | Payment of wages in cash | IAD (payroll) | | |



Literature

Act No. 563/1991 Coll., Accounting Act (CZ).

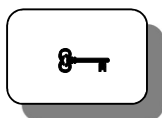
Czech accounting standards for accounting units that account in accordance with Decree No. 500/2002 Coll., as amended (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

TOPIC 9: ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE

After studying the topic, you should be able to:

- define and explain the concept of receivables (accounts receivable) and payables (accounts payable),
- recognize this type of asset or liability,
- assign the individual assets to the “accounts receivable”,
- assign the individual liability to the “accounts payable”,
- record simple accounting transactions using above mentioned accounts.



Key words: account, assets, liabilities, evaluation, payables, receivables.

Accounts receivable

Accounts receivable represent current (short-term) asset. Receivables are explained by the Decree No. 500/2002 Coll., as amended (§ 5, 10, 11 and 13) and by the Czech accounting standard (017). Evaluation of these items is solved by the Accounting act.

Receivables are explained by Kopek et al. (2009) as “the right of creditor to demand a certain performance from the debtor”.

Decree No. 500/2002 Coll., as amended (§ 5, 10, 11 and 13) defines individual items belonging to the **receivables** as:

“A. Receivables from subscriptions - receivables from subscribers and partners of the business corporation arising from the obligation to repay the contribution to the share capital and subscribed unpaid shares”.

Item C.II. Receivables is described as receivables that, at the time of financial statements compilation, have a maturity of more than one year, and a deferred tax receivable; and receivables that, at the moment when the financial statements are compiled, have a maturity of one year or less.

To receivables belong also items C.II.3. Accruals and D. Accruals. Accounting unit can select reporting of related transactions in part C.II.3 or D, but these approaches can not be combined.

Receivables are recorded in the account class 3 - Accounts receivable and short-term payable. These assets are evaluated using nominal value or purchase price.

Evaluation of receivables:

- at the time of creation ... nominal value,
- when acquired for consideration or deposit ... purchase price.

Further division of receivables is visible in the following part of study support.

Division of receivables according to the Czech accounting standards

Accounting standard 017 divides **receivables** as follows:

A. Receivables from subscriptions

C.II. Receivables

C.II.1. Long-term receivables

C.II.1.1. Trade receivables

1.2. Receivables - controlled and controlling organization

1.3. Receivables - accounting units with substantial influence

1.4. Deferred tax receivable

1.5. Other receivables

1.5.1. Receivables from partners

1.5.2. Long-term deposits given

1.5.3. Estimated receivable

1.5.4. Other receivables

C.II.2. Short-term receivables

C.II.2.1. Trade receivables

2.2. Receivables - controlled and controlling organization

2.3. Receivables - accounting units with substantial influence

2.4. Other receivables

2.4.1. Receivables from partners

2.4.2. Receivables from social security and health insurance

2.4.3. Due from state - tax receivable

2.4.4. Short-term deposits given

2.4.5. Estimated receivable

2.4.6. Other receivable

C.II.3. Accruals

C.II.3.1. Deferred expenses

3.2. Complex deferred costs

3.3. Deferred income

D. Accruals

D.1. Deferred expenses

2. Complex deferred costs

3. Deferred income

Accounts payable

Accounts payable represent liabilities. Payables are explained by the Decree No. 500/2002 Coll., as amended (§ 17, 18 and 19) and by the Czech accounting standard (017). Evaluation of these items is solved by the Accounting act.

Payables are explained by Kopek et al. (2009) as “obligation of the debtor to fulfill something”.

Decree No. 500/2002 Coll., as amended (§ 17, 18 and 19) defines individual items belonging to the **payables** as:

“C.I. Long-term paybles - includes debts that, at the time the financial statements are compiled, have a maturity of more than one year and deferred tax debt.”

“C.II. Short-term payables - includes debts that, at the time the financial statements are compiled, have a maturity of one year or less.”

To payables belong also items C.III. Accruals and D. Accruals. Accounting unit can select reporting of related transactions in part C.III. or D, but these approaches can not be combined. Selected approach to accruals reporting has to be the same approach as that selected for reporting accruals on the side of receivables.

Payables are recorded in the account class 3 - Accounts receivable and short-term payable. These liabilities are avaluated using nominal value.

Further division of payables is visible in the following part of study support.

Division of payables according to the Czech accounting standards

Accounting standard 017 divides **payables** as follows:

C.I.9.2. Estimated payables

C.II. Short-term payables

C.II.1. Issued bonds

1.1. Exchangeable obligations

1.2. Other bonds

2. Payables to banks

3. Short-term deposits received

4. Trade payables

5. Short-term notes payables

6. Payables - controlling and controlled organizations

7. Payables - accounting units with substantial influence

8. Other payables

8.1. Payable to partners

8.2. Short-term assistance

8.3. Payroll

8.4. Payables to social securities and health insurance

8.5. Due from state - tax liabilities and subsidies

8.6. Estimated payables

8.7. Other payables

C.III. Accruals

C.III.1. Accrued expenses

C.III.2. Deferred revenues

D. Accruals

D.1. Accrued expenses

2. Deferred revenues

Selected transactions reported under receivables or payables

Material - changes in the state of the stock

(119-Material in transit and 139-Merchandise in transit)

These accounts are used when closing the accounting books (both accounting methods for inventory records, A and B) for posting inventory that the accounting unit has not yet taken over, but already has an invoice (proof of purchase). Examples are shown in the following chart (Chart no. 3).

Chart no. 3: Material - changes in the state of stock

| Transaction | Document | D | Cr |
|---|------------------|------------------------------|------------------------------|
| Recording the invoice for the delivered material, which the accounting unit has not yet taken over. | Invoice received | (119) Material in transit | (321) Accounts payable |
| Accounting for material that is now delivered and put on the stock (method A). | IAD | (112) Material in stock | (119) Material in transit |
| Accounting for material that is now delivered and put on the stock (method B)- | IAD | (501) Consumed material | (119) Material in transit |

Source: own processing, 2022

Advance payments (deposits)

Advance payments received - receivables (the accounting unit obtained money from the third party).

Advance payments provided - payables (the accounting unit sent money to the third party).

The moment of realization of the accounting case is the day on which the advance and promissory note are provided or received. The accountant has just to register advance payments, advance payment will be recorded to the relevant accounts only after money is received or provided (after money movements). See Chart no. 4 and 5.

Chart no. 4: Advance payments - received

| Transaction | Document | D | Cr |
|--|--|------------------------------------|------------------------------------|
| Advance payment received , received money from the customer for an operational advance. | Income cash voucher, Bank account statement | (211, 221) Cash, bank account | (324) Advance payments received |
| Accounting for service provided by our company: | | | |
| A) received advance payments - offsetting | Invoice issued | (324) Advance payments received | (602) Revenues from services |
| B) additional payment - prescription | Invoice issued | (311) Accounts receivable | (602) Revenues from services |
| C) additional payment obtained in cash | Income cash voucher | (211) Cash | (311) Accounts receivable |

| Transaction | Document | D | Cr |
|--|----------|--|--|
| Exchange rate loss differences when closing the accounting books | IAD | (563) Foreign Exchange losses | (324) Advance payments received |
| Exchange rate loss differences when closing the accounting books | IAD | (324) Advance payments received | (663) Foreign Exchange gains |

Source: own processing, 2022

Chart no. 5: Advance payments - provided

| Transaction | Document | D | Cr |
|--|------------------------|--|--|
| Advance payment for services - provided | Bank account statement | (314) Advance payments provided | (221) Bank account |
| Accounting for service delivery (energies): | | | |
| A) provided advance payments - offsetting | Invoice received | (502) consumed energy | (314) Advance payments provided |
| B) rest of the price - prescription | Invoice received | (502) consumed energy | (321) Accounts payable |
| C) additional payment from bank account | Bank account statement | (321) Accounts payable | (221) Bank account |

Source: own processing, 2022

Estimated accrued revenues and Estimated accrued expenses

These accounts are used in cases when time and purpose of transaction is known, but the amount is not known. They replace receivables and payables that belong to the current accounting period, but are not specified by the external document, therefore it is necessary to use for their recording internal document (f.e.: compensation for damage by the insurance company).

