Ekonomická fakulta
Faculty of Economics

Jihočeská univerzita v Českých Budějovicích
University of South Bohemia in České Budějovice

Principles of Accounting

Marie Vejsadová Dryjová
Miroslava Vlčková
Jaroslav Svoboda

České Budějovice | 2017

Ekonomická fakulta
Faculty of Economics
Jihočeská univerzita v Českých Budějovicích
University of South Bohemia in České Budějovice

Principles of Accounting

Marie Vejsadová Dryjová
Miroslava Vlčková
Jaroslav Svoboda

České Budějovice | 2017

Proof-reading:
Justin Schaefer

Greg Moore

Recenzenti:
doc. Ing. Patrik Svoboda, Ph.D.
Faculty of Business and Economics, Mendel University in Brno

doc. Ing. Marie Paseková, Ph.D.
Tomas Bata University in Zlin

ISBN 978-80-7394-610-4

Obsah

Preface

The aim of this book is to acquaint students with basic accounting methods and procedures. Emphasis is placed on the correct identification of assets and liabilities, costs and benefits, understanding the principle of duality and correlations, understanding the nature of accounting, identifying the impact of accounting operations in real situations and the preparation of closing the books, including other related processes.

The book Principles of Accounting is intended for foreign students and for students studying in the English program. The book is elaborated under conditions of Czech accounting regulations.

Authors

1 Introduction to accounting

Accounting is an information system that captures the results of complex business activities and reports them. It is a language of business. Reporting should provide information that is useful to the investors, creditors and other users in making decisions about investment, credit, and other similar decisions. The information should be comprehensible.

1.1 The essence and functions of accounting

Accounting is concerned with collecting, analysing and communicating financial information. This information is useful for people who need to make decisions and plans about businesses and for people who need to monitor their businesses. The information for decisions should be for example:

- increasing or decreasing the price or quantity of products,
- developing new products,
- borrowing money to help finance the business,
- increasing or decreasing the capacity,
- changing the methods of purchasing, production or distribution, and others.

Accounting has an important role in the economic and social system of the Czech Republic. The accounting system consists of the methods and devices used by a company to keep track of its activities and to summarize these activities in a manner useful to decision makers. The basic elements of accounting are information, recording, evaluation and reporting.

The **users of information from accounting are**:

- managers – information that will assist them in their decisionmaking and control activities,
- shareholders – information on the value of their investment and the income that is derived from their shareholding,

- employees – information on the ability of the firm to meet wage demands and avoid redundancies,
- creditors and providers of loan capital – information on a firm's ability to meet its financial obligations,
- government agencies – collection of accounting information and required information.

Various users can be divided into two categories. These are internal parties within the organization and external parties outside the organization.

It is possible to distinguish between two branches of accounting that reflect the internal and external users. These are financial accounting and management (or managerial) accounting. Management accounting is concerned with people within the organization and financial accounting is concerned with external parties outside the organization. The main areas of difference between financial and management accounting are:

- the nature of the reports produced,
- the level of detail,
- regulations,
- reporting intervals,
- time orientation,
- the range and quality of information.

Figure 1.1 Difference between financial and management accounting

	Management accounting	**Financial accounting**
Nature of the reports produced	Tend to be for a specific purpose	Tend to be general purpose
Level of detail	Often very detailed	Usually broad overview
Regulations	Unregulated	Usually subject to accounting regulation
Reporting interval	As short as required by managers	Usually annual
Time horizon	Often based on projected future info as well as past info	Almost always historical
Range and quality of information	Tend to contain financial and non-financial info, use info that cannot be verified	Focused on financial info, great emphasis on objective verifiable evidence

Source: authors

The specific branch concerns evidence of tax on incomes and expenditures. This evidence can be used only by physical persons who are not entered in a trade register and whose turnover does not exceed the amount of 25 mil. CZK per year. Tax records of income and expenditures is regulated by the Law of Income Taxes and it is not considered as a real accounting system.

Accounting units are:

- corporations,
- physical persons doing business entered in the trade register,
- physical persons doing business with a turnover exceeding the amount of 25 mil. CZK per year,
- physical persons doing business who keep accounts voluntarily,
- physical persons doing business associated in a so-called association without legal subjectivity under the condition that any person associated in the association is an accounting unit.

1.2 General principles

Basic **accounting concepts and principles** are:

1. The Matching concept – concerns the determination of the Profit/Loss.
2. Adequate disclosure – financial statements and their accompanying footnotes or other explanatory materials should contain all of the pertinent data believed essential to the reader´s understanding.
3. Consistency –interested persons should be able to assume that successive financial statements of an enterprise are based consistently on the same Czech accounting standards (in the Czech Republic).
4. Materiality – the accountant must consider the relative importance of any event, accounting procedure or change that affects items on the financial statements.
5. Going concern – a business is not organized with the expectation of operating for only a certain period of time.

In accordance with the Act on accounting, there are several **basic valuation possibilities**:

- acquisition cost – it is used for assets and equities acquired by purchase,
- own costs – it is used for assets acquired by one's own activity,
- executant acquisition cost – it is used for assets and equities acquired for free,
- face value – it is the nominal value used for cash, checks, stamps.

1.3 Accounting rules

The basic Czech **accounting legisl**ation is:

- Act No. 563/1991 Coll., on Accounting – constitutes the obligation to keep accounting files for Czech enterprises and defines basic conditions and procedures for the keeping of accounting evidence.

- Edict of Ministry of Finance No. 500/2002 – constitutes the methods and principles of accounting as well as valuation rules.

- Czech Accounting Standards – describe in detail concrete accounting principles for concrete economic transactions.

The company is obliged to keep records of the date of its creation until the day of its death. The reporting period is continuous consecutive periods of twelve months, unless stated otherwise. The accounting period is either the calendar year or economic year. The economic year as an accounting period can begin only on the first day of any month, except in January. The period may be longer than 12 months when the establishment of an entity is in a period of 3 months before the end of the calendar year or when the dissolution of the entity is in a period of 3 months after the end of the calendar year or economic year.

The basic rules and regulations are set out in Act No. 563/1991 Coll., on Accounting. The companies are obliged to follow, in particular, the accounting chart of accounts, the classification and identification of financial statements plus consolidated financial statements, the contents of statements, accounting methods, conditions of readmission accounting records and other conditions. Implementing legislation for each group entity adjusts especially:

- the scope and method of preparing the financial statements and annual reports,

- the arrangement, description and definition of property and other assets, liabilities and other liabilities in the financial statements, including the layout, content labeling and definition of off-balance sheet accounts,

- the arrangement, description and definition of costs, revenues and results of operation in the financial statements,

- the layout and definition of explanatory and supplementary information in the Annex to the financial statements, including information on the management of the state budget and budgets of local governments,

- the layout and definition of cash flow statements and statements of changes in equity,

- the guiding chart,
- the accounting methods, particularly the methods of measurement and their application files including the valuation of assets, processes of creation and use of provisions, depreciation methods, procedures and use of reserves,
- the methods of transition from simple accounting or tax records,
- the organization, tagging, and content of the consolidated financial statements,
- methods of consolidating financial statements,
- processes including entities in consolidated groups,
- the rules for the format, structure, transmission and security of accounting records in technical form of selected entities,
- the requirements for technical and mixed forms of accounting records, including those for relevance, transmission and storage,
- the extent and frequency of transmission of the accounting records of selected entities to the central system of state accounting information,
- the requirements of the organization and how to perform an inventory of selected entities.

The basic principle is that companies are required to keep records so that their financial statements give a true and fair view of the accounting and financial situation of the entity. The presentation of this information is true if the content of the financial statements corresponds to the actual state that is displayed while in accordance with accounting methods, and the uses by an entity imposed under this Act. The presentation of information is honest when the accounting method is used in a way that leads to achieving loyalty. Where an entity can choose between several options and the accounting method chosen would paper over the real situation, then the entity shall select another option that corresponds to the actual state.

Companies are required to keep records in an accurate, complete, conclusive, clear, and transparent way that ensures sustainability of accounting records. Accounting is correct if the company shall keep accounts in a way that is not contrary to the Act on accounting. Accounting is complete if the company has recorded all transactions that it has recognized in the books for an accounting period. The accounts are conclusive, if all of the accounting records are significant and made an inventory of the entity. Accounting is understandable if the context allows an individual to reliably and unambiguously identify:

- at least the contents of accounting transactions using accounting methods,
- the contents of accounting records using the tools.

Accounting is conducted in a manner that ensures the sustainability of accounting records, if the company is able to fulfill obligations associated with their storage and processing.

Exercises

Exercise 1.1
The WOOD Company (Studentská Street, no 135, České Budějovice, Czech Republic, ID 123456789) made a demand to the BUILD Company (Nová Street, no 12, Prachatice, Czech Republic, ID 987654321) for this material:

- 40 pcs. of wood plank, the price per one piece of wood plank is 100 CZK,
- 20 m^2 of wood board, the price per $1m^2$ of wood board is 50 CZK.

VAT rate is 21 %. The WOOD Company want to pay in cash. The company ensures their own transportation.

TASK: Fill in the stock list.

ORDER FORM

Sold to:	Ship to:

ORDER DATE	CUSTOMER	PHONE	INSTRUCTIONS
BUYER'S NAME		TERMS	

	QUANTITY ORDERED	STOCK NUMBER	DESCRIPTION	UNIT PRICE	EXTENDED PRICE
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					

TOTAL

Buyer:

Exercise 1.2

The WOOD Company (Studentská Street, no 135, České Budějovice, Czech Republic, ID 123456789) sold to the BUILD Company (Nová Street, no 12, Prachatice, Czech Republic, ID 987654321) this material:

- 40 pieces of wood plank, the price per one piece of wood plank is 100 CZK,
- 20 m^2 of wood board, the price per $1m^2$ of wood board is 50 CZK.

VAT rate is 21 %.

TASK: Fill in the stock list.

INVOICE No.:

Company Name

Address:

Billed To:

____

____

____

____

Invoice Date ____________

Due Date ____________

Description	Price	Quan-tity	Exten-sion
	Sub Total:		
	Tax:		
	Total Due:		

Exercise 1.3

A company is engaged in manufacturing furniture that is produced from different types of wood. On the stock card, the status and movement of pinewood in the month of May 2016 is registered. The price of 1 cubic metre of this wood is 3,100 CZK.

The supplier is a company called BEAR, in Volary, Czech Republic, which delivered the following supplies:

6. 5.	15 m^3
18. 5.	10 m^3
26. 5.	18 m^3

These quantities were sent for manufacturing:

2.5.	5 m^3
8.5.	12 m^3
20.5.	16 m^3
29.5.	4 m^3

The existing supply of pine wood at the date 1/5/2015 was 10 m^3.

TASK: Fill in the stock list.

STOCK LIST

Material:			**Unit of measure:**			**Stock price:**		
Date	**Doc. number**	**Enrollment**	**Quantity**			**CZK**		
			Income	**Expenditure**	**Supply**	**Income**	**Expenditure**	**Supply**
Total								

2 The property of a company and its resources

THE ACCOUNTING EQUATION AND THE BALANCE SHEET

The whole of financial accounting is based on the accounting equation. The **total assets** of the business **have to equal the capital** of the business.

A = E

Assets = Equity

where the money went to = where the money came from

Equities may be subdivided into two types – the rights of creditors and the rights of owners.

Assets = liabilities + owner´s equity

Assets – liabilities = owner´s equity

2.1 Assets

Assets are divided into fixed assets and current assets. Fixed assets are divided into intangible assets, tangible assets and long-term financial assets. Current assets are divided into inventories, long-term receivables, short-term receivables and short-term financial assets.

Fixed assets, also known as tangible assets, is a term used for assets and property that cannot easily be converted into cash. In most cases, only tangible assets are referred to as fixed. Fixed assets are defined as assets whose future economic benefit to the flow into the entity is probable, and the cost of which can be measured reliably. These are the assets which are purchased with the legal right of ownership and use. These assets can also be defined as assets not directly sold to consumers.

The use of fixed assets in a generation is usually more than a year. The Accounting Act says that the valuation of intangible and tangible assets depends on the settings of a company, but the Act No. 582/1992 Coll., on Income Taxes defines the valuation of intangible assets on a level of more than 60 000 CZK and the valuation of tangible assets on a level of more than 40 000 CZK.

Intangible assets are in general:

- intangible results of research and development,
- software,
- appraisable rights,
- petty long-term intangible assets (assets which doesn´t reach the valuation for the valuation of an entity for standard intangible assets)
- goodwill,
- other long-term intangible assets.

Tangible assets are in general:

- buildings,
- individual movables and sets of movables without differentiation,
- growers´ units of perennials,
- animals,
- petty long-term tangible assets (assets which doesn´t reach the valuation for the valuation of an entity for standard tangible assets),
- other long-term tangible assets.

The consumption of intangible and tangible assets is usually gradual. But as time passes, many fixed asset lose their capacity to provide useful services. This decrease in usefulness is a business cost called *depreciation.* But there are also the types of assets that are not depreciated. Their value in time does not decrease, but rather increases.

Tangible assets which are **non-depreciable are**:

- land,
- artistic works and collections.

There are also <u>Long-term financial assets</u>, which bring payment (any profit) in future (more 1 year):

- long-term capital shares (stock) – purchased (acquired),
- long-term bonds – purchased (acquired),

- provided long-term loan,
- other long-term financial assets.

Current assets are important to businesses because they can be used to fund day-to-day operations and pay ongoing expenses. Components of current assets are used to calculate a number of ratios related to a business's liquidity. Current assets are any assets which can be expected to be sold, consumed, or exhausted through the normal operations of a business within the current year. Typical current assets include cash, cash equivalents, short-term investments, accounts receivables, stock inventory and the portion of prepaid liabilities which will be paid within a year.

Stock inventory consists of:

- material,
- inventories of a company’s own production (unfinished production, semi-finished products from one’s own production, products, animals),
- merchandise.

Cash and cash equivalents consist of:

- cash desk (treasury),
- valuables (postage stamps, highway stickers, stamps, phone cards, taking on fuel, food vouchers, etc.),
- bank accounts.

Short-term investments (short-term financial assets), which bring payment (any profit) in nearby future (up to 1 year): consist of:

- short-term capital shares (stock) – purchased (acquired),
- short-term bonds – purchased (acquired),
- other short-term viable securities.

Receivables are creditor's right to seek specific performance (eg. the money, things) that the debtor. Accounts of receivables (long-term or short-term) consist of:

- trade receivables,
- receivables for employees,
- receivables from social security and health insurance,

- receivables for partners and members of association,
- due from state - tax receivable,
- receivables from securities (financial assets),
- other (from the sale of enterprise, from fixed term operations, from rent, etc.).

2.2 Equities

Equities are divided into owner´s equity and liabilities. Owner´s equities are divided into common stocks, capital funds, funds created by net profit and economic results (profit/loss). Liabilities are divided into reserves, long-term debts, short-term debts and bank credits.

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. Equity is the residual interest in the net assets of an entity that remains after deducting its liabilities.

Owner´s equity consists especially of:

- Basic capital (Common stock, Registered capital) – monetary expression of monetary and non-monetary contributions of all partners to share capital. It is number of shares issued by an enterprise. The amount of capital depending on the provisions of the relevant law.
- Capital funds created from other resources than a net profit:
  - share premium – arises from the subscription of new shares (the difference between the higher issue price and the nominal value of the shares).
  - differences in valuation resulting from revaluation of assets and liabilities,
  - differences in valuation in transformation of enterprise.
- Funds created from a net profit:
  - reserve fund – it can be used only to cover losses or for measures that have overcome adverse economic progress,
  - statutory and other fund – their creation stems from social contracts, statutes, decisions of the General Meeting or the Board's decision. For example, funds for social fund, entertainment and gifts, etc.

- Economic result (profit/loss)– the difference between revenues and costs:
  - undistributed (retained) profit from previous years,
  - accumulated losses from previous years,
  - economic result (profit/loss) for distribution from present (current) accounting period.

Liabilities are obligations of the debtor to the creditor for filling. They consist especially of the main types:

- long-term/short-term liabilities:
  - liabilities trade,
  - liabilities to employees,
  - liabilities to social securities and health insurance,
  - due from state - tax liabilities and subsidies,
  - liabilities to companies in the group,
  - liabilities to partners during distribution of profit,
  - liabilities from the sale of enterprise, etc.
- long-term/Short-term liabilities to bank credits (loans),
- long-term/Short-term liabilities to securities (obligations, bonds, etc.),
- other Long-term/Short-term liabilities (to the sale of enterprise, to fixed term operations, from rent, etc.).

There are exist also **Reserves** – special type of liabilities. They represent the liabilities created due to covering potential business risk (loses) in the future:

- reserves under special statutory regulations (for example for bank, insurance company or for the most business firm reserves to repair of fixed assets),
- reserves for pension and similar payables,
- reserves for income tax,
- other reserves.

As the last component of both assets and liabilities are **Accruals**. Applicable accounting regulations require entities to charge costs and revenues significantly in the accounting period to which they relate. Costs and revenues, income and expenses (expenditures) relating to future periods is necessary accruals.

Exercises

Exercise 2.1

TASK: For each item determine whether it is an intangible asset. The limit of the valuation is determined by the entity due to the Act on Income Taxes.

ITEM		YES / NO
1.	A capital company providing project services purchased software to create drawings for 67,000 CZK.	
2.	A company engaged in the manufacture and sale of hardware, bought the operating system for computers manufactured for 65,000 CZK, which will be sold along with the computer.	
3.	A web designer transferred into the business from his personal assets multimedia software for 75,000 CZK	
4.	A private radio bought the copyright for musical works for 250,000 CZK.	
5.	A transport company bought a GPS system upgrade for 10,000 CZK.	

Exercise 2.2

TASK: For each item determine whether it is a tangible asset. The limit of the valuation is determined by the entity due to the Act on Income Taxes.

ITEM		YES / NO
1.	A cleaning company bought a cleaning machine for 95,000 CZK.	
2.	A company bought cars for 1,250,000 CZK which will be paid by a bank loan.	
3.	A company accepted a land deposit from a companion at the value of 1,450,000 CZK that will be used for the construction of a warehouse.	
4.	A construction company built a new hall at a total cost of 15,450,000 CZK.	
5.	Financial advisors purchased notebooks for 45,000 CZK.	

Exercise 2.3

TASK: For each item determine whether it is stock.

ITEM		YES / NO
1.	A car dealer bought 10 new cars at the price of 3.5 million CZK.	
2.	An employee of a company bought 10 packs of photocopier paper for 1,000 CZK.	
3.	A development company bought a building for 8.5 million CZK which after reconstruction will be sold to a client.	
4.	A school canteen bought 50 kg of beef at the price of 7,000 CZK.	
5.	A tax consultant has adopted an invoice for legal consultation at the price of 5,000 CZK.	

Exercise 2.4

TASK: For each item determine whether it is a receivable.

ITEM		YES / NO
1.	A financial broker deposited 150,000 CZK into a current account for a business transaction.	
2.	A cleaning team has issued an invoice for cleaning to the amount of 15,000 CZK.	
3.	A manager of a hotel has issued an invoice for accommodation to the amount of 2,500 CZK. The client paid the amount immediately in cash.	
4.	A trading company accepted a cash deposit for the sale of goods for 5,000 CZK.	
5.	A company´s employee paid in cash for the purchase of office supplies.	

Exercise 2.5

TASK: For each item determine whether it is cash, cash equivalents or short-term investments.

ITEM		YES / NO
1.	A company received a cash payment for the sale of goods worth 2, 000 CZK.	
2.	A company purchased food vouchers worth 15,000 CZK for their employees.	
3.	A financial broker bought security with a maturity of three months worth 150,000 CZK for his employees.	
4.	Due to lack of funds, a production company decided to issue bonds with a maturity of 18 months to the amount of 1,500,000 CZK.	
5.	A financial advisor purchased stamps worth 500 CZK with cash.	

Exercise 2.6

TASK: For each item determine whether it is owner´s equity.

ITEM		YES / NO
1.	A company provided a loan to another company with a maturity of 18 months for the amount of 500,000 CZK.	
2.	A company allocated 15,000 CZK to a reserve fund within the distribution of profits.	
3.	A company founded shares on the basis of a public offer whose nominal value amounted to 35,000,000 CZK.	
4.	A manufacturing company has received a grant of EUR 50,000 CZK.	
5.	In the allocation of profit, a company allocated 500,000 CZK to a social fund.	

Exercise 2.7

TASK: For each item determine whether it is liability.

ITEM		YES / NO
1.	A trading company issued an invoice for purchased goods to the amount of 45,000 CZK.	
2.	A craftsman asked the bank for a short-term loan and the bank agreed to transfer 200,000 CZK to his current account.	
3.	A production company received an invoice for the supply of electricity amounting to 15,000 CZK.	
4.	A construction company received 2,500,000 CZK from an investor as a prepayment. Their building will be built within one year.	
5.	A trading company sold goods worth 25,000 CZK in cash.	

3 Balance sheet, assets and liabilities

The balance sheet is the most important financial statement compiled in the system of accounting. It summarizes a company´s assets, equity and liabilities at the end of a specified date. A company balance sheet has three parts. These are assets, liabilities, and ownership equity. The main categories of assets are usually listed first, and typically in order of liquidity. Assets are followed by liabilities. The difference between the assets and the liabilities is known as equity, the net assets, the net worth or capital of the company.

The balance sheet gets its name from the fact that the two sides of the equation – assets on the one side and liabilities plus owner´s equity on the other side – must balance out. A company has to pay for all the things it owns (assets) by either borrowing money (taking on liabilities) or taking it from investors (issuing shareholders' equity).

∑ ASSETS and ∑ EQUITIES is called „The balance sheet amount".

Groups of users of a balance sheet are:

- owners of a business,
- lenders of money (banks),
- suppliers of goods and services,
- managers of a business,
- customers of a business,
- employees.

Schema 3.1 Balance sheet

Assets	**Balance sheet to (date)**	**Equities/Liabilities**
FIXED ASSETS • Intangible assets • Tangible assets • Long-term financial assets		OWNER´S EQUITY • Common stocks (basic capital) • Capital funds • Funds created by net profit • Economic results (profit/loss)
CURRENT ASSETS • Inventories • Receivables ▪ short-term ▪ long-term • Short-term financial accounts		LIABILITIES • Reserves (provisions) • Liabilities (debts, payables) ▪ short-term ▪ long-term
ACCRUALS		ACCRUALS
Total assets	**=**	**Total equities/liabilities**

Source: authors

Exercises

Exercise 3.1

TASK: Divide (mark +) the following items on assets (fixed, current) and Equities (owner´s, liabilities).

Item	Assets		Equities	
	Fixed	**Current**	**Owner´s**	**Liabilities**
Cash				
Deposits on bank account				
Materials				
Common stocks				
Long-term bonds				
Reserves				
Production				
Bank loans short-term				
Software				
Economic result (profit/loss)				
Buildings				
Computers				
Employees liabilities				
Trade liabilities				
Trade receivables				
Common stocks				
Capital funds				
Goods in stock				
Tradable shares				
Governmental agency VAT liability				
Bank loans long-term				

Exercise 3.2

TASK:Company ABC has the following balances on accounts (in CZK):

Buildings	6,820,000	Trade receivables	172,000
Trade liabilities	236,500	Bank loans	536,000
Machines	1,938,000	Cash	10,340
Cars	1,100,000	Deposits on bank account	636,200
Employees liabilities	187,400	Long-term bonds	100,000
Production	536,100	Materials	382,300
Capital funds	50,000	**Common stocks**	**???**
Computers	60,000		

TASK: Compile the balance sheet and calculate the amount of common stocks, total assets, fixed assets, current assets, owner´s equity and liability.

Assets	Balance sheet to ………………………..	Equities

Total assets: ____________________
Common stocks: ____________________
Fixed assets: ____________________
Current assets: ____________________
Owner´s equities: ____________________
Liabilities: ____________________

Exercise 3.3

Company XYZ has the following balances on accounts:

Materials	240,000	Governmental agencies for tax liabilities	86,000
Cash	15,000		
Trade liabilities	175,000	Bank loans short-term	34,000
Trade receivables	210,000	Reserves	20,000
Common stocks	3,000,000	Software	65,000
Production	250,000	Deposits on bank account	180,000
Machines	328,000	Buildings	2,732,000
Bank loans long-term	375,000	**Economic result (profit/loss)**	**???**

TASK: Compile the balance sheet and calculate the amount of the economic result, total assets, fixed assets, current assets, owner´s equity and liability.

Assets	Balance Sheet to ……………………...	Equities

Total assets: ____________________

Common stocks: ____________________

Fixed assets: ____________________

Current assets: ____________________

Owner´s equities: ____________________

Liabilities: ____________________

4 Accounting documents, chart of accounts, accounting records, duality and correspondence

The accounting documents are conclusive accounting records, which must include:

(a) Identification of the accounting document,

(b) the content of the financial case and its participants,

(c) a sum of money or information about the price per unit and number of observations,

(d) an instant copy of the accounting document,

(e) time of the transaction,

(f) signature.

The unit charge provides:

- the journal in which the accounting entries are arranged in terms of time (in chronological order) and which demonstrates the accounting of all accounting transactions in the accounting period,
- the general ledger in which accounting entries are arranged in terms of material (systematic),
- analytical accounts in the books, which detail the elaborate accounting ledger entries,
- off-balance sheet accounts.

The book includes accounts by a synthetic chart of accounts.

Storage of **accounting records**:

- the financial statements and Annual report for 10 years beginning with the end of the reporting period to which they relate,

- the accounting documents, ledgers, depreciation schedules, inventory lists, chart of accounts, and reports for 5 years beginning with the end of the reporting period to which they relate,

- the accounting records which demonstrate the leadership entity Accounting, for a period of 5 years beginning with the end of the accounting period to which they relate.

4.1 Inventory of assets and liabilities

The companies discover the real state of the inventory of all assets and liabilities and verify that the observed state corresponds to the actual state of assets and liabilities in the accounts. A continuous inventory entity can only be carried out on stocks which are accounted for by species, by storing sites or materially responsible persons, and in cases of tangible, movable property which has no permanent place to belong. The date of the inventory should be adopted by the entity. Each type of inventory and fixed asset that requires it must be inventoried at least once per accounting period.
The companies discover the real state of the **inventory of assets and liabilities** and these are recorded in the inventory records. In these records are found:

- the physical inventory of assets, in which you can visually determine its existence, or

- the book inventory for liabilities and assets of which you can not visually determine the existence, including other assets, other liabilities and facts charged in off-book accounts.

4.2 Transactions in accounting

There are **four types of transactions** in an accounting system. They are:

1. Transactions that increase both assets and equities

   A+ E+

2. Transactions that decrease both assets and equities

   A- E-

3. Transactions that increase one asset and decrease another asset

   A+ A-

4. Transactions that increase one equity and decrease another equity

E+ E-

4.3 The account, types of accounts

A synthetic account has three parts:

- The title,
- space for recording increases,
- space for recording decreases.

