

# Introduction to accounting

## Handout

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### *Preface*

*Introduction to accounting incorporates two courses: the related lecture and the seminar. The aim of the courses is to entitle the students with the knowledge of the most important terms of accounting and to introduce the bookkeeping of basic economic events. This handout presents the basic definitions applied during the semester, provides case studies for learning purposes and also includes sample tests and exams.*

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## Course information

**Course title: INTRODUCTION TO ACCOUNTING**

Course code:  
60A306 Lecture  
60A307 Seminar

Credit: 6

Type: lecture and seminar

Contact hours / week: 2+2

Evaluation: Lecture: exam mark (five-grade), Seminar: practical course mark (five-grade)

Semester: 3<sup>rd</sup>

Prerequisites: Basic management knowledge

## **Learning Outcomes**

*a) regarding knowledge, the student*

- knows the financial accounting information system: functions and structure*
- knows the process of income and cost measurement*
- knows the content and system of financial statements*

*b) regarding competencies, the student*

- is capable of describing and interpreting economic events*
- is capable of editing accounting entries and applying the basic rule of double-entry bookkeeping*
- is capable of grasping the accounting tasks occurring during a financial year (opening and closing)*
- is composes financial statements (balance sheet and income statement) from bookkeeping data*

*c) regarding attitude, the student*

- is capable of critical evaluation of accounting data*
- is devoted to performing high quality work in the field of accounting*

*d) regarding autonomy, the student*

- works individually in the field of accounting with responsibility*
- prepares and presents accounting-related tasks and projects*

## Requirements

**For the seminar** (60A306): the practical course mark (five-grade) is based on the results of the two mid-term tests written during the semester. Opportunity to retake mid-term test: once at the end of the semester. ***60% of the points have to be collected in order to pass.***

**For the lecture** (60A306): written exam during the examination period. Questions will cover the material of both the lecture and the seminar.

***Only those students who had passed the seminar (have grade „2“ or better) may take the lecture exam.***

***60% of the points have to be collected in order to pass.***

***Class attendance is not compulsory but recommended as well as continuous (weekly) learning and practicing during the semester.***

## Grading

- 0-59%: fail
- 60-69%: pass
- 70-79%: satisfactory
- 80-89%: good
- 90-100%: excellent

### **Course topics**

*The students will acquire knowledge about the basic idea, segments and features of the accounting information system. They will be informed about the most important terms and definitions in bookkeeping: assets and liabilities, capital, financial statements, economic events and their effects on the balance sheet. The skills acquired during the course includes bookkeeping and composing the profit and loss statement. The system of accounts and the accounting framework are also processed leading the students to be devoted to performing high quality work in the field of with responsibility.*

## **Topic 1: The role of accounting. Accounting information systems.**

*Learning outcome of the topic:*

*The students will learn the definition, function and purpose of accounting. They will be informed about the stakeholder groups and their features. The different branches of accounting – financial and managerial – are also introduced and discussed as well as the structure of accounting information systems.*



### **Definitions:**

**Accounting** is a tool for communication with the stakeholders of the business.

- It is a form of financial-economic public relations.
- It is based on certain accepted standard formats.
- It helps in evaluating the firm's financial position and performance in the past and the present and also serves as a basis for evaluating future prospects.

**The entity concept** recognizes that the transactions of a business should be recorded separately from the transactions of its owner.

**Property:** All the identifiable items (assets, liabilities, equity) controlled by the entity which have economic significance, thus:

- Result in an inflow/outflow of economic benefits.
- Have a cost or value that can be measured with reliability.

**Economic events:** All the transactions that occur during the operating process which can be expressed in economic units and are verifiable. Changes in assets, liabilities, equity generated by the operation of the business.

**The money measurement concept** recognizes that in order for a business transaction to be recorded, there must be a monetary value attached to it.

**Stakeholders:** all people and organizations that are somehow affected by the entity.

- External: Owners, potential investors, creditors, authorities, public
- Internal: Managers, Directors, Employees

**Financial accounting** provides information to external stakeholders about financial data via standardized reports.

**Managerial accounting** provides information to internal stakeholders about financial and non-financial data via non-standardized reports.

**Evidences:** documents supporting the entry (accounting) of an economic event. Examples: invoices, contracts, cash slip, records, etc.

**Financial statement:** a certified document that is supported by bookkeeping and prepared with the objective of informing the stakeholders about the entities' financial position and performance.

**Audit:** the process of ascertaining that a financial statement has been prepared with respect to the requirements of the law and that it provides truthful and reliable information.

**Cash-based accounting:** recognizes revenue when payment is received, and recognizes expenses when cash is paid out. Only applicable for recording the changes of Cash and only for a small layer of entities (accrual accounting is generally required).

**Accrual accounting:** requires that revenue be recognized and assigned to the accounting period in which it is earned. Similarly, expenses must be recognized and assigned to the accounting period in which they are incurred.

## Topic 2: The Balance Sheet.

*Learning outcome of the topic:*

*The students will learn about the accounting equation: defining assets, liabilities and equity. They will be informed about the recognition criteria. The most important outcome is to be able to prepare a classified balance sheet and to distinguish between short-term and long-term items.*

### **Definitions:**

**The accounting equation** is a basic assumption of the system: the value of assets (economic resources) possessed by an entity is equal to the amount of claims against those assets.

**Claims against assets** can be divided into the claims of the creditors and the owners (liabilities and owners' equity).

**Balance sheet** is also called the **statement of financial position**: it is a part of financial statements recording the assets of the entity and the claims against those assets held at a certain date (effective/key date). It has a specific format and contains summarized data in monetary units.

**Recognition criteria**: criteria defining which items can be included in the balance sheet and which ones are excluded. Include rules to tell which items become ASSETS or LIABILITY or EQUITY.

**Assets** are economic resources controlled by the entity as a result of past events from which economic benefits are expected.

**Fixed assets**: these are long-term assets used to generate profit. The business will hold on to these assets for several accounting periods.

**Current assets**: short term assets used up within the operating cycle. These assets are held for less than one accounting period.

**Liability**: a present obligation as a result of past events which will result in the outflow of economic benefits.

**Non-current liabilities**: these are long term liabilities owed to third parties which are not payable during the next accounting period (in one year).

**Current liabilities**: these are liabilities owed to third parties which are payable during the next accounting period (in one year).

**Equity**: the owners' share in the business. It is also called net assets because equity is the residual interest in the assets of the entity after deducting all its liabilities:  $\text{Equity} = \text{Assets} - \text{Liabilities}$ .

**Historical cost**: original cost of the items when they were purchased or manufactured.

**Current cost**: the amount of cash that would have to be paid if the same or an equivalent asset was acquired.

**Realisable value**: the amount of cash that could currently be obtained by selling the asset in an orderly disposal.

**Book (net) value** = historical cost +/- adjustments.

**Vertical articulation of the Balance Sheet:** Categories (Capital letters: A,B,C...), Sub-categories (Roman numerals: I,II,III...), Items (Arabic numbers: 1,2,3...).

**Horizontal articulation of the Balance Sheet:** the number of columns: current year and previous year (making comparisons possible).

## Balance sheet definitions<sup>1</sup>

### A) FIXED ASSETS

#### I. INTANGIBLE ASSETS

Intangible assets are identifiable, non-monetary assets without physical substance. Examples: computer software, patents, copyrights, customer lists, fishing licences, import quotas, franchises, marketing rights...

##### 1. Property rights

Obtained exclusive rights: rental rights, rights to use intellectual property, brands, licences, etc.

##### 2. Intellectual property

Creations protected by law: patents, know how, trademarks, copyrights, technical plans.

#### II. Property, plant and equipment (PP&E)

Installed assets with physical substance which are used for more than one year. Investments (in-process PP&E) are also classified here.

##### 1. Plants

Land and all instalments related permanently with land (buildings, constructions). Property rights related to real estate are also classified here.

##### 2. Technical equipment

Installed equipment that directly serves the operations of the entity (technical device, machinery, tools, transportation machinery, computers, etc.)

##### 3. Other equipment, machinery, vehicles

Installed equipment indirectly supporting the activities of the entity (office equipment, vehicles, etc.)

##### 4. Animals for breeding

Those animals raised for sustaining the animal population or the production of goods (eg. milk, eggs.)

##### 5. PP&E Investments, renovations

The value of PP&E assets that are not installed yet plus the value of renovations under construction.

### III. FINANCIAL INVESTMENTS

Those assets invested in other entities with the purpose of gaining regular yields or rights to control.

#### 1. Shares

Investments representing portions of property.

#### 2. Provided loans

Amounts of cash lent to third parties.

#### 3. Fixed deposits

Cash placed on fixed bank accounts invested for long term.

#### 4. Debt securities

Bonds kept with investment purposes (expire over one year).

### B) CURRENT ASSETS

#### I. INVENTORIES

1. **Raw material:** Processed during manufacturing or the production of services.

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<sup>1</sup> Please note that the structure of the Balance Sheet may vary in different jurisdictions. The following categories are based on the Hungarian format and are adjusted to the content of the course (i.e. this is not a full list of the categories and items).

- 2. Goods in process:** Self-constructed products in-process of manufacturing.
- 3. Animals**
- 4. Finished goods:** Finalized (manufactured) products ready for sale.
- 5. Merchandise:** Goods purchased with the purpose of selling.

## **II. RECEIVABLES**

### **1. Accounts receivable**

A current asset resulting from selling goods or services on credit (on account). Claims against customers.

### **2. Notes receivable**

Note: a written promise that requires future payment.

### **3. Other Receivables**

Money lent for short term, claims against employees, central budget, tax authorities, etc.