Penalties and interest on late payment

To record contractual penalties and interest on late payment are used accounts 544-Contractual penalties and interest on late payments (related with expenses) and 644-Contractual penalties and interest on late payments (related with revenues).

Accounting on relations with the state budget

These are transactions as represented by recognition of tax obligations towards the state (they mean expenses for the accounting unit) and subsidies provided from the state budget (they mean revenue for the accounting unit or decrease of purchase price used for calculation of depreciation of the asset if the subsidy is for purchase of long-term asset).



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

1. How would you define and divide “receivables”?

A large, empty rounded rectangle with a thin black border, intended for the student to write their answer to the question above.

2. How would you define and divide “payables”?

A large, empty rounded rectangular box with a thin black border, intended for the student to write their answer to the question above.

3. Record the transactions below to the relevant accounts.

| No. | Transaction | Document | D | Cr |
|------------|---|-----------------------------------|----------|-----------|
| 01 | Settlement of inventory destroyed by fire - current accounting period | Delivery note | | |
| 02 | Claim for the insurance company - current accounting period | IAD | | |
| 03 | Next accounting period - awarded compensation for damages | Document by the insurance company | | |
| 04 | Next accounting period - canceling an estimated accrued revenues | Document by the insurance company | | |
| 05 | Next accounting period - accounting for difference | Document by the insurance company | | |
| 06 | Next accounting period - receipt of compensation to the bank account | Bank account statement | | |
| 07 | Creditor assessed the contractual penalty | IAD | | |
| 08 | Penalty payment from the bank account | Bank account statement | | |
| 09 | Corporate income tax regulation | IAD | | |
| 10 | Corporate income tax payment | Bank account statement | | |



Literature

Act No. 563/1991 Coll., Accounting Act (CZ).

Czech accounting standards for accounting units that account in accordance with Decree No. 500/2002 Coll., as amended (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

Kopek, R., Černá, M., & Plachá, D. (2009). *Účetnictví podnikatelů pro distanční studium I. (Accounting of entrepreneurs for distance learning I)*. ZČU v Plzni.

TOPIC 10: EQUITY, LONG-TERM PAYABLES

After studying the topic, you should be able to:

- define and explain the concept of equity and long-term payables,
- recognize equity and long-term payables,
- assign the individual liabilities to the “liability accounts”,
- record simple accounting transactions using above mentioned accounts.

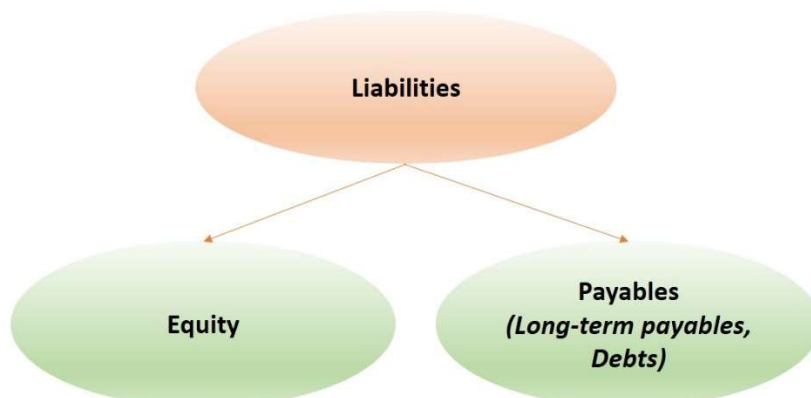


Key words: accounting, accounting act, accounting system, equity, liabilities, long-term payables, ownership.

Liabilities

Term that has to be mentioned once more at the beginning of this chapter is the term “Liabilities”. Liabilities represent the sources covering the property of the accounting unit. Accounting as a system structures liabilities by their origin. It is therefore possible to explain them also as economic resources divided primarily by their origin (type of their ownership by accounting entity) to foreign (payables, debts) and own (equity). See picture no. 37.

Picture no. 37: Liabilities - division



Source: own processing, 2022

Capital accounts and long-term payables

Capital accounts and long-term payables include items like equity and “foreign sources” (payables, debts). These items are explained by the Decree No. 500/2002 Coll., as amended (§ 14, 14a, 15, 15a, 17, 18 and 54-54b) and by the Czech accounting standard (018). Evaluation of these items is solved by the Accounting act. Czech accounting uses for them nominal value. In accounting, the value of liabilities must always be stated in CZK. (Necessary is revaluation of these liabilities by foreign exchange market rate announced by the Czech National Bank.)

Basic division of these liabilities is division to:

- **Equity**
(Registered capital, share premium and capital funds, funds from earnings, profit/loss - previous years, profit/loss - current year, decided on advance for payment of a profit share.)
- **Payables**
(Long-term payables.)

Equity and payables are recorded using the account class 4 - Capital accounts and long-term payables.

Equity represents the value of an asset less the value of all liabilities on that asset.

$$\text{Equity} = \text{Assets} - \text{Liabilities} \quad (16)$$

Because of the variety of types of assets that exist, this definition can have different meanings when referring to different kinds of assets. (Selected forms of equity: registered capital, shares, funds from earnings, profit, loss.)

Equity represents the own sources of asset funding. Structure of assets depends on the form of business. In the case of capital trading companies, it is possible to say that equity equals share capital. Sole traders use only the account “Sole proprietor’s account”. This form of evidence of business activities does not distinguish the terms equity and share capital.

Changes of share capital:

- increase,
- decrease.

Share premium appears in the situation when emission rate is higher than the nominal value of shares. **Capital funds** belong to equity, but they do not increase the value of share capital. **Funds from earnings** are created on a voluntary basis (reserve fund - covers the losses, social funds).

Payables (long-term payables) are explained as obligations arising from past transactions. Their settlement represents an outflow of funds for the accounting unit.

Transactions with payables were, in general, mentioned in previous chapters of this study support.

Division of equity and long-term payables according to the Czech accounting standards

Accounting standard 018 divides **equity and long-term payables** as follows:

A.I. Registered capital

A.I.1. Registered capital

A.I.2. Ownership interests

A.I.3. Changes of registered capital

A.II. Share premium and capital funds

A.II.1. Share premium and capital funds

A.II.2. Capital funds

2.1. Other capital funds

2.2. Differences from revaluation of assets and liabilities

2.3. Differences from revaluation in transformation of companies

2.4. Differences from transformation of companies

2.5. Differences from valuation in transformation of companies

A.III. Funds from earnings

A.III.1. Other reserve funds

A.III.2. Statutory and other funds

A.IV. Profit/loss - previous years

A.IV.1. Retained earnings, accumulated losses from previous years

A.IV.2. Other profit/loss - previous years

A.V. Profit/loss - current year

A.VI. Decided on advance for payment of a profit share

C.I. Long-term payables

C.I.1. Issued bonds

1.1. Exchangeable obligations

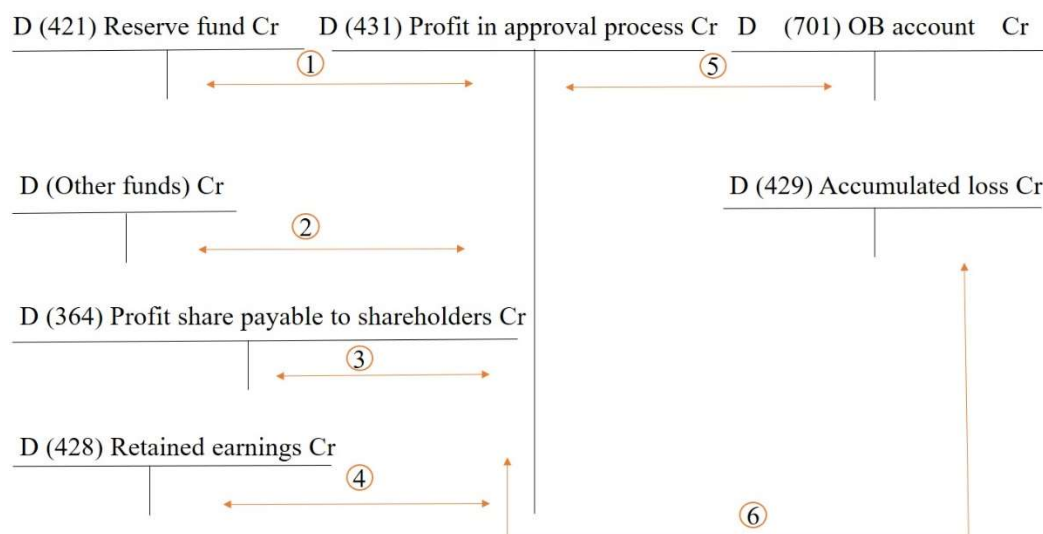
1.2. Other bonds

- C.I.2. Liabilities to credit institutions
- C.I.3. Long-term advances received
- C.I.4. Trade payables
- C.I.5. Long-term notes payables
- C.I.6. Payables - controlled and controlling organizations
- C.I.7. Payables - accounting units with substantial influence
- C.I.8. Deferred tax liability
- C.I.9. Other payables
 - 9.1. Payable to partners
 - 9.2. Estimated payables
 - 9.3. Other payables

Distribution of profit

Distribution of profit (Picture no. 38) and allocation of parts of profit to funds is done at the beginning of the next accounting period. For these operations is used the account “Profit or loss to be approved”.

Picture no. 38: Distribution of profit



Source: own processing, 2022

Individual transactions visible in the picture can be explained this way:

- 1) Allocation to the reserve fund.
- 2) Allocation to other funds.
- 3) Dividends granted.
- 4) Retained earnings.
- 5) Transfer of profit from previous year.
- 6) Compensation for loss of previous years.



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

1. How would you divide “liabilities”?

A large, empty rounded rectangular box with a thin black border, intended for the student's answer to the first question.

2. How would you record transactions related to distribution of profit?

A large, empty rounded rectangular box with a thin black border, intended for the student's answer to the second question.

3. Record the transactions below to the relevant accounts.

| No. | Transaction | CZK | Debit | Credit |
|-----|--|-----------|-------|--------|
| 01 | Transfer of the generated profit for distribution. | 5,000,000 | | |
| 02 | Dividends granted. | 2,000,000 | | |
| 03 | 15% Withholding Tax. | 300,000 | | |
| 04 | Compensation for loss of previous years. | 800,000 | | |
| 05 | Allocation to the reserve fund. | 700,000 | | |
| 06 | Retained earnings. | 1,500,000 | | |
| | | | | |
| 07 | Transfer of the generated profit for settlement of loss. | 5,000,000 | | |
| 08 | Drawdown of the reserve fund. | 1,500,000 | | |
| 09 | Drawdown of the profit from previous years. | 1,500,000 | | |
| 10 | Decrease in share capital. | 900,000 | | |
| 11 | Unpaid loss. | 1,100,000 | | |
| 12 | Entry of decrease in share capital into the commercial register. | 900,000 | | |



Literature

Act No. 563/1991 Coll., Accounting Act (CZ).

Czech accounting standards for accounting units that account in accordance with Decree No. 500/2002 Coll., as amended (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

TOPIC 11: EXPENSES (COSTS), INCOME (REVENUES), ECONOMIC RESULTS (PROFIT/LOSS)

After studying the topic, you should be able to:

- define and explain the concept of expenses and income,
- recognize and divide expenses and income,
- record accounting transactions dealing with expenses and income.



Key words: costs, economic results, expenses, income, loss, revenues, profit.

Expenses and income

Expenses and income are explained by the Decree No. 500/2002 Coll., as amended (§ 20 - 38) and by the Czech accounting standard (019). Decree No. 500/2002 Coll. explains the content of individual items belonging to expenses and income, but there is no general definition of these terms in the Czech accounting legislation. General definitions are therefore taken as they are set by the International accounting standards, namely IAS 1 - Presentation of Financial Statements, IAS 18 - Revenue and Conceptual Framework for Financial Reporting, as shown in the text below (IAS 1, IAS 18 and Conceptual Framework for Financial Reporting 2018).

Expenses

Expenses are further divided to Expenses (Costs) and Losses as visible in picture no. 39.

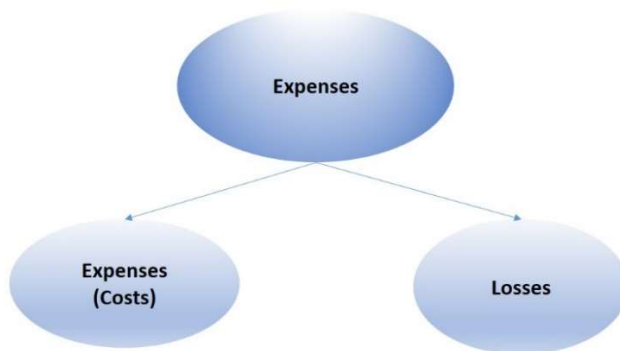
Expenses represent “decreases in economic benefits during the accounting period in the form of out-flows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distribution to equity participants.”(Conceptual Framework for Financial Reporting 2018).

(Expenses can be related to different types of costs: labor, advertising, rent, insurance, interest, depreciation, amortization.)

“**Losses** represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the entity. Losses represent decreases in economic benefits and as such they are not different in nature from other expenses. Hence, they are not regarded as a separate element in this Framework.” (Conceptual Framework for Financial Reporting 2018).

Losses arise in cases when the company loses money because of secondary activity (f.e.: selling the fixed asset).

Picture no. 39: Expenses - division



Source: own processing, 2022

Expenses can be further divided by:

- nature,
- purpose.

Division of expenses by nature:

(It is usually the initial recording of external costs.)

Accounting Class 5-Expenses

- 50. - Consumed purchases
- 51. - Services
- 52. - Personal expenses
- 53. - Taxes and fees
- 54. - Other operating expenses
- 55. - Depreciation, reserves and adjustments - operating expenses
- 56. - Financial expenses
- 57. - Reserves and adjustments to financial expenses
- 58. - Change in inventory of own production and capitalization
- 59. - Income taxes and transfer accounts

Division of expenses by purpose:

According to the activity of the accounting unit:

- Main activity.
- Auxiliary production (supporting services).
- Research and Development.

According to the asset cycle stages:

- Supply (purchase).
- Production.
- Realization.

Calculation breakdown of costs:

- Unit costs (material, wages).
- Manufacturing overhead.
- Administrative overhead.
- Implementation costs.

Income

Income is further divided to Revenues and Gains as visible in picture no. 40.

Income represents “increases in economic benefits during the accounting period in the form of in-flows or enhancements of assets or decreases of liabilities that result in increase in equity, other than those relating to contributions from equity participants.”(Conceptual Framework for Financial Reporting 2018).

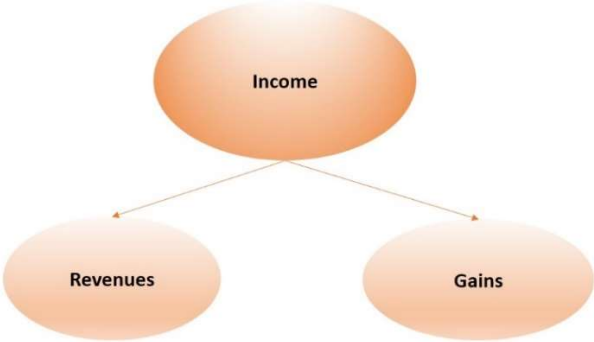
Revenue represents “the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an entity (such as sales of goods, sales of services, interest, royalties, and dividends).”(IAS 18).