Schema 4.1 Account

Number – account	
Active side	Passive side
Debit side (Debtor – Dr)	Credit side (Creditor – Cr)

Source: authors

Types of accounts are:

1. The balance sheet accounts – classes 0 – 4. They are used for charging of assets and equities.

   Examples of charging:

Asset accounts	
Opening balance Increase of assets	Decrease of assets
Turnover of debit side	Turnover of credit side
Final balance	

Equity accounts	
Decrease of equities	Opening balance Increase of equities
Turnover of debit side	Turnover of credit side
	Final balance

2. Profit/Loss accounts – classes 5 and 6. They are used for charging of costs and revenues.

   Examples of charging:

Cost accounts

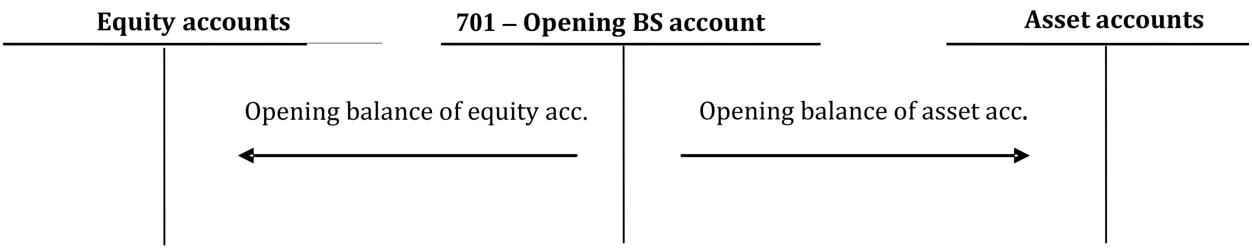
Increase of costs	Decrease of costs
Turnover of debit side	Turnover of credit side
Final balance	

Revenue accounts

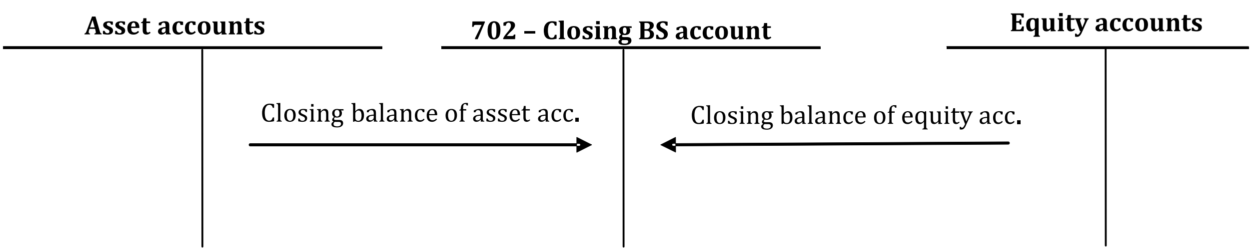
	Increase of revenues
	Turnover of credit side
	Final balance

3. Closing accounts – class 7. They are used for opening and closing balance sheet accounts and closing resulting accounts.

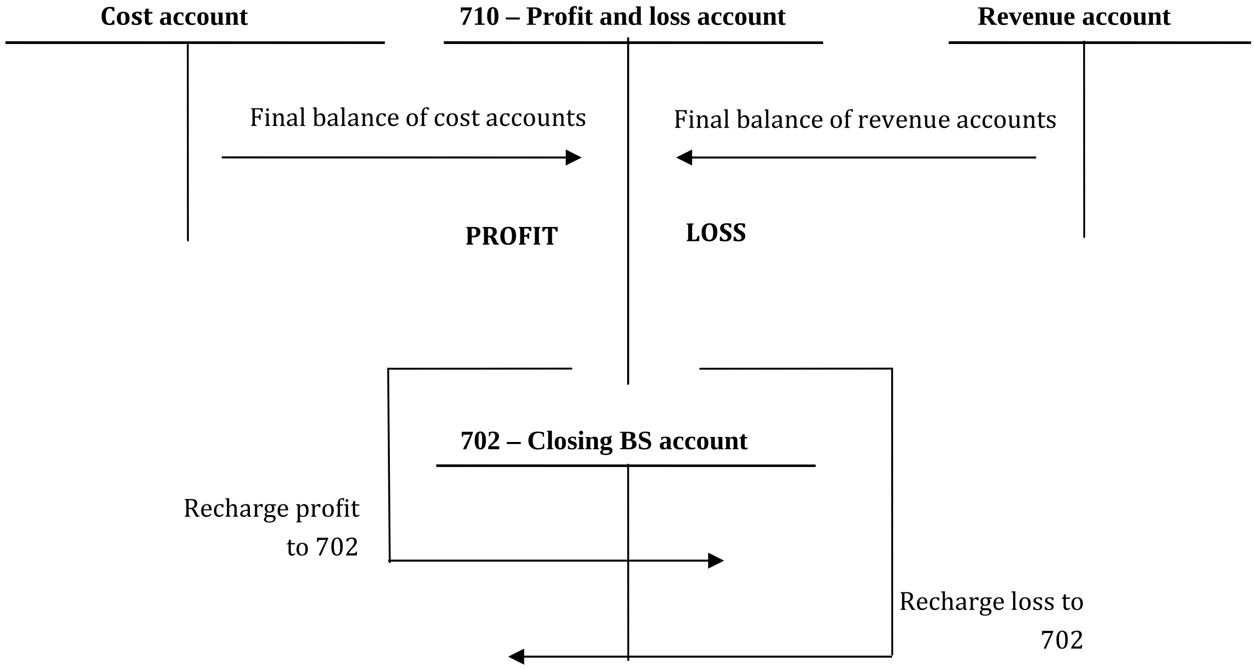
   Examples of opening balance sheet accounts:



Examples of closing balance sheet accounts:



Examples of closing resulting accounts:



4.4 The chart of accounts

The mandatory list of account is defined by the Act No. 563/1991 Coll., on Accounting. The mandatory list of account determines the arrangement and the signification of account classes or account groups or even synthetic accounts for charging the state and movement of property and other assets, payables and other liabilities, costs and revenues and a profit/loss. Edict of Ministry of Finance No. 500/2002 specifies the mandatory list of account for individual groups of entities. Then, entities compile their chart of accounts based on the mandatory list of account. The accounts that entity use for charging of all accounting transactions are listed in the chart of account.

The chart of accounts consists of these classes and groups:

Account class 0 - Fixed assets

01-Intangible assets
02-Tangible assets
03-Tangible assets non-depreciated
04-Accounts of acquisition
05-Unfinished assets – advances
06-Long- term financial assets
07-Cumulated depreciation on intangible assets
08-Cumulated depreciation on tangible assets
09-Rectifying items to fixed assets

Account class 1 – Inventories

11-Material
12-Inventories of own production
13-Merchandise
15-Provided advance payments on inventories
19-Rectifying items to inventories

Account class 2 – Financial accounts

21-Cash
22-Bank accounts
23 -Short-term bank accounts
24-Other short-term financial substitutes
25-Short-term financial assets
26-Transfers between financial accounts
29-Rectifying items to short-term financial assets

Account class 3 – Receivables and short-term liabilities

31-Receivables
32-Liabilities (short-term)
33-Clearing with employees and institutions
34-Clearing of dotations and taxes
35-Recevables for partners and members of associations
36-Liabilities to partners and members of associations
37-Other receivables and liabilities
38-Transitive accounts of assets and equities
39-Rectifying items to receivables and internal clearing

Account class 4 – Capital accounts and long term liabilities

41-Common stocks and capital funds
42-Funds created from net profit and economic result of previous periods
43-Economic result
45-Reserves
46-Long-term bank credits
47-Long-term liabilities
48-Postponed tax liability and receivables
49-Individual businessman

Account class 5 – Costs

50-Consumed purchases
51-Consumed services
52-Personal costs
53-Taxes and fees
54-Other operating costs
55-Depreciation, creation of reserves, complex costs of other periods and creation of rectifying items in operating activites
56-Financial costs
57-Creation of reserves and creation of rectifying items in financial activities
58-Change in inventory and activation
59-Income taxes and transitive accounts

Account class 6 – Revenues

60-Revenues for own products and merchandise
64-Other operating revenues
66-Financial revenues
69-Transitive accounts

Account class 7 – Shuttering accounts

70-Balance sheet accounts
71-Account of profit and loss

Account class 8 – Managerial accounting

Exercises

Example 4.1
The company ABC has the amount of 100,000 CZK in a bank account at the beginning of an accounting period. During the accounting period, material to the value of 20,000 CZK was purchased, and payment was made from the bank account.

TASK: Charge the purchase of the material.

Example 4.2
A company has an opening balance of 100,000 CZK on account 321 – Trade liabilities. These liabilities were paid directly from bank credit with a term of payment shorter than one year (money is sent directly to the supplier´s account).

TASK: Charge this transaction.

Example 4.3

A company has material to the value of 20,000 CZK in stock at the beginning of an accounting period. During the accounting period material to the value of 5,000 CZK was consumed.

TASK: Charge this transaction.

Example 4.4

A company has the following opening balances on accounts at the beginning of an accounting period:

- 221 – Bank account 30,000 CZK,
- 021 – Buildings 400,000 CZK,
- 411 – Capital stock 430,000 CZK.

TASK: Open these accounts at the beginning of an accounting period (use account 701 – Opening balance sheet account).

5 Financial accounts

Schema 5.1 Financial accounts in the balance sheet

Assets	Balance sheet	Equities/Liabilities
FIXED ASSETS • Intangible assets • Tangible assets • Long-term financial assets		OWNER´S EQUITY • Common stocks • Capital funds • Funds created by net profit • Economic results (profit/loss)
CURRENT ASSETS • Inventories • Receivables ▪ short-term ▪ long-term • **Short-term financial accounts**		LIABILITIES • Reserves (provisions) • Liabilities (debts, payables) ▪ short-term ▪ long-term
ACCRUALS		ACCRUALS
Total assets	**=**	**Total equities/liabilities**

Source: authors

5.1 Dividing of financial accounts

Financial accounts are included in the balance sheet of current assets, i.e. short-term financial accounts, and in liabilities, i.e. long-term bank loans.
Financial accounts can be divided **according to time perspective** on short-term and long- term financial accounts:

1. <u>Short-term financial accounts</u> therefore include:

- Cash deposit – cash, checks, bills to settle, valuables – accounting group 21st.
- Funds accounts in banks - accounting group 22nd.
- Daily bank loans (short-term) - accounting group 23rd.

- Other short-term borrowing - charge here short-term financial assistance provided by persons other than banks - accounting group 24th.
- Short-term financial assets – securities and investment that the firm has in its possession within one year. This serves as short-term investments and cash equivalents function – accounting group 25th.
- Transfers between financial accounts - accounting group 26th.
- Provisions for short-term financial assets - accounting group 29th.

2. Long-term financial accounts include long-term bank loans which have a maturity of more than one year.

Furthemore, financial accounts can be divided **by groups**:

3. Assets (active accounts) – include accounting groups 21st, 22nd, 25th.

- Accounts of financial assets – accounts no. 211 – Cash desk, 213 – Valuables, and 221 – Bank accounts.
- Accounts for records of securities in corporate assets and provided short retention periods, i.e. one year – accounts no. 251 – Shares and similar securuties, 253 – Bonds held for trade, 255 – Own short-term bonds.

4. Equities (passive accounts) – include Accounting groups 23rd, 24th.

- Accounts which include short-term bank loans, i.e. account no. 231 – Short-term bank credits, 232 – Discount credits, 249 – Other short-term financial aids.

5. Specific account – includes specific account no. 261 – Transferred cash. This account is used to bridge the timing differences between the accounting of cash vouchers and bank statements. It is also used for transfers between their own two bank accounts.

Analytical accounts of financial assets may be listed separately by:

- the individual financial accounts,
- the type of foreign currencies,
- the materially responsible persons, etc.

5.2 Valuation of financial accounts

Act no. 563/1991 Coll., on Accounting describes possible methods of financial accounts valuation. These are the following **valuation methods**:

1. Face value (nominal value) – especially for the valuation of cash, checks, stamps, etc.

2. Acquisition costs – include purchase price and costs connected with the purchase, especially for securities, etc. In the case of securities these costs are fees paid to brokers and stock exchanges.

3. Replacement costs – used for financial assets acquired for free – for example presents, etc.

5.3 Charging about financial accounts

5.3.1 Cash desk

The accounting unit uses charging at the cash desk (also possible designation cashboxes) when payments through the bank accounts are impracticable or ineffective.

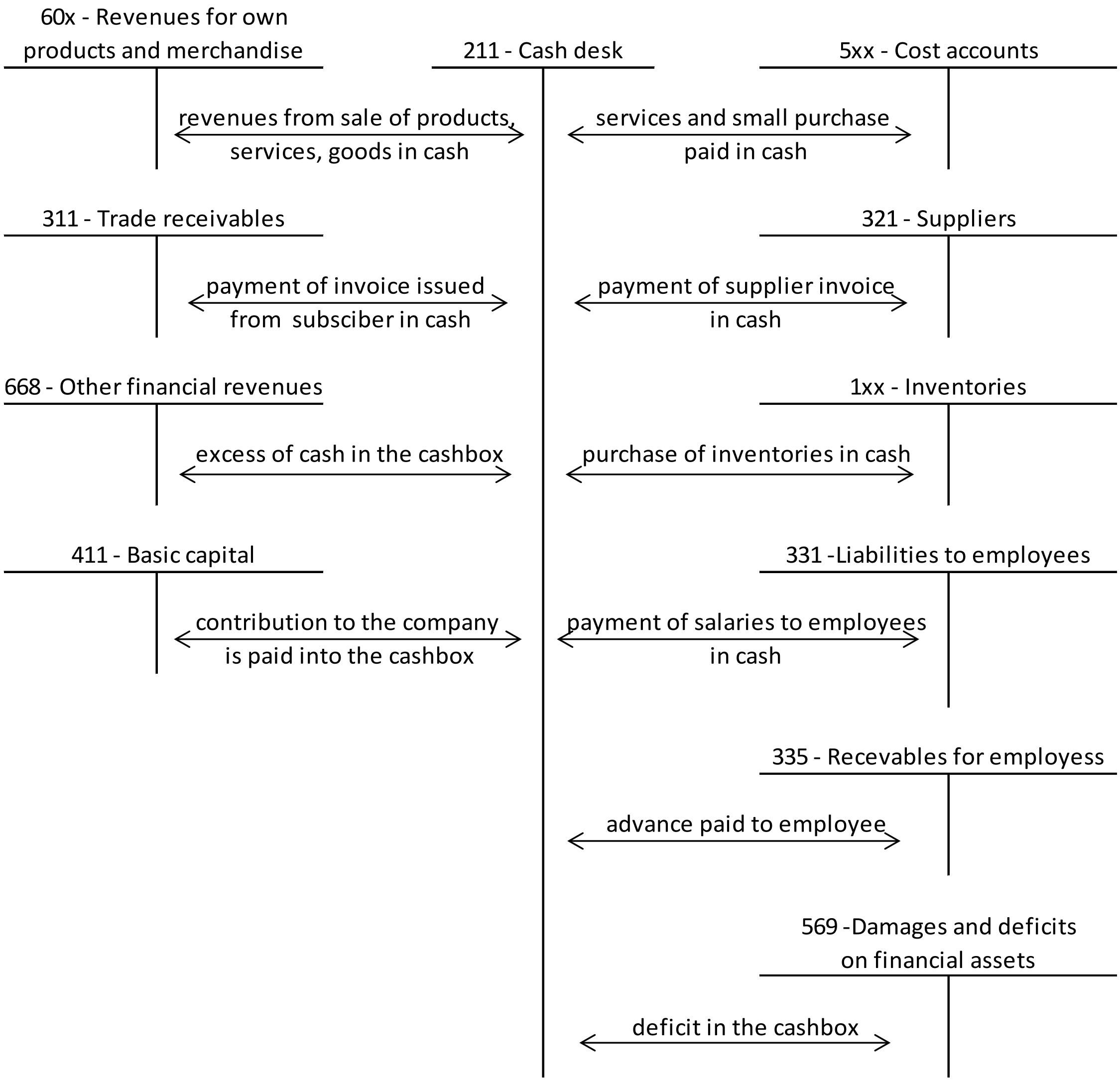
The treasurer manages the cash desk and has material responsibility for it. (If he signed an agreement on material responsibility).

Writing in the cash book should be made solely on the basis of accounting documents:

1. The Income Cash Voucher – Revenues into the cashbox are mainly revenues for products, services, goods, sales of materials or fixed assets, transfers into the cashbox from a current account and the payment of issued invoices. Revenues into the cashbox are recorded based on the document called the *income cash voucher*.

2. The Expenditure Cash Voucher – Expenses from the cashbox are primarily purchases in cash and the purchase of materials, goods, services (repairs, transport, postage...), fuel, purchase of fixed assets, various fees, duties, taxes and wages, etc. Received invoices can be paid in cash or cash can be removed from the cashbox and transferred to the current account. Expenses from the cashbox are recorded based on the document called the *expenditure cash voucher*.

Schema 5.2 Charging at the cash desk



Source: authors

5.3.1.1 Inventorying of the cash desk

Act no. 563/1991 Coll., On Accounting determines the inventorying of assets and liabilities, namely the fifth part of the law. The accounting unit has a **duty to make inventorying**:

1. Minimaly to the date of the financial statements' compilation – it is conducted periodically, i.e. common inventorying, or
2. To the date of the special financial statements' compilation, i.e. uncommon inventorying.

Furthermore, Act no. 563/1991 Coll., On Accounting **divides inventorying into**:

1. <u>Periodic inventorying</u> – which is usually performed on the reporting date,

2. <u>Perpetual inventorying</u> – the accounting unit determines the term of perpetual inventorying any time during the year, which is performed only for inventory (and which is charged for example, by species or as a storage location) and the long-term tangible assets which are continuously moving.

The Inventory is a part of the whole process of inventorying. The main aim of the cashbox inventory is to determine its actual state, i.e. the physical amount of banknotes and coins. The inventory list is made out of a physical inventory of the cashbox, known as cashier (the different types of banknotes and coins – their numbers and quantity). The responsible employee (treasurer) performs the inventory of the cashbox and makes an entry about that. Inventorying compares the accounting balances of the cashbox with the real balances. Differences can be a deficit, or excess (surplus). These differences always must be charged.

Charging – inventorying differences in the cashbox:

1. **Deficit** – The accounting balance (the actual state in the accounts) is higher than the real balances (actual state). It is charged to the financial costs. Examples of the charging:

211 – Cashbox	569 – Damages and deficits on financial assets

The compensation for the deficit is prescribed to the treasurer (materially responsible employee). Examples of the charging:

668 – Other financial revenues	335 – Receivables for employees

The materially responsible employee can pay the deficit in cash to the cashbox, or in a cashless form, or as a deduction from his wages. Examples of the charging:

335 – Receivables for employees	accounts no. 211, 221, 331

2. **Excess** (surplus) – The opposite of the deficit, i.e. the accounting balance is lower than real balance and is charged to the financial revenues. Examples of the charging:

668 – Other financial revenues ⟷ 211 – Cashbox

Main example – charging about inventorying of the cashbox:
Charge the inventorying difference of the cashbox, when the state of banknotes and coins detected on the day 30/11/201x is as shown below in the table. The state of the cashbox detected from the accounting for the day 30/11/201x is 7 924 CZK. Charge the following accounting transaction to the accounging diary.

Value of bank-notes and coins in CZK	Number of pieces	Total va-lue of CZK
5,000	0	0
2,000	1	2,000
1,000	3	3,000
500	2	1,000
200	4	800
100	5	500
50	6	300
20	4	80
10	3	30
5	8	40
2	12	24
1	6	6

The sum of banknotes and coins detected in the cashbox on the day 30/11/201x is 7,780 CZK.

The state of the money in the cashbox detected from accounting on the day 30/11/201x is 7,924 CZK.
The difference between the real state and the accounting state is 144 CZK – a deficit.

Transac-tion	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	Inner Accounting Document: deficit in the cashbox	144	569	211
2.	Inner Accounting Document: prescription of the defict for payment	144	335	668
3.	Income Cash Voucher: the employee paid the deficit to the cashbox	144	211	335

5.3.1.2 Cashbox in foreign currency

The basic characteristics are**:**

- similar nature to a classical cashbox,
- data must be stated in home and foreign currency,
- analytical accounts in the foreign currency,
- entities used for the conversion of the foreign currency are the *daily exchange rate* (announced by the Czech National Bank) or the *fixed exchange rate* (set on a certain date within a defined period).

The accounting unit recalculates the foreign currency from the movements of money and the balance sheet date.

5.3.2 Advances provided to employees

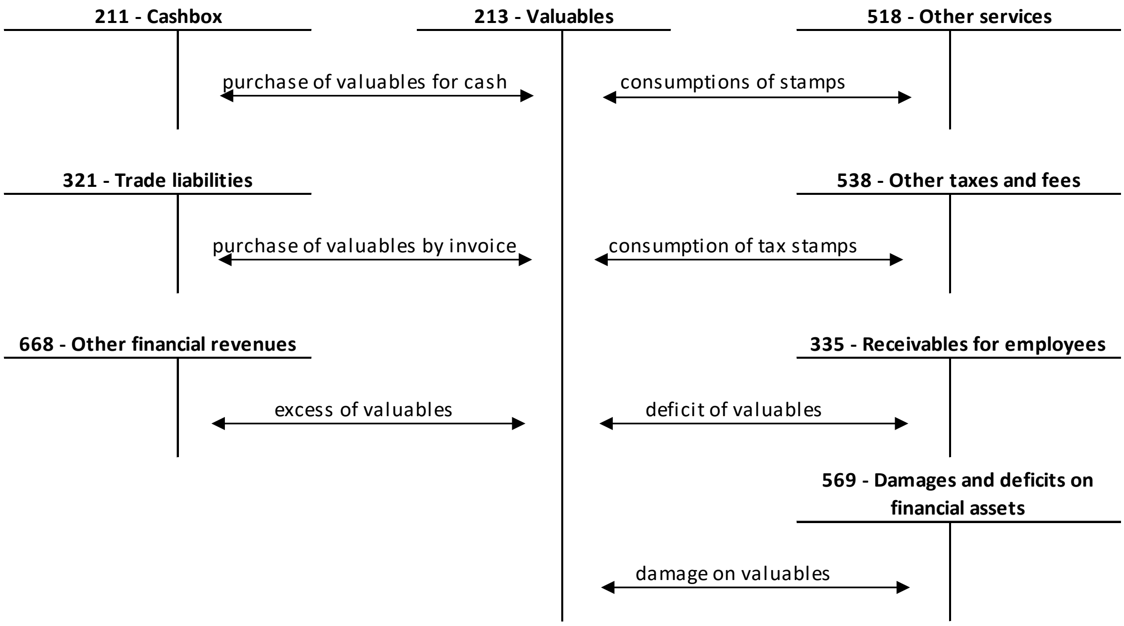
A company can provide advances to employees for various purposes – for example, because of an official journey, or small purchases such as office supplies, valuables etc. Advances provided to employees are considered as receivables for employees, account no. 335 - Receivable for employees.

5.3.3 Valuables

The basic characteristics of valuables are**:**

- a similar nature to money,
- assets that have a nominal value (valuables are valuated on the nominal value),
- valuables mean postage stamps, other kinds of stamps, phone cards, food vouchers, highway signs, etc.,
- the purchase of valuables is charged as an increase of assets and a decrease of money, and eventually an increase of liabilities,
- the consumption of valuables is charged as costs,
- it is possible to purchase the valuables directly as part of consumption,
- inventorying differences – the same rules apply as for the cashbox.

Schema 5.3 Charging about valuables



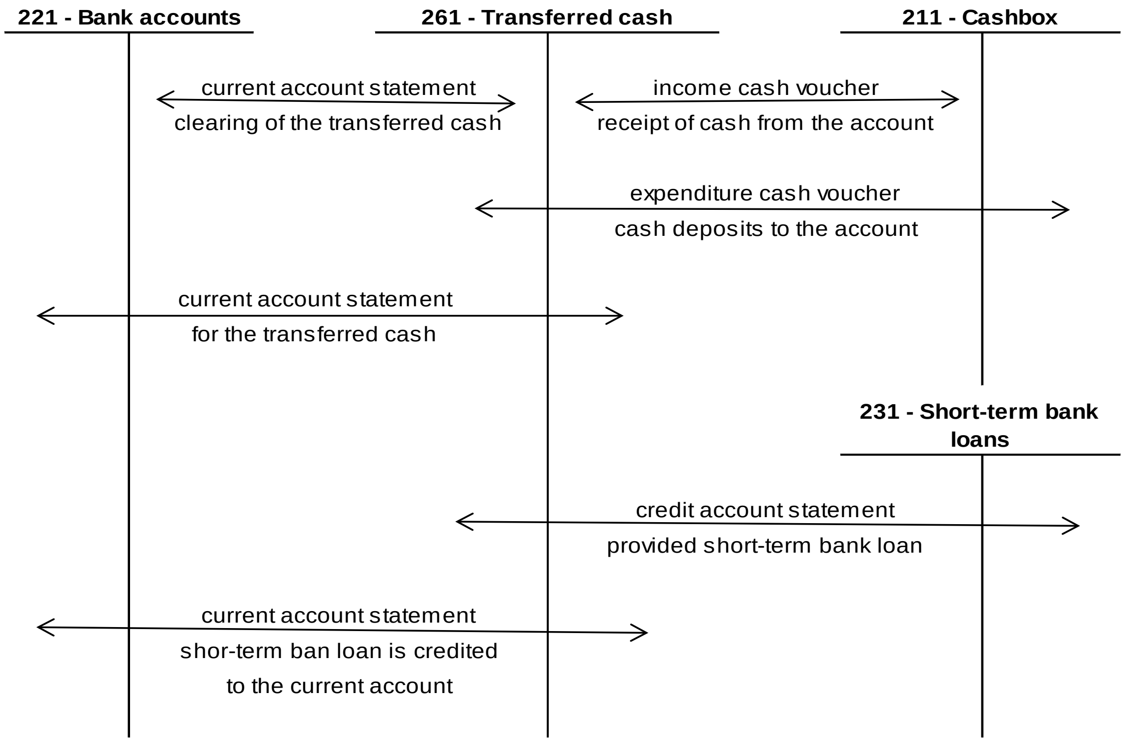
Source: authors

5.3.4 Transferred cash

Account 261 –Transferred cash is used to bridge the gap between charging about the movement of cash and charging about the movements in bank accounts.

At the same time, account 261 – Transferred cash is also used when cash is transferred between two banks' accounts (eg. between the current and the credit account).

Schema 5.4 Charging about transferred cash



Source: authors

5.3.5 Bank accounts

Bank accounts in a wider concept include deposit bank accounts and credit bank accounts.

1. Deposit bank accounts

- account no. 221 – Bank Accounts – current account, overdraft account, foreign currency account, short-term deposit account,
- current revenues of a company are credited to bank accounts, and current payments are paid from bank accounts,
- charging on the basis of the current account statement,
- the current account balance is generally active (except in the overdraft account),
- banks charges are charged to financial costs,
- interest – financial cost, income interest is called financial revenues,
- more current bank accounts – have to lead the analytical evidence.

