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THEORY OF ACCOUNTING

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The guide presents lectures to key issues with compulsory regard to the Regulations (standards) of accounting as well as with reference to other current regulations.

Tutorial is written in accordance with the program of the course "Accounting". In the study guide the theoretical position of the object, method, technique and organization of accounting in the enterprises are highlighted. In addition to basic issues the features of financial accounting in enterprises are considered. Certain themes are devoted to accounting of cash transactions, inventory, fixed assets, labor and wages, owners' equity, expenses, revenues, results of operations. Tutorial contains English-Ukrainian dictionary of terms and tests for each theme under consideration.

The purpose of the study guide is to form for the student's system of thorough, theoretical knowledge and practical skills about an accounting in general and use of accounting information in the managerial activity.

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INTRODUCTION

Accounting is a set of concepts and techniques that are used to measure and report financial information about an economic unit. The economic unit is generally considered to be a separate enterprise. The information is reported to the variety of interested parties. These include business managers, owners, creditors, governmental units, financial analysts, and even employees. In one way or another, these users of accounting information tend to be concerned about their own interests in the entity.

Business managers need accounting information to make sound leadership decisions. Investors hope for profits that may eventually lead to distributions from the business. Creditors are always concerned about the entity's ability to repay its obligations. Governmental units need information to tax and regulate. Analysts use accounting data to form opinions on which they base investment recommendations. Employees want to work for successful companies to further individual careers, and they often have bonuses or options tied to enterprise performance. Accounting information about specific entities helps to satisfy the needs of all these interested parties.

In today's increasingly competitive and uncertain business environment, organizations fighting for customers face a number of factors and issues which they may not be able to control and which affect performance. Professional accountants have a vital role to play in commercial success, by using their increasingly valuable knowledge in a way which gives their organizations or clients a competitive advantage.

Accountants operate at many levels and in several different roles within all types of organizations. Although some accountants operate in an advisory role to management, others go on to managerial positions, within firms of accountants which they themselves may own, on the board of public limited companies, or in the public or voluntary sector. An accounting background has proved invaluable to many people who have progressed to be directors and chief executives of large multi-national companies or their own companies, as it provides them with crucial knowledge and insight into business.

The textbook is developed for self-study course of students of speciality 6.030503 «International economy». Development of the world economy and globalization processes requires from specialists the proper economic preparation on questions of accounting organization to make economic decisions. The discipline "Accounting" is included in a cycle of normative disciplines of professional preparation of bachelors on speciality 6.030503 the "International economy".

The purpose of the discipline is to form for the student's system of thorough, theoretical knowledge and practical skills about an accounting in general and use of accounting information in the managerial activity.

Having studied this material the students will know:

−methods and techniques of accounting, its organization and information base;

−composition of economic resources and business processes that are reflected in the accounting system;

−composition of the Balance sheet;

−application of the main method – double entry while displaying business transactions.

Students will be able to:

− use system of knowledge about accounting principles for the development and justification of accounting policies;

− organize and implement accounting in organizations of all ownership patterns;

− use advanced forms and methods of accounting and economic work, provide accounting implementation process;

− monitor compliance with legality of using such resourced as cash, material, financial instruments;

− draw up financial statements, ensuring compliance with the prescribed form and reliability of information;

− develop instructional guides and other regulations of accounting, control and analysis to regulate financial and economic activities of the organization;

− make independent decisions on matters related with accounting and economic activity, spread their opinion in any form, work with reports and presentations.

THEME 1. ESSENCE OF ACCOUNTING. THE SUBJECT, OBJECT, METHOD OF ACCOUNTING AND ITS ELEMENTS

1.1. Influence of accounting at the activity of economic entities.
1.2. Types of economic accounting.
1.3. Subject of accounting and its basic elements.
1.4. The fundamental accounting equation. Types of business transactions and their impact on the assets and liabilities of an enterprise.
1.5. Method of accounting and its elements.

Dictionary

Account	Рахунок
Accounting	Бухгалтерський облік
Accounting concept	Концепція бухгалтерського обліку
Accounting entry	Бухгалтерська проводка
Accounting method	Метод обліку
Accounting record	Бухгалтерський, обліковий запис
Accounts receivable	Дебіторська заборгованість
Accounting reports	Бухгалтерська звітність
Active	Актив
Additional capital	Додатковий капітал
Assets	Активи
Attracted sources	Залучені джерела
Balance sheet	Баланс
Bookkeeping	Бухгалтерський облік, рахівництво
Borrowings under the commitment	Позики під зобов'язання
Business transaction	Ділова операція, угода
Calculation	Калькуляція, розрахунок
Capital assets	Основні активи
Cash	Гроші, готівка
Charter capital	Статутний капітал
Compilation	Підготовка інформації
Current assets	Оборотні активи
Debenture holders	Власники облігацій
Deferred income	Доходи майбутніх періодів
Documentation	Документація
Double entry	Подвійний запис
External users	Зовнішні користувачі
Financial statements	Фінансова звітність
Fixed assets	Основні засоби
Fundamental accounting equation	Основне бухгалтерське рівняння
Identifying	Ідентифікувати, визначати
Internal users	Внутрішні користувачі