Revenue is measured using the **fair value** of the consideration received or receivable.

“**Gains** represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an entity. Gains represent increases in economic benefits and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element in the IFRS Framework.” (Conceptual Framework for Financial Reporting 2018).

Gain represents company production of profit or realized increase in value using secondary sources (lawsuits, investments or disposal of assets).

Picture no. 40: Income - division



Source: own processing, 2022

Division of revenues:

Accounting Class 6-Revenues

- 60. - Revenues from the sale of own products, services and merchandise
- 64. - Other operating revenues
- 66. - Financial revenues
- 69. - Transfer accounts

Accounting on expenses (costs) and incomes (revenues) accounts

Expenses and incomes are recorded to the income statement accounts, accounting classes 5-Expenses and 6-Revenues:

- Income statement accounts
 - Expenses (Costs)
 - Incomes (Revenues)

Information on their final state is than transfered to the Final accounts, namely to the Profit and loss account:

- Final accounts
 - Opening balance account
 - Closing balance account
 - Profit and loss account

In the following part of the learning support is once more explained construction of above mentioned accounts relevant for this part (Pictures no. 41 - 42).

Picture no. 41: Income (Revenue) and Expense (Cost)

| D | Expense (Cost) | Cr | D | Income (Revenue) | Cr |
|---|----------------|-------------|---|------------------|----|
| | + | 31/12 | | 31/12 | + |
| | + | transfer | | transfer | + |
| | + | to | | to | + |
| | | profit/loss | | profit/loss | |
| | | account | | account | |

Source: own processing, 2022

Accounts of expenses (costs) and incomes (revenues) have no opening and closing balances. Records made to these accounts are summarized and moved at the end of the accounting period to the Profit and loss account and next accounting period starts with 0.

Picture no. 42: Profit and loss account

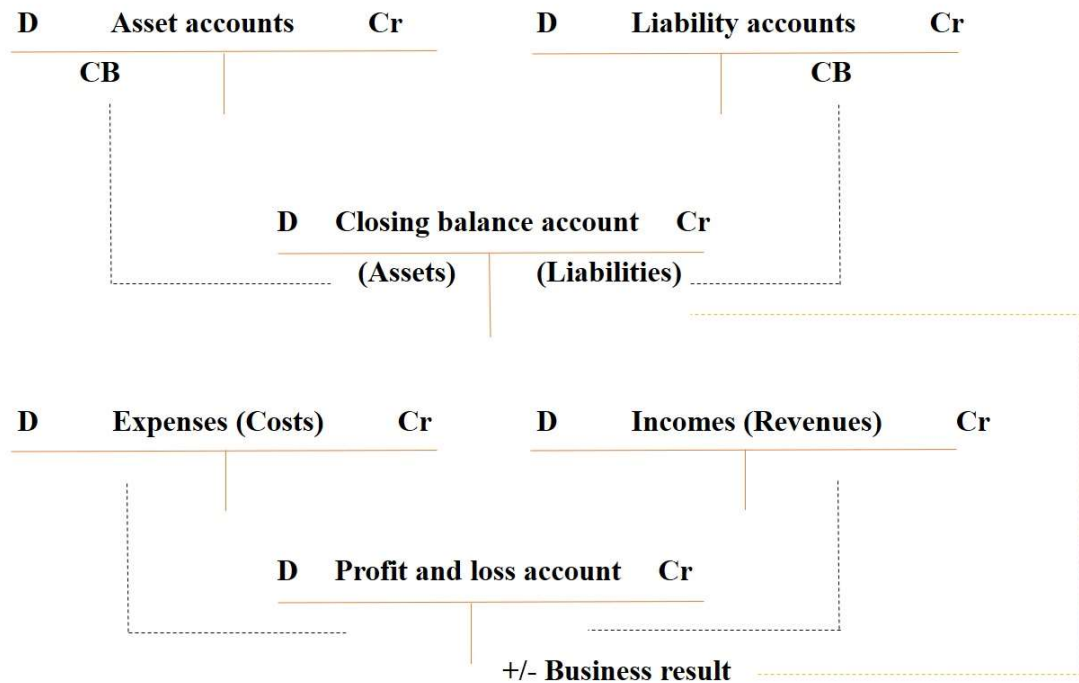
| D | Profit and loss account | Cr |
|-------------------------|-------------------------|--------------------------|
| Expenses (Costs) | | Income (Revenues) |
| for the | | for the |
| acc. period | | acc. period |
| | | |
| Loss | | Profit |

Source: own processing, 2022

Information from the Profit and loss account enables to compile the Income statement, respectively a statement of profit or loss and other comprehensive income for the period, because summarization of the records made to accounts of expenses (costs) and incomes (revenues) represents the calculation of economic result of the accounting unit (profit/loss). This number is visible in the profit and loss account. This economic result is further moved to the Closing

balance account as the liabilities account belonging to the equity as visible in the following picture (Picture no. 43).

Picture no. 43: Transactions at the end of the accounting period



Source: own processing, 2022

At the end of each accounting period are, with respect to the Accounting act, compiled Financial statements to which belong also Income statement, respectively a statement of profit or loss and other comprehensive income for the period.

Material connection of costs and revenues

Current period costs are of two types:

- Costs associated with revenues achieved in this period - the principle of material matching of revenues with costs.
- Costs associated with a separate time period - there is no direct relationship to income.

The accounting period that is decisive for comparing costs and revenues and reporting the economic result is the calendar or financial year.

Mutual compensation (offsetting, balancing) of costs and revenues is not allowed.

Accrual of expenses (costs) and revenues

The subject of temporal differentiation (examples visible in Pictures no. 44 - 47) are the facts for which it is possible to precisely determine:

- substantive title (what they refer to, what they relate to),
- amount (amount spent, amount obtained),
- period they cover.

The following accounts are designated for the accrual of costs:

- 381 - deferred expenses,
- 383 - accrued expenses.

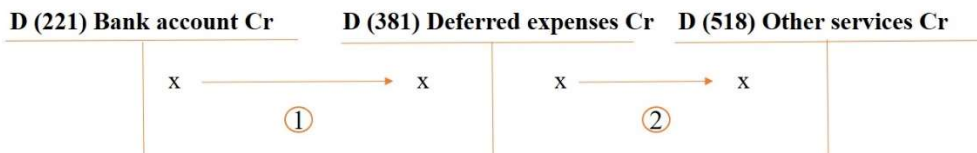
The following accounts are designated for accrual of income:

- 384 - deferred revenues,
- 385 - accrued revenues.

Picture no. 44: Transactions related to deferred expenses

Rent paid in advance:

- 1) Rent payment for the next year in the current year.
- 2) Rent charged to expenses in the next year.
(It belongs materially and temporally there.)

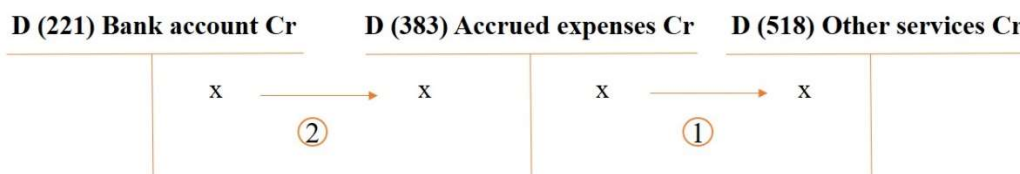


Source: own processing, 2022

Picture no. 45: Transactions related to accrued expenses

Rent paid in arrears:

- 1) The rent was realized in the current year, it will be paid next year.
- 2) Rent payment next year.

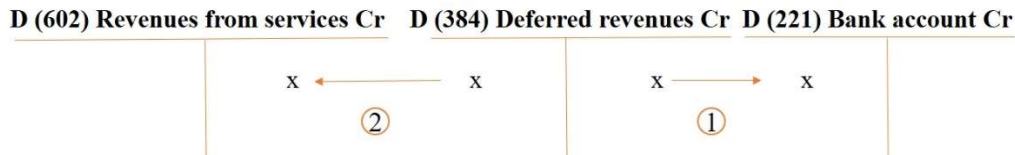


Source: own processing, 2022

Picture no. 46: Transactions related to deferred revenues

Rent received in advance:

- 1) Rent receipt in the current year for a rental that will take place in the next year.
- 2) Inclusion of rent in the next year in the income.