## **III. SECURITIES**

- 1. Negotiable shares** (shares held for sale)
- 2. Treasury shares** (reacquired own equity instruments)
- 3. Negotiable bonds** (bonds that expire in one year or held for sale).

## **IV. CASH**

### **1. Petty cash**

Cash placed in a box used for minor expenses.

### **2. Bank accounts**

## **C) PREPAYMENTS**

Accrued revenue, deferred (prepaid) expenses (adjustment entries which have positive effects on earnings).

## **TOTAL ASSETS**

## **CLAIMS AGAINST ASSETS**

## **D) OWNERS' EQUITY**

### **I. CAPITAL STOCK**

Funds raised by the owners at the point of foundation or as a result of raising capital (they pay cash or transfer assets to the entity in exchange for property rights, i.e. shares).

### **IV. RETAINED EARNINGS**

The accumulated profit or loss of the entity which have not been paid out as dividends to the owners (retained earnings of the previous financial years).

## **E) PROVISIONS\***

Provisions are reserves which are raised for liabilities of uncertain timing and/or amount.

## **F) LIABILITIES**

### **I. SUBORDINATED DEBT**

A loan that ranks below other loans (in case of liquidation, these claims are satisfied after other claims).

### **II. LONG TERM LIABILITIES**

Liabilities due over one year.

- 1. Long term loans**
- 2. Security (bonded) debts**
- 3. Investment and development credit**
- 4. Other long term credits**
- 5. Other long term liabilities (e.g. leases)**

### **III. SHORT TERM LIABILITIES**

Liabilities due within one year.

#### **1. Short term loans**

#### **2. Short term credits**

#### **3. Customer deposit**

A short-term liability resulting from receiving cash in advance of delivering goods or services to the customer.

#### **4.Accounts payable**

Money which a company owes to suppliers for products and services purchased on credit.

#### **5.Notes payable**

Notes payable: written promises to make a payment at a future date.

#### **6. Other short term liabilities**

Liabilities against employees, tax authorities, etc.

### **G) ACCRUALS\***

Accrued expenses, deferred revenue (adjustment entries which have negative effects on earnings).

### **TOTAL CLAIMS AGAINST ASSETS**

**\*Provisions and Accruals are special kinds of Liabilities. These may be classified as separate Categories between 'Claims against assets' in certain regulations but these are also considered as Liabilities when applying the accounting equation!**

The accounting equation:

**ASSETS (including Prepayments) = EQUITY + LIABILITIES (including Provisions and Accruals)**



## Seminar 2-3.

### Task 1.

Put a mark for each item to the right column!

Items	Fixed Asset	Current Asset	Equity	Long-term liability	Short-term liability
Finished products					
Investment credits (due in 5 years)					
Stock capital					
Accounts receivable					
Raw material					
Intellectual property rights					
Negotiable Securities					
Petty cash					
Merchandise					
Wages payable					
Received loans (for 6 months)					
Goods in process					
Real estate					
Vehicles					
Provided loans to third parties (for 2 years)					
Bank account					
Accounts payable					
Retained earnings					
Other Receivables					
Received loans (due in 2 years)					
Fixed-term deposit					
Liabilities against social security					
Software					
Customer deposits					
Taxes payable					
Operational credits (3 months)					

### Task 2.

How much **equity** does X Ltd. have if we know the following items: accounts payable 2.000.000 Ft, accounts receivable 4.000.000 Ft, wages payable 1.000.000 Ft, and the bank account has 8.000.000 Ft?

### Task 3.

The items of a company are the following on 1st January, 20X4 (HUF):

Bank account: 4.500.000 Ft, 1.900.000 Ft has been provided as a loan to another firm for 3 years in 20X3, accounts payable: 900.000 Ft, wages payable: 1.800.000 Ft, raw material 500.000 Ft, operational credit 1.500.000 Ft, accounts receivable 700.000 Ft, tax payable 900.000 Ft, negotiable bonds 500.000 Ft, real estate 1.000.000 Ft, investment credit 2.000.000 Ft.

#### Questions:

1. *How much equity and liability does the company have?*
2. *How much resources does the company own?*
3. *What is the amount of the current liabilities and how can these be settled?*

### Task 4.

The items of a company are the following on 1st January, 20X4 (HUF):

Raw material 35.000.000, notes payable 5.000.000, Petty cash 4.000.000, stock capital 270.000.000, investment credits 12.000.000, goods in process 16.000.000, accounts payable 50.000.000, in-process PP&E 28.000.000, accounts receivable 85.000.000, wages payable 15.000.000, finished goods 30.000.000, notes receivable 20.000.000, tax payable 31.000.000, merchandise 32.000.000, real estate 70.000.000, retained earnings ....., bank account 50.000.000, short-term loans payable 40.000.000, intangibles 30.000.000, technical equipment 50.000.000, social security payable 3.000.000, securities held for sale 5.000.000, other long term liabilities 15.000.000, shares (held as investment) 15.000.000

#### Questions:

1. *How much current assets does the company own?*
2. *How much equity does the company own?*
3. *How much does the company owe to other parties?*
4. *How much resources does the company own?*

*Task: Create the balance sheet of the company!*

<b>Task 5.</b>
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*Is the situation possible?*

- a) value of equity equals the value of assets.
- b) value of equity is less than the value of assets.
- c) value of equity is more than the value of assets.
- d) value of current assets is equal to the value of property (wealth).
- e) value of assets is more than the value of liabilities.
- f) value of assets is less than the value of liabilities.
- g) value of property is more than the value of claims against assets.
- h) value of assets is more than the value of claims against assets.
- i) value of liabilities is more than the value of equity.
- j) value of inventories is more than the value of current assets.
- k) value of inventories is more than the value of raw materials.
- l) value of fixed assets is less than the value of PP&E assets.
- m) value of fixed assets is less than the value of current assets.

## Worksheets

.....

ASSETS	Value	Claims a.a.	Value
<b>FIXED ASSETS</b>		<b>EQUITY</b>	
Intangible assets			
PP&E assets		<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b>CURRENT ASSETS</b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b>PREPAYMENTS</b>		<b>ACCRUALS</b>	
Total assets		Total claims a.a.	

ASSETS	Value	Claims a.a.	Value
<b>FIXED ASSETS</b>		<b>EQUITY</b>	
Intangible assets			
PP&E assets		<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b>CURRENT ASSETS</b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b>PREPAYMENTS</b>		<b>ACCRUALS</b>	
Total assets		Total claims a.a.	

ASSETS	Value	Claims a.a.	Value
<b>FIXED ASSETS</b>		<b>EQUITY</b>	
Intangible assets			
PP&E assets		<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b>CURRENT ASSETS</b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b>PREPAYMENTS</b>		<b>ACCRUALS</b>	
Total assets		Total claims a.a.	

## Solutions

### Task 2.

Balance Sheet, 20XX.01.01. (1.000 HUF)

Assets	Value	Claims a.a.	Value
FIXED ASSETS		EQUITY	9.000
Intangible assets			
PP&E assets		PROVISIONS	
		LIABILITIES	
Financial investments		Subordinated liabilities	
		Long-term liabilities	
CURRENT ASSETS			
Inventories		Short-term liabilities	
		- accounts payable	2.000
Receivables		- wages payable	1.000
- accounts receivable	4.000		
Securities			
Cash			
- bank account	8.000		
PREPAYMENTS		ACCRUALS	
TOTAL ASSETS	12.000	TOTAL CLAIMS a.a.	12.000

Task 3.

Balance Sheet, 20X4.01.01. (1.000 HUF)

ASSETS	VALUES	CLAIMS a.a.	VALUE
FIXED ASSETS	2.900	EQUITY	2.000
Intangible assets	0		
PP&E assets	1.000	PROVISIONS	0
- real estate	1.000	LIABILITIES	7.100
Financial investments	1.900	Subordinated debt	0
- provided loans	1.900	Long term liabilities	2.000
CURRENT ASSETS	6.200	- investment credits	2.000
Inventories	500	Short term liabilities	5.100
- raw material	500	- accounts payable	900
Receivables	700	- wages payable	1.800
- accounts receivable	700	- operational credit	1.500
		- tax payable	900
Securities	500		
- negotiable bonds	500		
Cash	4.500		
- bank account	4.500		
PREPAYMENTS	0	ACCRUALS	0
TOTAL ASSETS	9.100	TOTAL CLAIMS a.a.	9.100



Task 4.

Balance Sheet, 20X4.01.01. (1.000 HUF)

ASSETS	VALUE	CLAIMS a.a.	VALUE
FIXED ASSETS	193.000	EQUITY	299.000
Intangible assets	30.000	Stock capital	270.000
PP&E assets	148.000	Retained earnings	29.000
- in-process PPE	28.000		
- real estate	70.000		
- technical equipments	50.000	PROVISIONS	0
Financial investments	15.000	LIABILITIES	171.000
- shares	15.000	Subordinated debt	0
		Long-term liabilities	27.000
CURRENT ASSETS	277.000	- Investment credits	12.000
Inventories	113.000	- Other long term liabilities	15.000
- raw material	35.000		
- goods in process	16.000		
- finished goods	30.000		
- merchandise	32.000		
		Short term liabilities	144.000
Receivables	105.000	- notes payable	5.000
- accounts receivable	85.000	- accounts payable	50.000
- notes receivable	20.000		
Securities	5.000	- Wages payable	15.000
- securities for sale	5.000	- tax payable	31.000
Cash	54.000	- short term loans	40.000
- petty cash	4.000	- social security	3.000
- bank account	50.000		
PREPAYMENTS	0	ACCRUALS	0
TOTAL ASSETS	470.000	TOTAL CLAIMS a.a.	470.000

### Topic 3. Bookkeeping

*Learning outcome of the topic:*

*The students will learn about bookkeeping: definition, function and forms of bookkeeping and T-accounts. They will be informed about asset and liability accounts. The most important outcome is to be able to post basic and complex economic events, and to compute balances and turnovers. The general ledger and the general journal are also introduced and discussed as well as synthetical and analytical accounting.*

### **Definitions:**

During the financial year, **bookkeeping** is the dynamic system for processing transactions → tools are the accounts in the general ledger.