2. Credit bank accounts

- divided into short-term and long term accounts:
- account no. 231 – Short-term bank loans,
- account no. 461 – Long-term bank loans,
- bank loan funds may be credited to current accounts, the company can directly pay the received invoices from the credit bank accounts
- charging on the basis of credit account statements,
- banks charges are charged to financial costs,
- interest – paid interest is a financial cost.

Exercises

Exercise 5.1
The state of banknotes and coins detected on the day 31/12/201x:

Value of banknotes and coins in CZK	Number of pieces	Total value of CZK
5,000	1	
2,000	2	
1,000	5	
50	3	
20	10	
10	4	
5	8	
2	6	
1	12	
Total in CZK		

Accounting balance in the cashbox is 14 480 CZK on the day 31/12/201x.

TASK: Journalize the following accounting transactions associated with the cashbox inventorying and also record in the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.				
2.				
3.				

Exercise 5.2

TASK: Journalize the following accounting transactions and also record in to the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	Received Invoice: purchase of tax stamps	3,000		
2.	Expenditure Cash Voucher: purchase of postage stamps in cash	250		
3.	Inner Accounting Document: consumption of postage stamps	50		
4.	Inner Accounting Document: consumption of tax stamps	3,000		
5.	Expenditure Cash Voucher: purchase of food vouchers for employees	15,000		
6.	Inner Accounting Document: deficit on postage stamps	40		
7.	Income Cash Voucher: material responsible employee paid the deficit of the postage stamps to the cashbox			

Exercise 5.3

TASK: Journalize the following accounting transactions and also record in to the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 211 – Cash desk	32,400		
	221 – Bank accounts	122,230		
	331 – Liabilities to employees	63,520		
2.	Income Cash Voucher: cash withdrawal from the bank account to the cashbox to pay salaries			
3.	Expenditure Cash Voucher: payment of salaries to the employees in cash			
4.	Current Account Statement: clearing of transferred cash			
5.	Current Account Statement, Credit Account Statement: bank allowed a short-term loan:			
	a) Credit Account Statement	150,000		
	b) Current Account Statement	150,000		
6.	Expenditure Cash Voucher: transfer of revenues to the bank account	12,000		
7.	Income Cash Voucher: excess of cash	68		
8.	Current Account Statement: clearing of cash			

Exercise 5.4

TASK: Journalize the following accounting transactions and also record in to the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 211 – Cashbox	32,500		
	221 – Bank accounts	103,000		
	311 – Trade receivables	145,000		
	321 – Trade liabilities	420,000		
	461 – Long-term bank loans	450,000		
2.	Credit Account Statemen: approved the short-term bank loan is credited to the bank account	150,000		
3.	Current Account Statement: crediting the loan to the current bank account			
4.	Current Account Statement: payment of the supp. invoice	95,000		
5.	Credit Account Statemen: payment of the supplier invoice for a machine directly from the bank loan	283,000		
6.	Current Account Statement: payment of issue invoice	79,600		
7.	Expenditure Cash Voucher: transfer of revenues to the bank account	25,000		
8.	Current Account Statement: clearing of transfer			
9.	Current Account Statement: bank settlement: a) loan interests	9,500		
	b) deposit interests	920		
	c) charges for the management of the bank accounts	450		

Summary Exercise 1 – Charging about financial accounts

TASK: Journalize the following accounting transactions and also record in to the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 211 – Cashbox	9,100		
	213 – Valuables	2,800		
	221 – Current Account in CZK	58,400		
	231 – Short-term bank loans	134,000		
	311 – Trade receivables	47,000		
	321 – Trade liabilities	32,000		
	411 – Ordinary capital	200,000		
2.	Income CV: increase ordinary capital by the contribution of a shareholder	50,000		
3.	Expenditure CV: paid for an advertisement in the newspaper	800		
4.	Current AS: installment of short-term bank loan	50,000		
5.	Expenditure CV: purchase of office supplies	650		
6.	Credit AS: installment of a short-term bank loan			
7.	Received Invoice: purchase of 50 food vouchers for 50 CZK per voucher (food vouchers not yet been issued for use)			
8.	Expenditure CV: purchase of two phone cards (phone cards have been issued for use	1,000		
9.	Income CV: receipt of cash into the cashbox from bank account	30,000		
10.	Expenditure CV: purchase of tax stamp – tax stamps were issued to employees	1,200		
11.	Current AS, Credit AS: long-term loan was credited for the bank account	500,000		

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
12.	Current AS: clearing of transferred cash			
13.	Current AS: payment of the supplier's invoice	18,000		
14.	Expenditure CV: transfer of revenues to bank account	20,000		
15.	Current AS: clearing of transferred revenues			
16.	Current AS: payment of the invoice issued	22,000		
17.	Current AS: bank settlement: a) loan interest	12,000		
	b) deposit interest	800		
	c) bank charges	550		
18.	Credit AS: interest from long-term loan (bank loan was increased by interest)	46,000		
19.	Expenditure CV: deficit in the cashbox (the deficit was prescribed to the treasurer for payment)	210		
20.	Inner AD: in excess of 3 stamps at 10 CZK per stamp			
21.	Income CV: treasurer paid the deficit into the cashbox			

6 Receivables and liabilities (Debtors and creditors)

Schema 6.1 Receivables and liabilites in the balance sheet

Assets **Balance sheet** **Equities/Liabilities**

FIXED ASSETS • Intangible assets • Tangible assets • Long-term financial assets	OWNER´S EQUITY • Common stocks • Capital funds • Funds created by net profit • Economic results (profit/loss)
CURRENT ASSETS • Inventories • **Receivables** ▪ **short-term** ▪ **long-term** • Short-term financial accounts	LIABILITIES • Reserves (provisions) • **Liabilities** (debts, payables) ▪ **short-term** ▪ **long-term**
ACCRUALS	ACCRUALS
Total assets =	**Total equities/liabilities**

Source: authors

Basic characteristics are:

- Receivables – a part of the current assets.
- Liabilities (debts, payables) – a part of the equity, liabilities.
- The absolute majority of the receivables and liabilities (eg. clearing relationships) is recorded in the 3rd accounting class.
- Long-term liabilities are recorded in the 4th accounting class.
- <u>Receivable</u> – an entitlement of the accounting unit for the payment of money from the debtor.

- Liability (debt, payable) – an obligation to pay the money for supplied performance.

Analytical accounts of receivables and liabilities may be listed separately by:

- the individual receivables and liabilities,
- the type of foreign receivables and liabilities,
- the due date, etc.

6.1 Valuation of receivables and short-term liabilities (payables)

Act no. 563/1991 Coll., On Accounting describes the possible methods of valuation of receivables and liabilities. These are the following methods

1. Face value (nominal value) – liabilities and receivables for commercial, financial and other relationships.
2. Acquisition cost – liabilities and receivables purchased from other units.

6.2 Charging about receivables and short-term liabilities (payables)

6.2.1 Receivables from customers

These arise on the basis of the issue invoice document, which represents the revenue of the entity.

Main example – receivables from customers:

The company provides consulting services to other companies. The stated value of 10 000 CZK is given on the issued invoice. Charge all accounting transactions on condition that the seller (company) is not a VAT payer.

311 – Trade receivables	
1. 10,000 CZK	2. 10,000 CZK

602 – Revenues from sale of services	
	1. 10,000 CZK

221 – Bank accounts	
2. 10,000 CZK	

Transactions:

1. *Issued Invoice – consulting services*
2. *Current Account Statement – the payment of issued invoices for consulting services*

6.2.2 Liabilities (payables) to suppliers

These arise on the basis of the received invoice document, which represents the cash expenditure of the entity.

Main example – liabilities (payables) to suppliers:

The company purchases the valuables from the other company on the received invoice. The value of the valuables stated on the received invoice is 15 000 CZK. Charge all accounting transactions on condition that the buyer (company) is not a VAT payer.

213 – Valuables	
1. 15,000 CZK	

321 – Suppliers	
2. 15,000 CZK	1. 15,000 CZK

221 – Bank accounts	
	2. 15,000 CZK

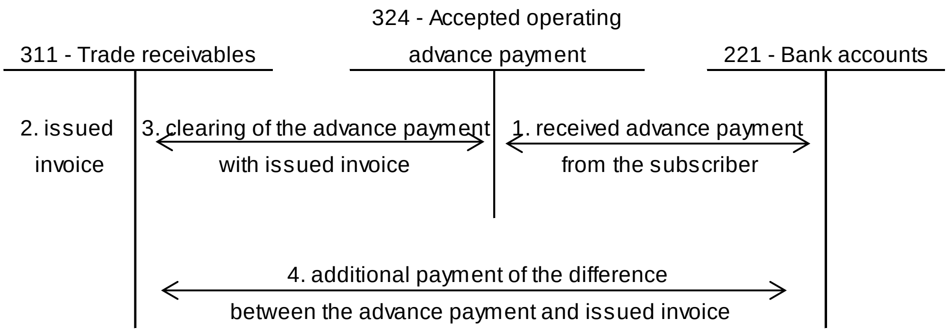
Transactions:

1. *Received Invoice – purchase of valuables*
2. *Current Account Statement – the payment of the received invoice for valuables*

6.2.3 Accepted operating advance payment

The accepted operating advance payment can be described as received money for the accounting unit assuming that clearing has not yet been performed. Accepted operating advance payment does not influence economic results.

Schema 6.2 Charging for accepted operating advance payment



Source: authors

Main example – accepted operating advance payment:

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is not a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 221 – Bank accounts	288,500		
	311 – Trade receivables	50,000		
2.	Current Account Statement: accept operating advance payment for consulting services	40,000		
3.	Issue Invoice: consulting services	66,890		
4.	Clearing of the accept operating advance payment			
5.	Current Account Statement: payment of the difference			

221 – Bank accounts	
1. 288,500 CZK	
2. 40,000 CZK	
5. 26,890 CZK	

701 – Opening balance sheet account	
	1. 288,500 CZK
	1. 50,000 CZK

324 – Accepted advance payments	
4. 40,000 CZK	2. 40,000 CZK

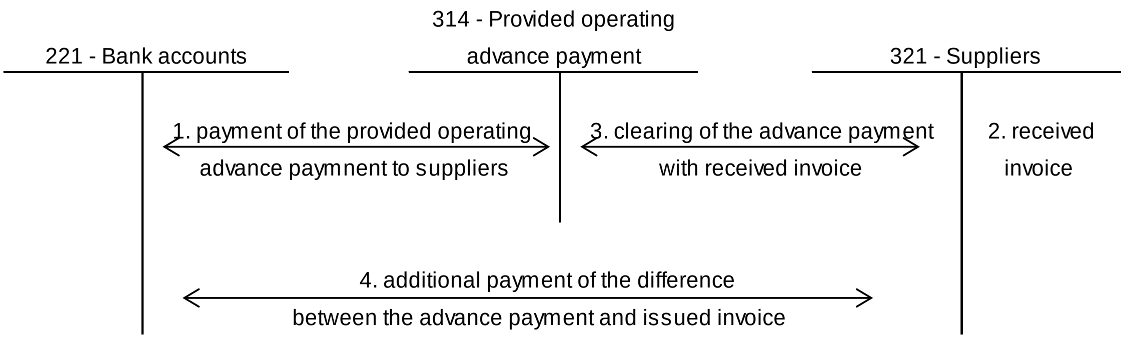
311 – Trade receivables	
1. 50 000 CZK	4. 40,000 CZK
3. 66 890 CZK	5. 26,890 CZK

602 – Revenues from sale of services	
	3. 66,890 CZK

6.2.4 Provided operating advance payment

Provided operating advance payment can be described as money issued by the accounting unit assuming that clearing has not yet been performed. They are charged as receivables from suppliers until the fulfillment of contracts by the suppliers, because accepted and provided operating advance payment does not influence the economic results.

Schema 6.3 Charging about provided operating advance payment



Source: authors

Main example – provided operating advance payment:

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is not a VAT payer.

Acc. trans.	**Text of accounting transaction**	**Amount in CZK**	**Prescription**	
			Dr	**Cr**
1.	The opening balance of the selected accounts: 211 – Cashbox	14,720		
	221 – Bank accounts	327,800		
	321 – Suppliers	120,000		
2.	Current Account Statement: provided operating advance payment for consulting services	65,000		
3.	Received Invoice: consulting services	100,000		
4.	Clearing of the accepted operating advance payment			
5.	Current Account Statement: payment of the difference			

211 – Cashbox	
1. 14,720 CZK	

221 – Bank accounts	
1. 327,800CZK	2. 65,000 CZK
	5. 35,000 CZK

321 – Suppliers	
4. 65,000 CZK	1. 120,000 CZK
5. 35,000 CZK	3. 100,000 CZK

701 – Opening balance sheet account	
1. 120,000 CZK	1. 14,720 CZK
	1. 327,800 CZK

314 – Accepted advance payments	
2. 65,000 CZK	4. 65,000 CZK

518 – Other services	
3. 100,000 CZK	

6.2.5 Receivables and liabilities (payables) in a foreign currency

Basic characteristics are:

- Receivables and liabilities in foreign currencies are recorded in Czech crowns and the relevant foreign currencies according to the Act no. 563/1991 Coll., On Accounting.
- The accounting unit can choose the daily rate or fixed rate for the conversion of foreign currency into Czech currency => an exchange rate difference arises.
- The exchange rate differences arise at the time of payment of receivables and liabilities and at the end of the accounting period.
- Exchange rate differences are charged to the cost (account no. 563 – Rate of exchange lost), or the revenue (account no. 663 – Rate of exchange profits).

Main example – exchange rate difference when paying foreign issued invoices:

An acccounting unit sells goods named on their issued invoice. The daily exchange rate on the date of the accounting transaction is 27.05 EUR / CZK. The bank account was credited 27,000 CZK.

TASK: Journalize the following accounting transactions assuming that the accounting unit is not a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	Issued Invoice: sale of goods (value 1,000 EUR)	27,050	311	604
2.	Current Account Statement: payment of the issued invoice for the goods	27,000	221	311
3.	Clearing of the the exchange rate difference	50	563	311

Main example – exchange rate difference when closing the books:

An acccounting unit purchases the material on the received invoice. The daily rate on the date of the accounting transaction is 27.05 EUR / CZK. The exchange rate on 31/12 is 26.85 EUR / CZK.

TASK: Journalize the following accounting transactions assuming that the accounting unit is not a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	Received Invoice: purchase of material (value 1,000 EUR)	27,050	111	321
2.	The exchange rate difference on the date of 31/12 [(26.85 – 27.05) * 1,000]	200	321	663

6.3 Tax system in the Czech Republic

The system of taxation of the Czech Republic resembles the systems of taxation of other European countries. Generally, taxes can be divided into direct taxes, related to the level of income of the subject, and indirect taxes, related to consumption, or the purchase of goods and services. Each type of tax is defined in a specific piece of legislation. The administration and collection of individual taxes falls under the Ministry of Finance of the Czech Republic and its subordinate administrative bodies, but above all, the local tax authorities.

The most typical and the most common class is the classification according to tax impact. We may distinguish between **direct taxes** and **indirect taxes**. The difference between direct and indirect taxes depends on whose incomes are influenced by tax, and may be described as follows:

- Direct taxes are assessed on every taxpayer according to his/her incomes and property, and usually respect the personal situation of the taxpayer. Direct taxes influence directly the income of the payer (corporation, employee, employer, consumer, etc.) which pays the tax simultaneously to a financial agency.
- On the other hand, indirect taxes are paid and collected on the prices of goods, services, etc. and do not respect the personal situation of the taxpayer. In practice, it works in the system that, the indirect tax is collected by the seller from the customer in the price of goods, products, etc., and the amount of tax is sent to the financial agency by the seller. The most important indirect taxes are value added tax and excise taxes.

Basic concepts in the area of taxation:

- Tax – mandatory, non-refundable payment to the public budget, designated by law.

- Tax administrator – state institution that collects, controls and enforces payment of taxes. Most often the tax administrator is the tax office. In other situations, taxes can be administrated by other public administration bodies, by courts or by customs offices.

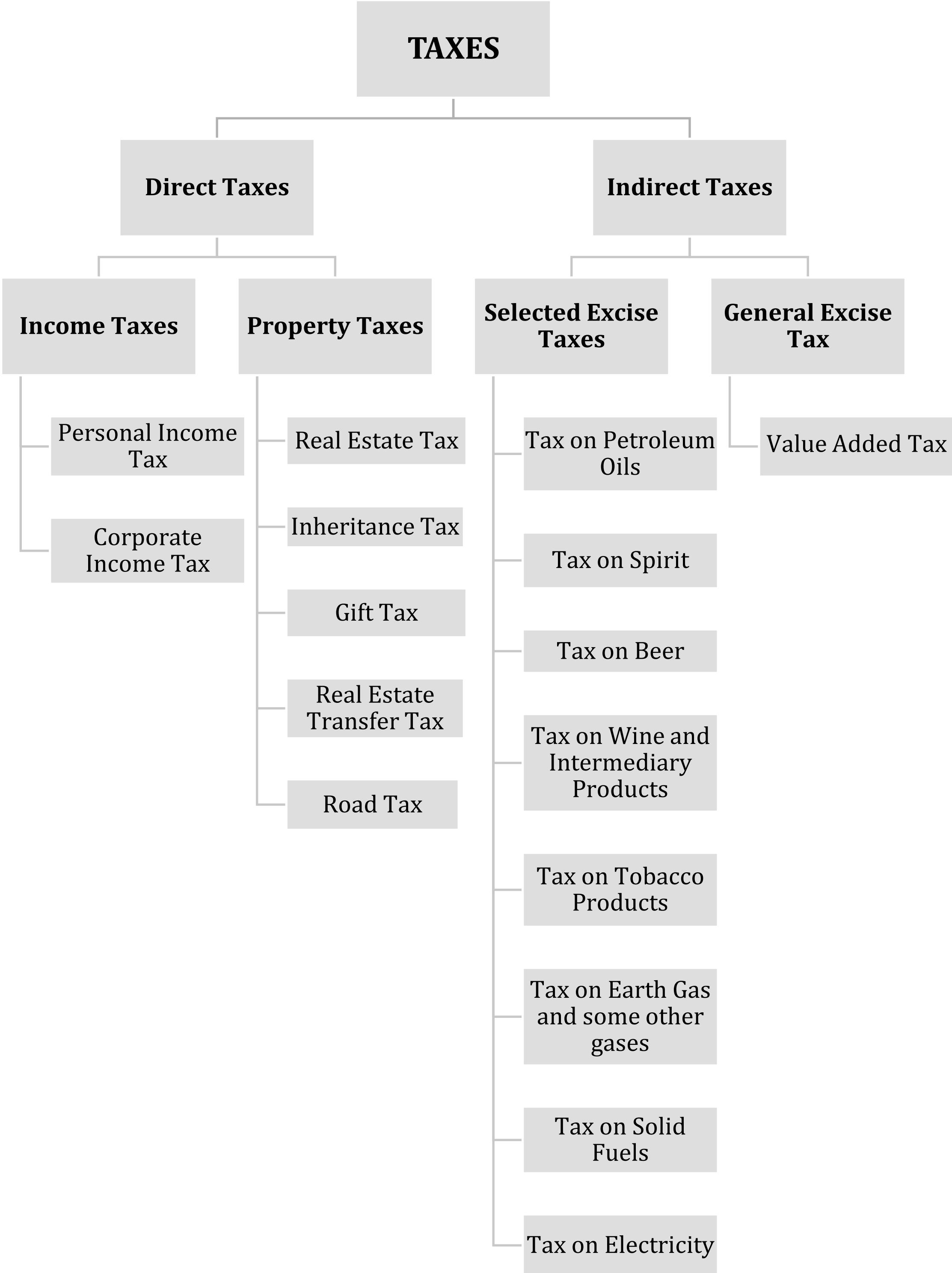
- Taxpayer – a naural person or legal entity whose income, property or legal acts (legal transactions) are the object of taxation. Every employee is a taxpayer.

- Payor –a natural person or legal entity that has responsibility to calculate tax, collect it and transfer it in time to the tax administrator. Every employer is a payor.

- Taxation period – the time period over which the tax is calculated and paid to the tax administrator.

- Payment period for tax – the deadline for the tax payment.

Figure 6.1 Tax system in the Czech Republic



Source: authors

6.3.1 Direct Taxes

Direct taxes are assessed on every taxpayer according to his/her income, property and usually respect the personal situation of the taxpayer. Direct taxes influence directly the income of the payer (corporation, employee, employer, consumer, etc.) which pays the tax simultaneously to a financial agency. Distribution of direct taxes:

6.3.1.1 Income Taxes

Income tax is undoubtedly one of the most complex forms of tax that exists. The document is based on Act No. 586/1992 Coll., that had been revised by the end of 2013. Income tax represents the main tax duty. It is divided into the income tax on a natural person and the income tax of legal entities, with different tax rates. The income tax on a natural person has a flat 15% rate. The rate is the same for wage earners and self-employed people. The current income tax of legal entities is 19 %. Pension and investment funds pay 5% corporate tax. Since January 2014 an inheritance tax and gift tax is a part of the income tax which were originally separate taxes.

(a) Personal Income Tax

- Account no. 342 – Other direct tax.
- The payor – the accounting unit (employer).
- The taxpayer – the subject other than the accounting unit (employee).
- These forms of income of natural persons are subject to taxation:
  * Personal Income Tax from dependent activity (employment) and emoluments of office-holders (function benefits), e.g. wages.
  * Income from business and other self-employment.
  * Income from capital assets, e.g.: interests, dividends.
  * Income from leasing.
  * Other forms of income, e.g.: occasional income, income from the sale of property and movable assets, winnings
- Personal income tax – withheld in the form of advances or deductions from employees.
- Personal income tax – is not charged to the costs of the accounting unit.

(b) Company Income Tax

- Account no. 341 – Income tax clearing.

- The taxpayer – entities, i.e. the accounting unit, e.g. companies, civil corporations, political parties, interest corporations, foundations, municipalities, state corporations, banks, insurance companies, organizational components of the State, etc.
- Two types of taxpayers liable to corporate income tax:
  * Tax residents – entities having their seat or head office in the Czech Republic.
  * Tax non-residents – entities not having their seat or head office in the Czech Republic.
- Paying advance payments – amount and frequency depends on the last known tax liability.
- Taxable period – a choice between calendar year (beginning on the first day of the first month, twelve months long) or an economic year (twelve months long, beginning on the first day of any other month than the first month of the year).
- Debit side of the account no. 341 – the charging of advance payments of company income tax.
- Credit side of the account no. 341 – the charging of tax obligations.
- Company income tax – the cost of the accounting unit:
  * Account no. 591 – Income tax from regular activities – due.
  * Account no. 593 – Income tax from extraordinary activities – due.

6.3.1.2 Property Taxes

- Types of property taxes:
  * Real Estate Tax – the most common property tax. There are three parts of real estate tax, i. e. land tax, buildings tax, and flats and non-residential premises (space) tax.
  * Inheritance Tax – a type of transfer tax, the transfer of property is realized gratuitously.
  * Gift Tax – the same as inheritance tax with the difference that this is the transfer of property inter vivos.
  * Real Estate Transfer Tax – the taxation of a part of the purchase price obtained from the sale of real estate
  * Road Tax – taxation for the use of roads by motor vehicles used for business.
- Property taxes – costs of the accounting unit – accounting group 53 – Taxes and fees (except inheritance tax and gift tax).
- Account no. 345 – Other taxes and fees.

6.3.2 Indirect Taxes

Indirect taxes are paid and collected on the prices of goods, services, etc. and do not respect the personal situation of the taxpayer. In practice, it works in the system that indirect tax is collected by the seller from the customer in the price of goods, products, etc., and the amount of tax is sent to the financial agency by the seller. The most important indirect taxes are VAT and excise taxes.

6.3.2.1 Selected Excise Taxes

- Historically there are five selected excise taxes:
  * Excise Tax on Petronelum Oil.
  * Excise tax on spirits.
  * Excise tax on beer.
  * Excise tax on wine and semi products.
  * Excise tax on tobacco products.
- Three new excise taxes since the beginning of 2008:
  * Tax on earth gas and other gases.
  * Tax on solid fuels.
  * Tax on electricity.
- Account no. 345 – Other taxes and fees.

6.3.2.2 Value Added Tax

VAT is regulated by Act no. 235/2004 Coll., on Value Added Tax Act in the Czech Republic.

Value Added Tax (VAT) is the most typical indirect tax collected in the Czech Republic. In fact, the Czech legal regulation of VAT is the same as the position in the other member states of the European Union. VAT is a tax on consumption. It means, Value Added Tax is paid by a final consumer on the purchase of goods and services. It is also interesting that a lot of consumers do not know that they are paying this tax.

VAT occurs in every phase of turnover (for example the acquisition of raw materials, sale to the final consumer, etc.). Every phase usually adds some value and this added value is the object of taxation. The final, total sum of the tax is paid by the final consumer because every VAT payer has a right to ask for the refund of the tax but the final consumer does not have this right.

The **subjects of VAT** are:

- the supply of goods for payment by a taxable person, if a place of transfer is in the Czech Republic (goods means for example movable assets, electric power, gas, water, etc.),
- the provision of a service by a taxable person, if a place of transfer is in the Czech Republic,
- the acquisition of goods from another member state of the European Union ("Member State") for payment,
- the import of goods with a place of supply in the Czech Republic.

The **rates of VAT** are:

- the basic VAT rate – 21 % (applies to most kinds of goods and services),
- the first reduced VAT rate – 15 % (food, drinks – but no alcohol, cultural activities, medical means, construction of flats for living, some books, etc.),
- the second reduced VAT rate – 10 % (food for babies, some books, medicines, etc.).

Taxable persons (payors):

- Taxable persons are individuals and legal entities that carry out economic activities such as trading, manufacturing activities and the provision of services in the Czech Republic. The taxable person is usually the one, whose <u>turnover has exceeded 1,00, 000 CZK in the past twelve months</u> (becomes mandatory). This person must file the registration form and transfer it to the Financial Office by the fifteenth day following the end of the month when its turnover exceeded the above mentioned sum.
- Some persons are registered voluntarily. In this case these persons have a possibility to reclaim the amount of VAT paid as a refund.

Tax documents are:

- <u>the Simplified Tax Document</u> (known as a chit) – used for payment in cash if the amount does not exceed the amount of 10,000 CZK, the the total amount of which includes VAT where the rate of VAT is shown on the chit,
- <u>the Common Tax Document</u> – used in all other cases (an example may be the invoice). The Common Tax Document contains all the elements of the Simplified Tax Document and also contains identification information about the recipients of taxable transactions (the buyer) and the VAT base and VAT.

Methods of VAT calculation:

1. Price without VAT – VAT is calculated as a multiple of the price without VAT and the VAT rate in % => the total (final) price.
2. Price including VAT (i.e. total, final price) – VAT is calculated as a multiple of the total price and the ***coefficient***. The coefficient is calculated according to the relation:

$$Coefficient = \frac{VAT\ rate}{(100 + VAT\ rate)}.$$

Calculate the coefficient at different rates

- The basic VAT rate 21 % = 21/121 = ***0.1736*** (rounded up to 4 decimal places),
- The first reduced VAT rate 15 % = 15/115 ***= 0.1304*** (rounded up to 4 decimal places),
- The second reduced VAT rate 10 % = 10/110 = ***0.0909*** (rounded up to 4 decimal places).