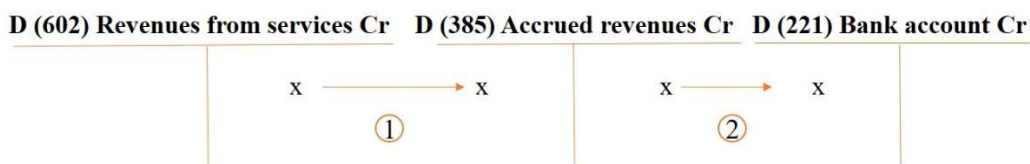


Source: own processing, 2022

Picture no. 47: Transactions related to accrued revenues

Rent received in the next accounting period:

- 1) Accounting for revenue in the year of rent realization, even if payment has not yet been received.
- 2) The following year - rent payment obtained.



Source: own processing, 2022

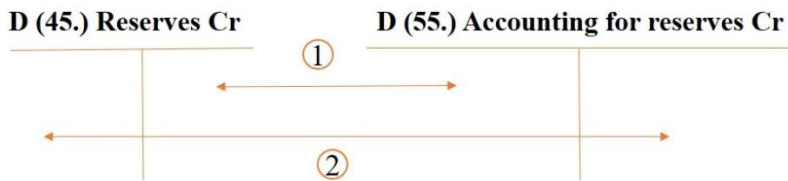
Accounting for reserves (creation and settlement)

Reserves are used in a situation where the accounting entity expects a larger expense in the future. Part of the expected expense can be included in the cost in advance.

Reserves are supposed to cover liabilities or costs that are very likely to occur (or certainly occur), but their amount and the exact moment of their occurrence are not known. (Picture no. 48)

Picture no. 48: Reserves - creation and settlement

- 1) Creation of reserves.
- 2) Settlement of reserves (withdrawal).



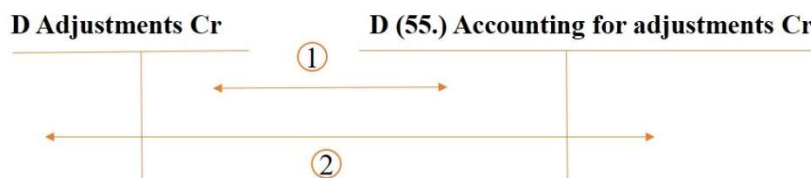
Source: own processing, 2022

Accounting for adjustments (creation and settlement)

Adjustments represent meeting the conservatism (prudence concept) in accounting. With the help of adjustments, a temporary decrease in the value of the property is accounted for. (Picture no. 49)

Picture no. 49: Adjustments - creation and settlement

- 1) Creation of adjustments.
- 2) Settlement of adjustments (cancellation of adjustments).



Source: own processing, 2022



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

1. How would you divide “expenses”?

A large, empty rounded rectangle with a thin black border, intended for the student to write their answer to the question above.

2. How would you divide “revenues”?

3. Record the transactions below to the relevant accounts.

| No. | Transaction | CZK | Debit | Credit |
|------------|---|------------|--------------|---------------|
| 01 | Material consumption. | 50,000 | | |
| 02 | Sale of goods on an invoice. | 120,000 | | |
| 03 | Removal of the goods sold from the stock. | 60,000 | | |
| 04 | Goods - shortage above the norm. | 12,000 | | |
| 05 | Shortage of cash in register. | 3,000 | | |



Literature

Act No. 563/1991 Coll., Accounting Act (CZ).

Czech accounting standards for accounting units that account in accordance with Decree No. 500/2002 Coll., as amended (CZ).

Decree No. 500/2002 Coll., on the implementation of the Accounting Act (No. 563/1991 Coll.) for entrepreneurs accounting in double entry accounting, as amended (CZ).

IAS 1. Presentation of financial Statements (EU).

IAS 18. Revenue. Superseded by IFRS 15 effective in January 2017 (EU).

Conceptual Framework for Financial Reporting 2018. (EU).

TOPIC 12: CLOSING OPERATIONS AND FINANCIAL STATEMENTS

After studying the topic, you should be able to:

- describe the purpose of closing operations,
- identify financial statements,
- describe the purpose and structure of financial statements,
- explain the linking of individual parts of financial statements.



Key words: annual report, balance sheet, closing operations, income statement, financial statements.

Complex works leading to financial statements compilation can be divided to:

- preparatory work before the closing operations (before financial statements compilation),
- closing operations,
- financial statements compilation.

Preparatory work before the financial statements compilation

To these activities belong activities in these areas:

- inventory of assets and liabilities,
- closing operations on inventory,
- control of accruals of expenses and revenues,
- accounting for estimated accrued revenues and expenses,
- creation and settlement of reserves,
- accounting for foreign exchange rates and losses,
- receivables and adjustments to receivables,
- calculation of income tax,
- checking the accuracy of accounting records.

Closing operations

Closing operations represent mainly closing of the accounts by transferring their closing balances to final accounts 702 - Closing balance account and 710 - Profit and loss account.

By closing operations is mentioned closing of all accounting books and the complex of works related to it:

- accounting of final accounting cases,
- control of the material accuracy of accounting (inventory),
- control of formal correctness of accounting records (turnover balance, checklists of analytical accounts).

Financial statements and annual report

Financial statements are described (defined) by the Accounting Act (§ 18 - § 23b). It is further explained also by the Decree no. 500/2002 Coll. (§ 3, § 3a and § 4) and Czech Accounting Standards (002 and 020).

Financial statements represent set of reports compiled by the accounting unit to a specific balance sheet date. Statements are prepared using format prescribed by the Ministry of Finance of the Czech Republic. Audited accounting units have to compile also the annual report. This annual report prepared by audited accounting units has to be verified by an independent external auditor as stated by the Accounting act (§ 20).

Annual report

Annual report is specified by the Accounting Act (§ 21).

- ✓ It is compulsorily compiled by accounting units that have an audit obligation.
- ✓ Annual report has to provide comprehensive, balanced and complex information about the development of performance, activity and the current economic position of the accounting unit.
- ✓ Well compiled annual report may support building of the accounting unit image.

“Annual report has to contain further, beneath the information necessary to be able to meet the purpose of annual report, at least financial and non-financial information:

- on facts that occurred after the balance sheet date and are significant for the fulfillment of the purpose of the annual report according to the Accounting act (§ 21, paragraph 1),
- about the expected development of the accounting unit's activity,
- on research and development activities,
- on the acquisition of own stocks or own shares,

- on activities in the field of environmental protection and labor relations,
- on whether the accounting unit has a branch office or another part of a business plant abroad,
- required by special legal regulations.” (Accounting act).

Annual report also contains accounting statements and auditor’s report and, if required other documents according to special legal regulations. “If it is relevant to the assessment of the financial position and performance, the accounting entity that uses investment instruments must state:

- Information on the risk management objectives and methods of the given entity, including the policy for hedging all transactions that use hedging derivatives.
- Information on price, credit, liquidity and cash flow risks to which the entity is exposed.” (Accounting act).

Relationship between annual report and financial statements is visible in picture no. 50.