**Accounts** are tools for recording economic events under determined rules (double-sided records of debit-credit entries).

Recording on the left side of an account: **Debit entry**.

Recording on the right side of an account: **Credit entry**.

Sum of the debit entry values during a period is the **Debit Turnover (DT)**.

Sum of the credit entry values during a period is the **Credit Turnover (CT)**.

Difference of actual Debit turnover and Credit turnover: **Balance of an account**.

- **Debit Balance** if  $DT > CT$
- **Credit Balance** if  $DT < CT$

**Balance brought forward:** balance at the beginning of the period (e.g. 1st January).

**Interim balance:** balance at any given date of the accounting period.

**Balance carried forward:** balance at the end of the period (e.g. 31st December).

**Cumulative turnover:** turnover including the balance brought forward.

**Periodical (net) turnover:** turnover without the balance brought forward (only the effects of the events of the current period).

**Change of balance:** Balance carried forward – balance brought forward OR Increases – decreases.

**Classification:** editing of the entry, the process of determining which accounts are impacted and how they are impacted (debited account, credited account plus value of the economic event).

**Entry:** result of the classification recording the accounts debited and credited.

**Counter accounts:** accounts affected by an entry.

**BASIC RULE OF DOUBLE-ENTRY BOOKKEEPING:** Each economic event induces an entry with at least two accounts with the same amount recorded on the debit and credit sides.

**The financial year** is a cycle of accounting and reporting.

**Chronological bookkeeping:** recording the economic events in a chronological order.

**General Journal:** a tool for chronological bookkeeping: its content is the same as that of the general ledger but the data is sorted based on a different (chronological) logic.

**Ledger-type bookkeeping:** recording the economic events on the ledger accounts related to the items impacted by the transaction.

**General ledger:** contains all the accounts necessary to prepare the financial statements of an entity.

**SYNTHETICAL ACCOUNTING:** demonstrating summarized data only in monetary units.

**ANALYTICAL ACCOUNTING:** detailed, itemized recording in volume and/or monetary units.

**Trial balance:** a document prepared at the end of the reporting period to summarize ledger account balances and control some numerical aspects of bookkeeping.

**Cancellation:** neutralizing the impacts of the errors in bookkeeping.

**Cancellation entry:** repeated entries of the faulty entry on the opposite sides or on the same side with negative signal.

## Seminar 4.

### CASE STUDY

The opening accounts of the „Beginner“ Ltd for 20X4 are the following (€):

Assets: PP&E assets: 40.000, Raw material: 5.000, Merchandise: 500, Finished goods: 7.000, Accounts receivable: 800, Petty cash: 200, Bank account: 2.500

Claims against assets: Capital stock: 45.000, Retained earnings: 4.900, Investment credits: 1.000, Operational credits: 1.300, Accounts payable: 2.100, Wages payable: 1.000, Taxes payable: 700.

**Task:** Prepare the opening Balance Sheet for the company! Use the worksheet on the next page.

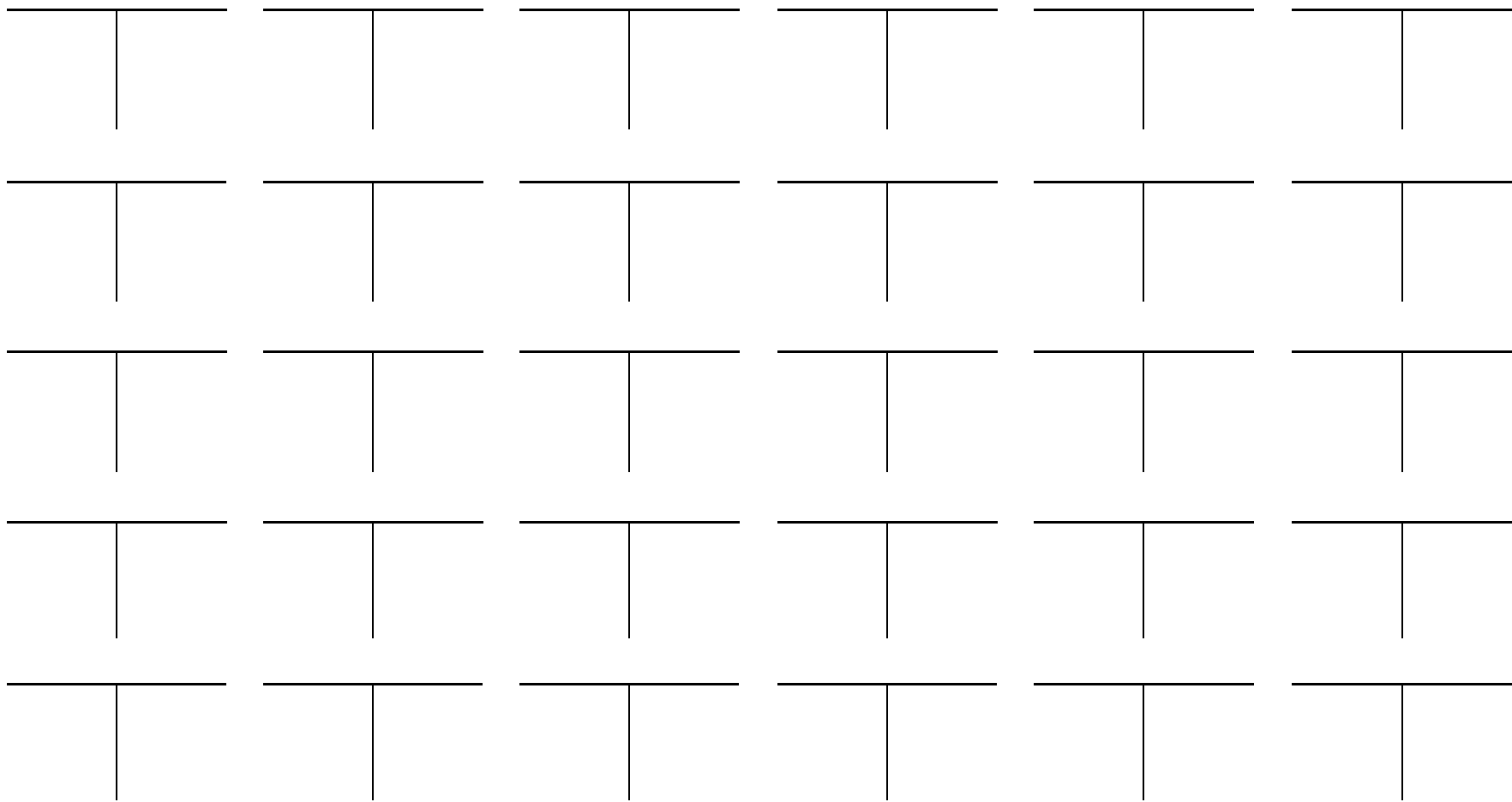
The following economic events occurred during the financial year:

1. 600 € have been collected from Accounts receivable. The bank has sent the certification of the transfer.
2. Purchasing raw material. The invoice has arrived, the price is 200 €, payable in 8 days.
3. Buying a computer for 200 € cash.
4. 150 € operational credit has been paid back from the bank account. The bank has sent the certification of the transfer.
5. Withdrawing from the bank account the amount of wages payable.
6. Transferring 100 € investment credits to the bank. The bank has sent the certification of the transfer.
7. Paying wages payable in cash.
8. Buying merchandise for 500 € on credit. The invoice has been received.
9. Transferring taxes payable from bank account. The bank has sent the certification of the transfer.
10. Sending back merchandise of 50 € due to quality problems. Adjustment invoice has been received.
11. Withdrawing new operational credits to pay entire Accounts Payable.
12. Lending 200 € for a partner for six months. The bank has sent the certification of the transfer.

**Task:** Open the accounts and record the economic events of the period on T-accounts! Compose the closing Balance Sheet!

You can find worksheets on the next pages.

ASSETS	Value	Claims a.a.	Value
<b>FIXED ASSETS</b>		<b>EQUITY</b>	
Intangible assets			
PP&E assets		<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b>CURRENT ASSETS</b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b>PREPAYMENTS</b>		<b>ACCRUALS</b>	
Total assets		Total claims a.a.	



ASSETS	Value	Claims a.a.	Value
<b>FIXED ASSETS</b>		<b>EQUITY</b>	
Intangible assets			
PP&E assets		<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b>CURRENT ASSETS</b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b>PREPAYMENTS</b>		<b>ACCRUALS</b>	
Total assets		Total claims a.a.	