Intangible assets	Нематеріальні активи
Inventories	Запаси
Liabilities	Зобов'язання
Liquidity	Ліквідність
Manufacturing	Виробництво
Monetary valuation	Грошова оцінка
Operational cycle	Операційний цикл
Owners' equity	Статутний фонд, власний капітал
Passive	Пасив
Payables	Кредиторська заборгованість
Posting	Бухгалтерська проводка
Property	Власність, майно
Reserve capital	Резервний капітал
Retained earnings	Нерозподілений прибуток
Sources of assets	Джерела активів
Share capital	Пайовий капітал
Stocktaking	Інвентаризація
System of accounts	Система рахунків
Tangible assets	Матеріальні активи

1.1. Influence of accounting at the activity of economic entities

In all activities (whether business activities or non-business activities) and in all organizations (whether business organizations like a manufacturing entity or trading entity or non-business organizations like schools, colleges, hospitals, libraries, clubs, temples, political parties) which require money and other economic resources, accounting is required to account for these resources.

«The significance of the facts is more important than the facts themselves, and if we know the significance, we may even forget the facts». This thought expressed by Oliver Wendell Holmes (an American jurist and economist who served as an Associate Justice of the Supreme Court of the United States) seems pertinent when appraising the relation of accounting to management.

An understanding of the principles of bookkeeping and accounting is essential for anyone who is interested in a successful career in business. The purpose of bookkeeping and accounting is to provide information concerning the financial affairs of a business. This information is essential for owners, managers, creditors, governmental agencies, financial analysts, and even employees. But there are significant differences between book-keeping and accounting and it is very important to know it.

A person who earns a living by recording the financial activities of a business is known as a bookkeeper, while the process of classifying and summarizing business transactions and interpreting their effects is accomplished by the accountant. The bookkeeper is concerned with techniques involving the recording transactions, and the accountant's objective is the use of data for interpretation. American Institute of Certified Public Accountants (AICPA) defines accounting as "the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events, which are, in part at least, of a financial character and interpreting the results thereof".

The difference between book- keeping and accounting can be summarized in the table 1.1.

Table 1.1

Distinction between book-keeping and accounting

Basis of difference	Book-keeping	Accounting
Transactions	Recording of transactions in books of original entry	To examine these recorded transactions in order to find out their accuracy
Posting	To make posting in ledger	To examine this posting in order to ascertain its accuracy
Total and Balance	To make total of the amount in journal and accounts of ledger. To ascertain balance in all the accounts	To prepare trial balance with the help of balances of ledger accounts
Income Statement and Balance Sheet	Preparation of Financial Results Report and Balance Sheet is not book-keeping	Preparation of Financial Results Report and Balance Sheet is included in it
Rectification of errors	These are not included in book-keeping	These are included in accounting
Special skill and knowledge	It does not require any special skill and knowledge as in advanced countries this work is done by machines	It requires special skill and knowledge
Liability	A book- keeper is not liable for accountancy work	An accountant is liable for the work of book-keeper

1.2. Types of economic accounting

Economic accounting – is a quantitative reflection and qualitative characteristics of economic activity in order to identify abnormalities in the plans of industrial and business enterprises and their elimination.

Continuous development of market relations and complication of economic life caused the separation of economic accounting by types:

– operational records;
– statistical records;
– accounting.

Operational records – is a way of monitoring, display and control of certain business and technical operations directly in the process of their implementation or operational management. For example, by using of operational accounting displayed such processes as the output, the registration of contracts signed for the month and so on.

Statistical records conducted the purpose of studying and monitoring of mass phenomena, as well as regularities of their development. The subject of this accounting is not only the processes taking place in the workplace, but also other phenomena of social life, such as labor productivity, the average age of employees and so on.

Business management requires continuous, uninterrupted, reliable and legally confirmed records of business transactions, covering all activities of the company. This is *accounting*. According to the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” № 996-XIV of July 16, 1999: "Accounting - process of identifying, measuring, recording, accumulation, compilation, storage and transmission of information about the company activity for internal and external users to make decisions".

The changing business scenario over the centuries gave rise to specialized branches of accounting which could cater to the changing requirements. The branches of accounting are financial accounting and managerial accounting.

The accounting system concerned with the financial state of affairs and financial results of operations is known as *financial accounting*. It is mainly concerned with the preparation of financial statements for the use of outsiders like creditors, debenture holders, investors and financial institutions. The financial statements i.e., the profit and loss account and the balance sheet, show them the manner in which operations of the business have been conducted during a specified period.

In sharp contrast to financial accounting, *managerial accounting* information is intended to serve the specific needs of management. Business managers are charged with business planning, controlling, and decision making. As such, they may desire specialized reports, budgets, product costing data, and other details that are generally not reported on an external basis. Further, management may dictate the parameters under which such information is to be accumulated and presented.

From the above it can be concluded that financial accounting is concerned with external reporting of information to parties outside the firm. In contrast, managerial accounting is primarily concerned with providing information for internal management.

Types of economic accounting are presented in Figure 1.1.