Picture no. 50: Relationship of annual report and financial statements

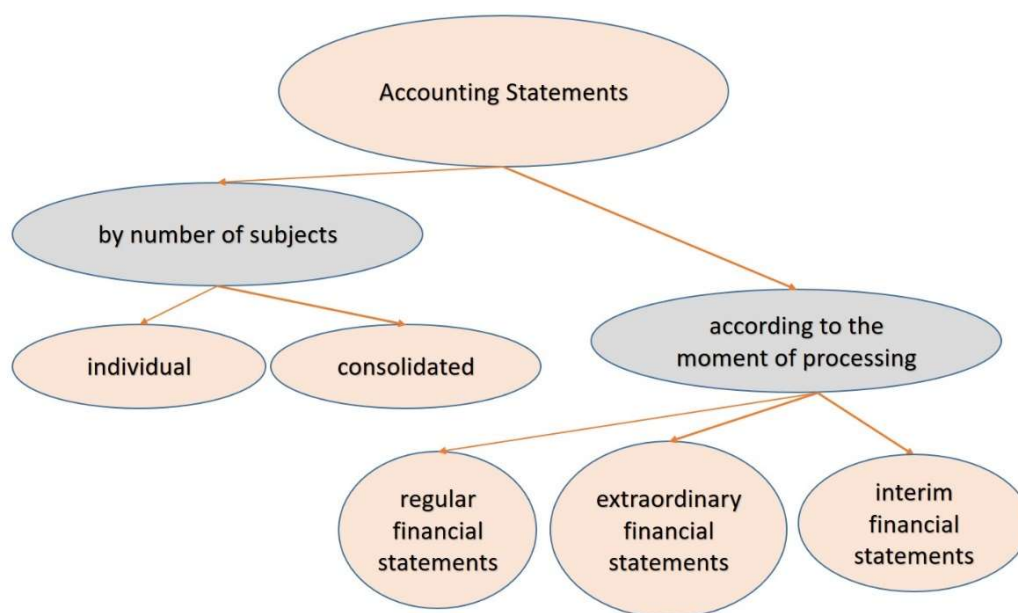


Source: own processing, 2022

Financial statements

Financial statements represent set of reports compiled by the accounting unit to a specific balance sheet date. In the above specified situation represents financial statements part of annual report.

Picture no. 51: Relationship of annual report and financial statements



Source: own processing, 2022

Financial statements by the number of subjects:

Individual financial statements are financial statements that are published by a parent company, an investor in an associated company, or a joint owner of a jointly controlled entity. (Financial statements of an accounting entity that does not have a subsidiary, an associate, or a co-controlling interest in jointly controlled entity is not an individual financial statement.)

Consolidated financial statements are financial statements compiled and adjusted using consolidation methods. Consolidated financial statements are set of financial statements for a group presented as a single financial statement.

Financial statements according to the moment of processing:

Regular financial statements are compiled to the last day of the accounting period (balance sheet day).

Extraordinary financial statements are compiled in other cases (f.e.: company liquidation).

Interim financial statements represent documents compiled during the accounting period and at a time other than the end of the balance sheet date.

Accounting units do not close accounting books and carry out an inventory only for the purposes of expressing valuations. All foreseeable risks and possible losses known up to the time of drawing up the financial statements are taken into account.

Components of the financial statements

Components of the financial statements are specified in § 18 of the Accounting act.

Accounting units prepare financial statements in the cases provided for by this Act.

The financial statements are an integral whole and constitute them:

- a) a statement of financial position (balance sheet),
- b) a statement of profit or loss and other comprehensive income for the period (profit and loss statement),
- c) notes (an appendix that explains and supplements the information contained in the balance sheet and income statement).

Financial statements of selected commercial companies (further specification is in § 18 of the Accounting act) include also:

- d) cash flow statement,
- e) statement of changes in equity.

Scope of the financial statements

The scope of the financial statements is specified by the Decree No. 500/2022 Coll. (§ 3a):

- **shortened scope** of financial statements - defined accounting units,
- the **full scope** of the financial statements - other accounting units.

Picture no. 52: The scope of financial statements

| | | |
|------------------|-----------------|---|
| Balance sheet | Full scope | Large accounting unit Medium-sized accounting unit Small accounting unit audited Micro accounting unit audited |
| | Shortened scope | Small accounting unit non-audited Micro accounting unit non-audited |
| Income statement | Full scope | Business units Other units: <ul style="list-style-type: none"> • Large accounting unit • Medium-sized accounting unit • Small accounting unit audited • Micro accounting unit audited |
| | Shortened scope | Small accounting unit non-audited which is not a business unit Micro accounting unit non-audited which is not a business unit |
| Notes | Full scope | Large accounting unit Medium-sized accounting unit Small accounting unit audited Micro accounting unit audited |
| | Shortened scope | Small accounting unit non-audited Micro accounting unit non-audited |

Source: own processing in accordance with (Decree No. 500/2022 Coll.), 2022

Statement of financial position (Balance sheet)

In the Czech accounting is the form of statement of financial position (balance sheet) set directly by the Ministry of Finance. Each accounting unit therefore fill in directly given preprint (Decree no. 500/2002 Coll.). It is conducted in thousands of CZK.

The balance sheet prepared in the full version includes all items prescribed. The balance sheet in shortened scope (widened version) contains only items marked with letters and Roman numerals, except “C.II.1. Long-term receivables”, “C.II.2. Short-term receivables” and “C.II.3. Accrual of assets”. The balance sheet in shortened scope (basic version) contains only items marked with letters. Preprint of the balance sheet is visible in the following picture (Picture no. 53).

Picture no. 53: Statement of financial position (balance sheet) - prescribed form

STATEMENT OF FINACIAL POSITION

in a full format

as of date

name and registered office of the accounting entity:

ID number:

Compiled on:

In liquidation:

Legal form of the accounting entity:

Subject of business of the accounting entity:

| a | ASSETS b | Row c | Current accounting period | | | Past accounting period |
|--------------|--|-----------|---------------------------|------------------|------------|------------------------------|
| | | | Brutto 1 | Corrections 2 | Netto 3 | Netto 4 |
| | TOTAL ASSETS (A.+B.+C.+D.) | 01 | | | | |
| A. | Receivables from subscriptions | 02 | | | | |
| B. | Fixed assets (B.I.+B.II.+B.III) | 03 | | | | |
| B.I. | Intangible fixed assets (sum B.I.1.-B.I.5.2.) | 04 | | | | |
| 1. | Research and development | 05 | | | | |
| 2. | Valuable rights | 06 | | | | |
| 2.1. | Software | 07 | | | | |
| 2.2. | Other valuable rights | 08 | | | | |
| 3. | Goodwill (+/-) | 09 | | | | |
| 4. | Other intangible fixed assets | 10 | | | | |
| 5. | Advance payments for intangible fixed assets and intangible fixed assets under construction | 11 | | | | |
| 5.1. | Advance payments for intangible fixed assets | 12 | | | | |
| 5.2. | Intangible fixed assets under construction | 13 | | | | |
| B.II. | Tangible fixed assets (sum B.II.1.-B.II.5.2.) | 14 | | | | |
| 1. | Lands and Constructions | 15 | | | | |
| 1.1. | Lands | 16 | | | | |
| 1.2. | Constructions | 17 | | | | |
| 2. | Equipment | 18 | | | | |
| 3. | Adjustment to acquired assets | 19 | | | | |
| 4. | Other tangible fixed assets | 20 | | | | |
| 4.1. | Perennial crops | 21 | | | | |
| 4.2. | Breeding and draught animals | 22 | | | | |
| 4.3. | Other tangible fixed assets | 23 | | | | |
| 5. | Advance payments for tangible fixed assets and tangible fixed assets under construction | 24 | | | | |
| 5.1. | Advance payments for tangible fixed assets | 25 | | | | |
| 5.2. | Tangible fixed assets under construction | 26 | | | | |