## Solution

ASSETS						CLAIMS A.A.					
PP&E assets		Raw material		Bank account		Stock Capital		Investment credits		Retained earnings	
OE 40.000		OE 5.000		OE 2.500	4. 150		OE 45.000	6. 100	OE 1.000		OE 4.900
3. 200		2. 200		1. 600	5. 1.000	CE 45.000					
	CE 40.200		CE 5.200		6. 100			CE 900		CE 4.900	
					9. 700						
Merchandise		Finished goods				Wages payable		Operational credits		Accounts payable	
OE 500	10. 50	OE 7.000			12. 200			4. 150	OE 1.300	10. 50	OE 2.100
8. 500					CE 950	7. 1.000	OE 1.000		11. 2.750	11. 2.750	2. 200
	CE 950		CE 7,000					CE 3.900			8. 500
Accounts receivable		Cash		Other Receivables				Tax payable			
OE 800	1. 600	OE 200	3. 200	12. 200				9. 700	OE 700		
		5. 1.000	7. 1.000								
	CE 200				CE 200						

**Opening Balance Sheet 20X4. 01.01 (€)**  
**Beginner Ltd.**

ASSETS	Value	Claims a.a.	Value
<b>FIXED ASSETS</b>	40.000	<b>EQUITY</b>	49.900
<i>Intangible assets</i>	0	Stock Capital	45.000
		Retained earnings	4.900
<b>PP&amp;E assets</b>	40.000	<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	6.100
		<i>Subordinated debt</i>	0
		<i>Long-term liabilities</i>	1.000
<i>Financial investments</i>	0	Investment credits	1.000
<b>CURRENT ASSETS</b>	16.000		
<i>Inventories</i>	12.500	<i>Short-term liabilities</i>	5.100
Raw material	5.000	Operational credits	1.300
Merchandise	500	Accounts payable	2.100
Finished goods	7.000	Wages payable	1.000
		Tax payable	700
<i>Receivables</i>	800		
Accounts receivable	800		
<i>Securities</i>	0		
<b>Cash</b>	2.700		
Petty cash	200		
Bank account	2.500		
<b>PREPAYMENTS</b>	0	<b>ACCRUALS</b>	0
Total assets	56.000	Total claims a.a.	56.000

**Closing Balance Sheet 20X4. 12.31 (€)**

**Beginner Ltd.**

ASSETS	Value	Claims a.a.	Value
<b>FIXED ASSETS</b>	40.200	<b>EQUITY</b>	49.900
<i>Intangible assets</i>	0	Stock Capital	45.000
		Retained earnings	4.900
<b>PP&amp;E assets</b>	40.200	<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	4.800
		<i>Subordinated debt</i>	0
		<i>Long-term liabilities</i>	900
<i>Financial investments</i>	0	Investment credits	900
<b>CURRENT ASSETS</b>	14.500		
<i>Inventories</i>	13.150	<i>Short-term liabilities</i>	3.900
Raw material	5.200	Operational credits	3.900
Merchandise	950		
Finished goods	7.000		
<i>Receivables</i>	400		
Accounts receivable	200		
Other Receivables	200		
<i>Securities</i>	0		
<i>Cash</i>	950		
Bank account	950		
<b>PREPAYMENTS</b>	0	<b>ACCRUALS</b>	0
Total assets	54.700	Total claims a.a.	54.700

## Topic 4. The model of four account classes

*Learning outcome of the topic:*

*The students will learn about the operational accounts, e.g. cost of goods sold and sales revenue. They will be informed about the system of four account classes. The most important outcome is to be able to understand the meaning of realized income and operational income.*

**Definitions:**

**Adjusting account:** an account related to a specific active or passive ledger account which increases or reduces the balance of the related ledger account

- Complementary account (impact: increase)
- Contra account (impact: decrease).

**Cost:** value of resources used for production (expressed in monetary units).

**Realized income:** selling price of the **goods sold** – cost (value) of the **goods sold**.

**Operational income:** selling price of the **goods sold** – cost (value) of the **goods produced (total operational costs of period)**

**Operational/temporary accounts:** accounts used to record the economic events related to the circle of production (costs) and the circle of income (revenues and expenses). (Do not have a DIRECT relation to the balance sheet).

**Model of four account classes:** A generally used accounting model which includes operational accounts.  $\text{Assets} + \text{Costs} = \text{Claims against assets} + \text{Revenues} - \text{Expenses}$

## Seminar 5.

*The opening values of the ledger accounts of „Practice“ Ltd. are the following on 1st January 2014 (€):*

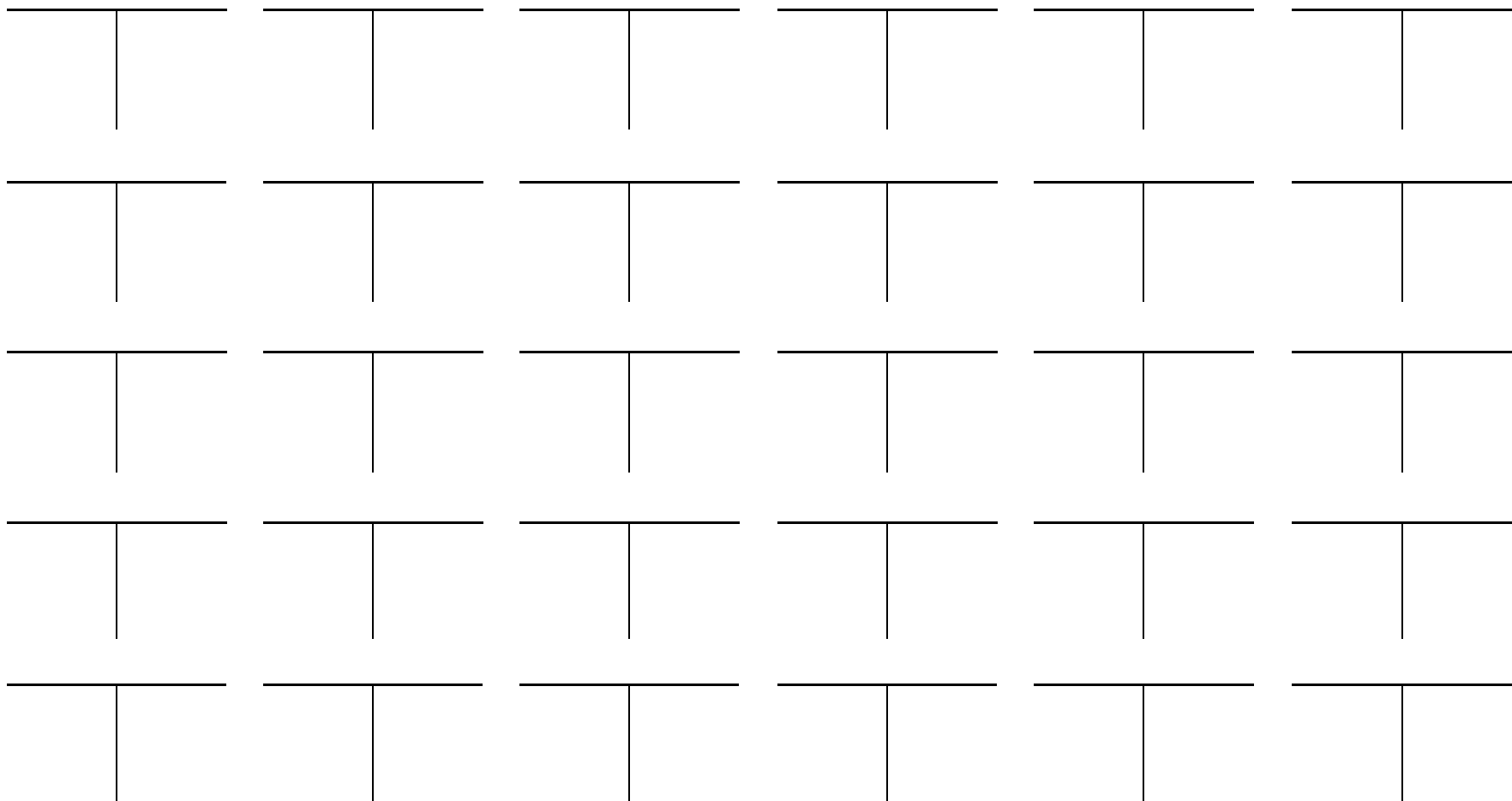
Raw material	18.000
Merchandise	4.000
Goods in process	2.000
Accounts receivable	11.500
Investment credits	30.000
Bank account	13.000
Stock capital	25.000
Wages payable	2.700
Finished goods	9.500
Retained earnings	1.800
Petty cash	.....
Shares held as investment	2.000
Accounts payable	8.000
Tax payable	1.500
Depreciation of PP&E	5.000
PP&E assets	15.000

### Economic events of the year:

1. Opening the accounts.
2. Paying the wages payable from the bank account. The bank has sent the certificate of the transfer.
3. Purchasing raw material for 5.000 €. The invoice of the supplier has arrived.
4. Transferring 4.000 € to the suppliers from the bank account. The bank has sent the certificate of the transfer.
5. Selling merchandise on credit (buyer has not paid yet). Cost of goods sold: 2.000 €. Selling price: 3.000 €.
6. 2.000 € investment credits have been paid back. The bank has sent the certificate of the transfer.
7. 1.000 € has been collected from customers of event 5. The bank has sent the certificate of the transfer.
8. 200 € discount has been given to the customers of event 5. The invoice has been corrected.
9. Buying merchandise for 500 € cash.
10. 7.000 € have been borrowed from the bank for operational purposes. The amount has been transferred to our bank account.
11. 7.000 € have been collected from the customers in cash.
12. Selling merchandise (buyer has paid in cash). Cost of goods sold: 1.500 €. Selling price: 2.800 €.

**Task:** *Prepare the opening Balance Sheet and record the events on T-accounts!  
Record Corporate income tax if it is 1.100 €! Prepare the closing Balance Sheet as well!*

ASSETS	Value	Claims a.a.	Value
<b>FIXED ASSETS</b>		<b>EQUITY</b>	
Intangible assets			
PP&E assets		<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b>CURRENT ASSETS</b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b>PREPAYMENTS</b>		<b>ACCRUALS</b>	
Total assets		Total claims a.a.	





ASSETS	Value	Claims a.a.	Value
<b>FIXED ASSETS</b>		<b>EQUITY</b>	
Intangible assets			
PP&E assets		<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b>CURRENT ASSETS</b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b>PREPAYMENTS</b>		<b>ACCRUALS</b>	
Total assets		Total claims a.a.	