Main example – VAT calculation – price without VAT:

TASK: Calculate the value of the VAT and the price including VAT.

A company called NOTES sells a PC at the price of 24,000 CZK, excluding VAT. What is the final price for the customer, where this kind of the product is burdened by 21 % VAT?

The value of the VAT = (24,000 * 21) / 100 = 5,040 CZK

Final (total) price = 24,000 + 5,040 = 29,040 CZK

Main example – VAT calculation – price including VAT:

TASK: Calculate the value of the VAT and the price without VAT.

A company purchased office supplies on a chip card at the price of 450 CZK, including VAT. What is the value of the VAT and what is the price without the VAT? The VAT rate shown on the chip is 21 %.

The value of the VAT = 450 * 0.1736 = 78.1 CZK

The price without VAT = 450 – 78.1 = 371.9 CZK

Charging about VAT:

Charging about VAT is shown in the T-account no. 343 – Value added tax.

343 – Value added tax	
INPUT TAX **=> receivables from the tax office**	OUTPUT TAX **=> liability to the tax office**
Final balance: **EXCESSIVE DEDUCTION**	**Final balance:** **OWN TAX OBLIGATION**

Input tax:

- charged on the debit side,
- VAT charged when buying,
- entitled to deduct VAT,
- receivables from the tax office.

Output tax:

- charged on the credit side,
- VAT charged when selling,
- obligation to add VAT to the price of a performance,
- VAT is a liability for the tax office.

Tax obligation (comparison of input tax and output tax)**:**

- own tax obligation – total output tax is higher than total input tax,
- excessive deduction – total input tax is higher than total output tax.

Charging from the perspective of the payer/non-payer:

1. VAT payer – the VAT account is the continuous item within the clearing relationships => is registered on the account no. 343 – VAT, and therefore not included in the valuation of assets (leads in price without VAT).
2. VAT non-payer – the VAT non-payer is not entitled to deduct VAT. VAT becomes part of the valuation of assets, or in the case of services, is included in operating costs.

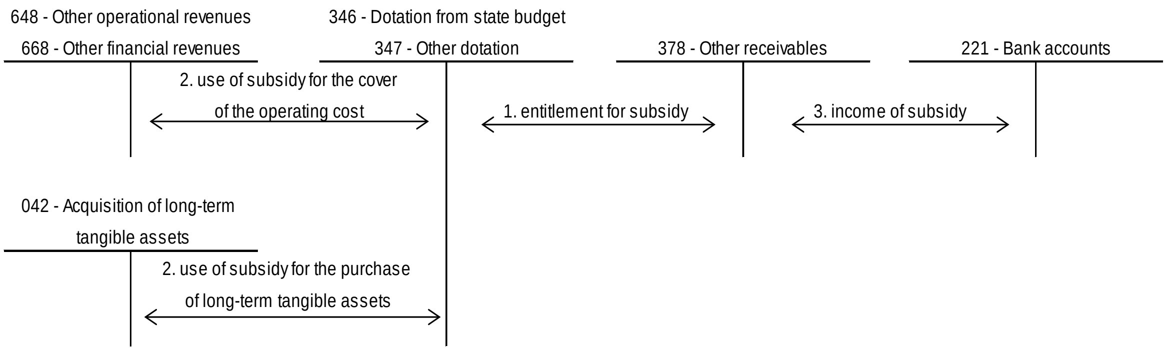
6.4 Subsidies

Subsidy means the non-repayable finances provided from the state budget.

Types of subsidies are:

- Operating Subsidies – the subsidies to cover operating costs, operating subsidies are included to revenues,
- Investment Subsidies – the subsidies for the purchase of long-term tangible assets that reduce the acquisition costs of assets.

Schema 6.4 Charging about subsidies



Source: authors

Exercises

Exercise 6.1

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is not a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 112 - Material	250,000		
	211 – Cashbox	12,500		
	221 – Bank accounts	412,500		
	311 – Trade receivables	220,000		
2.	Issue Invoice: sale of products	147,000		
3.	Current Account Statement: payment of issued invoice from the subsciber for sold products			
4.	Issue Invoice: consulting services	14,990		
5.	Income Cash Voucher: invoice for consulting services was paid in cash			
6.	Current Account Statement: payment of issued invoice listed in the opening balance			

Exercise 6.2

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is not a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 211 – Cashbox	14,950		
	221 – Bank accounts	424,710		
	321 – Suppliers	189,990		
2.	Received Invoice: electrical energy	17,850		
3.	Current Account Statement: payment of received invoice for the electrical power			
4.	Received Invoice: computer repair	4,990		
5.	Expenditure Cash Voucher: received invoice for the computer repair was paid in cash			
6.	Current Account Statement: payment to suppliers from the opening balance			

Exercise 6.3

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is not a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 211 – Cash desk	32,400		
	221 – Bank accounts	122,230		
	311 – Trade receivables	63,520		
2.	Current Account Statement: accepted operating advance payment for the sale of products	200,000		
3.	Issue Invoice: sale of products	450,000		
4.	Clearing of the accepted operating advance payment			
5.	Current Account Statement: payment of the difference			

Exercise 6.4

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is not a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 211 – Cash desk	15,800		
	221 – Bank accounts	328,550		
	311 – Trade receivables	155,500		
2.	Current Account Statement: provided operating advance payment for the sale of products	50,000		
3.	Received Invoice: sale of products	150,000		
4.	Clearing of the provided operating advance payment			
5.	Current Account Statement: payment of the difference			

Exerciese 6.5

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer. Calculate the resulting tax liability in respect of VAT.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	Received Invoice: electrical power			
	a) taxable transaction	3,500		
	b) VAT 21 %			
	c) price including VAT			
2.	Received Invoice: advertisement			
	a) taxable transaction	25,000		
	b) VAT 21 %			
	c) price including VAT			
3.	Received Invoice: computer repair (supplier is not VAT payer)	12,500		
4.	Issued Invoice: performed services			
	a) taxable transaction	125,000		
	b) VAT 21 %			
	c) price including VAT			

Exercise 6.6

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer. Calculate the resulting tax liability in respect of VAT.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription Dr	Prescription Cr
1.	The opening balance of the selected accounts: 211 – Cash desk	6,500		
	221 – Bank accounts	22,000		
2.	Issued Invoice: bookkeeping			
	a) price including VAT	7,000		
	b) VAT 21 %			
	c) taxable transaction			
3.	Received Invoice: photocopier repair			
	a) price including VAT	1,100		
	b) VAT 21 %			
	c) taxable transaction			
4.	Income Cash Voucher: consulting services			
	a) price including VAT	2,000		
	b) VAT 21 %			
	c) taxable transaction			
5.	Expenditure Cash Voucher: purchase of professional literature			
	a) price including VAT	2,000		
	b) VAT 15 %			
	c) taxable transaction			
6.	Current Account Statement:			
	a) payment of issued invoice			
	b) payment of received invoice			
	c) VAT settlement			

Summary Example 2 – Charging about VAT

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit firstly is a VAT payer and secundary is not a VAT payer. Calculate the resulting tax liability in respect of VAT.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription: VAT payer		Prescription: VAT non-payer	
			Dr	Cr	Dr	Cr
1.	The opening balance of the selected accounts: 211 – Cash desk	12,500				
	221 – Bank accounts	56,000				
2.	Issued Invoice: performed services					
	a) taxable transaction	15,000				
	b) VAT 21 %					
	c) price including VAT					
3.	Expenditure Cash Voucher: purchase of the collection of laws					
	a) price including VAT	320				
	b) VAT 15 %					
	c) taxable transaction					
4.	Expenditure Cash Voucher: machine repair (supplier is not VAT payer)	750				
5.	Received Invoice: purchase of material which is taken to the warehouse					
	a) taxable transaction	22,000				
	b) VAT 21 %					
	c) price including VAT					
6.	Income Cash Voucher: consulting services					
	a) price including VAT	2,000				
	b) VAT 21 %					
	c) taxable transaction					
7.	Issued Invoice: performed services to VAT non-payer					
	a) taxable transaction	12,000				
	b) VAT 21 %					
	c) price including VAT					
8.	Received Invoice: advertisement from VAT non-payer	3,500				
9.	Current Account Statement:					
	a) payment of issued invoice					
	b) payment of received invoice					
	c) VAT settlement					

VAT payer:

VAT non-payer:

7 Fixed assets

Schema 7.1 Fixed assets in the balance sheet

Assets	Balance sheet	Equities/Liabilities
FIXED ASSETS • **Intangible assets** • **Tangible assets** • **Long-term financial assets**		OWNER´S EQUITY • Common stocks • Capital funds • Funds created by net profit • Economic results (profit/loss)
CURRENT ASSETS • Inventories • Receivables ▪ short-term ▪ long-term • Short-term financial accounts		LIABILITIES • Reserves (provisions) • Liabilities (debts, payables) ▪ short-term ▪ long-term
ACCRUALS		ACCRUALS
Total assets	=	**Total equities/Liabilities**

Source: authors

The basic characteristics of fixed assets:

- assets of the accounting unit,
- recorded in the accounting class 0,
- include intangible assets, tangible assets, long-term financial assets
- is a folder of assets which are not consumed, nor converted into another folder of assets.

7.1 Dividing of fixed assets

Fixed assets are divided into several accounting groups. There is reserved the zero-th (0th) accounting class in the sample account classification. Namely, these **accounting groups**:

1. Intangible assets (Accounting group 01) – assets of an intangible nature with a term of usage longer than one year and with a value exceeding a limit chosen by the accounting unit. The accounting units usually choose a valuation which is given by Act no. 586/1992 Coll., On Income Tax, i.e. over 60,000 CZK. On the other hand, an intangible asset with a term of usage longer than one year and with a value that doesn´t exceed a limit of 60,000 CZK is charged as costs in the moment of its acquirement. Examples of intangible assets:
   - intangible results of research and development,
   - software (next SW),
   - appraisable rights,
   - licences,
   - goodwill, etc.
2. Tangible assets (Accounting group 02) – assets of a tangible nature with a term of usage longer than one year and with a value exceeding a limit chosen by the accounting unit. The accounting units usually choose a valuation which is given by Act no. 586/1992 Coll., On Income Tax, i.e. over 40,000 CZK. On the other hand, a tangible asset with a term of usage longer than one year and with a value not exceeding a limit of 40,000 CZK may be charged as inventory at the moment of its acquirement. At the moment of its consumption, this asset is charged to costs. Examples of tangible assets:
   - buildings,
   - parcels,
   - adult animals,
   - tangible movables – such as cars, PCs, machines, equipment, etc.
3. Non-depreciated tangible assets (Accounting group 03) – land, artistic works and collections.
4. Account of acquisition (Accounting group 04) – acquisition of long-term intangible assets, acquisition of long-term intangible assets (not defferentiated), acquisition of long-term financial assets.

5. Unfinished assets (Accounting group 05) – advance payments for long-term intangible assets, advance payments for long-term tangible assets, advance payments for long-term financial assets.

6. Long-term financial assets (Accounting group 06) – assets of a financial nature with a term of payment longer than one year regardless of their value. Examples of long-term financial assets:

   – long-term investment,

   – capital shares,

   – long-term bill of exchange, etc.

Analytical accounts of fixed assets may be listed separately, for example by:
1. the individual fixed asset,
2. the storage location,
3. the materially responsible person,
4. the valuation, etc.

7.2 Valuation of fixed assets

In accordance with Act no. 563/1991 Coll., On Accounting, **fixed assets are valued** in these ways:

1. Acquisition costs – fixed assets acquired by purchase. Acquisition costs include the purchase price and the cost connected with the purchase. Examples of costs connected with the purchase can be transportation costs, insurance, assembling costs, duty, commission for brokering the purchase, etc.

2. Replacement costs – executant acquisition costs are used for fixed assets acquired for free, for example, newly founded fixed assets, fixed assets acquired as gifts or embedded in the company. This value is calculated as a common value known on the market or as an expert estimation.

3. Own costs – own costs are used for fixed assets acquired by one's own activities. These consist of direct costs spent on the creation of fixed assets and part of indirect costs spent on the creation of fixed assets.

Valuation principles are:

- The decrease of the acquisition cost of assets – the acquisition cost of the asset is reduced by a received grant,

- The increase of the acquisition cost of assets – the acquisition cost of the asset is increased by expenditure on a finished technical evaluation, always in the completion and takeover into use.

7.3 Technical improvement

Technical improvement means expenditure on extensions, alterations, reconstruction and modernization of assets. Limit for technical improvement determines the entity itself. This limit should correspond with the materiality threshold for tangible assets, or intangible assets.

The technical improvement is not possible to include in costs disposable, it is necessary to increase the value of the technical improvement of the acquisition cost, in the tax period when the technical improvement is put into use.

These must be distinguished:

- modernization – an extension of the facilities and their usability,
- reconstruction – a change of the purpose or the technical parameters,
- repairs and maintenance – a removal of defects, removal or decrease of wear.

Main example – technical improvement:

The Accounting unit acquired a building in value of 1,900,000 CZK in the year 2014. The entity performed construction works in the value of CZK 500,000 in 2015, and other construction works in the value of CZK 650,000 in 2016, always on received invoice. Construction works were completed in 2015. Charge all accounting transactions.

Solution:

Acc. trans.	**Text of accounting transaction**	**Amount in CZK**	**Prescription**	
			Dr	**Cr**
1.	Received Invoice: construction works in 2015	500,000	042	321
2.	Received Invoice: construction works in 2016	650,000	042	321
3.	Takeover the technical evaluation into use	1,150,000	021	042

Note: Increased input price of the asset is recorded on the inventory card.

7.4 Methods of fixed assets acquisitions

The basic **methods of fixed assets acquisiti**ons are the following:

1. purchase,
2. create by own acitivity,
3. free acquisition (gifting),
4. deposit from another person to the company,
5. reassignment from personal to business use.

7.4.1 Purchase

Fixed assets are charged during the accounting period on accounts from accounting class 0. Purchased fixed assets are valued by acquisition costs. On the account of the account group 04 – Accounts of acquisition is charged primary the purchase price, and secundary the cost connected with the purchase price – transportation costs, insurance, etc. In the case of the foreign supplier (outside the EU) the assessed duty is a part of the acquisition costs too. Special account from accounting class 04 – Accounts of acquisition is:

- 041 – Acquisition of long-term intangible assets
- 042 – Acquisition of long-term tangible assets
- 043 – Acquisition of long-term financial assets

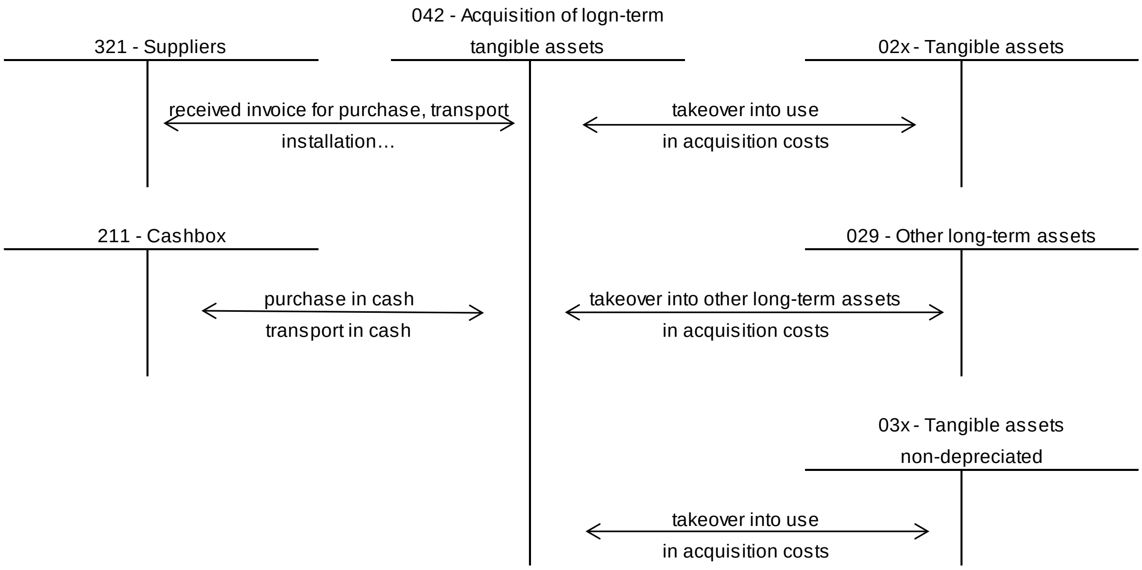
When total amount of acquisition is known, this value (provided on the account of theacquisition) is recharged from this account of the acuisition on concrete asset account in the accounting class used for fixed assets. i. e.:

- 01 – Intangible assets
- 02 – Tangible assets
- 03 – Non-depreciated Tangible assets

The acquisition of fixed assets can be financed in different ways, such as:

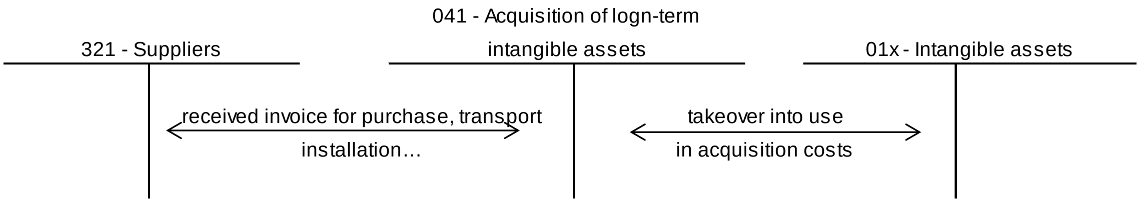
- company finances (the cashdesk, the bank account),
- a provided loan,
- a provided advance payment for a long-term asset.

Schema 7.2 Charging about purchased long-term tangible assets



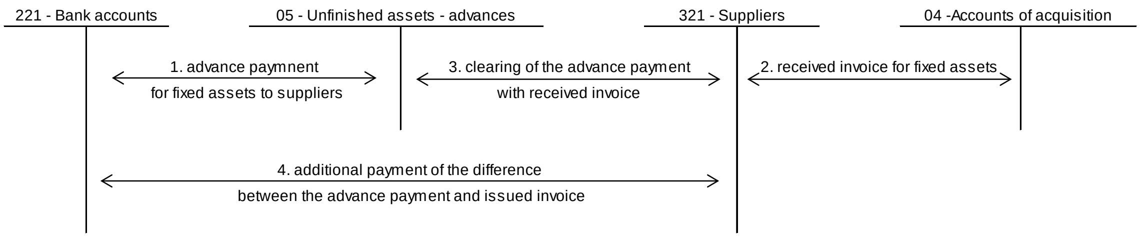
Source: authors

Schema 7.3 Charging about purchased long-term intangible assets



Source: authors

Schema 7.4 Charging about provided advance payment for the long-term asset



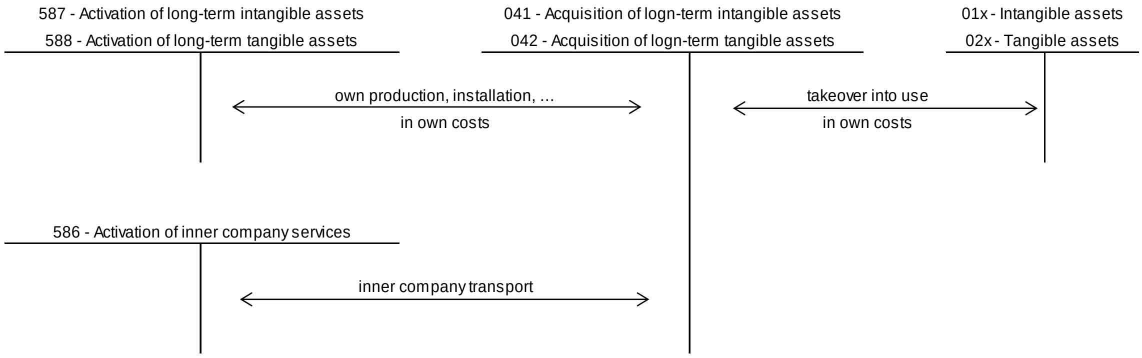
Source: authors

7.4.2 Created by own activity

The costs form the entity as a result of the acquisition of assets created by own activity. These all costs related to the asset production are charged on the debit side of the accounts of the fifth accounting class. The total sum of these costs (i.e. own costs) is charged on the credit side of the account no. 587 – Activation of long-term intangible assets, or no. 588 – Activation of long-term tangible assets and correlatively on the debit side of the acquisition account of long-term assets (account no. 041 and 042).

If the entity has its own transport or installation of the asset, talking about the activation of internal services – is used account no. 586 – Activation of inner company services.

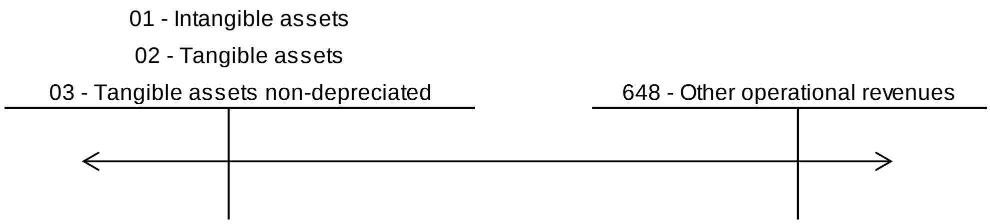
Schema 7.5 Charging about fixed assets created by own activity



Source: authors

7.4.3 Free acquisition (gifting)

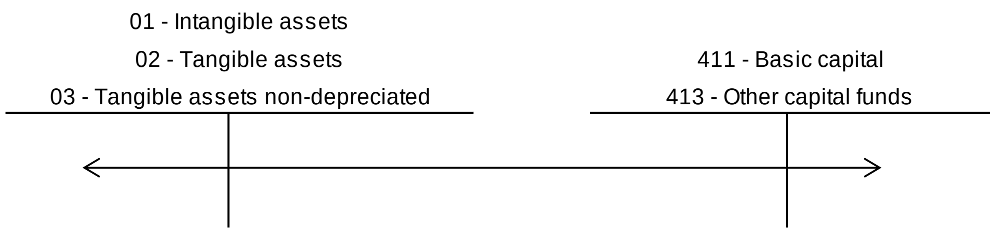
Schema 7.6 Charging about free acquisition of the fixed assets



Source: authors

7.4.4 Deposit from another person to the company

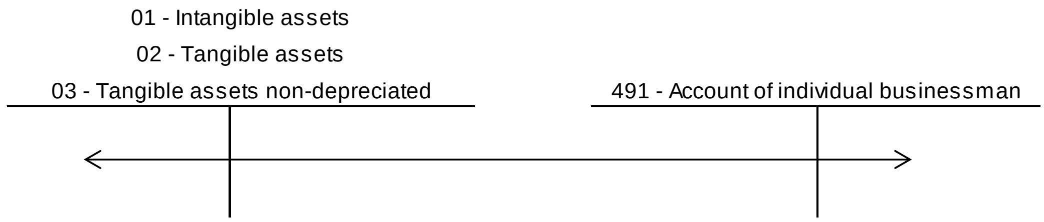
Schema 7.7 Charging about deposit from another person



Souce: authors

7.4.5 Reassignment from personal to business use

Schema 7.8 Charging about reassignment from another person to business use



Source: authors

7.5 Depreciation

Long-term tangible assets are worn out during use. The value of long-term tangible assets changes gradually into new products or performances. The wear can be:

- physical – due to use,
- moral – assets are aging on the technical side (excluding eg. land, artwork, collections, which does not lose its value, therefore is not depreciated).

Depreciation – the amount of money expressing wear.

Total depreciations – <u>accumulated depreciations</u> for the period of use.

Net book value – difference between the acquisition cost and accumulated depreciation (acquisition cost minus accumulated depreciation).

Depreciation is recognized on:

1. <u>Accounting depreciations</u>

- Correspond to the actual wear.
- Accounting unit can detemine the depreciations by itselfs.
- Accounting unit can detemine the calculation methodology by itselfs, for example:
  (a) annual accounting depreciation <u>by the estimated useful life of the asset</u> according the formula

$$\frac{entry\ price}{estimated\ useful\ life\ of\ asset\ in\ years},$$

(b) or annual accounting depreciation <u>in the relation to the performance</u> according the formula

$$\frac{entry\ price}{expected\ performance\ for\ the\ period\ of\ depreciation} * actual\ annual\ performance.$$

2. <u>Tax depreciations</u>

- Established under the Act no. 586/1992 Coll., On Income Tax, which determines the depreciation rules.
- Tax depreciations are tax deductible expenses.
- Approach to calculate the tax depreciations:

(a) Classification of the assets into depreciation groups

Depreciation groups	**1**	**2**	**3**	**4**	**5**	**6**
Depreciation period	3	5	10	20	30	50

(b) To determine the method of the depreciation. The accounting unit determines the method of the depreciation – ***linearly***, ***accelerated*** and this method cannot be changed during the period.

Linearly tax depreciation – annual linear depreciation is expressed by the following formula

$$\frac{entry\ price * annual\ depreciation\ rate}{100}.$$

Annual depreciation rates for the linearly tax depreciation

Depreciation groups	**1**	**2**	**3**	**4**	**5**	**6**
Rate for the first year	20	11	5,5	2,15	1,4	1,02
Rate for the next year	40	22,25	10,5	5,15	3,4	2,02

Accelerated tax depreciation – annual accelerated depreciation r is expressed by the following formula

$$\text{for the first year:} \quad \frac{entry\ price}{c_1},$$

$$\text{and for the next year:} \quad \frac{2 * net\ book\ value}{c_2 - n}.$$

Where:
c_1 .... the coefficient in the first year of the depreciation,
c_2 .... the coefficient in the next years of the depreciation,
n .... the number of years when the asset has already been depreciated.

Coefficients for accelerated tax depreciation

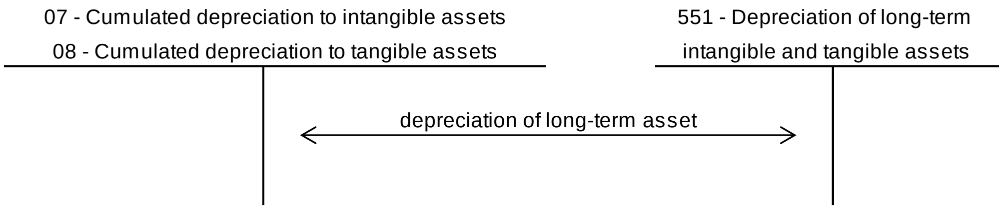
Depreciation groups	1	2	3	4	5	6
Coefficient – the first year	3	5	10	20	30	50
Coefficient – the next year	4	6	11	21	31	51

- Tax depreciations of intangible assets – are monthly depreciated, depreciation on fixed or indefinite period:
  - fixed period – the depreciation for an agreed period of use,
  - indefinite period – according to the type of the asset, for example:
    * audiovisual works - 18 months,
    * software and research results - 36 months,
    * incorporation expenses - 60 months,
    * other intangible assets - 72 months.