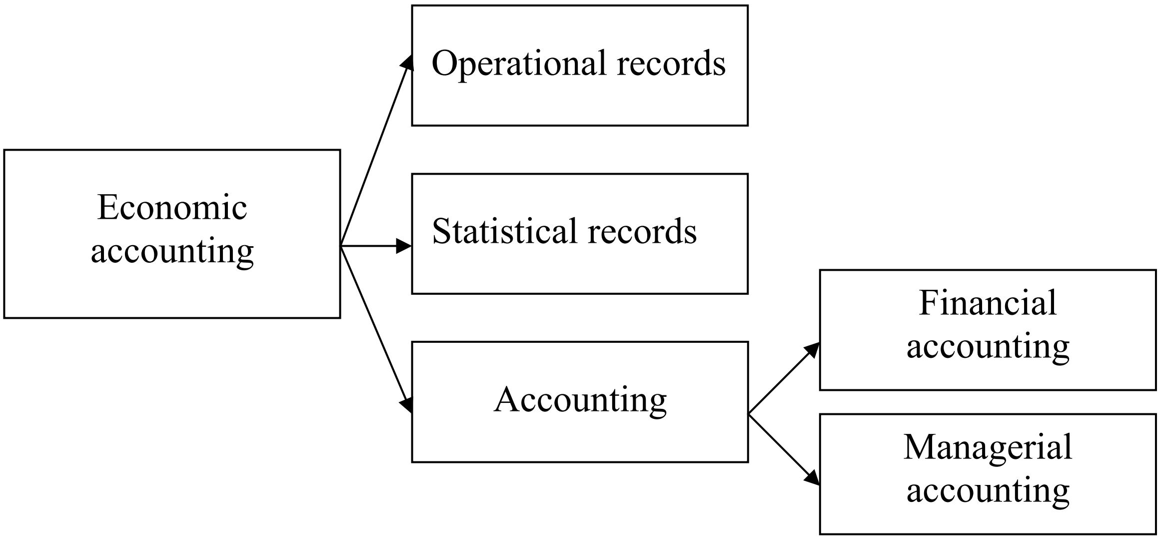

Fig. 1.1. Types of economic accounting

1.3. Subject of accounting and its basic elements

In broad sense subject of accounting is all that is connected with obtaining the necessary information about the entity, its business and resources. In a narrow sense, the subject of accounting is a set of procedures for identifying, measuring, recording, accumulation, compilation, storage and transmission of information about economic activities for the users to make decisions.

But in national economic literature interpretation the subject of accounting is different. Such a variety is caused by the situation that the business activities of the company, its resources, facts, actions and events within it, studied by representatives of various sciences, including economists, lawyers, managers, statisticians, financiers, but each for their part.

Business entity generally has the facilities, property, carries out business directed to obtaining financial results and in accordance with current legislation has to maintain accounting records and prepare statements. Object of accounting represents a specific tool (property), the source of its formation and movement of this property in the process of reproduction.

Objects that are recorded by the economic content and purpose can be grouped into three categories:

- assets (property);
- sources of assets;
- business processes.

Every owned physical thing or right that has a money value is an asset. In other words, assets are the economic resources of the entity, and include such items as cash, accounts receivable (amounts owed to a firm by its customers), inventories, land, buildings, equipment, and even intangible assets like patents and other legal rights and claims. Assets are presumed to entail probable future economic benefits to the owner.

Assets divided into many classifications, among which are the following.

1. By type of operation:

1.1. tangible assets (means of enterprises which have material form: fixed assets, uncompleted construction, inventories etc.);

1.2. intangible assets (objects of long-term investments with the valuation, but not real property: right to use natural resources, property, rights for trademarks and service, copyright, goodwill etc.);

1.3. financial assets (group of business assets of the company in the form of cash or other financial instruments: cash in national and foreign currencies, financial investments, receivables of various individuals and businesses for delivered products, goods or services).

2. By the nature of participation in turnover:

2.1. capital assets (a collection of property values that are repeatedly involved in the business of enterprise, for example capital investment, intangible assets, long-term financial investments, long-term receivables and others);

2.2. current assets (a collection of property values that serve the ongoing business activities of the enterprise and completely consumed during the operating cycle: inventories, goods, receivables, cash etc.).

3. By the degree of liquidity:

3.1. completely liquid (cash and cash equivalents, including cash in national and foreign currencies in banks account and on hand, stocks, etc.);

3.2. liquid (current investments and receivables, inventory, goods);

3.3. less liquid (fixed assets, uncompleted construction, intangible assets, long-term financial investments, long-term receivables, prepaid expenses).

Liquidity of assets – is the extent of possibility to convert them into monetary form in order to ensure prompt payment of company's current financial liabilities. The concept of liquidity is widely used in assessing of the enterprise's financial condition and financial analysis.

Classification of assets is presented in figure 1.2.