Solution

**Opening Balance Sheet, 2012. 01.01 (€), Practice Ltd.**

<b>Assets</b>	Value	<b>Claims a.a.</b>	Value
<b>FIXED ASSETS</b>	12000	<b>EQUITY</b>	29800
<i>Intangible assets</i>	0	Stock Capital	28000
		Retained earnings	1800
<b>PP&amp;E assets</b>	10000	<b>PROVISIONS</b>	0
		<b>LIABILITIES</b>	42200
		<i>Subordinated debt</i>	0
		<i>Long-term liabilities</i>	30000
<b>Financial investments</b>	2000	Investment credits	30000
Shares	2000		
<b>CURRENT ASSETS</b>	60000		
<i>Inventories</i>	33500	<b>Short-term liabilities</b>	12200
Raw material	18000	Accounts payable	8000
Merchandise	4000	Wages payable	2700
Goods in process	2000	Tax payable	1500
Finished goods	9500		
<b>Receivables</b>	11500		
Accounts receivable	11500		
<b>Securities</b>			
<b>Cash</b>	15000		
Petty cash	2000		
Bank account	13000		
<b>PREPAYMENTS</b>	0	<b>ACCRUALS</b>	0
Total assets	72000	Total claims a.a.	72000

Assets (permanent)				Equity/Liabilities (Permanent)				
Raw material		Merchandise		Investment cr.		Stock capital		
oe 18000		oe 4000	5. 2000	6. 2000	oe 30000		oe 25000	
3. 5000		9. 500	12. 1500					
	ce 23000		ce 1000	ce 28000		ce 25000		
Accounts rec.		Bank account		Retained earnings		Acc. Payable		
oe 11500	7. 1000	oe 13000	2. 2700		oe 1800	4. 4000	oe 8000	
5. 3000	8. 200	7. 1000	4. 4000		15. 1000		3. 5000	
	11. 7000	10. 7000	6. 2000					
	ce 6300		ce 12300	ce 2800		ce 9000		
Petty cash		Shares				Wages payable		
oe 2000	9. 500	oe 2000				2. 2700	oe 2700	
11. 7000								
12. 2800								
	ce 11300		ce 2000					
Goods in proc.		Finished goods		Tax payable		Operational credit		
oe 2000		oe 9500			oe 1500		10. 7000	
	ce 2000		ce 9500	ce 1500		ce 7000		
PP&E assets		Depr. Of PP&E		Income summary		Corporate Income tax		
oe 15000			oe 5000	13. 3500	13. 5600		14. 1100	
	ce 15000	ce 5000		14. 1100				
				15. 1000				
Temporary accounts				Calculation of Income				
Cost of goods sold		Sales Revenue		Revenue				5600
5. 2000	13. 3500	8. 200	5. 3000	Expense				3500
12. 1500		13. 5600	12. 2800	Net income before tax				2100
				Corporate income tax				1100
				Net Profit after tax (PAT)				1000
				oe= opening entry				
				ce=closing entry				

**Closing Balance Sheet, 2012. 12.31 (€), Practice Ltd.**

<b>Assets</b>	Value	<b>Claims a.a.</b>	Value
<b>FIXED ASSETS</b>	12000	<b>EQUITY</b>	30800
<i>Intangible assets</i>	0	Stock Capital	25000
		Retained earnings	2800
		Reserve funds	3000
<b>PP&amp;E assets</b>	10000	<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	46600
		<i>Subordinated debt</i>	0
		<i>Long-term liabilities</i>	28000
<b>Financial investments</b>	2000	Investment credits	28000
Shares	2000		
<b>CURRENT ASSETS</b>	65400		
<i>Inventories</i>	35500	<b>Short-term liabilities</b>	18600
Raw material	23000	Accounts payable	9000
Merchandise	1000	Operational credits	7000
Goods in process	2000	Tax payable	1500
Finished goods	9500	Corporate income tax	1100
<b>Receivables</b>	6300		
Accounts receivable	6300		
<b>Securities</b>			
<b>Cash</b>	23600		
Petty cash	11300		
Bank account	12300		
<b>PREPAYMENTS</b>	0	<b>ACCRUALS</b>	0
Total assets	77400	Total claims a.a.	77400

## Topic 5. Cost accounting

*Learning outcome of the topic:*

*The students will learn about cost classification: costs by nature, direct and indirect costs. The most important outcome is to be able to use the accounts of Costs Classified by Nature. Cost objects and overheads (direct and indirect cost) are also introduced and discussed.*

## **Definitions:**

**Chart of accounts:** a uniform and consequent system of the accounts applied by entities.

**System of accounts:** a manual for the Chart of Accounts applied by a specific entity which contains:

- Numbers, names, content of accounts,
- Related economic events and entries
- Relationship with analytical accounting,
- System of evidences (structure, name, content, handling etc.).

**Material expenses:** the historical value of the material used during the period: basic and other material, fuel, energy, water, tools, work wear, printing matter, stationery, etc.

**Purchased services:** the value of the purchased services during the financial year.

**Wages cost (salaries):** the amount of the total gross wages in the payroll of the period: basic wage, supplements, premium, bonus.

**Other employee related cost:** those payments that do not qualify for wages (benefits and compensations): travel compensation, food allowance, housing support, payments related to sick leave, dismissing, etc.).

**Contributions:** all items payable related to wages according to the law, calculated on the basis of wages or the number of workforce, e.g. Social security contribution.

**Depreciation:** Cost related to the regular use (consumption) of PP&E and intangible assets (the contribution of these assets to the operation of the period): scheduled (planned) writing-off (reduction of net value) of the assets.

**Direct cost:** those types of costs that can immediately be associated with a cost objective after they are incurred.

A **cost object** is an item for which you are separately measuring costs:

- Product
- Service
- Production of an asset for the purpose of own use (not sales)

**Indirect costs** are indirect because these cannot be associated with any product or service that the entity is providing (telephone bills, heating). Those costs that can only be associated with a cost center (overhead) when they are incurred (also called general or standby cost).

**A cost center** can be:

- Factory (plant)
- Corporate (central directory)
- Other theoretical.

## Seminar 6.

### The known opening balances of the ledger accounts of „COSTLY” Ltd., 2016.01.01 (€):

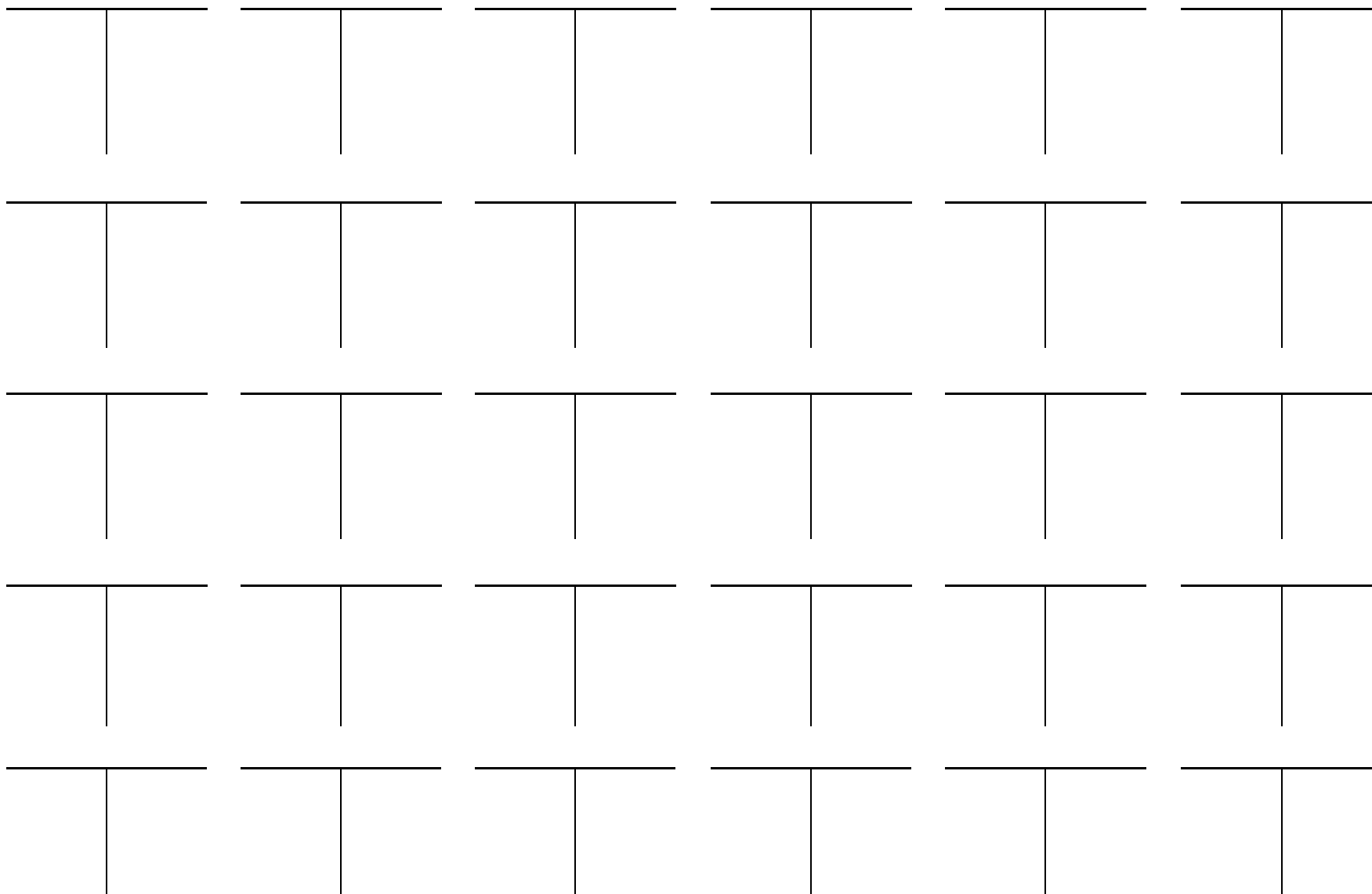
Real estate	15.500	Social security payable	3.000
Depreciation of real estate	3.500	Raw material	7.500
Machinery	20.000	Accounts receivable	7.000
Depreciation of machinery	10.000	Petty cash	250
Retained earnings	6.000	Wages payable	6.000
Accounts payable	11.000	Bank account	12.750