Rules for depreciations are the following:

- the entity depreciates assets classified in use,
- the depreciation up to maximum entry prices,
- annual tax depreciation,
- a right, not an obligation applying depreciation,
- only the owner of asset can depreciate,
- the charging of the depreciations – costs of the accounting units, reducing acquisition cost of asset.

Schema 7.9 Charging about depreciations of the long-term assets



Source: authors

7.6 Disposals of assets

The disposals of assets from the use can be in the following ways:

1. liquidation,
2. sale,
3. damage,
4. gifting,
5. deposit into the basic capital of another accounting unit,
6. reassignment from personal to business use.

Methods of the disposal of assets are the following:

1. Asset is fully depreciated – the acquisition cost is equal to the accumulated depreciations, it means that the net book value is zero. In this case, it charges only the putting out of the use.
2. Asset is not fully depreciated – the acquisition cost is higher than the accumulated depreciations. It is necessary to observe the following procedure:
   (a) To charge a proper depreciation for the period of the use.
   (b) To charge the net book value according to the purpose of the exclusion.

Method of the exclusion	Clearing the net book value
Liquidation	551 – Depreciation of long-term intangible and tangible assets
Sale	541 – Amortized value of sold long-term intangible and tangible assets
Damage	549 – Deficits and damages
Gifting	543 – Presents
Deposit to the basic capital of another accounting unit	491 – Account of individual businessman
Reassignment from personal to business use	367 – Settlement of non-monetary long-term asset investmnents

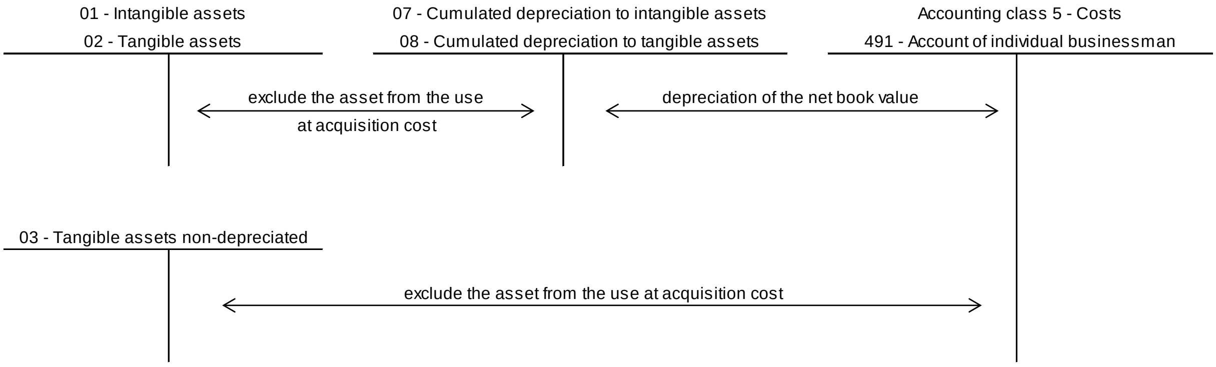
   (c) To put out the asset from the use.

Liquidation of a fixed asset
During the liquidation of fixed assets **may arise**:

- costs – for example as a result of dismantling the asset, or the transportation of the asset (account no. 548 – Other operational expenses),

- revenues – for example used material from the dismantled assets (account no. 648 – Other operational revenues).

Schema 7.10 Charging about the disposal of fixed assets



Source: authors

Tax aspects of the of discarded assets

The net book value is not always fully tax deductible:

Method of the exclusion	**Net book value (**tax deductibility)
Sale of the assets	is fully tax deductible
Liquidation of the assets	is fully tax deductible
Deficits and damages of the assets	tax deductible up to the amount of compensation
Gifting of the assets	is not fully tax deductible

The entity has the option to use a half of the annual accounting depreciation in cases where the net book value is not tax deductible.

Exercises

Exercise 7.1

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer. What is changed in the accounting if the accounting unit is not a VAT payer?

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	**Cr**
1.	The opening balance of the selected accounts: 211 – Cashbox	15,100		
	221 – Bank accounts	637,900		
2.	Received Invoice: purchase of the machine			
	a) taxable transaction	308,000		
	b) VAT 21 %			
	c) price including VAT			
3.	Expenditure Cash Voucher: transportation of the machine			
	a) taxable transaction	4,800		
	b) VAT 21 %			
	c) price including VAT			
4.	Received Invoice: installing of the machine			
	a) taxable transaction	1,940		
	b) VAT 21 %			
	c) price including VAT			
5.	Inner Accounting Document: takeover of the machine into use			
6.	Current Account Statement: payment of the received invoice for the machine and the installation			

Exercise 7.2
The accounting unit purchased shelfs for the warehouse at the acquisition price of 31,200 CZK from the supplier. Charge the purchase and the takeover of this asset into the warehouse, provided that:

(a) the shelves are regarded as long-term assets

(b) the shelves are not regarded as long-term assets, shelves are issued immediately for consumption.

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is not a VAT payer.

Solution a):

Acc. trans.	**Text of accounting transaction**	**Amount in CZK**	**Prescription**	
			Dr	**Cr**

Solution b):

Acc. trans.	**Text of accounting transaction**	**Amount in CZK**	**Prescription**	
			Dr	**Cr**

Exercise 7.3

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer. What is changed in the accounting if the accounting unit is not a VAT payer?

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	Received Invoice: purchase of the SW			
	a) taxable transaction	86,900		
	b) VAT 21 %			
	c) price including VAT			
2.	Expenditure Cash Voucher: postage	72		
3.	Inner Accounting Document: takeovet of the SW into use			
4.	Current Account Statement: payment of the received invoice for the SW			

Exercise 7.4

The accounting unit purchased the SW at the acquisition price of 250,000 CZK from the supplier. The supplier (VAT non-payer) requires an advance payment of 100,000 CZK. The advance payment for the intangible asset and additional payment of the received invoice is paid from the bank account.

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is not a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr

Exercise 7.5
Project organization (VAT non-payer) is engaged in designing houses. A project of a house was made for 67,500 CZK (real own costs). Received invoice for binding (cost connected with the purchase) was 900 CZK. Complete project intended for sale was transferred to long-term intangible assets.

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is not a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	Inner Accounting Document: activation of own project costs			
2.	Received Invoice: binding of project			
3.	Inner Accounting Document:			

Exercise 7.6
The company has in the accounts a car at the acquisition cost of 585,000 CZK. The company has determined the useful life of the asset as three years.

TASK: Calculate the annual accounting depreciations, the accumulated depreciation and the net book value. Express the relationship between the accounting depreciations, the accumulated depreciations and the net book value.

Year	**Depreciation**	**Net book value**	**Accumulated depreciation**
Total			

Auxiliary calculations:

Exercise 7.7
The company has in the accounts a machine at the acquisition cost of 1,250,000 CZK. The machine is located in the second depreciation group. What is the rate for the first and for the next year?

TASK: Calculate the annual linearly tax depreciations, the accumulated depreciation and the net book value. Express the relationship between the linearly tax depreciations, the accumulated depreciations and the net book value.

Year	Depreciation	Net book value	Accumulated depreciation
Total			

Auxiliary calculations:

Exercise 7.8

The company has purchased a machine tool from the supplier at the acquisition cost of 399,000 CZK. The machine tool is located in the second depreciation group. What is the coefficient for the first and for the next year?

TASK: Calculate the annual accelerated tax depreciations, the accumulated depreciation and the net book value. Express the relationship between the accelerated tax depreciations, the accumulated depreciations and the net book value.

Year	Depreciation	Net book value	Accumulated depreciation
Total			

Auxiliary calculations:

Exercise 7.9
The natural person has purchased a SW at the acquisition cost of 95,000 CZK. What is the depreciation period of the SW?

TASK: Calculate the annual tax depreciations of the intangible asset, the accumulated depreciation and the net book value. Express the relationship between the tax depreciations, the accumulated depreciations and the net book value.

Year	Depreciation	Net book value	Accumulated depreciation
Total			

Auxiliary calculations:

Exercise 7.10

TASK: Charge the depreciations of the following items of the long-term assets.

Item of the asset	Amount in CZK	Prescription	
		DS	CS
Buildings	104,500		
Machines	93,890		
License	25,060		
Adult animals	15,500		
Software	45,790		
Growers units of perennials	31,900		

Exercise 7.11

A worn special lathe has an acquisition cost of 175,000 CZK. The lathe was put out of the use in the company. The accounting depreciations are determined for 5 years and accumulated depreciations at the date of disposal are in valued 140,000 CZK. The dismantling was carried out by its own maintenance department 0077hich charged for the cost of dismantling 800 CZK. The usable components of the lathe were taken to the warehouse at the price of 4,000 CZK.

TASK: Journalize the following accounting transactions and also record in the general ledger. Determine the economic result from the liquidation of a lathe. How would you change the charging of the disposal of the lathe assuming that the accumulated depreciation is equal to the entry price?

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			DS	CS

Exercise 7.12

There was a culpable loss of a laptop in the company. The acquisition cost of the laptop was 48,000 CZK and the employee has signed an agreement on material responsibility. Accounting depreciations are set at three years and the present accumulated depreciations are in value of 16,000 CZK. The net book value was prescribed to the materially responsible employee for the payment.

TASK: Journalize the following accounting transactions and also record in the general ledger.

Acc. trans.	**Text of accounting transaction**	**Amount in CZK**	**Prescription**	
			Dr	**Cr**

Exercise 7.13

The company excluded a wood press due to a fire. The acquisition cost was 250,000 CZK. The press is depreciated for five years (accounting depreciation) and is excluded from use in third year. The insurance company announces a claim for damages in the amount of 125,000 CZK.

TASK: Journalize the following accounting transactions and also record in the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr

Exercise 7.14
The company (a VAT non-payer) sells a customer a truck on an issue invoice. The acquisition cost of the truck was 750,000 CZK. The accounting depreciation of the truck is determined for a period of five years and disposal of the truck was held in the third year. The selling price is equal to the net book value.

TASK: Journalize the following accounting transactions and also record in the general ledger. What will be the economic result if the selling price is 400,000 CZK? How would you change the charging assuming that the entity is a VAT payer?

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr

Exercise 7.15

The company (a VAT payer) owns the software at the acquisition cost of 84,300 CZK which is being amortized in accordance with Act no. 586/1992 Coll., On Income Tax. In the third year, the disposal of the software is due to the unsuitability for further use in the company. The software is sold on the invoice when the contract price is equal to the net book value.

TASK: Journalize the following accounting transactions and also record in the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr

Exercise 7.16

The company (a VAT payer) has donated a computer to another entity that is depreciated three years and disposal of the computer was held in the the second year. The computer has an entry price of 42,000 CZK.

TASK: Journalize the following accounting transactions and also record in the general ledger in the both entities.

The transferring:

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr

The transferee:

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr

Summary Example 3 – Charging about fixed asssets

The company (a VAT payer) has the following accounting transactions. The company uses the accounting depreciations. The useful life of a computer is three years.

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 022 – Individual movables and sets of movables	45,000		
	082 – Accumulated depreciation to individual movables and sets of movables	30,000		
	211 – Cash desk	18,000		
	221 – Bank accounts	280,000		
2.	Received Invoice: construction works during the construction of the warehouse a) taxable transaction	530,000		
	b) VAT 21 %			
	c) price including VAT			
3.	Inner Accounting Document: assembly work during the construction of the warehouse made their own employees	45,000		
4.	Providing the long-term loan for the construction of the warehouse a) Current Account Statement	500,000		
	b) Credit Account Statement	500,000		
5.	Credit Account Statement: interest on loans until the warehouse to use	32,000		
6.	Inner Accounting Document: takeover of the warehouse into use			
7.	Current Account Statement: payment of the received invoice for the construction works			
8.	Inner Accounting Document: reassignment from personal to business use	44,000		
9.	Expenditure Cash Voucher: repair the CD / DVD drive in the laptop	2,500		
10.	Received Invoice: purchased a new accounting program a) taxable transaction	65,000		
	b) VAT 21 %			
	c) price including VAT			

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
11.	Expenditure Cash Voucher: installation of the accounting program from another company	1,500		
12.	Inner Accounting Statement: takeover of the accounting program into use in September			
13.	Current Account Statement: payment of the received invoice for the program			
14.	Issue Invoice: sale of the unneeded computer a) taxable transaction	5,000		
	b) VAT 21 %			
	c) price including VAT			
15.	Inner Accounting Statement: sold computer a) annual depreciation			
	b) depreciation of the net book value			
	c) disposal of the computer			
16.	Current Account Statement: payment of the issue invoice for the computer			
17.	Expenditure Cash Voucher: purchase of the multifunction device a) taxable transaction	7,900		
	b) VAT 21 %			
	c) price including VAT			
18.	Inner Accounting Statement: depreciations of the long-term fixed assets a) depreciation of the warehouse			
	b) depreciation of the Accounting program			

Auxiliary calculations:

8 Inventories

Schema 8.1 Inventories in the balance sheet

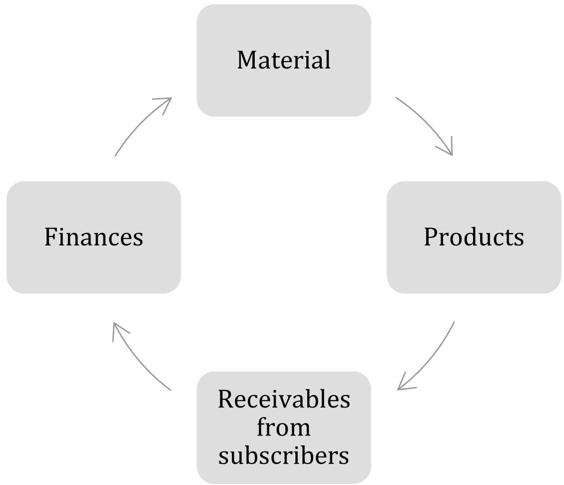
Assets — **Balance sheet**	**Equities/Liabilities**
FIXED ASSETS	OWNER´S EQUITY
• Intangible assets	• Common stocks
• Tangible assets	• Capital funds
• Long-term financial assets	• Funds created by net profit
	• Economic results (profit/loss)
CURRENT ASSETS	LIABILITIES
• **Inventories**	• Reserves (provisions)
• Receivables	• Liabilities (debts, payables)
▪ short-term	▪ short-term
▪ long-term	▪ long-term
• Short-term financial accounts	
ACCRUALS	ACCRUALS
Total assets =	**Total equities/liabilities**

Source: authors

The basic characteristics of inventories are**:**

- the part of current assets,
- the least liquid current assets,
- the moment of consumption is charged to costs (for example sale, donation, damage, etc.),
- inventories are the folder of assets which are consumed or converted into another folder of assets, see a diagram no. 1 Circulation of inventories.

Figure 8.1 Circulation of inventories



Sources: authors

8.1 Dividing of inventories

Inventories can be divided into several accounting groups – material, inventories of own production, merchandise (goods) and animals (used for trade and held for breeding). There is reserved the first accounting class in the sample account classification for the inventory accounting. Namely, these accounting group:

- Accounting group 11 – Material
- Accounting group 12 – Inventories of own production and animals
- Accounting group 13 – Merchandise (goods)

Inventories (in general) **are further subdivided:**

1. Material**:**

- basic material – constitute the essence of the product (for example wood for furniture production),
- auxiliary material – doesn´t constitute the essence of the product (for example paint on wood),
- operating material – for example lubricants, detergents,
- replacement parts,
- packaging.

2. Inventory of own producition**:**

- unfinished production,
- semi-finished products,
- products,
- animals – young animals and animals for slaughter.

3. Goods**:**

- movable assets which an accounting unit established for the purpose of reselling them.

Analytical accounts of inventories may be listed separately for example by:

- the individual inventories,
- the storage location,
- the valuation, etc.

8.2 Valuation of inventories

8.2.1 Valuation of inventories at acquisition

Act no. 563/1991 Coll., On Accounting describes possible methods of inventory valuation at acquisition. These **methods** are:

1. <u>Acquisition costs</u> – inventories bought are valued by acquisition costs. Acquisition costs include the purchase price and cost connected with the purchase. Examples of cost connected with the purchase can be transportation costs, insurance, assembling cost, duty, commissions for brokering the purchaseetc.
2. <u>Replacement costs</u> – executant acquisition costs are used for inventories acquired for free, for example newly found inventories. This value is calculated as the common value known in the market or as an expert estimation.
3. <u>Own costs</u> – own costs are used for inventories acquired by own activities. The consist of direct costs spent on the creation of the inventories and part of indirect costs spent on the creation of the inventories.

8.2.2 Valuation of inventories in consumption

Czech Accounting Standards for Businesses presents possibilities of inventory valuation in consumption, these **methods** are:

1. Method of average prices – this method can be used further in two way averages, as an average variable and an average periodic:

- *Weighted arithmetic average variable* – new average is calculated after each new reception into stock.
- *Weighted arithmetic average periodic* – new average is not calculated after each new reception into stock, but is counted in an accounting period, the period is determined by the accounting unit (no more than one calendar month).

2. Method FIFO – this method is use according to the principle of first in first out. Supplies are issued sequentially from the oldest to more recent.

8.3 Charging about material

Bacis characteristics are:

- Increase in inventories is charged on the basis of the accounting document inventory receipt statement.
- Decrease in inventories is charged on the basis of the accounting document inventory expenditure statement.
- There are two ways of charging about inventories – way A, way B.

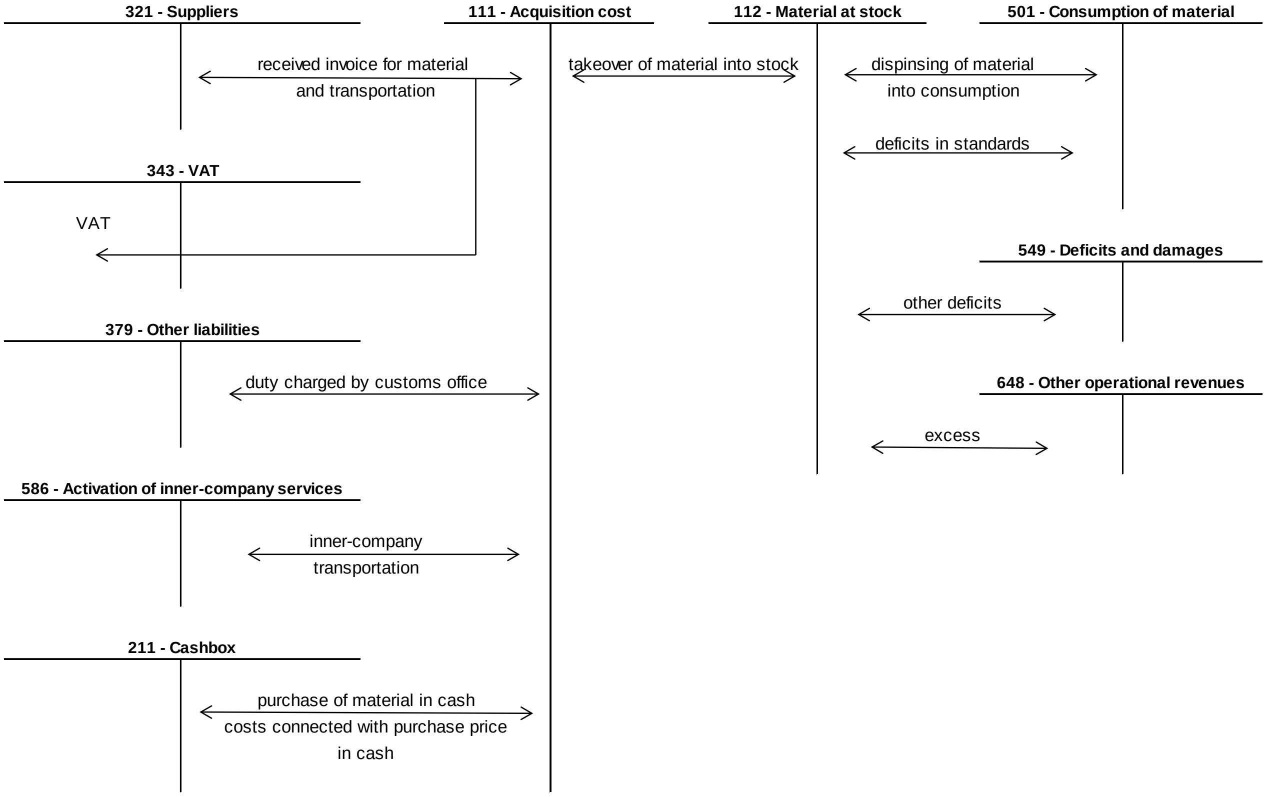
8.3.1 Charging about inventories – way A

This way of charging means that inventories are charged during the accounting period on accounts of accounting class 1 (account no. 111 – Acquisition of material in the case of material; account no. 131 – Acquired goods in the case of goods). Inventories charging by way A and recording on account of accounting class 1 are valuated by acquisition costs (include purchase price, and secondary the cost connected with the purchase price – transportation costs, insurance, etc.).

At the moment when the total amount of the acquisition costs is known for the accounting unit, the accounting unit recharges this value from this acquisition account on the concrete account used for the material (account no. 112 - Material at stock), or for goods (account no. 132 – Goods at stock).

Inventories are charged into the costs at the moment of their consumption (of course in the case of material) or of their sale (in the case of materials and goods).

Schema 8.2 Charging about inventories – way A



Source: authors

8.3.1.1 Value-added tax – purchase of the material

Here is shown the procedure for charging VAT below if the supplier is a VAT payer and the subsriber is and isn´t a VAT payer:

1. **Subscriber is a VAT payer:**

- VAT is not part of the acquisition cost,
- VAT is charged on special account no. 343 – Value added tax (next VAT),
- VAT is receivable from the accounting unit to state (financial agency).

2. **Subscriber is not a VAT payer:**

- VAT is part of the acquisition cost,
- VAT will be charged on account no. 111 – The acquisition of material or on account no. 131 – Acquired goods.

Main example – purchase the material when buyer is not a VAT payer:

Company buys material on received invoice in value 200,000 CZK. This material was transported by another company. The value of transportation was 15,000 CZK (value stated in the received invoice). Charge all accounting transactions on condition that buyer (company) is not a VAT payer.

Solutions:

111 – Acquisition of material	
1. 200,000 CZK	3. 215,000 CZK
2. 15,000 CZK	

321 – Suppliers	
	1. 200,000 CZK
	2. 15,000 CZK

112 – Material at stock	
3. 215,000 CZK	

Transactions:

1. *Purchase of material*
2. *Transportation*
3. *Taking material into stock in acquisition costs*

Main example – purchase the material when buyer is a VAT payer:
Charge the previous main example under the condition that the seller and the company (buyer) are VAT payers. The basic rate of VAT is 21%.

Solutions:

1. Calculation of the final selling price of material (ie. the price including VAT): 200,000 + (200,000 * 0.21) = 242,000 CZK.

2. Calculating of the final value of the transportation (ie. the price including VAT): 15,000 + (15,000 * 0.21) = 18,150 CZK.

111 – Acquisition of material	
1. 200,000 CZK	3. 215,000 CZK
2. 15,000 CZK	

321 – Suppliers	
	1. 242,000 CZK
	2. 18,150 CZK

112 – Material at stock	
3. 215,000 CZK	

343 – VAT	
1. 42,000 CZK	
2. 3,150 CZK	

Transactions:

1. *Purchase of material*
2. *Transportation*
3. *Taking material into stock in acquisition costs*

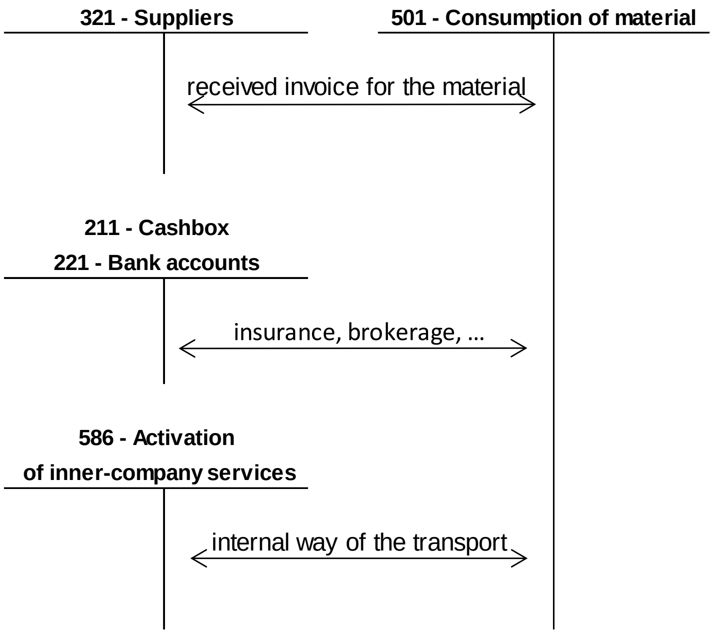
8.3.2 Charging about inventories – way B

Purchase of materials during the accounting period are charged immediately into costs (for material it is account 501 – Consumption of material, for goods it is account 504 – Sold goods).

Inventories´accounts (accounts from accounting class 1) are used only at the beginning (opening balances are charged on them) and at the end of accounting period.

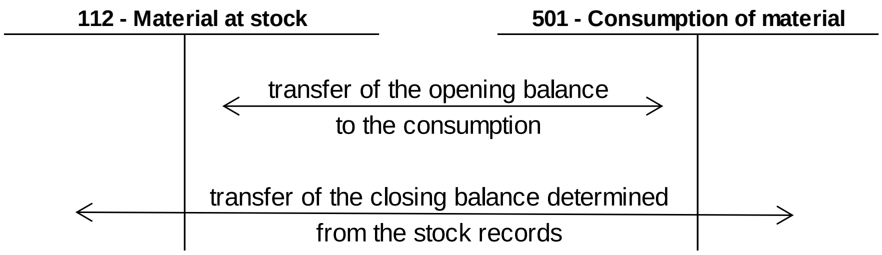
Accounts no. 111 – Acquisition of material and no. 131 – Acquired goods are never used in charging about materials of way B.

Schema 8.3 Charging about inventories during the accounting period – way B



Source: authors

Schema 8.4 Charging about inventories at the end of the accounting period – way B



Source: authors

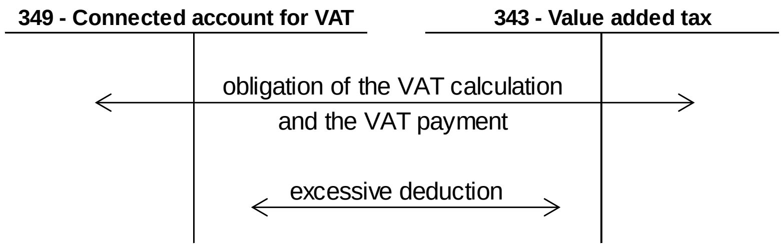
8.3.3 Purchase of material from abroad

When the accounting unit purchases the inventories from abroad it is necessary to differentiate the country. The accounting unit can **purchase inventories from another member state** of the European Union (next EU) **or outside the European Union**:

1. Purchase of inventories from another member state of the European Union:

- Purchase of inventories on the received invoice – the accounting unit has to convert into the Czech currency.
- The accounting unit has the obligation of the VAT calculation and payment the VAT to the tax office.
- If the accounting unit has the tax document available, has excessive deduction.