| a | ASSETS b | Row c | Current accounting period | | | Past accounting period |
|---------------|--|-----------|---------------------------|------------------|------------|------------------------------|
| | | | Brutto 1 | Corrections 2 | Netto 3 | Netto 4 |
| B.III. | Long-term financial assets (sum B.III.1.- B.III.7.2.) | 27 | | | | |
| 1. | Shares - controlled and controlling organizations | 28 | | | | |
| 2. | Loans - controlled and controlling organizations | 29 | | | | |
| 3. | Shares - substantial influence | 30 | | | | |
| 4. | Loans - substantial influence | 31 | | | | |
| 5. | Other securities and shares | 32 | | | | |
| 6. | Other loans | 33 | | | | |
| 7. | Other financial investments | 34 | | | | |
| 7.1. | Other financial investments | 35 | | | | |
| 7.2. | Advance payments for long-term financial assets | 36 | | | | |
| C. | Current assets (C.I.+C.II.+C.III.+C.IV.) | 37 | | | | |
| C.I. | Inventory (sum C.I.1.-C.I.5.) | 38 | | | | |
| 1. | Materials | 39 | | | | |
| 2. | Work in progress and semi-products | 40 | | | | |
| 3. | Finished products and merchandise | 41 | | | | |
| 3.1. | Finished products | 42 | | | | |
| 3.2. | Merchandise | 43 | | | | |
| 4. | Animals | 44 | | | | |
| 5. | Advance payments for inventory | 45 | | | | |
| C.II. | Receivables (C.II.1.+C.II.2.+C.II.3.) | 46 | | | | |
| 1. | Long-term receivables | 47 | | | | |
| 1.1. | Trade receivables | 48 | | | | |
| 1.2. | Receivables - controlled and controlling organizations | 49 | | | | |
| 1.3. | Receivables - accounting units with substantial influence | 50 | | | | |
| 1.4. | Deferred tax receivable | 51 | | | | |
| 1.5. | Other receivables | 52 | | | | |
| 1.5.1. | Receivables from partners | 53 | | | | |
| 1.5.2. | Long-term deposits given | 54 | | | | |
| 1.5.3. | Estimated receivable | 55 | | | | |
| 1.5.4. | Other receivables | 56 | | | | |

| a | ASSETS b | Row c | Current accounting period | | | Past accounting period |
|---------------|--|-----------|---------------------------|------------------|------------|------------------------------|
| | | | Brutto 1 | Corrections 2 | Netto 3 | Netto 4 |
| 2. | Short-term receivables | 57 | | | | |
| 2.1. | Trade receivables | 58 | | | | |
| 2.2. | Receivables - controlled and controlling organizations | 59 | | | | |
| 2.3. | Receivables - accounting units with substantial influence | 60 | | | | |
| 2.4. | Other receivables | 61 | | | | |
| 2.4.1. | Receivables from partners | 62 | | | | |
| 2.4.2. | Receivables from social security and health insurance | 63 | | | | |
| 2.4.3. | Due from state - tax receivable | 64 | | | | |
| 2.4.4. | Short-term deposits given | 65 | | | | |
| 2.4.5. | Estimated receivable | 66 | | | | |
| 2.4.6. | Other receivable | 67 | | | | |
| 3. | Accruals | 68 | | | | |
| 3.1. | Deferred expenses | 69 | | | | |
| 3.2. | Complex deferred costs | 70 | | | | |
| 3.3. | Deferred income | 71 | | | | |
| C.III. | Short-term financial assets (C.III.1.+C.III.2.) | 72 | | | | |
| 1. | Shares - controlled and controlling organizations | 73 | | | | |
| 2. | Other short-term financial assets | 74 | | | | |
| C.IV. | Cash and bank accounts (C.IV.1.+C.IV.2.) | 75 | | | | |
| 1. | Cash | 76 | | | | |
| 2. | Bank accounts | 77 | | | | |
| D. | Accruals (D.1.+D.2.+D.3.) | 78 | | | | |
| 1. | Deferred expenses | 79 | | | | |
| 2. | Complex deferred costs | 80 | | | | |
| 3. | Deferred income | 81 | | | | |

| a | LIABILITIES b | Row c | Current accounting period 5 | Past accounting period 6 |
|---------------|---|----------|-----------------------------------|-----------------------------|
| | TOTAL LIABILITIES (A.+B.+C.+D.) | 01 | | |
| A. | Equity (A.I.+A.II.+A.III.+A.IV.+A.V.+A.VI.) | 02 | | |
| A.I. | Registered capital (A.I.1.+A.I.2.+A.I.3.) | 03 | | |
| 1. | Registered capital | 04 | | |
| 2. | Ownership interests (-) | 05 | | |
| 3. | Changes of registered capital (+/-) | 06 | | |
| A.II. | Share premium and capital funds (A.II.1.+A.II.2) | 07 | | |
| 1. | Share premium and capital funds | 08 | | |
| 2. | Capital funds | 09 | | |
| 2.1. | Other capital funds | 10 | | |
| 2.2. | Differences from revaluation of assets and liabilities (+/-) | 11 | | |
| 2.3. | Differences from revaluation in transformation of companies (+/-) | 12 | | |
| 2.4. | Differences from transformation of companies (+/-) | 13 | | |
| 2.5. | Differences from valuation in transformation of companies (+/-) | 14 | | |
| A.III. | Funds from earnings (A.III.1.+A.III.2) | 15 | | |
| 1. | Other reserve funds | 16 | | |
| 2. | Statutory and other funds | 17 | | |
| A.IV. | Profit/loss - previous years (+/-) (A.IV.1.+A.IV.2) | 18 | | |
| 1. | Retained earnings, accumulated losses from previous years (+/-) | 19 | | |
| 2. | Other profit/loss - previous years (+/-) | 20 | | |
| A.V. | Profit/loss - current year (+/-) | 21 | | |
| A.VI. | Decided on advance for payment of a profit share (-) | 22 | | |
| B.+C. | Other sources (B.+C.) | 23 | | |
| B. | Reserves (sum B.1. - B.4.) | 24 | | |
| 1. | Reserves for pension and similar payables | 25 | | |
| 2. | Income tax reserves | 26 | | |
| 3. | Reserves under special statutory regulations | 27 | | |
| 4. | Other reserves | 28 | | |
| C. | Payables (C.I.+C.II.) | 29 | | |
| C.I. | Long-term payables (sum C.I.1. - C.I.9.) | 30 | | |
| 1. | Issued bonds | 31 | | |
| 1.1. | Exchangeable obligations | 32 | | |
| 1.2. | Other bonds | 33 | | |
| 2. | Liabilities to credit institutions | 34 | | |
| 3. | Long-term advances received | 35 | | |
| 4. | Trade payables | 36 | | |
| 5. | Long-term notes payables | 37 | | |
| 6. | Payables - controlled and controlling organizations | 38 | | |

| a | LIABILITIES b | Row c | Current accounting period 5 | Past accounting period 6 |
|---------------|--|-----------|-----------------------------------|-----------------------------|
| 7. | Payables - accounting units with substantial influence | 39 | | |
| 8. | Deferred tax liability | 40 | | |
| 9. | Other payables | 41 | | |
| 9.1. | Payable to partners | 42 | | |
| 9.2. | Estimated payables | 43 | | |
| 9.3. | Other payables | 44 | | |
| C.II. | Short-term payables (sum C.II.1. - C.II.8.) | 45 | | |
| 1. | Issued bonds | 46 | | |
| 1.1. | Exchangeable obligations | 47 | | |
| 1.2. | Other bonds | 48 | | |
| 2. | Payables to banks | 49 | | |
| 3. | Short-term deposits received | 50 | | |
| 4. | Trade payables | 51 | | |
| 5. | Short-term notes payables | 52 | | |
| 6. | Payables - controlled and controlling organizations | 53 | | |
| 7. | Payables - accounting units with substantial influence | 54 | | |
| 8. | Other payables | 55 | | |
| 8.1. | Payable to partners | 56 | | |
| 8.2. | Short-term assistance | 57 | | |
| 8.3. | Payroll | 58 | | |
| 8.4. | Payables to social securities and health insurance | 59 | | |
| 8.5. | Due from state - tax liabilities and subsidies | 60 | | |
| 8.6. | Estimated payables | 61 | | |
| 8.7. | Other payables | 62 | | |
| C.III. | Accruals (C.III.1.+C.III.2.) | 63 | | |
| 1. | Accrued expenses | 64 | | |
| 2. | Deferred revenues | 65 | | |
| D. | Accruals (D.1.+D.2.) | 66 | | |
| 1. | Accrued expenses | 67 | | |
| 2. | Deferred revenues | 68 | | |

Signature:

Source: own processing in accordance with MFCR (2022), 2022

Statement of profit or loss and other comprehensive income for the period (Income statement)

The income statement is prepared on the basis of information from the Profit and loss account. In the profit and loss account is visible summarization of the records made to accounts of expenses (costs) and incomes (revenues) - economic result of the accounting unit (profit/loss). This economic result is further moved to the Closing balance account as the liabilities account belonging to the equity.