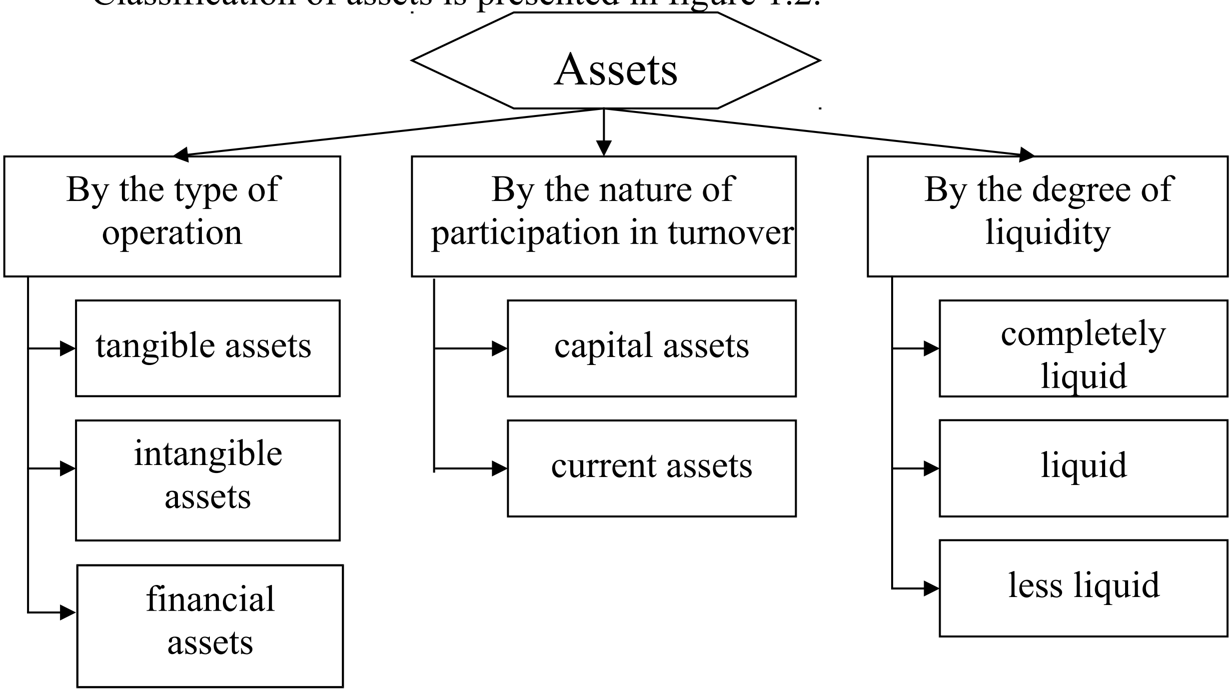

Fig. 1.2. Classification of enterprise's assets

There are own and attracted sources of assets formation. Own sources of economic resources formation include funds of charter and share capital (funds deposited by the founders at the time of the company registration), additional and reserve capital, income (received by the results of activity).

The structure of owners' equity includes:

- share capital;
- additional capital;
- reserve capital;
- retained earnings;
- ensuring of future payments and targeted financing;
- deferred income.

Attracted sources of economic resources are those that are in temporary using by enterprises, and then returned to their owners on agreed between them and enterprise conditions. These sources include: bank credits, borrowings under the commitment, payables. Borrowings may be long-term and current (short-term) and have the form of commitments.

During the business activities, economic tools are in constant movement, carry out constant circulation, changing the forms and values and passing operation cycle.

Operational cycle is a period of time between the inventory acquisition to carry out activities and receipt the funds generated from the sale of the products, goods and services. The basic stages of the economic circulation are the following processes: supply (purchasing), manufacturing (expenditure / storage), realization (sale). Commercial process as part of the economic cycle consists of the primary elements – business transactions. Business transaction – is an event that causes changes in the assets, liabilities and equity of the enterprise.

Thus, business transactions together constitute business processes, which generally form a circulation of the capital. Interconnection of business processes is shown in Fig. 1.3.

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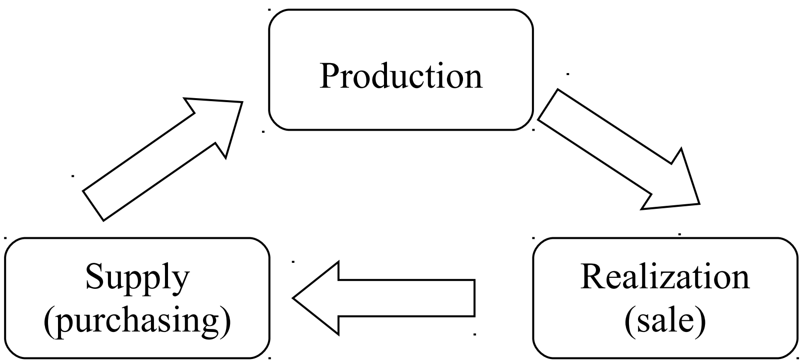

ig. 1.3. Interconnection of business processes

Process of supplying (purchasing) – stage of circulation in which money are converted into means of production and labor resources. As a result, the company is ensured by material and labor resources. Herewith the objects of the account are the cost of funds and resources acquiring, the volume of procurement, settlements with suppliers.

The production process – stage of the cycle, at which benefits are created by combining the means of production with labor force (production of goods, works, and services). Here objects of accounting are: means of labor in the amount of worn parts, raw materials, fuel, energy, labor and its payment, cost of production, the presence and movement of finished goods.

Realization – the stage of the cycle on which the products are sold, and the last takes the form of money, enabling the continuation of the next operating cycle of capital. As objects of accounting appear costs associated with shipment and sales, volume of shipment and sales, the calculation of income and profit from sales, payments with customers and settlement for liabilities of tax and other authorities. Thus, the processes of supplying, production and sales are important objects of accounting.