Schema 8.5 VAT charging – purchase from another member state of the EU

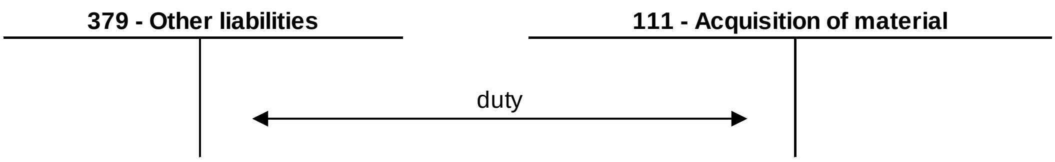


Source: authors

2. Purchase of inventories outside the European Union:

- Customs office determines the duty to the accounting unit.
- The duty is included in the purchase price.

Schema 8.6 VAT charging – purchase outside the EU

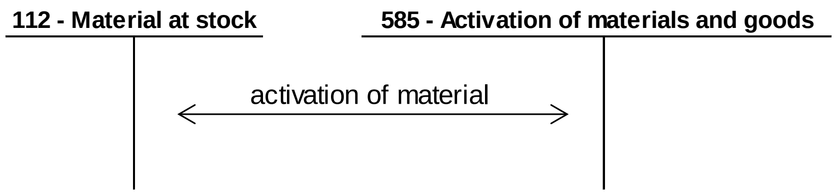


Source: authors

8.3.4 Activation of materials

Companies can produce some kinds of inventory themselves, i.e. packaging, replacement parts. These own made materials replace external supplies. During the production of own materials arises some costs, for example, consumption of material, consumption of electricity and other energy, wage costs, depreciation of long-term assets, etc. For this reason, materials of own production are valued by these own costs. Charging about activation of materials shows the following schema.

Schema 8.7 Charging about activation of material

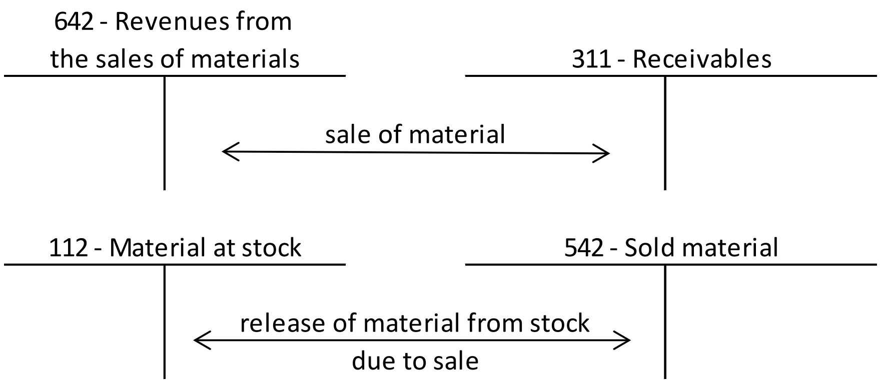


Source: authors

8.3.5 Sale of material

Companies sell materials in extreme situations, ie. during liquidation, in the cases of obsolete inventory, and so on. This is the useless material for the company. The selling price is revenue for the accounting unit (account 642 – Revenues from the sales of materials). Decrease of the material due to sale is charged into cost (account 542 – Sold materials). Charging about sale of material is shown in the following schema.

Schema 8.8 Charging about sale of material



Source: authos

8.3.6 Inventory (deficit and excess) of inventories

Act no. 563/1991 Coll., On Accounting determines the inventory of assets and liabilities, namely the fifth part of the law. The accounting unit has a duty to do inventory in the case of inventories:

- minimally to the date of financial statements compilation – is conducted periodically, i.e. common inventory, or
- to the date of special financial statements compilation, i.e. uncommon inventory.

Inventory compares the accounting balances of inventories with the real balances. Differences that can arise are called deficit, or excess (surplus). These differences must be charged.
Difference may be (the differences between the accounting and the real state):

1. Deficit – accounting balance (state in accounts) is higher than real balances (actual state). Generally, the deficit is charged to the costs. Deficit is further divided as:
   (a) *Deficit in norm* – can happen because of a naturale decrease of the inventories (for example, because of streamlining of inventories). This deficit is charged as a consumption of inventories – account no. 501 – Consumption of material, 504 – Sold goods.
   (b) *Deficits caused by employees or third persons* – for example destruction are charged on special cost account no. 549 – Deficits and damages. The compensation for the deficit is prescribed to the employee (storekeeper) as a receivable for employee and other financial revenues. This accounting transaction is charged as the prescription to the storekeeper on account no. 335 – Receivables for employees and to the operating revenues, on account no. 648 – Other operating revenues.
2. Excess (surplus) – opposite of the deficit, i.e. accounting balance is lower than real balance. The excess is charged into the revenues (account no. 648 – Other operating revenues).

8.3.7 Transported material

The accounting unit receives an invoice which is charged in the usual way. Missing inventory receipt document is replaced by the inner accounting document. In this way, the amount of the received invoice is converted from the account no. 111 – Acquisition of material on the debit side of the account no. 119 – Transported material.

The delivery is converted from the account no. 119 – Transported material on the debit side of the account no. 112 – Material at stock.

8.3.8 Unbilled deliveries

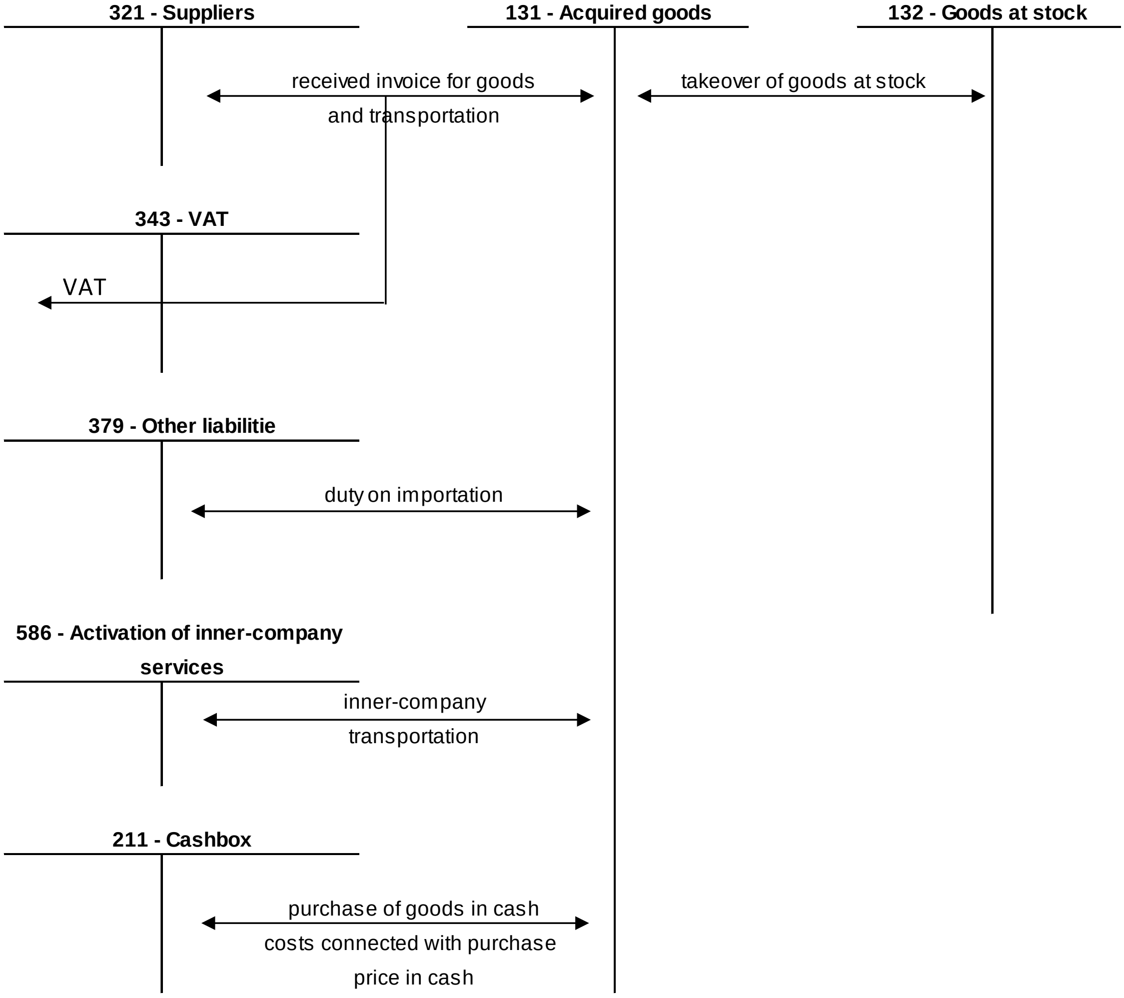
The accounting unit prepares the inner accounting document instead of charged received invoice. This liability is charged on the credit side of the account no. 389 – Estimated liability accounts.

8.4 Charging about goods

Goods means movable assets (including animals), which were acquired for the purpose of reselling them in the same state. Goods include own products that have been activated and transferred to their own company´s stores. Goods are valued at acquisition cost.

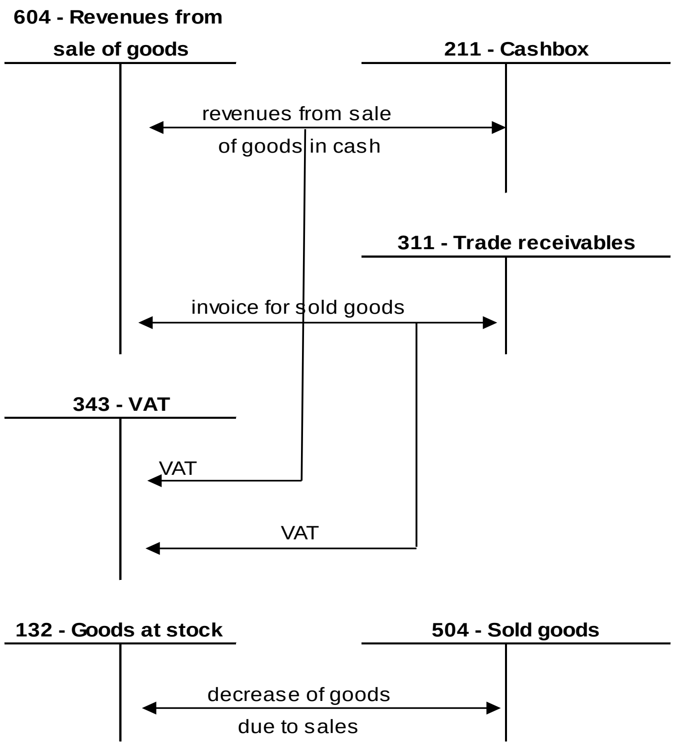
Goods as well as material can be charged by way A or way B. The accounting unit can choose way A or way B for the charging about goods. The rules are the same as described in chapter 1.3.1 Charging about inventories – way A. Goods are charged during the accounting period on accounts of accounting class 1, i.e. account no. 131 – Acquired goods. Goods charging by way A and recording on account of accounting class 1 are valued by the acquisition costs (including purchase price, and secondary costs connected with the purchase price – transportation costs, insurance, etc.).
At the moment when the total amount of the acquisition costs is known to the accounting unit, the accounting unit recharges this value from this acquisition account (account no. 131 – Acquired goods) on concrete account no. 132 – Goods at stock.
Goods are charged into the costs at the moment of their sale.

Schema 8.9 Charging about acquisition of goods – way A



Source: authors

Schema 8.10 Charging about sale of goods



Source: authors

The following table summarizes the different accounts in charging for material and goods:

Accounts for material	Accounts for goods
111 – Acquisition of material	131 – Acquired goods
112 – Material at stock	132 – Goods at stock
501 – Consumption of material	---
542 – Sold materials	504 – Sold goods
642 – Revenues from sales of materials	604 – Revenues from sales of goods

8.5 Charging about inventories of own production

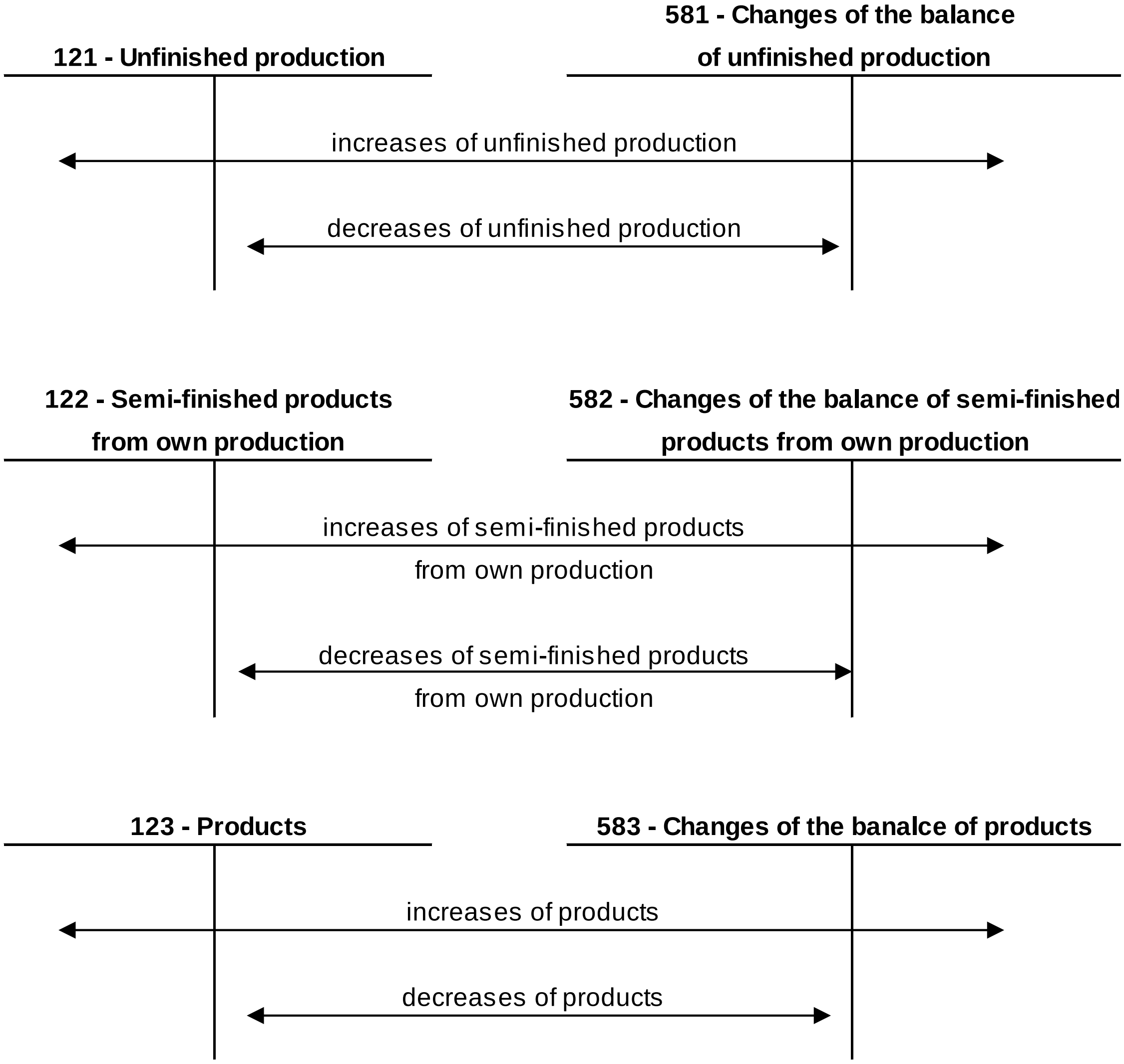
Inventories of own producition include:

- unfinished production – made products which have undergone one or more stages of production, they are not material, they are not finished productsor semi-finished products,
- semi-finished products – they differ from the unfinished production that are completed within a certain manufacturing stage, are intended for finishing into a product, the company sell them separately,

- <u>products</u> – completed objects sold by the company to suppliers,
- <u>animals</u> – young animals and animals for slaughter.

Inventory of own production is valued at own cost which consist of direct costs spent on the creation of inventories and part of indirect costs spent on the creation of inventories. Document for inventories of own production accounting provides internal accounting.

Schema 8.11 Charging about inventories of own production



Source: authors

8.5.1 Charging about sale of products

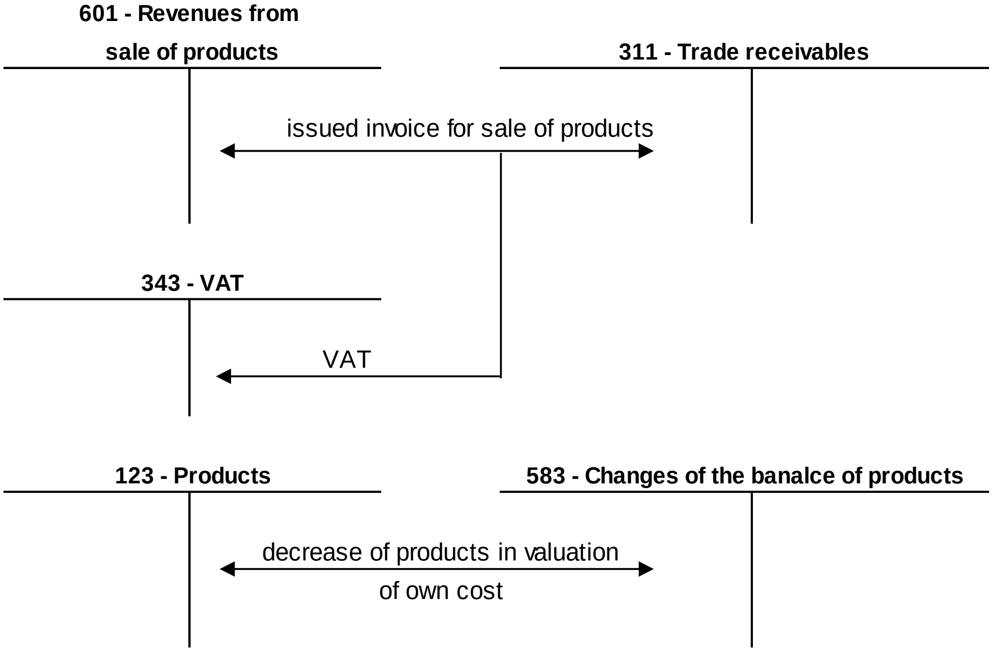
Sale of products states the decrease of products from stock on the one hand and at the same time receivables from subscribers, or income into the cashbox on the other hand. Process of sales invoice is charged based on two accounting documents:

- issue invoice to subscriber,
- inventory expenditure of goods from stock.

Difference between selling price without VAT (is charged into revenues) **and own costs** may be a profit or a loss:

- profit – the selling price is higher than the own costs,
- loss – the selling price is lower than the own costs.

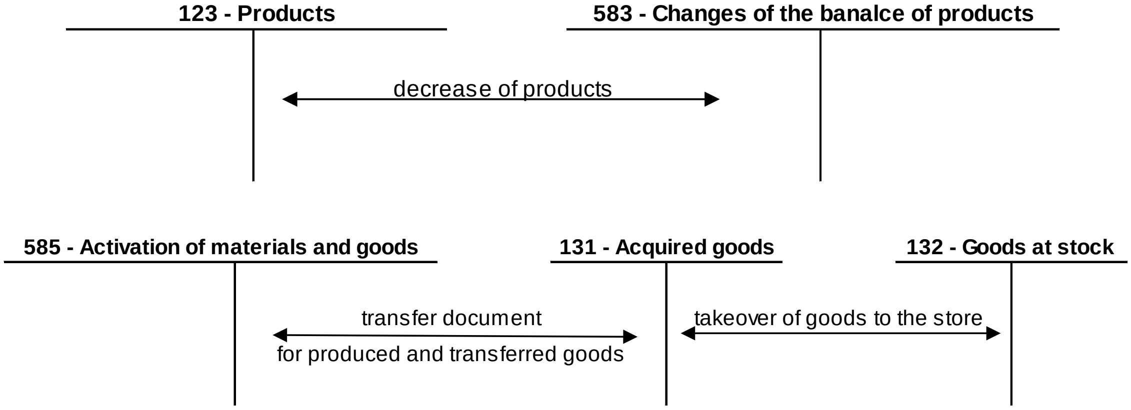
Schema 8.12 Charging about sale of products



Source: authors

Some products have own company´s stores in which are passed their products. These products are activated on account of the goods which are valued at own costs.

Schema 8.13 Charging about transmission products to own stores



Source: authors

Exercises

Exercise 8.1

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer.

Acc. trans.	**Text of accounting transaction**	**Amount in CZK**	**Prescription**	
			Dr	**Cr**
1.	The opening balance of the selected accounts: 112 - Material	250,000		
	211 – Cashbox	12,500		
	221 – Bank accounts	412,500		
2.	Received Invoice: purchase of the material			
	a) taxable transaction	155,000		
	b) VAT 21 %			
	c) price including VAT			
3.	Expenditure Cash Voucher: insurance of the material			
	a) taxable transaction	1,000		
	b) VAT 21 %			
	c) price including VAT			
4.	Expenditure Cash Voucher: transportation of the material			
	a) taxable transaction	2,250		
	b) VAT 21 %			
	c) price including VAT			
5.	Inventory Receipt: takeover of the material into stock			
6.	Inventory Expenditure: consumption of the material	400,000		
7.	Current Account Statement: payment of the received invoice for the material			

Exercise 8.2

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 112 – Material at stock	440,000		
	211 – Cashbox	12,500		
	221 – Bank accounts	941,000		
	321 – Suppliers	236,880		
2.	Received Invoice: purchase of the material			
	a) taxable transaction	479,990		
	b) VAT 21 %			
	c) price including VAT			
3.	Expenditure Cash Voucher: insurance of the material in cash			
	a) taxable transaction			
	b) VAT 21 %			
	c) price including VAT	7,950		
4.	Expenditure Cash Voucher: transportation of the material in cash (transportation company is not VAT payer)	5,250		
5.	Inventory Receipt: takeover of the material into stock			
6.	Inventory Expenditure: consumption of the material	750,000		
7.	Current Account Statement: payment of the received invoice for the material			

Example 8.3

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 112 - Material	150,725		
	211 – Cashbox	21,548		
	221 – Bank accounts	298,750		
	321 – Suppliers	35,980		
2.	Received Invoice: purchase of the material			
	a) taxable transaction	199,990		
	b) VAT 21 %			
	c) price including VAT			
3.	Inner Acc. Document : transportation with own accounting unit	1,990		
4.	Inventory Receipt Statement: takeover of the material into stock			

Example 8.4

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 112 – Material at stock	896,000		
	211 – Cashbox	15,982		
	221 – Bank accounts	466,750		
	311 – Trade receivables	121,000		
2.	Received Invoice: purchase of the material			
	a) taxable transaction	550,990		
	b) VAT 21 %			
	c) price including VAT			
3.	Expenditure Cash Voucher: insurance of the material in cash			
	a) taxable transaction			
	b) VAT 21 %			
	c) price including VAT	9,990		
4.	Expenditure Cash Voucher: commissions for brokering the purchase paid in cash	1,590		
5.	Inventory Receipt: takeover of the material into stock			
6.	Issue Invoice: sale of the useless material			
	a) taxable transaction	350,000		
	b) VAT 21 %			
	c) price including VAT			
7.	Inventory Expenditure: sold material	315,000		

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
8.	Currang Account Statement			
	a) payment of received invoice for the material			
	b) payment of issued invoice for the sold material			

Example 8.5

TASK: Journalize the following accounting transactions and also record in the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	Deficit in norm – basic material	700		
2.	Other deficit – operating material	1,459		
3.	Other deficit is prescribe to the employee			
4.	Excess of packaging	50		

Example 8.6

The accounting unit takes stock of the material in the stock with these results to the date 31/12/2016:

Material type	Real balance in CZK	Accounting balance in CZK	Difference
Basic material	122,300	130,320	
Auxiliary material	44,200	44,650	
Replacement parts	9,900	9,630	

Deficit in norm of the base material is 5,000 CZK. Inventory difference of the auxiliary material is prescribed to storekeeper in full amount for payment. Inventory difference of the basic material is investigated.

TASK: Journalize the following accounting transactions connected with the inventory of several material types and also record in the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.				
2.				
3.				
4.				
5.				
6.				

Example 8.7

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer. Entity charges for goods by way A.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	Expenditure Cash Voucher: purchase of the goods			
	a) taxable transaction	13,320		
	b) VAT 21 %			
	c) price including VAT			
2.	Inventory Receipt Statement: takeover the goods into the stock			
3.	Received Invoice: purchase of the goods			
	a) taxable transaction	63,800		
	b) VAT 21 %			
	c) price including VAT			
4.	Expenditure Cash Voucher: transportation of the goods			
	a) taxable transaction	1,820		
	b) VAT 21 %			
	c) price including VAT			
5.	Inventory Receipt Statement: takeover the goods into the stock			
6.	Issue Invoice: sale of the goods	34,600		
	a) taxable transaction			
	b) VAT 21 %			
	c) price including VAT			
7.	Inventory Expenditure Statement: sold goods	28,950		
8.	Currang Account Statement			
	a) payment of received invoice for the goods			
	b) payment of issued invoice for the sold goods			
9.	Inner Accounting document: deficit of the goods caused by employee	1,140		

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
10.	Inner Accounting document: deficit prescribed to employee for the payment			
11.	Income Cash Voucher: employee paid the deficit in cash			

Example 8.8

TASK: Journalize the following accounting transactions and also record in the general ledger assuming that the accounting unit is a VAT payer. Entity charges for inventories of the own production by the way A.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			DS	CS
1.	The opening balance of the selected accounts: 121 – Unfinished production	164 500		
	122 – Semi-finished products from own production	178 900		
	123 - Products	452 600		
2.	Inventory Receipt Statement: increase of the unfinished production	262 000		
3.	Inner Accounting Statement: increase of the semi-finished products a) decrease of the unfinished production	130 000		
	b) increase of the semi-finished products	180 000		
4.	Inner Accounting Statement: takeover the products to the stock of the finished products a) decrease of the semi-finished products	225 000		
	b) increase of the products	285 000		
5.	Issue Invoice: sale of the products a) taxable transaction	485 000		
	b) VAT 21 %			
	c) price including VAT			
6.	Inventory Expenditure Statement: decrease of the sold products	410 000		
7.	Inner Accounting Statement: takeover the products to the company´s store a) transfer document for the produced and transferred goods	45 000		
	b) takeover the goods to the store	45 000		
	c) decrease of the products	45 000		
8.	Inventory result a) deficit of the semi-finished products	4 000		
	b) excess of the products	1 500		

Summary Example 4 – Charging about inventories

TASK: Journalize the following accounting transactions and also record in the general ledger.