The income statement prepared in the full version marks revenues using Roman numbers, costs using letters. Further division is ensured by the Arabic numbers. The income statement in shortened scope contains only items marked with Roman numerals and letters, no further division. Preprint of the income statement is visible in the following picture (Picture no. 54).

Picture no. 54: Statement of profit or loss and other comprehensive income (income statement) - prescribed form (expenses divided by nature)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, expenses by nature

in a full format

as of date _____ name and registered office of the accounting entity: _____

ID number: _____

Compiled on: _____ In liquidation: _____

Legal form of the accounting entity: _____

Subject of business of the accounting entity: _____

| a | TEXT b | Row c | Reality in the accounting period | |
|------|---|----------|--|-----------|
| | | | Current 1 | Past 2 |
| I. | Revenues from the sale of own products and services | 01 | | |
| II. | Revenues from sold goods | 02 | | |
| A. | Production consumption (sum A.1. - A.3.) | 03 | | |
| A.1. | Expenses on goods sold | 04 | | |
| 2. | Consumption of material and energy | 05 | | |
| 3. | Services | 06 | | |
| B. | Change in inventory of own products (+/-) | 07 | | |
| C. | Capitalisation (-) | 08 | | |
| D. | Personal expenses (sum D.1. - D.3.) | 09 | | |
| D.1. | Wages and salaries | 10 | | |
| 2. | Social security, health insurance and other expenses | 11 | | |
| 2.1. | Social security and health insurance expenses | 12 | | |
| 2.2. | Other expenses | 13 | | |
| E. | Value adjustments in the operational area (sum E.1. - E.3.) | 14 | | |
| E.1. | Value adjustments of intangible and tangible fixed assets | 15 | | |
| 1.1. | Value adjustments of intangible and tangible fixed assets – permanent | 16 | | |
| 1.2. | Value adjustments of intangible and tangible fixed assets – temporary | 17 | | |
| 2. | Inventory value adjustments | 18 | | |
| 3. | Receivable value adjustments | 19 | | |
| III. | Other operating revenues (sum III.1. - III.3.) | 20 | | |
| 1. | Revenues from disposals of fixed assets | 21 | | |
| 2. | Revenues from disposals of materials | 22 | | |
| 3. | Other operating revenues | 23 | | |
| F. | Other operating expenses (sum F.1. - F.5.) | 24 | | |
| F.1. | Net book value of sold fixed assets | 25 | | |
| 2. | Net book value of sold material | 26 | | |
| 3. | Taxes and fees | 27 | | |
| 4. | Reserves and complex deferred costs | 28 | | |
| 5. | Other operating expenses | 29 | | |
| * | Operating profit/loss (+/-) | 30 | | |

| a | TEXT b | Row c | Reality in the accounting period | |
|-------------|---|-----------|--|-----------|
| | | | Current 1 | Past 2 |
| IV. | Revenues from long-term financial assets - shares (sum IV.1. - IV.2.) | 31 | | |
| 1. | Revenues from shares - controlled and controlling organizations | 32 | | |
| 2. | Other revenues from shares | 33 | | |
| G. | Costs spent for sold shares | 34 | | |
| V. | Revenues from other long-term financial assets (sum V.1. - V.2.) | 35 | | |
| 1. | Revenues from other long-term financial assets - controlled and controlling organizations | 36 | | |
| 2. | Revenues from other long-term financial assets | 37 | | |
| H. | Costs related to other fixed financial assets | 38 | | |
| VI. | Interest revenues (sum VI.1. - VI.2.) | 39 | | |
| 1. | Interest revenues - controlled and controlling organizations | 40 | | |
| 2. | Other interest expenses | 41 | | |
| I. | Value adjustments and reserves in the financial area | 42 | | |
| J. | Interest expenses (sum J.1. - J.2.) | 43 | | |
| J.1. | Interest expenses - controlled and controlling organizations | 44 | | |
| 2. | Other interest expenses | 45 | | |
| VII. | Other financial revenues | 46 | | |
| K. | Other financial expenses | 47 | | |
| = | Profit/Loss from financial operations (+/-) | 48 | | |
| ** | Profit/Loss before tax (+/-) | 49 | | |
| L. | Income tax | 50 | | |
| L.1. | Income tax - due tax | 51 | | |
| 2. | Income tax - tax deferred | 52 | | |
| ** | Profit/Loss after tax (+/-) | 53 | | |
| M. | Transfer profit (loss) to partners (+/-) | 54 | | |
| *** | Profit/Loss of current accounting period (+/-) | 55 | | |
| | Net turnover for the accounting period = I. + II. + III. + IV. + V. + VI. + VII: | 56 | | |

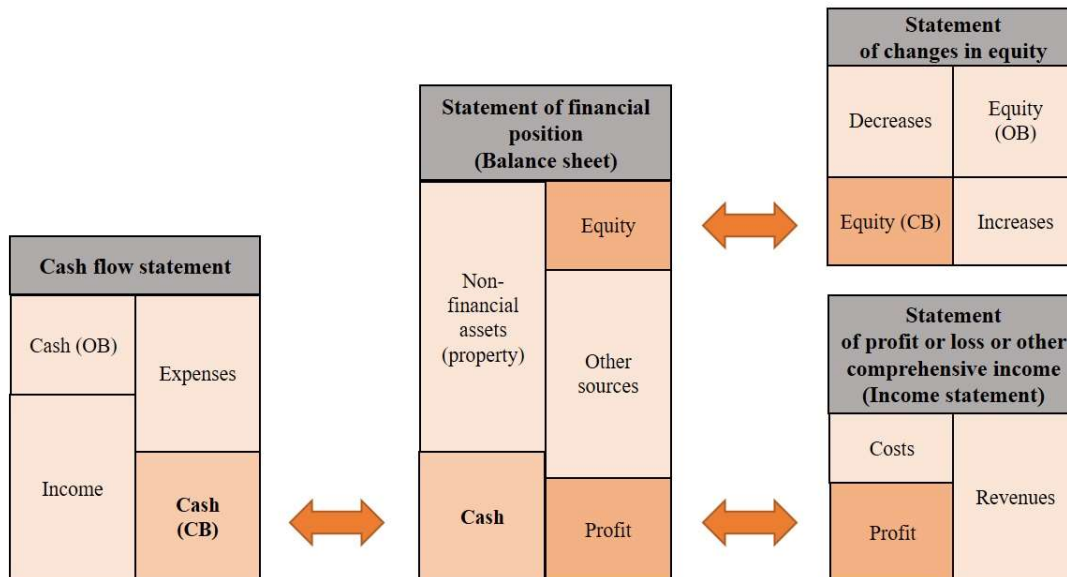
Signature:

Source: own processing in accordance with MFCR (2022), 2022

Linking of individual parts of the financial statements

The following picture shows relationships between individual statements belonging to the financial statements (Picture no. 55).

Picture no. 55: Relationships between individual statements belonging to the financial statements



Source: own processing, 2022



Control tasks

Write your answer, if possible also calculation and solution, to the empty space below.

1. How would you define “financial statements”?

A large, empty rounded rectangular box with a thin black border, intended for the student's answer to the first question.

2. How would you explain compilation of financial statements?

A large, empty rounded rectangular box with a thin black border, intended for the student's answer to the second question.

3. Carry out a summary review of the topics discussed, for example in the form of an exercise focused on financial statements compilation.



Literature

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