1.4. The fundamental accounting equation. Types of business transactions and their impact on the assets and liabilities of the enterprise

The basic features of the accounting model we use today trace their roots back over 500 years. Luca Pacioli, a Renaissance era monk, developed a method for tracking the success or failure of trading ventures. The foundation of that system continues to serve the modern business world well, and is the entrenched cornerstone of even the most elaborate computerized systems. The nucleus of that system is the notion that a business entity can be described as a collection of assets and the corresponding claims against those assets. The claims can be divided into the claims of creditors and owners (i.e., liabilities and owners' equity). It gives rise to the fundamental accounting equation:

Assets = Liabilities + Owners' equity

The notion of assets, liabilities and equity, we have learned earlier. The properties owned by a business are called assets and the rights to properties are known as liabilities or equities of the business. Equities can be subdivided into equity of the owners which is known as capital and equity of creditors that represent the debts of the business know as liabilities.

Above equation is fundamental in the sense that it gives a foundation to the double entry book- keeping system. This equation holds good for all transaction and events and at all periods of time since every transaction and events has two aspects. That's why the fundamental accounting equation is the backbone of the accounting and reporting system. It is central to understanding a key financial statement known as the Balance sheet.

The form of Balance sheet – table on the left side of which represent the structure and distribution of economic resources (called asset), and the right side is called passive, reflecting the sources of economic resources formation (Appendix 1).

In the Balance sheet means of all business enterprises and the source of their formation are combined in economically homogeneous groups, which are called balance sheet items. Items of balance sheet have a common name, separate code, they recorded by individual amounts. Balance sheet items are divided into active (those that represent the asset) and passive (those that represent liabilities and owners equity).

Active items are always characterized by economic assets: fixed assets, inventories, accounts, debtors and others. Passive items always characterize sources of equity and borrowed capital: charter capital, profit, bank loans, payments to suppliers and others. Overall results of the asset and liability balance is always equal to each other, this is obligatory condition for the correctness of its compilation. Lack of equality of asset and liability totals in Balance sheet indicates the presence of errors in its compiling.

Form of the current in Ukraine Balance sheet and order of its filling is regulated by National principles (standards) of accounting 1 "General Requirements for Financial Reporting".

An example of enterprises' fragment of Balance is presented in Fig. 1.4.

EDELWAISS COMPANY
Balance Sheet
December 31, 2012

				UAH
Assets		**Liabilities**		
Cash	25 000	Accounts payable	50 000	
Accounts receivable	50 000	Loans payable	125 000	
Inventories	35 000	Total liabilities		175 000
Land	125 000	Stockholders' equity	120 000	
Building	400 000	Capital stock	600 000	
Equipment	250 000	Retained earnings		
Other assets	10 000	**Total stockholders' equity**		720 000
Total assets	895 000	**Total liabilities and equity**		895 000

ASSETS 895 000 UAH = LIABILITIES 175 000 UAH + STOCKHOLDERS' EQUITY 720 000 UAH

Fig. 1.4. Fragment of the enterprise's Balance sheet

Each passing transaction or event brings about a change in the overall financial condition of enterprise. Business activity will impact various asset, liability, and/or equity accounts, but they will not disturb the equality of the accounting equation. To understand how this happens let's look at four specific transactions for Edelweiss Corporation. We will see how each transaction impacts the individual asset, liability, and equity accounts, without upsetting the basic equality of the overall Balance sheet.

The first type of business transactions - changes occur only in the asset of Balance.

If Edelweiss Company collected 10000 UAH from the customer on an existing account receivable (i.e., not a new sale, just the collection of an amount that is due from some previous transaction), then the Balance sheet would be revised as follows (fig. 1.5).

EDELWAISS COMPANY Balance Sheet December 31, 2012 (before indicated transaction), UAH				EDELWAISS COMPANY Balance Sheet December 31, 2012 (after indicated transaction), UAH		
Assets				**Assets**		
Cash		25 000	+10 000	Cash		35 000
Accounts receivable		50 000	- 10 000	Accounts receivable		40 000
Inventories		35 000		Inventories		35 000
Land		125 000		Land		125 000
Building		400 000		Building		400 000
Equipment		250 000		Equipment		250 000
Other assets		10 000		Other assets		10 000
Total assets		895 000	+0	Total assets		**895 000**
Liabilities				**Liabilities**		
Accounts payable	50 000			Accounts payable	50 000	
Loans payable	125 000			Loans payable	125 000	
Total liabilities		175 000	+0	Total liabilities		175 000
Stockholders' equity				**Stockholders' equity**		
Capital stock	120 000			Capital stock	145 000	
Retained earnings	600 000			Retained earnings	575 000	
Total stockholders' equity		720 000	+0	Total stockholders' equity		720 000
Total liabilities and equity		**895 000**	+0	Total liabilities and equity		**895 000**

Fig. 1.5. Changes in Balance sheet as a result of the first type of economic operations

The illustration plainly shows that cash (an asset) increased from 25000 UAH to 35000 UAH and accounts receivable (an asset) decreased from 50000 UAH to 40000 UAH. As a result total assets did not change, and liabilities and equity accounts were unaffected. Thus, assets still equal liabilities plus owners' equity.

The second type of business transactions - changes occur only in the liabilities of Balance.