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balance of the selected accounts: 112 – Material at stock	54,000		
	121 – Unfinished production	71,000		
	123 - Products	84,000		
	132 – Goods	45,400		
	139 – Transported goods	22,000		
	211 – Cash desk in CZK	19,500		
	221 – Bank accounts	226,000		
2.	Inventory Receipt Statement: receipt of the goods invoiced in the previous accounting period			

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
3.	Received Invoice: purchase of the goods a) taxable transaction	15,000		
	b) VAT 21 %			
	c) price including VAT			
4.	Expenditure Cash Voucher: transportation of the goods a) price including VAT	1,500		
	b) VAT 21 %			
	c) taxable transaction			
5.	Inventory Receipt Statement: takeover the goods into stock			
6.	Issue Invoice: sale of the goods a) taxable transaction	31,500		
	b) VAT 21 %			
	c) price including VAT			
7.	Current Account Statement: payment of the issued invoice for the sold goods			
8.	Inventory Expenditue Statement: sold goods	24,800		
9.	Inventory result – excess of the goods	550		
10.	Inventory Expenditue Statement: material consumption	20,000		
11.	Increase of the unfinished products	14,000		
12.	Inner Accounting Statement: takeover of the products to the stock a) decrease of the unfinished production	18,000		
	b) increase of the products	24,000		
13.	Issue Invoice: sale of the products a) taxable transaction	21,000		
	b) VAT 21 %			
	c) price including VAT			
14.	Inventory Expenditure Statement: sold products	16,500		
15.	Inner Accounting Statement: takeover of the products to the company´s store a) transfer document for produced and transferred goods	22,000		
	b) takeover of the goods to the store	22,000		
	c) decrease of the products	22,000		

9 Employees (staff) and institutions

9.1 Basic concepts and definitions

Employee

- Natural person who acts as a reward or performs work for an employer in an employment or similar working relationship.
- Rights and duties of the employee (Act no. 262/2006 Coll., The Labour Code, as amended):
  - employee is obliged to follow the instructions of the employer personally performing work under employment contracts within the working hours, carry out assignments well and on time, to follow the law relating to the work performed,
  - employee is also required to constantly deepen the qualifications to perform the work agreed upon in the employment contract,
  - for their work, the employee receives wage (reward),
  - under the conditions stipulated by the Labour Code, employees receive a holiday.

Employee receives: wages or salaries (source of public budgets).

Gross (brutto) wage (salary) includes:

- basic wage (salary); (= task (mission, piecework, target) or time),
- payments, bonuses, rewards,
- wage compensation.

Gross wage – Statutory deductions net salary = Net wage (salary)

Net (netto) wage (salary) – Other deductions = Payout

Where **the statutory deductions** are:

- advance on taxable income,
- health and social insurance.

Where **the other deductions** are:

- such deductions must be an employee of an agreement on payroll deductions; e.g.:
  - savings, alimony, payments for consumer loans, private insurance, etc.

9.2 Calculation of net wage

Table 9.1 Calculation of net wage (salary) methodology

+/-	Type	Methodology
	Gross (brutto) wage (salary)	The sum of all the items that are susceptible to employees for work done in the respective calendar month. It consists of a basic salary, allowances, bonuses, refund of wages (vacation, holiday), and other benefits.
+	**Health insurance**	Health insurance for the employee-employer pays the company (9% from gross wage). Premiums are rounded to whole crowns upwards.
+	**Social insurance**	Social insurance for the employee pays the employer-company (25% from gross wage). Premiums are rounded to whole crowns upwards.
=	**Supergross wage**	= Tax base (= Gross wages + Health insurance + Social insurance). Supergross wages (tax base) shall be rounded up to whole hundreds.
-	**Advance on tax income**	Advance tax calculated from taxable earnings (15%) and reduced by tax credits and tax benefits for children.
+	**Tax credits**	One twelfth of annual tax credits that may be applied monthly.
+	**Tax relief or tax bonus per child**	One twelfth of the annual values.
-	**Social insurance**	Social insurance paid by the employee from his wages (6.5% from gross wage). Premiums are rounded to whole crowns upwards.
-	**Health insurance**	Health insurance paid by the employee from his wages (4.5% from gross wage). Premiums are rounded to whole crowns upwards.

+/-	Type	Methodology
=	**Net (netto) wage (salary)**	Gross wage – Advance tax income + Tax credits + Tax relief or tax bonus per child – Social insurance – Health insurance
-	**Other deductions**	
=	**Payout**	

Source: authors

Social insurance

- is directed to the state budget,
- is used to cover:
  - sickness (= wage compensation for sick leave),
  - pension insurance,
  - state employment policy.

Table 9.2 Rates of social insurance (in 2016)

Type	%
Employee	**6.5**
• Sickness Insurance	0
• Pension insurance	6.5
• Contribution to the state employment policy	0
Employer (company)	**25**
• sickness Insurance	2.3
• Pension insurance	21.5
• Contribution to the state employment policy	1.2

Source: authors

Health insurance

- is directed to private funds (health insurance companies),
- is used to pay for health care (costs of treatment, medicines, etc.),
- health insurance is in the amount of 13.5% (in 2016) of the assessment base. Employees provide, even without his consent, from the salary of one third of this amount (**4.5%**), the remaining two-thirds (**9%**) will pay the employer from its own resources.

Tax income

- The tax liability calculated from the tax base reduced by the non-taxable portion of the tax base (§ 15 - Act no. 586/1992 Coll., on Income Taxes) and deductible items (credits) (§ 34 - Act no. 586/1992 Coll., on Income Taxes) rounded to the next whole hundred CZK down. The tax rate in 2016 of **15%**.

Table 9.3 Tax credit for 2016

Type	**CZK**	
	Year	**Month**
The taxpayer	24,840	2,070
The taxpayer - old-age pensioners	24,840	2,070
The baby - 1st child	13,404	1,117
The baby - 2nd child	15,804	1,317
The baby - 3rd and additional child	17,004	1,417
The baby - the card holder physically handicapped person - 1st child	26,080	2,173
The baby - the card holder physically handicapped person - 2nd child	31,608	2,634
The baby - the card holder physically handicapped person - 3rd and additional child	34,008	2,834
Maintained wife / husband	24,840	2,070
On a dependent wife / husband - the card holder physically handicapped person	49,680	4,140
The person with disability I. and II. degree	2,520	210
The person with Disability III. degree	5,040	420
The person with the card holder physically handicapped person	16,140	1,345
The student	4,020	335
For kindergarten	to 9,200	to 767

Source: authors

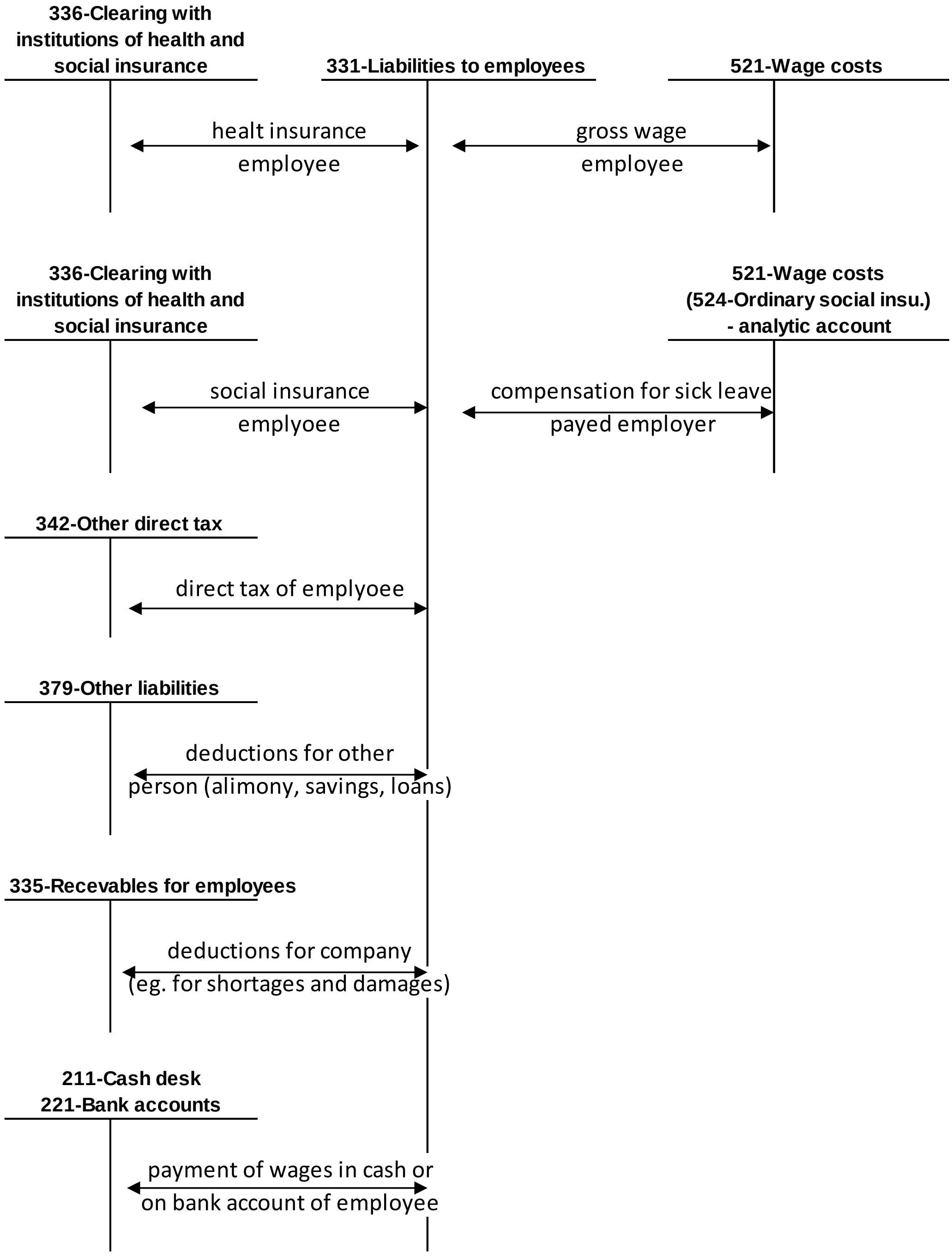
9.3 Charging about employees and institutions

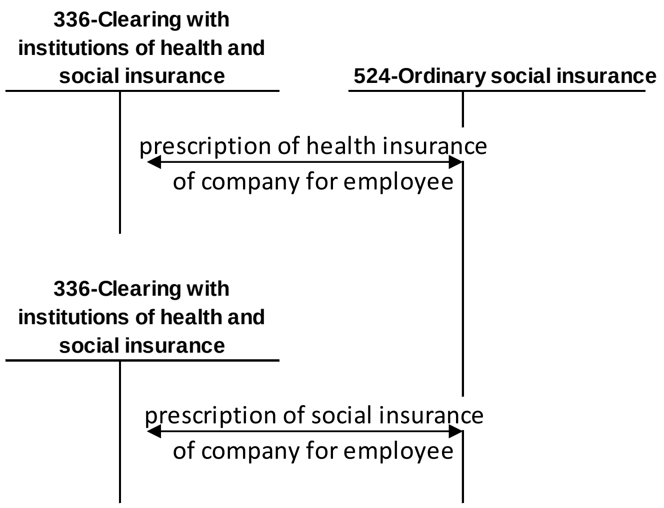
Liabilities arising from labour relations of the employer (the company) to employees:

- accounting group 33 – Settlement with employees and institutions,
- accounting group 52 – Personnel costs.

Operating records shall be kept by employees on payroll sheets.

Schema 9.1 Charging about employees and institutions





Source: authors

Exercises

Exercise 9.1

In summarizing accounting and payroll for the month of September 201x, the following items are selected.

TASK**:** *Journalize the following accounting transactions and also record in the general ledger.*

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	IAD: Gross wages of employees	580,000		
2.	IAD: The employee's contribution for health insurance	26,100		
3.	IAD: The employee's contributions to social insurance	37,700		
4.	IAD: Advance payment of income tax of employees	74,510		
5.	IAD: Health insurance paid by the employer	52,200		
6.	IAD: Social insurance paid by employer	145,000		
7.	IAD: Compensation for sick leave from your employer	18,500		
8.	IAD: Savings, instalment loans, child support withheld employees	22,800		
9.	CuAS: Payment of salaries at the beginning of next month to employees' accounts			

Exercise 9.2
Employee Thomas Wolf is unmarried, childless, and his gross monthly salary is 28,500 CZK. The employee signed the Declaration form of income tax.

*TASK**:** Calculate the amount of health and social insurance, advance tax income, net pay and the amount to be paid.*

Exercise 9.3

Student working for an employer under an agreement to work in the months from July to September. Gross salary for the month of July amounted to 15,000 CZK for the month of August 30,000 CZK per month and September 10,000 CZK. Student signed a Declaration form of income tax.

*TASK**:** Calculate the amount of health and social insurance, advance tax income, net pay and the amount to be paid in each month and make annual settlement provided that other income for the taxable year that the student had.*

Exercise 9.4

Jana Prokešová employee is divorced, common household nourishes 2 children, and her gross monthly salary is 21,000 CZK. Payroll lets you deduct pension scheme 750 CZK. Employee signed a Declaration form of income tax.

TASK: Calculate the amount of health and social insurance, advance tax income, net pay and the amount to be paid.

Summary Example 5 – Charging about employees, social institutions security and health insurance companies
Limited Liability Company, VAT, recorded in the accounting period selected the following accounting transactions.

TASK**:** *Journalize the following accounting transactions and also record in the general ledger.*

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
1.	The opening balances of the selected accounts: 211 – Cash desk in CZK	12,300		
	221 – Bank accounts	405,220		
	331 – Liabilities to employees	139,400		
	335 – Receivables for employees (deficit)	830		
	336 – Clearing with institutions of health and social insurance	73,230		
	342 – Other direct tax	20,200		
2.	ICV: Selection of the bank account to pay the salaries for the last month			
3.	ECV: Payment of salaries			
4.	CuAS: a) clearing of cash			
	b) levy (payment) owed insurance			
	c) discharge (payment) of owed income tax from employment			
5.	IAD: a) gross wages of employees	178,000		
	b) the employee's contribution for health insurance	8,010		
	c) the employee's contribution for social insurance	11,570		
	d) health insurance paid by the employer	16,020		
	e) social insurance paid by employer	44,500		
	f) advance payment of income tax of employees	21,300		
	g) compensation for sick leave from your employer	5,400		
	h) savings, instalment loans, child support withheld employees	4,800		
	ch) deficits material deduction from wages			
6.	ECV: Deposit paid employees on a travel	1,200		

Acc. trans.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
7.	IAD: Presented to employee travel order	1,420		
8.	IAD: Clearing travel costs			
9.	CuAS: a) the payment of wages			
	b) reimbursement for health insurance			
	c) reimbursement for social insurance			
	d) payment of income tax from employment			
	e) payment of loans, savings, alimony			

10 Cost and revenues – profit / loss

Costs (expenses) and revenues affect profit entity. Costs are to be distinguished from expenditure (the transaction with cash). It can be characterized as a monetary expression of power, as opposed to spending the loss of funds without ties to a specific output. Similarly, it is necessary to distinguish revenues from income (the transaction with cash). Revenues are outputs of entity in monetary units.
Costs and revenues are divided for the purpose of finding profit into 2 groups:

- operational,
- financial.

Extraordinary cots and revenues were from 2016 cancelled.

10.1 Costs (expenses)

10.1.1 Definition and usage

- An indicator characterizing all inputs to the economic activity of the enterprise (individual).
- provide information on what kinds of assets, purchased services, personnel and other costs for the relevant accounting period incurred.
- Represent an outflow of resources in terms of money for a specific purpose.
- Beginning to be observed as:
  - decrease of assets (cash outflow or loss on previously purchased property, which is now fully consumed or gradually worn out),
  - increase of liabilities (when the cost in terms of time occurs before there is a cash payment – eg. payroll employees).

Accounting cost is the recorded cost of an activity. An accounting cost is recorded in the ledgers of a business so that the cost appears in an entity's financial statements.

If an accounting cost has not yet been consumed and is equal to or greater than the capitalization limit of a business, the cost is recorded in the balance sheet. If an accounting cost has been consumed, the cost is recorded in the income statement. If cash has been expended in association with an accounting cost, the related cash outflow appears in the statement of cash flows. A dividend has no accounting cost, since it is a distribution of earnings to investors.

An accounting cost is most typically recorded via the accounts payable system. It can also be recorded through a journal entry for individual transactions, or through the payroll system for compensation-related costs.

The scope of an accounting cost can change, depending on the situation. For example, if a manager wants to know the accounting cost of a product. If this information is needed for a short-term pricing decision, only the variable costs associated with the product need to be included in the accounting cost. However, if the information is needed to set a long-term price that will cover the company's overhead costs, the scope of the accounting cost will be broadened to include an allocation of fixed costs.

10.1.2 Classification

Cost classification involves the separation of a group of expenses into different categories. A classification system is used to bring to management's attention certain costs that are considered more crucial than others, or to engage into financial modelling.
Evidence cost is recognized in the accounts. Accounting is suitable for those needs to classify to:

1. **Financial Accounting –** focused on the enterprise as a whole.

2. **Managerial (internal) accounting**, it includes:

   – Cost (operating) accounting, which focuses on:
      * monitoring of actual costs in terms of internal departments and performance,
      * management of internal departments - must know costs and revenues, all of which can be quantified the economic result.

      It provides the necessary information for operational management and is basically still accounting. To financial accounting supplies information:

- the change in inventories produced internally by activation of their performance, the valuation of inventories and other outputs generated by their activities,
- costs, revenues of internal departments,
- incurred costs for corporate and internal performance,
- ensures control of formation costs (interim and subsequent),
- will provide an overview of economic activities for managers in terms of performance and components of enterprise.

– Closely connected to calculations and budgeting.

Generally, the **cost** therefore **can be found in the following areas**:

1. <u>Costs shown in Financial Accounting</u> – see Classification of accounts: group 5 – Costs.

2. <u>Expenses for Tax purposes</u> – related to national economic regulation and the intent is to divide the costs into two groups:

   – expenses not included in the tax base,

   – expenses which is deducted from the tax base.

3. Costs shown in Managerial (Internal) accounting

   – *Costs (expenses*) = monetised cost; effective use of resources for economic growth of property business; purpose related to the implementation of the objects of the company.

   – Characteristics: monetary terms (cost – cash; consumption – natural), efficiency (spending of economic resources is a rational and reasonable outcome).

   – Cost reduction is a major source of profit growth and business efficiency. *Efficiency* concerns the firm's ability to assess the resources embedded in the business. Its quantitative indication is based on comparing incurred inputs and outputs achieved - see financial analysis tasks.

   – Here are several types of cost classifications:
     * ***Fixed and variable costs***. Expenses are separated into variable and fixed cost classifications, and then variable costs are subtracted from revenues to arrive at a company's contribution margin. This information is used for break-even analysis.
     * ***Departmental costs***. Expenses are assigned to the departments responsible for them. This information is used on a trend line to examine the ability of each departmental manager to control his or her assigned costs.

* ***Distribution channel costs***. Expenses are separated into each of the distribution channels used, such as retail, wholesale and Internet store. The aggregate amount of each of these classifications is then subtracted from the related channel revenues to determine channel profit.
* ***Customer costs***. Expenses are classified by individual customers, such as the costs of warranties, returns, and customer service. This information is used to determine individual customer profitability.
* ***Discretionary costs***. Those expenses that can be temporarily reduced or eliminated are classified as discretionary. This approach is used to reduce costs on a temporary basis, particularly when a business anticipates having a brief decline in revenues.
* The preceding examples of cost classifications should make it clear that costs can be subdivided in many ways. Only a few of these classifications are provided for within the formal accounting system (mostly to classify costs by department). Other types of classifications must be performed manually, usually with an electronic spreadsheet.

10.2 Revenues

10.2.1 Definition and usage

- In accordance with the Conceptual Framework for IAS/IFRS revenues are characterized as increases in economic benefits.
- An indicator of the economic activity of the enterprise (individual).
- Constitute a payment (whether received or not yet realized), results from the sale of the undertaking, respectively payment for the consumed components of business assets.
- Beginning to be observed as:
  - increase of assets (e.g. increase in cash, an increase in receivables, etc.),
  - decrease of liabilities.

10.2.2 Classification

1. **Revenues for Tax purposes:**

- tax deductible,
- non-tax deductible.

2. **Revenues shown in Financial Accounting** – see Classification of accounts: group 6 – Revenues.

- Operating revenue
  - Operating revenue are the sales associated with the normal daily operations of a business. For example, the meals sold by a restaurant would generate operating revenue, while the sale of its delivery van would instead generate a profit or loss. The concept of operating revenue is important, because it reveals the core sales productivity of a business. Operating revenue information is especially valuable when tracked on a trend line, since it can reveal spikes or declines in sales activity that could indicate a long-term trend.
  - What constitutes operating revenue can be difficult to resolve, especially when a business is transitioning out of one product line or industry and into another. In this situation, it is possible that the revenues associated with both areas are operating revenue, but that the one related to the new area is more important since this is the direction in which the company is headed.
- Sales revenue
  - Sales revenue is the amount realized by a business from the sale of goods or services. This figure is used to define the size of a business. The concept can be broken down into two variations, which are:
  - *Gross sales revenue*. Includes all receipts and billings from the sale of goods or services; does not include any subtractions for sales returns and allowances.
  - *Net sales revenue*. Subtracts sales returns and allowances from the gross sales revenue figure.
  - This variation better represents the amount of cash that a business receives from its customers.
  - Sales revenue is typically reported for a standard period of time, such as a month, quarter, or year, though other non-standard intervals can be used. The key figure against which sales revenue is compared is net

profits, so that the analyst can see the percentage of sales revenue that is being converted into profits. This net profit percentage is usually tracked on a trend line, to see if there are any material changes in performance. Investors also like to track sales revenue on a trend line and, especially, the percentage rate of growth, to see if there is any evidence of changes in the growth rate. A declining growth rate may trigger a sell-off among shareholders.

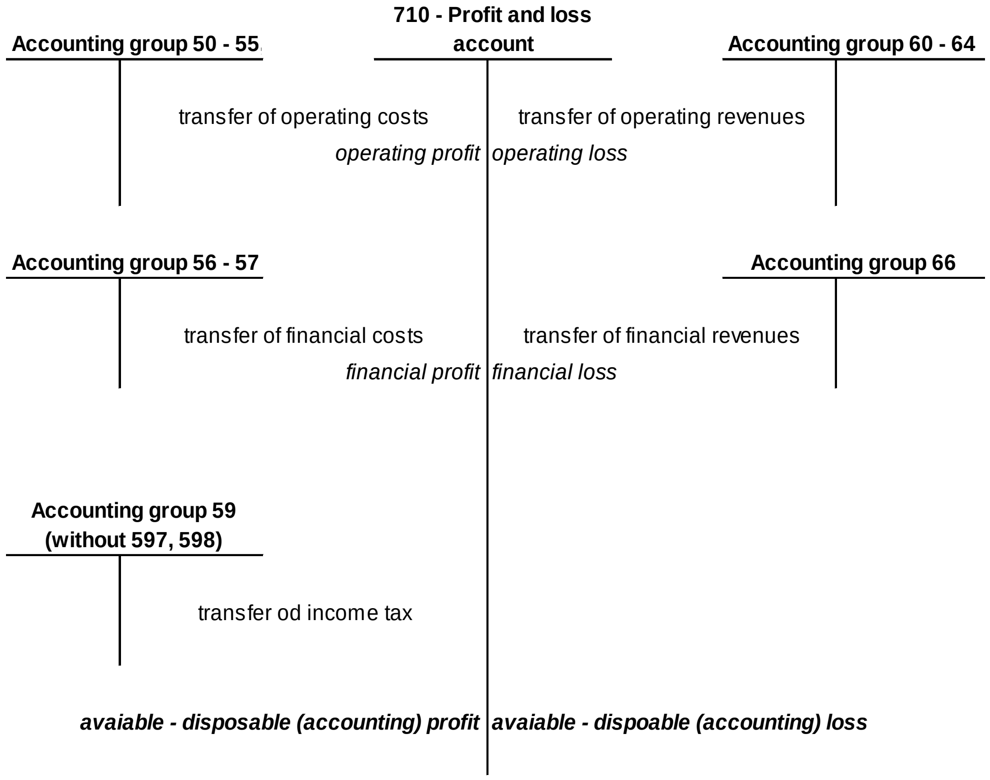
- Financial revenue
  - Financial revenues form revenues from interest, rent, and other such income earned in owning or renting an asset or property.

10.3 Charging about costs and revenues

Principles for accounting of costs and revenues:

- items increasing costs are recognized usually on the side of the credit of cost's accounts,
- items increasing revenues are recognized usually on the side of the debit revenue's accounts,
- costs and revenues are accounted for by species (economically homogeneous costs and revenues),
- costs and revenues are recognized in each of the accounting period to which they relate,
- at the cost and revenue, accounts are charged on an incremental basis from the beginning of the financial year,
- the final states of cost and expense accounts are translated at the period end on account 710 - Profit and loss account, which permits an entity to determine profit for the entire accounting period.

Schema 10.1 Closing of costs and revenues accounts



Source: authors

Exercises

Exercise 10.1

TASK: Of these items, select those that belong to the cost as part of the income statement.

TEXT	**Yes/no**
Purchased material	
Gross wages of employees	
Material consumption	
Distribution of share of profits	
Deficit inventories of goods	
Loan Interest	
Payment of salaries	
Purchased machine (lathe)	
The cash deficit	
Depreciation car	
Unloading goods	

Exercise 10.2

TASK: Of these items, select *those that belong to revenue as part of the Profit/loss statement.*

TEXT	Yes/no
Revenues from sold products	
Interest received	
Surplus cash in hand	
Payment shortages	
Proceeds from the sale of surplus material	
Decrease in inventories of semi own production	
Gift received (computer)	
Internal transportation of material	
Disposals of assets due to the sale	

FINDINGS OF ECONOMIC RESULT – PROFIT/LOSS

Comparing the revenues and costs of the entity to establish the result (profit or loss). In accounting terms, this comparison is made at the end of the reporting period on account 710 - Profit and loss account.

PROFIT/LOSS

- An important goal of an enterprise (until recently the main; today - maximizing the company's market value) - to make a profit,
- it can be defined as the difference between revenues and costs (expenses), and generally it can be called the result (profit/loss),
- profit/loss is an indicator that reflects the performance of the business,
- costs and revenues are divided for the purpose of finding profit into 2 groups:
  - operational (acc. group: 50-55, 58 and 60-64),
  - financial (acc. group: 56-57 and 66),
- in light of the above breakdown of the profit in the income statement, there also consists 2 components[1]:

1. Operating profit/loss
2. Financial profit/loss

Profit/loss of current accounting period

[1] Note: Extraordinary profit/loss was from 2016 cancelled.