*Task: Open the accounts and record the economic events of the period using the total cost method!*

### Economic events of the period:

1. Purchasing raw material. The invoice has arrived, the price is 10.000 €, payable in 8 days.
2. Transferring wages payable. The bank has sent the certification of the transfer.
3. 4.000 € have been collected from the customers. The bank has sent the certification of the transfer.
4. We have received an invoice of a rent of 700 € (we are renting a storehouse).
5. The local radio has sent its invoice (500 €) of the advertisement we have ordered.
6. We have received the following bills:
  - a) power (energy) 200 €
  - b) telephone 150 €
  - c) heating service 80 €.
7. The bank has charged our bank account with a 30 € fee.
8. Paying for postal services in cash: 15 €.
9. Transferring insurance fees (from bank account): 75 €. The bank has sent the certification of the transfer.
10. The use of our internal resources in the period:
  - a) raw material 10.000 €
  - b) gross wages 5.000 €
  - c) contribution (social sec.) 2.050 €
  - d) depreciation of real estate 200 €
  - e) depreciation of machinery 1.000 €.
11. All finished products of the period have been sold. Selling price: 25.000 €, invoice has been issued.
12. Determine the net income of the period! Close the operational accounts!
13. Calculate and record the distribution of income! Corporate income tax is 10%.





ASSETS

Real estate		Depr. of real estate		Machinery	
oe 15.500			oe 3,500 10d. 200	oe 20,000	
Depr. of machinery		Raw material		Accounts receivable	
	oe 10,000 10e. 1,000	oe 7,500 1. 10,000	10a. 10,000	oe 7,000 11. 25,000	3. 4,000
Petty cash		Bank account			
oe 250	8, 15	oe 12,750 3. 4,000	2. 6,000 7, 30 9. 75		

CLAIMS AGAINST ASSETS

Accounts payable		Retained earnings	
	oe 11,000 1. 10,000 4. 700 5. 500 6a. 200 6b. 150 6c. 80		oe 6,000 13b. 4.500
Corporate income tax		Wages payable	
	13a. 500	2. 6,000	oe 6,000 10b. 5,000
Social sec. payable		Income summary	
	oe 3,000 10c. 2,050	12. 1550 12. 10200 12. 7050 12. 1200 13a. 500 13b. 4,500	12. 25,000

OPERATIONAL (temporary for the period)

Purchased service		Use of material		Depreciation		Salaries exp.		Sales Revenue	
4. 700 5. 500 6b. 150 6c. 80 7, 30 8, 15 9. 75	12. 1.550	6a. 200 10a. 10,000		10d. 200 10e. 1,000		10b. 5,000 10c. 2,050		11. 25,000	
			12. 10,200		12. 1,200	12. 7,050	12. 25,000		

Profit	5000
Inc. Tax	500
PAT	4500

## Topic 6. The accounting cycle – Case Study

*Learning outcome of the topic:*

*The most important outcome is to synthesize the knowledge acquired so far. Single-step income statements are also introduced and discussed as well the method of preparing the trial balance.*

## Seminar 7.

Opening assets and claims against assets of 'ACCOUNTING IS FUN' Ltd, 2014.01.01 (€):

Accounts payable	5.000
Accounts receivable	5.000
Bank account	8.500
Petty cash	500
PP&E assets	46.000
Depreciation of PP&E	16.000
Finished goods	7.000
Merchandise	5.000
Operational credits	13.000
Provided loans (for 2 yrs)	8.000
Raw material	16.000
Retained earnings	7.000
Social security payable	2.000
Stock Capital	50.000
Wages payable	3.000

### TASKS

1. Prepare the opening Balance Sheet!
2. Record the opening entries on T-accounts!
3. Record the economic events of the period using the total cost method!
4. Prepare a trial balance!
5. Prepare the Income Statement for the period! Corporate income tax is 10%.
6. Prepare the closing entries! Record the distribution of income!
7. Prepare the closing Balance Sheet!

1. Buying merchandise for 6.000 €. The invoice has arrived.
2. 2.000 € collected from provided loans. The bank has sent the certification.
3. Social security payable has been transferred. The bank has sent the certification.
4. 3.500 € have been withdrawn from the bank account. The bank has sent the certification.
5. The supplier of event 1. provided 500 € discount. The adjusting invoice has arrived.
6. Wages payable has been settled (in cash).
7. The following invoices on purchased services have arrived:
  - a) rent 2.000 €
  - b) telephone, internet 500 €
  - c) accounting 300 €

- d) maintenance of cars 200 €.
- 8. The following expenses have been paid in cash:
  - a) postal service 80 €
  - b) insurance 120 €.
- 9. 12.000 € of raw material has been used for production.
- 10. Buying fuel for 400 € in cash.
- 11. Total gross wages of the period: 8.000 €; Related payable contributions (social security): 2.500 €.
- 12. 2.000 € personal income tax and 1.200 € social security have been deducted from gross wages.
- 13. Depreciation of PP&E assets: 3.000 €.
- 14. Selling price of finished goods produced and sold in the period: 32.000 €, invoice issued.
- 15. Selling merchandise, cost of goods sold is 1500 €, selling price is 2.000 €. The invoice has been issued.
- 16. Close the temporary accounts!

Task 1.

ASSETS	Value	Claims a.a.	Value
<b><i>FIXED ASSETS</i></b>		<b><i>EQUITY</i></b>	
Intangible assets			
PP&E assets		<b><i>PROVISIONS</i></b>	
		<b><i>LIABILITIES</i></b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b><i>CURRENT ASSETS</i></b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b><i>PREPAYMENTS</i></b>		<b><i>ACCRUALS</i></b>	
Total assets		Total claims a.a.	

Task 2,3,6.

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Task 4. Solution:

		ACCOUNT TITLE	BALANCE	
			DEBIT	CREDIT
		PP&E assets		
		Depreciation of PP&E		
		Provided loans		
		Raw material		
		Merchandise		
		Finished goods		
		Accounts receivable		
		Petty cash		
		Bank account		
		Stock capital		
		Retained earnings		
		Operational credit		
		Accounts payable		
		Wages payable		
		Social security		
		Personal Income Tax		
		Purchased services (exp)		
		Material expenses		
		Salaries expenses		
		Cost of goods sold		
		Depreciation exp.		
		Sales revenue		
		<b>Total</b>		



Task 5 Solution:

Income Statement			
Year ended .....			
	Revenue:		
	Expenses:		
	Net Income		
	Corporate Income Tax		
	Profit after tax		

Task 7 Solution:

ASSETS	Value	Claims a.a.	Value
<b><i>FIXED ASSETS</i></b>		<b><i>EQUITY</i></b>	
Intangible assets			
PP&E assets		<b><i>PROVISIONS</i></b>	
		<b><i>LIABILITIES</i></b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b><i>CURRENT ASSETS</i></b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b><i>PREPAYMENTS</i></b>		<b><i>ACCRUALS</i></b>	
Total assets		Total claims a.a.	

## Topic 7. Income Measurement

*Learning outcome of the topic:*

*The students will learn about accrual accounts: accrued and deferred income and expenses. The most important outcome is to be able to post the adjusting entries and to calculate adjusted realized income.*

**Definitions:**

**Income statement:** is a part of financial statements that includes the factors influencing the net income of an entity for a certain accounting period by expressing classified revenues and expenses in monetary units.

**Revenue:** income generated from the delivery of goods or services to customers as part of the central operations.

**Expenses:** outflows or liabilities incurred by the entity because of the production of goods or services as part of the central operations.

**Gains:** are similar to revenues, but related to the peripheral transactions and events (for example gain on selling PP&E assets).

**Losses:** are similar to expenses, but related to the peripheral transactions and events (for example loss on damaged material).

**Periodicity assumption:** in accounting, business activity needs to be divided into reporting intervals (year, quarters, months).

**The revenue recognition principle** states that revenues should be recognized or recorded, when they are earned regardless of when cash is received.