By decision of the founders profit share in the amount of 25000 UAH was allocated to increase the capital stock. Then the Balance sheet would be further revised as follows (fig.1.6).

EDELWAISS COMPANY Balance Sheet December 31, 2012 (before indicated transaction), UAH				EDELWAISS COMPANY Balance Sheet December 31, 2012 (after indicated transaction), UAH		
Assets				**Assets**		
Cash		35 000		Cash		35 000
Accounts receivable		40 000		Accounts receivable		40 000
Inventories		35 000		Inventories		35 000
Land		125 000		Land		125 000
Building		400 000		Building		400 000
Equipment		250 000		Equipment		250 000
Other assets		10 000		Other assets		10 000
Total assets		**895 000**	+0	Total assets		**895 000**
Liabilities				**Liabilities**		
Accounts payable	50 000			Accounts payable	50 000	
Loans payable	125 000			Loans payable	125 000	
Total liabilities		175 000	+0	Total liabilities		175 000
Stockholders' equity				**Stockholders' equity**		
Capital stock	120 000		+ 25 000	Capital stock	145 000	
Retained earnings	600 000		- 25 000	Retained earnings	575 000	
Total stockholders' equity		720 000	+0	Total stockholders' equity		720 000
Total liabilities and equity		**895 000**	+0	Total liabilities and equity		**895 000**

Fig. 1.6. Changes in Balance sheet as a result of the second type of economic operations

This illustration shows that capital stock (an equity) increased from 120000 UAH to 145000 UAH, and retained earnings (an equity) decreased from 600000 UAH to 575000 UAH.

As a result changes occur only in the liabilities of Balance, but total liabilities and equity accounts did not change, and assets were unaffected. Thus, assets still equal liabilities plus stockholders' equity.

The third type of business transactions - changes in assets and liabilities occur on the Balance of the same amount towards increase.

If Edelweiss Corporation purchased 30000 UAH of equipment, agreeing to pay for it later (i.e. taking out a loan), then the Balance sheet would be further revised as follows (fig.1.7).

EDELWAISS COMPANY Balance Sheet December 31, 2012 (before indicated transaction), UAH				EDELWAISS COMPANY Balance Sheet December 31, 2012 (after indicated transaction), UAH		
Assets				**Assets**		
Cash		35 000		Cash		35 000
Accounts receivable		40 000		Accounts receivable		40 000
Inventories		35 000		Inventories		35 000
Land		125 000		Land		125 000
Building		400 000		Building		400 000
Equipment		250 000	+30 000	Equipment		280 000
Other assets		10 000		Other assets		10 000
Total assets		**895 000**	+30 000	Total assets		**925 000**
Liabilities				**Liabilities**		
Accounts payable	50 000			Accounts payable	50 000	
Loans payable	125 000		+30 000	Loans payable	155 000	
Total liabilities		175 000	+30 000	Total liabilities		205 000
Stockholders' equity				**Stockholders' equity**		
Capital stock	145 000			Capital stock	145 000	
Retained earnings	575 000			Retained earnings	575 000	
Total stockholders' equity		720 000	+0	Total stockholders' equity		720 000
Total liabilities and equity		**895 000**	+30 000	Total liabilities and equity		**925 000**

Fig. 1.7. Changes in Balance sheet as a result of the third type of economic operations

This illustration shows that equipment (an asset) increased from 250000 UAH to 280000 UAH, and loans payable (a liability) increased from 125000 UAH to 155000 UAH. As a result, both total assets and total liabilities increased by 30000 UAH, but assets still equal liabilities plus equity.

The fourth type of business transactions - changes in assets and liabilities occur on the Balance of the same amount towards decrease.

The company transferred from the bank account the amount repayment of previously received loan – 15000 UAH, then the Balance sheet would be revised as follows (fig. 1.8).

EDELWAISS COMPANY Balance Sheet December 31, 2012 (before indicated transaction),UAH				EDELWAISS COMPANY Balance Sheet December 31, 2012 (after indicated transaction),UAH		
Assets				**Assets**		
Cash		35 000	- 15 000	Cash		20 000
Accounts receivable		40 000		Accounts receivable		40 000
Inventories		35 000		Inventories		35 000
Land		125 000		Land		125 000
Building		400 000		Building		400 000
Equipment		280 000		Equipment		280 000
Other assets		10 000		Other assets		10 000
Total assets		**925 000**	-15 000	Total assets		**910 000**
Liabilities				**Liabilities**		
Accounts payable	50 000			Accounts payable	50 000	
Loans payable	155 000		- 15 000	Loans payable	140 000	
Total liabilities		205 000	-15 000	Total liabilities		190 000
Stockholders' equity				**Stockholders' equity**		
Capital stock	120 000			Capital stock	120 000	
Retained earnings	600 000			Retained earnings	600 000	
Total stockholders' equity		720 000	+0	Total stockholders' equity		720 000
Total liabilities and equity		**925 000**	-15 000	Total liabilities and equity		**910 000**

Fig. 1.7. Changes in Balance sheet as a result of the fourth type of economic operations

It can be seen in the illustration that cash (an asset) decreased from 35000 UAH to 20000 UAH, and loans payable (a liability) decreased from 155000 UAH to 140000 UAH. As a result, both total assets and total liabilities decreased by 15000 UAH, but assets still equal liabilities plus equity.