Profit/loss Statement can be prepared according to the purpose or type classification:

- Type structure:
  - used by the most companies. We can characterize it as specific type of costs that were spent for specific purpose,
  - for example: consumption of material, goods, energy, payroll, etc.
- Purpose structure (by function):
  - this classification specifies the relation of costs to their origin,
  - they are divided according to the relation to the following processes:
    - technological costs (incur only during technological production of a given product),
    - direct and indirect costs.

Exercise 10.3

After booking all accounting transactions including closing operations entity has on the result accounts for 31. 12. 201x these summary phrases:

Item	**Amount in CZK**
Group Accounts 50-55 Operating expenses	5,980,000
Group Accounts 56-57 Financial expenses	220,000
Group Accounts 60-64 Operating revenues	6,740,000
Group accounts 66 Financial revenues	115,000

TASK:

(a) Determine profit in the division to profit/loss from ordinary.
(b) Calculate the tax on income from operations, provided that the gross profit and the tax base are the same.
(c) Identify the accounting provision for income taxes calculated.
(d) Determine the accounting provision for the transfer of profit after taxes to account 702 – Final balance sheet account.
(e) In the next financial year entered in the accounts transfer income when opening accounts.

Summary Example 6 – Charging about costs, revenues and findings of economic result (profit/loss)

In the area of costs and revenues occurred in an entity that is not subject to VAT and inventory is accounted by Method A. In December 201x have been following accounting cases.

TASKS:

- *(a) Journalize the following accounting transactions and also record in the general ledger.*
- *(b) Close the cost and revenue accounts.*
- *(a) Determine the gross profit/loss as well as its individual components.*
- *(b) Calculate the tax on corporate income tax and post it.*
- *(c) Booking disposable profit/loss in the accounts.*

Acc. oper.	**Text of accounting transaction**	**Amount in CZK**	**Prescription**	
			Dr	**Cr**
1.	The opening balances of the selected accounts:			
	021 - Buildings	2 484,000		
	022 - Individual movables and sets of movables without differentiation	532,800		
	081 - Accumulated depreciation to buildings	662,400		
	082 - Accumulated depreciation to individual movables and sets of movables, not differentiated	207,200		
	112 - Material at stock	111,680		
	211 - Cash desk in CZK	29,830		
	221 - Bank accounts	93,200		
	231 - Short-term bank credits (loans)	250,000		
2.	RI: Repairing machines	9,380		
3.	IE: Dispensing material into consumption	35,400		
4.	ECV: Payment for travel costs to employee	2,250		
5.	RI: Electricity consumption	12,260		
6.	ECV: Payment for the hospitality of trade partner	450		
7.	RI: Phone calls	5,800		
8.	IAD: Depreciation of tangible fixed assets a) buildings	6,900		
	b) machines	10,300		
	c) means of transport	4,500		
9.	IAD: Gross wages of employees	53,000		
10.	IAD: Prescription of insurance paid by the employer	18,020		
11.	II: Products sold	258,500		
12.	IAD: Prescription road tax for IV. quarter	2,500		

Acc. oper.	Text of accounting transaction	Amount in CZK	Prescription	
			Dr	Cr
13.	CuAS: a) interest on short-term loan	5,230		
	b) interest on current account	600		
14.	IAD: Inventory of the material found: a) shortage in the standards for basic material	1,000		
	b) deficit above the norm for basic material	1,200		
	c) surplus at the auxiliary material	250		
15.	II: Sold unneeded material	15,000		
16.	IE: Loss of material sold at cost	16,330		
17.	ECV: Stock purchase SW for records	11,000		
18.	ECV: Given the gift of charity	3,000		
19.	ECV: Rent paid for leased offices for December 201x	8,000		
20.	RI: Retraining program for employees	4,000		

710 – Profit and loss account

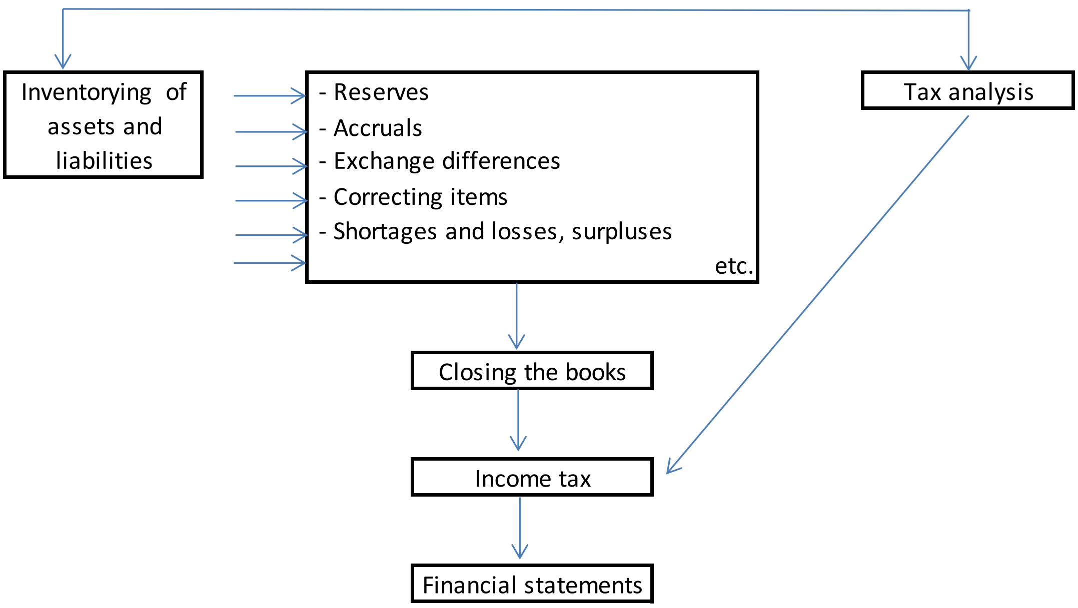
11 Balancing – closing of accounting books

11.1 Closing of accounting books

Accounting work and procedures that take place at the end of the accounting period and at the start of the next period can be called balancing (closing accounting books). This is based on the requirements of:

- law regulation (Act no. 563/1991 Coll., On Accounting; Order no. 500/2002 Coll.; Czech Accounting Standards for Businesses),
- the accounting procedures (internal directives).

Figure 11.1 Closing of accounting books



Source: authors

It is therefore a **sequence of works that guarantee**:

1. Compliance with the assumptions on which accounting is based = <u>accuracy and completeness</u> of accounting books during the reporting period through:

- accrued costs (expenses) and revenues (accrual accounting principle),
- billing accruals,

- billing adjustments,
- repair of account balances based on inventory,
- settlement money on the way (transferred cash), etc.

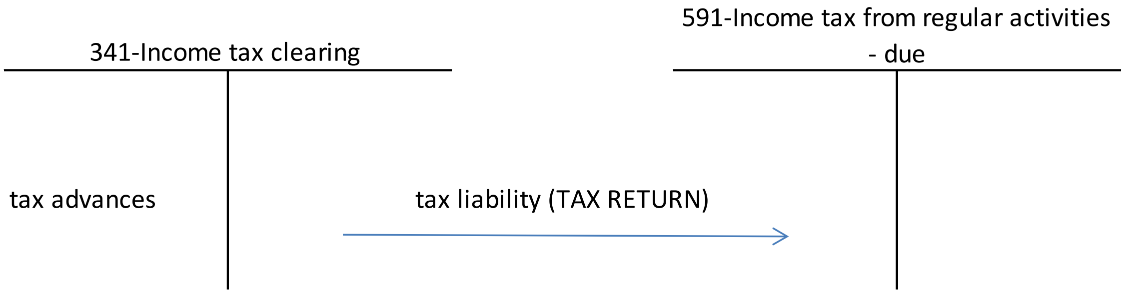
2. Calculation and accounting for income taxes:

- it is about the transformation of gross profit for the tax base and after applying the appropriate tax rate,
- the tax base, rounded down to thousands, is calculated according to a set percentage, which for legal persons is 19% and natural person 15%. Calculated income tax is considered income tax payable.

Tax accounting - for billing income tax in accounting is used class 5 and 3:

- 591 – Income tax on regular activities – due,
- 341 – Income tax clearing.

Schema 11.1 Charging about Income Tax



Source: authors

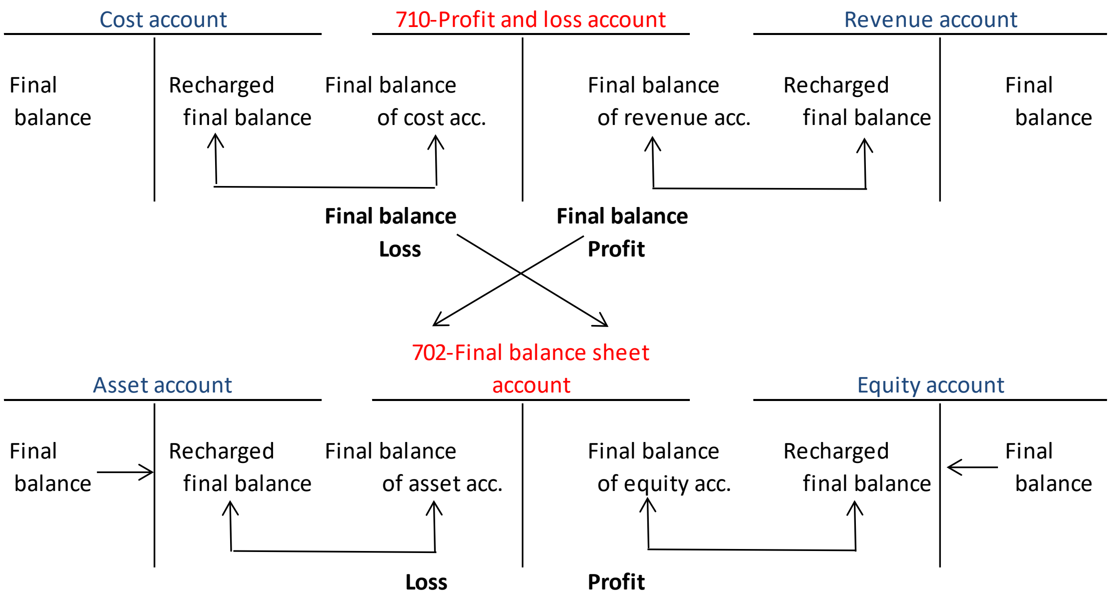
3. Closing the books:

- After all activities to ensure the veracity of the accounts may become formal stage of accounts - closing the books on the last day of the accounting period, i.e. the balance sheet date:
  - finding turnovers of parties credit and debit individual ledger accounts,
  - final states of active and passive accounts and their transfer to 702 – Final balance sheet account,
  - finding final states of costs and revenues accounts and their transfer to 710 – Profit and loss account, where are also found:
    - * profit/loss operation (the difference between revenues billed in Gr. 60-64 and costs in Gr. 50-55, 58),

* profit/loss financial (the difference between revenues billed in Gr. 66-67 and costs in Gr. 56).

- Determination of total profit for the period on account 710 - Profit and loss account in the form of the difference between total revenues and total costs and transfer to a 702 – Final balance sheet account. There is profit/loss listed as a differential value, without account number.

Schema 11.2 Closing accounts



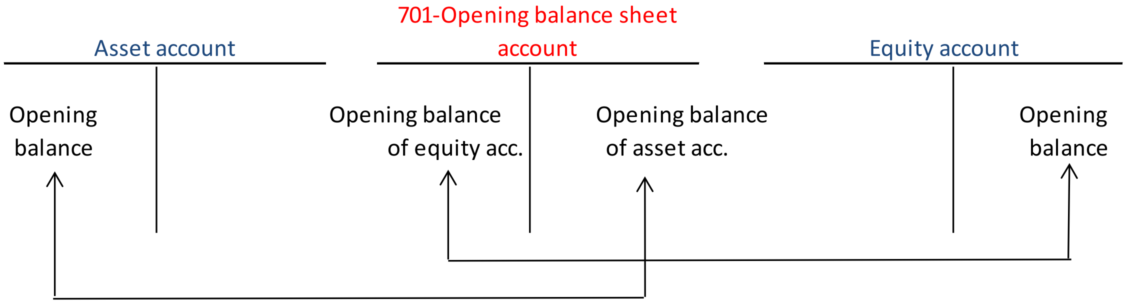
Source: authors

4. <u>Ensure balance continuity</u>:

- General ledger accounts are closed on the basis of the closing Account 702 – Final balance sheet account. Acceptance of initial states is performed through double-entry book entry 701 – Opening balance sheet account (which account for the mirror 702).

- Profit/loss in the new period with a corresponding entry account 431 – Economic result for distribution and is ready for distribution by the legal rules of the Commercial Code, the General Meeting, etc.

Schema 11.3 Opening accounts



Source: authors

11.2 Financial statements

Financial statements are the primary means of communicating important accounting information to users. It is helpful to think of these statements as a model of the business enterprise because they show the business in financial terms. As is true of all models, however, financial statements are not perfect pictures of the reality, but rather the accountant's best effort to represent what is real.

For large corporations, these statements are often complex and may include an extensive set of notes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements.

11.2.1 Financial statements in Czech Republic

Methodology, measure and way of preparation of financial statements for entities that are entrepreneurs regulate:

1. Act no. 563/1991 Coll., On Accounting,
2. Order no. 500/2002 Coll.,
3. Czech Accounting Standards for Businesses.

Provides:

- scope and method of preparation of financial statements, including ordering, labelling and content definition of certain balance sheet items (balance), profit/loss statement, explanatory and supplementary information in the notes to the financial statements, cash flow statement and statement of changes in equity,

- organizing, labelling and content of the consolidated financial statements, including the consolidation methods and procedures including entities in the consolidated group.

Composition of a financial statement
The full format assembles companies, which is defined by law, and it composes:

1. Balance sheet.
2. Profit/loss Statement (Income statement), with version of expenses:

- *Type structure*
  - used by most companies. We can characterize it as a specific type of costs that were spent for a specific purpose,
  - for example: consumption of material, goods, energy, payroll, etc.
- *Purpose structure* (by function)
  - this classification specifies the relation of costs to their origin
  - they are divided according to the relation to the following processes:
    * technological costs (incur only during technological production of a given product),
    * direct and indirect costs.

3. Notes (supplement, annex) to statements.
4. Statement of cash flow – mandatory only for the selected entity.
5. Statement of change in shareholders' capital – mandatory only for the selected entity.

References

ACCA F3 Complete Text. Financial Accountanting (2015). Great Britain: Kaplan Publishing.

Act no. 235/2004 Coll., on Value Added Tax

Act No. 563/1991 Coll., on Accounting

Act no. 586/1992 Coll., on Income Tax

Czech Accounting Standards for Businesses

Order no. 500/2002 Coll.

Valouch, P. (2005). Accounting. Brno: Mendelova zemědělská a lesnická univerzita v Brně.

Vlčková, M., Svoboda, J. (2015). Základy účetnictví - Cvičení. České Budějovice: Jihočeská univerzita v Českých Budějovicích.

Warren, C. S., Reeve, J. M., Duchac, J. E. (2012). Financial Accounting. 12th ed. USA, Mason: South-Western Cengage Learning.

Abbreviations list

Abbreviation	Full name
A	assets
Acc. statement	Accounting Statement
Acc. trans.	accounting cransaction
BS	balance sheet
c_1	the coefficient in the first year of the depreciation
c_2	the coefficient in the next years of the depreciation
CA	Current Account
CIT	Corporate Income Tax
Coll.	Collateral
CrAS	Credit Account Statement
CS	credit side
CuAS	Current Account Statement
CV	Cash Voucher
CZK	Czech currency
DS	debit side
E	equities
e.g.	for example
ECV	Expenditure Cash Voucher
etc.	et cetera
EUR	European currency
FIFO	first in first out
HI	health insurance
i.e.	it is
IAD	Inner Accounting Document
ICV	Income Cash Voucher
ID	identity
IE	Inventory Expenditure
IFA	Intangible Fixed Assets
II	Issue Invoice

IR	Inventory Receipt
L	left Side Account
LE	legal entitiy
n	number of years when the asset has already been depreciated
no.	number
P	payroll
PE	physical entitiy
PC	computer
pcs.	pieces
R	right side account
RI	Received Invoice
SI	Social Insurance
SSI	social security institutions
SW	software
TFA	tangible fixed assets
TO	Tax Office
USD	United Stated dollar
VAT	Value Added Tax

List of accounts

Account class 0 - Fixed assets

01-Intangibles assets
012-Intangible results of research and development
013-Software
014-Appraisable rights
015-Preferential limits
016- Emission allowances
017-Goodwill
019-Other long-term intangible assets
02-Tangibles assets
021-Buildings
022-Individual movables and sets of movables without differentiation
025-Growers units of perennials
026-Animals
027- Differences in valuation on acquired assets
029-Other long-term tangible assets
03-Tangibles assets non-depreciated
031-Lands
032-Artistic works and collections
04-Accounts of acquisition
041-Acquisition of long-term intangible assets
042-Acquisition of long-term tangible assets, not differentiated
05-Unfinished assets – advances
051-Advance payments for long-term intangible assets
052-Advance payments for long-term tangible assets
053-Advance payments for long-term financial assets
06-Long- term financial assets
061-Shares and ownership interests in companies with a controlling influence – acquisition value
062-Shares and ownership interests in companies with a significant influence – acquisition value
063- Rrealized securities and investment
065-Long-term bonds held to maturity date
066-Loans with a controlling influence
067-Loans with a significant influence
068-Other loans
069-Other long-term financial assets
07-Accumulated depreciation to intangible assets
072-Accumulated depreciation to the intangible results of research and development
073-Accumulated depreciation to software
074-Accumulated depreciation to appraisable rights
077- Accumulated depreciation to goodwill
079-Accumulated depreciation to other long-term intangible assets
08-Cumulated depreciation to tangible assets
081-Accumulated depreciation to buildings
082-Accumulated depreciation to individual movables and sets of movables, not differentiated
085-Accumulated depreciation to grower's units of perennials
086-Accumulated depreciation to animals
087-Accumulated depreciation to vvaluation difference on acquired assets
089-Accumulated depreciation to other long-term tangible assets
09-Rectifying items to fixed assets
091-Rectifying item to intangibles assets
092-Rectifying item to tangibles assets
093-Rectifying item to long-term acquired intangible assets
094- Rectifying item to long-term acquired tangible assets
095-Rectifying item to provided advance payments
096-Rectifying item to long-term financial assets

Account class 1 - Inventories

11-Material
111-Acquisition of material
112-Material at stock
119-Transported material
12-Inventories of own production
121-Unfinished production
122-Semi-finished products from own production
123-Products
124-Animals
13-Merchandise
131-Acquired goods
132-Goods at stock
139-Transported goods
15-Provided advance payments on inventories
151-Provided advance payments for material
155-Provided advance payments for animals
156-Provided advance payment for goods
19-Rectifying items to inventories
191- Rectifying items to material
192-Rectifying items to unfinished production
193-Rectifying items to semi-finished products of own production
194-Rectifying items to own products
195-Rectifying items to animals
196-Rectifying items to goods
197-Rectifying items to provided advance payments on inventories

Account class 2 – Financial accounts

21-Cash
211-Cash desk in CZK
213-Valuables
22-Bank accounts
221-Bank accounts
23 -Short-term bank accounts
231-Short-term bank credits (loans)
232-Discount credits
24-Other short-term financial substitutes
241-Issued short-term bonds
249-Other short-term financial aids
25-Short-term financial assets
251-Shares and similar securities
252-Own stock and own shares
253-Bonds held for trade
255-Own short-term bonds
256-Short-term bonds held to maturity date
257-Other short-term viable securities
258-Shares - controlling influence
26-Transfers between financial accounts
261-Transferred cash
29-Rectifying item to short-term financial assets
291-Rectifying item to short-term financial assets

Account class 3 – Receivables and short-term liabilities

31-Receivables
311-Trade receivables
313-Receivables of discount securities - short-term
314-Advance operational payments - short-term
315-Other receivables - short-term
32-Liabilities (short-term)
321-Suppliers
322-Bills of exchange to be paid
324-Accepted advance payments
325-Other liabilities
326-Warranty obligations
33-Clearing with employees and institutions
331-Liabilities to employees
333-Other liabilities to employees
335-Receivables for employees
336-Clearing with institutions of health and social insurance
34-Clearing of dotations and taxes
341-Income tax clearing
342-Other direct tax
343-Value added tax
345-Other taxes and fees
346-Dotation from state budget
347-Other dotation
349-Connect account to value added tax
35-Recevables for partners and members of association
351-Receivables - with a controlling influence
352-Receivables - with a significant influence
353-Unpaid investments (Assets shares module)
354-Receivables for partners during payment of losses - short-term
355-Other receivables for partners - short-term
358-Receivables from participants in an association - short-term
36-Liabilities to partners and members of association
361-Liabilities - with a controlling influence
362-Liabilities - with a significant influence
364-Liabilities to partners during distribution of profit
365-Other liabilities to partners
366-Other liabilities to partners and members of an association for dependent activities
367-Settlement of non-monetary long-term asset investments
368-Liabilities to participants of an association
37-Other receivables and liabilities
371-Receivables from the sale of enterprise
372-Liabilities from the sale of enterprise
373-Receivables and liabilities from fixed term operations
374-Receivables from rent
375-Receivables from issued bonds - short-term
376-Purchased options
377-Sold options
378-Other receivables
379-Other liabilities

38-Transitive accounts of assets and equities
381-Deferred expenses
382-Complete deferred expenses
383-Deferred expenditure
384-Deferred revenues
385-Deferred income
388-Estimated assets accounts
389-Estimated liability accounts
39-Rectifying items to receivables and internal clearing
391-Rectifying item to receivables
395-Internal clearing
398-Connecting account in association

Account class 4 – Capital accounts and long term liabilities

41-Common stocks and capital funds
411-Basic capital
412-Capital in excess of par value
413-Other capital funds
414-Differences in valuation resulting from revaluation of assets and liabilities
416-Differences in valuation in transformation of enterprise
417- Differences of transformation of business corporations
418- Differences from valuation during transformation of commercial corporations
419-Changes of common stocks
42-Funds created from net profit and economic result of previous periods
421-Reserve fund
422-Indivisible association fund
423-Statutory fund
426-Other profit/loss
427-Other funds
428-Undistributed profit from previous years
429-Unpaid losses from previous years
43-Economic result
431-Economic result for distribution
432-Decided to advance to share profit
45-Reserves
451-Reserves under special statutory regulations
452-Reserves for pension and similar payables
453-Reserves for income tax
459-Other reserves
46-Long-term bank credits
461-Long-term bank credits (loans)
462- Discount credits
47-Long-term liabilities
471- Liabilities - with a controlling influence
472-Liabilities - with a significant influence
473-Issued bonds
474-Obligations from the rental of the company
475-Accepted advance payments, long-term
476-Long-term trade liabilities
477-Long-term liabilities to members of association
478-Long-term bills of exchange for payment
479-Other long-term liabilities
48-Postponed tax liability and receivable
481-Postponed tax liability and receivable
49-Individual businessman
491-Account of individual businessman

Account class 5 – Costs

50-Consumed purchases
501-Consumption of material
502-Consumption of electricity and other energy
503-Consumption of other deliveries
504-Sold goods
505-Low value tangible assets
51-Consumed services
511-Repairs and maintenance
512-Travel costs
513-Representation expenses
515-Low value intangible assets
518-Other services
52-Personal costs
521-Wage costs
522-Income of partners and members of cooperation
523-Honorariums of members of boards of directors
524-Ordinary social insurance
525-Other social insurance
526-Social expenses of individual businessman
527-Ordinary social costs
528-Other social costs
53-Taxes and fees
531-Road tax
532-Real estate tax
538-Other taxes and fees
54-Other operating costs
541-Amortized value of sold long-term intangible and tangible assets
542-Sold materials
543-Presents
544-Contractual fines and interest from delays
545-Other fines and penalties
546-Written off receivables
547-Extraordinary operational costs
548-Other operational costs
549-Deficits and damages
55-Depreciation, creation of reserves, complex costs of other periods and creation of rectifying items in operating activity
551-Depreciation of long-term intangible and tangible assets
552-Creation of reserves for the repair of assets
554-Creation of other operational reserves
555-Accounting for all expenses of future periods
557-Depreciation of goodwill and differences in valuation on acquired assets
558-Creation and clearing of ordinary rectifying items in operating activity
559-Creation and clearing of other rectifying items in operating activity
56-Financial costs
561-Sold securities and investments
562-Interests
563-Rate of exchange losses
564-Costs from revaluation of property securities
565-Provided gifts
566-Costs from financial assets
567-Costs from financial derivate
568-Other and extraordinary financial costs
569-Damages and deficits on financial assets
57-Creation of reserves and creation of rectifying items in financial activity
574-Creation of financial reserves
579-Creation of financial adjusted entries
58-Change in inventory and activation
581-Changes of the balance of unfinished production
582-Changes of the balance of semi-finished products of own production
583-Changes of the balance of products
584-Changes of the balance of animals
585-Activation of materials and goods
586-Activation of inner-company services
587-Activation of long-term intangible assets
588-Activation of long-term tangible assets
59-Income taxes and transitive accounts
591-Income tax from regular activities - due
592-Income tax from regular activities - deferred
595-Subsequent income tax deductions
596-The transfer of the share of economic results to partners
597-The transfer of operation expenses
598-The transfer of financial expenses

Account class 6 – Revenues

60-Revenues for own products and merchandise
601-Revenues from sale of products
602-Revenues from sale of services
604-Revenues from sale of goods
64-Other operating revenues
641-Revenues from the sale of long-term intangible and tangible assets
642-Revenues from the sale of materials
643-Received gifts
644-Contractual fins and interest from delays
646-Revenue from the sale of receivables
647-Depreciation of negative goodwill and differences in valuation on acquired assets
648-Other operational revenues
649-Extraordinary operating revenues
66-Financial revenues
661-Revenues from the sale of securities and investments
662-Interest from regular bank accounts
663-Rate of exchange profits
664-Revenues from revaluation of property securities
665-Revenues from securities and investments in companies in the group
666-Revenue from short-term financial assets
667-Revenues from derivates operations
668-Other financial revenues
669- Received gifts
69-Transitive accounts
697-Transfer of operating revenue
698-Transfer of financial revenue

Account class 7 – Shuttering accounts

70-Balance sheet accounts
701-Opening balance sheet account
702-Final balance sheet account
71-Account of profit and loss
710-Profit and loss account

Account class 8 – Managerial accounting

Název:	**Principles of accounting**
Autor:	**Ing. Marie Vejsadová Dryjová, Ph.D.**
	Ing. Miroslava Vlčková, Ph.D.
	Ing. Jaroslav Svoboda, Ph.D.
Vydavatel:	**Jihočeská univerzita v Českých Budějovicích**
	Ekonomická fakulta
Vydání:	**1. vydání, 2017**
Účel:	**Vysokoškolská učebnice**
Počet stran:	**178**
Elektronická verze:	**http://omp.ef.jcu.cz**

Tato publikace neprošla jazykovou úpravou v redakci nakladatelství.
Za věcnou a jazykovou správnost díla odpovídají autoři.

ISBN 978-80-7394-610-4

ISBN 978-80-7394-610-4

9 788073 946104