**The matching principle** states that expenses should be matched with the revenues they were incurred for.

## Seminar 8.

Some of the opening assets and claims of 'ACCRUAL IS FUN' Ltd, 2015.01.01 (€):

Accounts receivable	5.000	Petty cash	1.000
PP&E assets	10.000	Raw material	13.000
Accounts payable	18.000	Depreciation of PP&E assets	4.000
Wages Payable	2.000		

### TASK

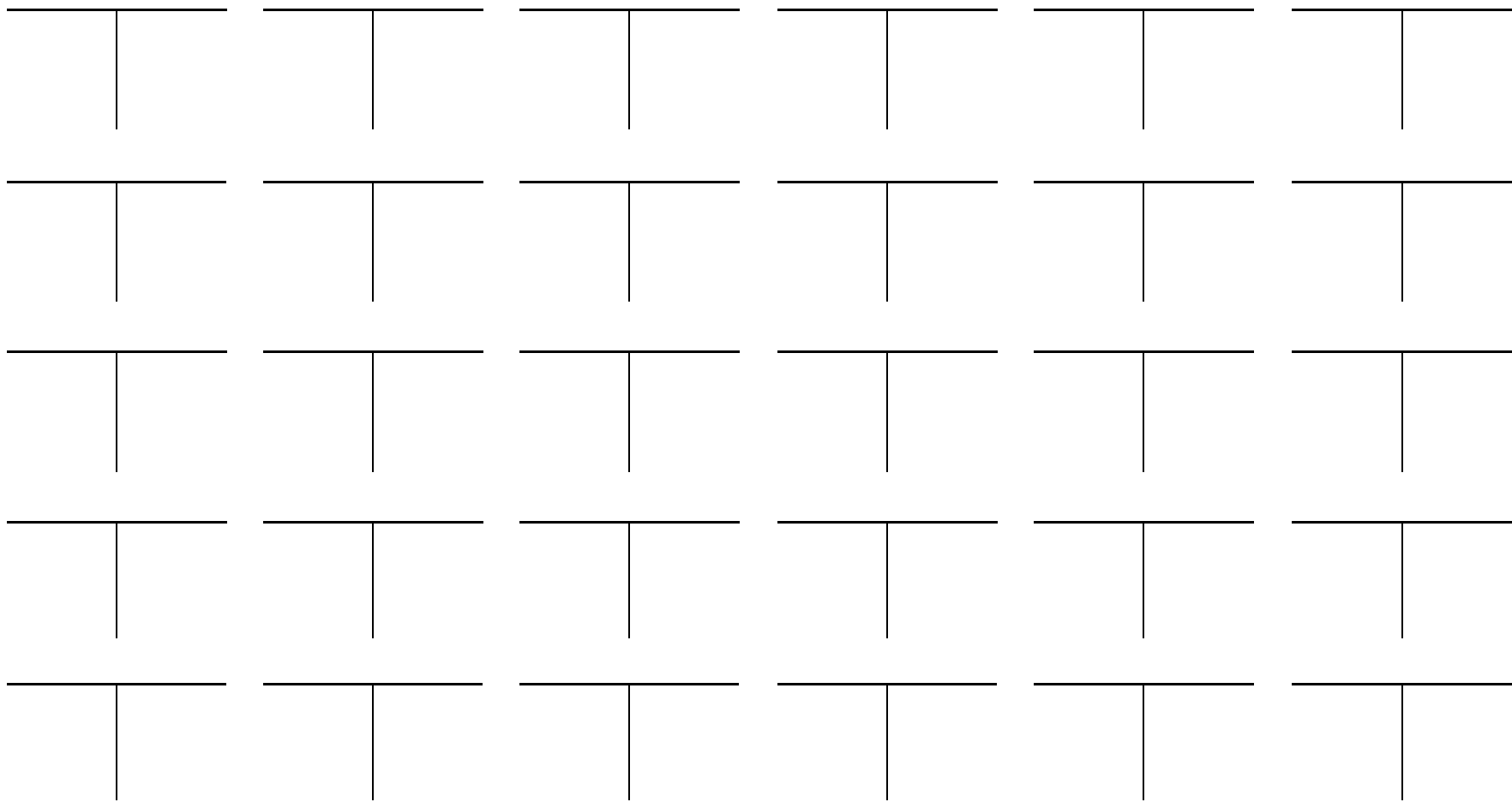
1. Record the economic events of the period using the total cost method!
2. Prepare the Income Statement for 2015!

1. Open the accounts!
2. 3.000 € collected from Accounts receivable. The bank has sent the certification.
3. Buying merchandise for 5.000 €. The invoice has arrived.
4. Wages payable has been transferred. The bank has sent the certification.
5. Buying raw material for 2.000 €. The invoice has arrived.
6. Incurred cost of the period:

Type	Total
Raw material	10.400
Purchased service*	900
Gross wages	9.000
Social security	2.900
Depreciation	700
Total	23.900

\* Transferred from bank account

7. 2.000 € tax and 1.500 € social security have been deducted from gross wages.
8. 600 € insurance fee is paid in cash on November 1, 2015. The fee covers 4 months (November-February).
9. Telephone bill for 2015 December will arrive in January, 2016. The amount is 250 €.
10. Selling price of finished goods produced and sold during the period: 30.850 €. The invoice has been issued.
11. The invoice is issued on provided service of 2015. September – 2016. February. Selling price is 900 €.
12. Close the operational accounts! Determine the net income of the period!
13. Calculate and record the distribution of income! Corporate income tax is 10%.




<b>Accounts receivable</b>		<b>PP&amp;E assets</b>		<b>Accounts payable</b>		<b>Retained earnings</b>	
oe 5,000	2. 3,000	oe 10,000			oe 18,000		13b. 6,300
10. 30,850					3. 5,000		
11. 900					5. 2000		
<b>Raw material</b>		<b>Depreciat. of tang.</b>		<b>Social security</b>		<b>Personal Inc. Tax</b>	
oe 13,000	6a. 10,400		oe 4,000		6d. 2,900		7. 2,000
5. 2,000			6e. 700		7. 1,500		
<b>Petty cash</b>		<b>Deferred expense</b>		<b>Wages payable</b>		<b>Corporate Income tax</b>	
oe 1,000	8. 600	8. 300		4. 2,000	oe 2,000		13a. 700
				7. 3,500	6c. 9,000		
<b>Merchandise</b>		<b>Bank account</b>		<b>Income summary</b>		<b>Accrued expense</b>	
3. 5,000		2. 3,000	4. 2,000	12. 10,400	12. 31,450		9. 250
			6b. 900	12. 1,450			
				12. 11,900			
				12. 700			
				13a. 700			
				13b. 6,300			
						<b>Deferred revenue</b>	
							11. 300

TEMPORARY ACCOUNTS			
Material expenses		Purchased service	
6a. 10,400		6b. 900	8. 300
		8. 600	
		9. 250	
	12. 10,400		12. 1,450
Depreciation exp.		Sales revenue	
6e. 700			10. 30,850
		11. 300	11. 900
	12. 700	12. 31,450	
Salaries exp.			
6c. 9,000			
6d. 2,900			
	12. 11,900		



## Seminar 9.

Some of the opening accounts of Ready Ltd, 2015.01.01 (€) are the following:

PP&E assets	11.000	Raw material	15.000
Investment credits	18.000	Bank account	16.000
Accounts payable	8.000	Depreciation of PP&E assets	5.000
Accounts receivable	9.000	Goods in process	1.200
Finished goods	6.000	Wages Payable	3.000
Retained earnings	3.000	Petty cash	7.000

### TASKS

*Record the economic events of the period using the total cost method!*

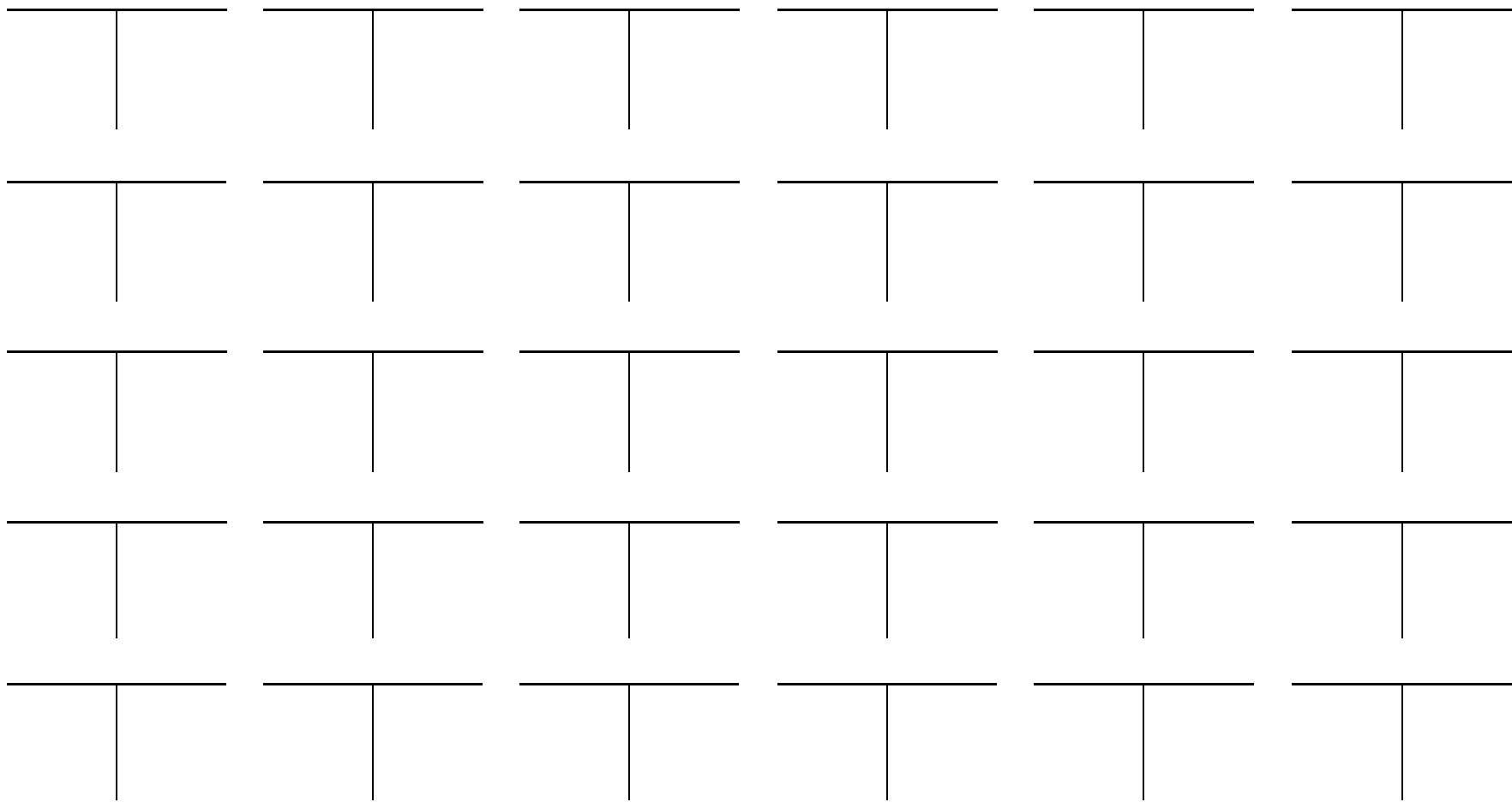
*Prepare the Income Statement for the company!*