Thereby there are countless types of transactions that can occur, and every transaction can be described in terms of its impact on assets, liabilities, and equity. It is important to know that no transaction will upset the fundamental accounting equation.

1.5. Method of accounting and its elements

Accounting as every science has its own method. For disclosure of the nature of accounting it is widely used general scientific methods: dialectical, historical and systematic approaches, the method of induction and deduction.

Dialectical method allows to study accounting in the set of processes that are modified and interdependent; historical approach considers the record as a product of historical formation and development of human needs and society; systematic approach identifies the record as internally structured and organized object. In the process of business reflection economic entity used methods of induction (from private to general, from specific facts to generalization) and deduction (from the general to the particular, from the general to the specific judgments or other reports). In practice of accounting increasingly used induction because business transactions initially reveal the content of microproces and only they are grouped and summarized in the report.

Along with scientific methods and theoretical basis, accounting has its own specific methods (techniques) that are caused by the essence of the subject, technology, accounting, objectives and requirements.

Method of accounting – a set of special techniques that provide a receipt, processing and issuance of accounting information for the purpose of its using in the management process. Separate technique of account called element of the method, these includes:

- documentation;
- stocktaking;
- monetary valuation;
- calculation;
- system of accounts;
- double entry;
- Balance sheet;
- accounting reports.

Documentation – method of observation and reflection of economic transactions in the primary accounting documents (invoices, bills, checks, orders, etc.). This is the beginning and basis of accounting process, without which accounting is impossible. Each business transaction is recorded by a document completed in compliance with certain requirements, giving it legal force.

Stocktaking – method of confirmation of accounting data reliability. It is conducted by describing, counting, measuring, weighing and evaluating of all assets and funds balances in nature, revealing the actual presence of property residues and comparing them with the accounting data.

Using the method of evaluation, natural and labor measures (characteristics) of economic resources are transferred into the value form. Estimation of objects in accounting is based mainly on the observed costs for their creation or acquisition (historical cost). Calculation – a method of calculating the cost of production or the work performed and services rendered. Using this method costs that belong to an object of calculation are substantiated, determined and allocated (product, process, order, etc.). Accounting of capital circulation is based on three calculations: cost of acquisition (supply procurement), production cost and total cost of sales.

Accounts – the method of current accounting and control over the availability and movement of assets and liabilities of the company. Account represents a local information system for economically similar objects grouping.

Every business transaction has a two fold effect of benefits giving and benefits receiving aspects. The recording is made on the basis of both these aspects. Double entry is an accounting system that records the effects of transactions and other events on at least two accounts with equal debits and credits.

Balance sheet – is a method of data generalization across accounts and double entry. The balance shows the composition of the subject property by types (structure and usage) and sources of their formation on a specific date in a generalized value meter. In the previous issue balance was examined more detailed.

Accounting reports – a method of summarizing and final receiving of totals for the reporting period. This is orderly system of economic indicators interrelation to business enterprises for the period.

Methodological techniques of accounting are interrelated, complemented each other and in the aggregate constitute a single unit – method of accounting (fig. 1.8).

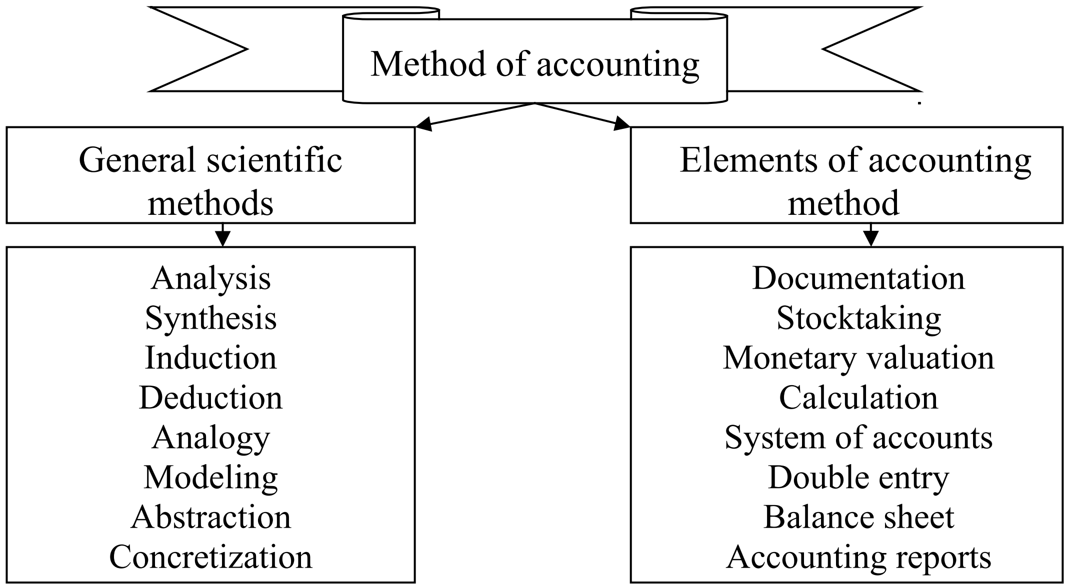

Fig. 1.8. Method of accounting

Tests for self-control

Each question contains one correct answer.