1. Open the accounts!
2. Buying merchandise for 10.000 €. The invoice has arrived.
3. 4.000 € investment credits have been transferred to the bank. The bank has sent the certification.
4. Buying raw material for 5.000 €. The invoice has arrived.
5. Incurred cost of the period:

Type	Total
Raw material	8,600
Purchased service*	500
Gross wages	7,000
Social security	4,500
Depreciation	2,400
Total	23,000

\* Invoice has been received

6. The opening Wages payable has been transferred (3000€). The bank has sent the certification.
7. 400 € tax and 500 € social security have been deducted from gross wages.
8. Selling merchandise, cost of goods sold is 5500 €, selling price is 7.000 €. The invoice has been issued.
9. 500 € insurance fee is transferred on October 1, 2015. The fee covers 5 months (October 1 – February 28.). The bank has sent the certification.
10. Invoice on rent that covers the period from 2015 December 1 to 2016 March 31 will arrive in 2016. The amount is 800 €.
11. Selling price of finished goods produced and sold during the period: 40.000 €. The invoice has been issued.
12. The invoice is issued on provided service of 2015. November 1 – 2016. March 31. Selling price is 1,000€.
13. Close the operational accounts! Determine the net income of the period!
14. Calculate and record the distribution of income! Corporate income tax is 10%.





Ready Ltd.			
Income Statement			
Year ended December 31, 2015			
	Revenue:		
	Sales Revenue		47 400
	Expenses:		
	Cost of goods sold	5 500	
	Material expenses	8 600	
	Purchased service	1 000	
	Salaries expense	11 500	
	Depreciation Expense	2 400	
	Total Expenses		29 000
	Net Income		18 400
	Corporate Income Tax		1 840
	Profit after tax		16 560

## Sample tests

In this section you can find some sample tests for the first and second mid-term and the lecture exam. The actual mid-terms and lecture exams will have the same structure but will include different data and questions.

### First mid-term sample

#### PART 1.

The 'EASY' company has the following balances 2014.01.01 (€):

Raw material	11.000
Goods in process	3.000
Investments	3.400
Provisions	2.000
Bank account	.....
Real estate	20.000
Reserve funds	10.000
Securities held for sale	600
Loan provided for long term	12.000
Receivables against employees (short term)	3.000
Investment credits (long-term)	27.000
Stock capital	50.000
Wages payable	1.000
Finished goods	.....
Inventories	22.000
Retained earnings	6.000
Petty cash	500
Accounts payable	2.500
Shares held as investment	15.000
Machinery	2.000
Intellectual property rights	4.000
Accounts receivable	7.000
Tax payable	1.500

*Task: Prepare the Balance Sheet and calculate the missing values (use the table given)!*

*Questions:*

4. What is the amount of resources owned by the entity?
5. What is the amount of the current liabilities and how can these be settled?

ASSETS	Value	CLAIMS a.a.	Value
<b>FIXED ASSETS</b>		<b>EQUITY</b>	
Intangible assets			
PP&E assets		<b>PROVISIONS</b>	
		<b>LIABILITIES</b>	
		Subordinated debt	
		Long-term liabilities	
Financial investments			
<b>CURRENT ASSETS</b>			
Inventories		Short-term liabilities	
Receivables			
Securities			
Cash			
<b>PREPAYMENTS</b>		<b>ACCRUALS</b>	
Total assets		Total claims a.a.	

## **PART 2.**

*Answer the following questions:*

1. Define '*balance sheet*'!

2. Define *owners' equity*!

3. The vertical articulation of the balance sheet is related to the number of value columns.

True / False, because.....

4. Define *fixed asset*!

5. Define *merchandise*!

Solution

Balance Sheet  
Easy Co. 2014.01.01 (€)

ASSETS	Value	Claims a.a.	Value
<b><i>FIXED ASSETS</i></b>	56.400	<b><i>EQUITY</i></b>	66.000
Intangible assets	4.000	reserve funds	10.000
intellectual property rights	4.000	stock capital	50.000
		retained earnings	6.000
PP&E assets	25.400	<b><i>PROVISIONS</i></b>	2.000
investments	3.400	<b><i>LIABILITIES</i></b>	32.000
real estate	20.000	Subordinated debt	0
machinery	2.000	Long-term liabilities	27.000
Financial investments	27.000	investment credits	27.000
loan provided	12.000		
shares held as investment	15.000		
<b><i>CURRENT ASSETS</i></b>	43.600		
Inventories	22.000	Short-term liabilities	5.000
raw material	11.000	wages payable	1.000
goods in process	3.000	accounts payable	2.500
finished goods	8.000	tax payable	1.500
Receivables	10.000		
receivables against employees	3.000		
accounts receivable	7.000		
Securities	600		
securities held for sale	600		
Cash	11.000		
bank account	10.500		
petty cash	500		
<b><i>PREPAYMENTS</i></b>	0	<b><i>ACCRUALS</i></b>	0
Total assets	100.000	Total claims a.a.	100.000

Resources: 100.000 €.



## Second mid-term sample

Some of the Opening accounts of Getting Ready Ltd, 2015.01.01 (€):

Accounts payable	18.000	Depreciation of PP&E assets	4.000
Accounts receivable	5.000	Wages Payable	2.000
Retained earnings	1.000	Petty cash	5.000
PP&E assets	10.000	Raw material	13.000
Operational credits	8.000	Bank account	10.000

### TASKS

*1. Record the economic events of the period using the total cost method!*

1. Make the opening entries on T-accounts!
2. 5.000 € operational credits have been transferred. The bank has sent the certification.
3. Buying merchandise for 8.000 €. The invoice has arrived.
4. Wages payable has been transferred. The bank has sent the certification.
5. Buying raw material for 4.000 €. The invoice has arrived.
6. Incurred cost of the period:

Type	Total
Raw material	7,600
Purchased service*	1,500
Gross wages	8,000
Social security	3,500
Depreciation	1,400
Total	22,000

\* Transferred from bank account

7. 1.000 € tax and 2.500 € social security have been deducted from gross wages.
8. Selling price of finished goods produced and sold during the period: 30.000 €. The invoice has been issued.
9. Selling merchandise, cost of goods sold is 3500 €, selling price is 5.000 €. The invoice has been issued.
10. Close the operational accounts! Determine the net income of the period!
11. Calculate and record the distribution of income! Corporate income tax is 10%.

*Answer the following questions:*

1. Define 'cost'!

2. Describe *the model of four account classes*!

3. 'Gains' and 'revenues' mean the same.

True / False, because.....

4. Define cancellation!

5. Define amortization (depreciation)!

### Task 1. (14 points)

Amount paid for insurance	1.200
Selling price of sold merchandise	55.000
Social Security related to wages	6.000
Material expenses	28.600
Depreciation	6.000
Gross Wages	10.000
Cost of goods sold	30.000
Selling price of services	32.000
Amount paid as rent	800
Amount paid for cleaning	600
Corporate Income tax	10%

[illegible]

<b>Example 1.</b>		<b>Example 2.</b>
600 Insurance fee is paid in cash (invoice received) on Sept.1., 2014. The fee covers 6 months.		1000 sales revenue is earned during December 1. 2014 - March 31. 2015. Invoice will be issued in March, 2015.
<b>2014</b>		<b>2014</b>
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<b>2015</b>		<b>2015</b>
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<b>Example 3.</b>		<b>Example 4.</b>
900 € telephone bill is received in January, 2015. The bill covers 3 months (2014 November 1 - 2015 January 31).		An invoice on 600 sales revenue is issued on Nov.1, 2014. Revenue is earned during November 2014 - January 2015.
<b>2014</b>		<b>2014</b>
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<b>2015</b>		<b>2015</b>
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**Task 2: Name the T-accounts and complete them with the relevant entries/balances! (16 points)**

<b>Task 3.      Questions related to the lectures    (30 points)</b>
--

1. What is the purpose of accounting?
  
  
  
  
  
  
  
  
  
  
2. Who are the stakeholders? How would you classify stakeholders?
  
  
  
  
  
  
  
  
  
  
3. True or false?
  1. The accrual method of accounting requires that revenue be recognized and assigned to the accounting period in which it is earned. True / False
  2. Cash-based accounting recognizes revenue when cash is paid out, and recognizes expenses when cash is received. True / False
  3. Current assets are long term assets used for the day-to day operations. True / False
  4. Equity = assets + liabilities. True / False
  5. Book value = Historical value +/- Adjustments. True / False
  
  
  
  
  
  
  
  
  
  
4. Define Balance Sheet!
  
  
  
  
  
  
  
  
  
  
5. Define Cost object! List some examples!

6. What does the definition refer to?
- a. .... is the balance at the beginning of the period (generally 1st January).
  - b. The ..... states that expenses should be matched with the revenues they helped generate. In other words, expenses should be recorded when they are incurred regardless of when they are paid for.
  - c. ....are like revenues, but arising from the peripheral transactions and events.
  - d. ....are economic resources controlled by the entity as a result of past events from which economic benefits are expected.
  - e. .... is also called net assets because it is the residual interest in the assets of the entity after deducting all its liabilities.