1. There are the following types of economic accounting:
1) Managerial accounting, statistical records, operational records
2) Operational records, statistical records, accounting;
3) Financial accounting, managerial accounting, accounting;
4) Statistical records, tax records, operational records.

2. Accounting system concerned with the financial state of affairs and financial results of operations is known as:
1) Budget accounting;

2) Economic accounting;
3) Managerial accounting;
4) Financial accounting.

3. This type of accounting is linked with business planning, controlling, and decision making:
1) Internal business accounting;
2) Planned accounting;
3) Managerial accounting;
4) Business accounting.

4. Resources owned by a company (such as cash, accounts receivable, vehicles) are reported on the Balance sheet and are referred to as:
1) Liabilities;
2) Net income;
3) Owners' equity;
4) Assets.

5. Obligations (amounts owed) are reported on the balance sheet and are referred to:
1) Liabilities;
2) Assets;
3) Expenses'
4) Owners' equity.

6. Objects of long-term investments with the valuation, but not real property are:
1) Current assets;
2) Intangible assets;
3) Financial assets;
4) Tangible assets.

7. Extent of possibility to convert assets into monetary form in order to ensure prompt payment of current financial liabilities of the company is called:
1) Convertibility;
2) Reversibility;
3) Liquidity;
4) Profitableness.

8. The financial statement that reports the assets, liabilities, and stockholders' (owner's) equity at a specific date is the:
1) Balance sheet;
2) Income statement;
3) Statement of cash flows;
4) All of listed.

9. The accounting equation should remain in balance because every transaction affects:
1) Only one account;
2) Only two accounts;
3) Two or more accounts;
4) It does not affect the balance.

10. The essence of the basic accounting equation consists of:
1) Assets equal liabilities plus owners' equity;
2) Owners' equity equal liabilities plus assets;
3) Assets equal liabilities minus owners' equity;
4) Financial results equal the sum of assets, liabilities and owners' equity.

11. Which of the following objects refers to liability?
1) Finished products;
2) Cash;
3) Receivables;
4) Payables.

12. Which of the following objects are not included in liability?
1) Commitment to budget;
2) Cash;
3) Profits;
4) Obligation to payroll.

13. The car refers to the following group of accounting objects:
1) Current assets;
2) Own capital;
3) Non-current assets;
4) Intangible assets.

14. Stocktaking is the method of accounting that represents:
1) Comparison of accounting data with the actual availability of accounting objects;
2) Initial registration of business transactions;
3) Detecting of shortages;
4) Determining the cost of inventories.

15. Method of summarizing and final receiving totals for the reporting period:
1) Calculation;
2) Balance Sheet;
3) Accounting reports;
4) Evaluation.

16. Documentation is:
1) The method of current accounting and control over the availability and movement of assets and liabilities of the company;
2) The method of observation and reflection of economic transactions in the primary accounting documents;
3) The method of data generalization across accounts and double entry;
4) The method by which natural and labor measurer (characteristics) of economic resources are transferred into the value form.

17. What is the subject of accounting?
1) Circulation of capital in the process of playback;
2) Assets of the company;
3) Production process;
4) Business processes;

18. An event that causes changes in the assets, liabilities and equity of the enterprise is called:
1) Accounting entry;
2) Production activity;
3) Business transaction;
4) Non-productive activity.

19. There are the following numbers of business transaction type:
1) Two;
2) Three;
3) Four;
4) Five.

20. The basic stages of the economic circulation are the following processes:
1) Purchasing, manufacturing, realization;
2) Manufacturing, storage, realization;
3) Purchasing, manufacturing, storage, realization;
4) Planning, production, realization.

THEME 2. ACCOUNTS AND DOUBLE ENTRY AS ELEMENTS OF ACCOUNTING METHOD

2.1. Appointment and structure of accounts.
2.2. Content and appointment of double entry.
2.3. Accounting entries. Journal of business transactions registration.

Dictionary

Account	Бухгалтерський рахунок
Accountable person	Підзвітна особа
Accounting entry	Бухгалтерська проводка
Active accounts	Активні рахунки
Assets	Активи
Administrative costs	Адміністративні витрати
Bank loan	Банківський кредит
Business processes	Бізнес-процеси
Correspondence of accounts	Кореспонденція рахунків
Credit	Кредит
Double entry	Подвійний запис
Debit	Дебет
Dividends	Дивіденди
Expenses	Витрати
Gains	Доходи, заробіток
Income	Дохід, прибуток
Initial residue	Початковий залишок
Journal of business transactions registration	Журнал реєстрації господарських операцій
Ledger	Головна книга
Liabilities	Зобов'язання
Payments to suppliers and contractors	Розрахунки з постачальниками та підрядниками
Passive accounts	Пасивні рахунки
Revenues	Дохід, прибуток
Stockholders' equity	Акціонерний капітал
Turnover	Оборот
Wages	Заробітна плата

2.1. Appointment and structure of accounts

The records that are kept for the individual asset, liability, equity, revenue, expense, and dividend components are known as accounts. In other words, a business would maintain an account for cash, another account for inventory, and so forth for every other financial statement element. Thus, for accounting of assets opened account "Fixed Assets", to account for goods – "Goods", to account for the production process – "Production", etc.

So account is a means of assets, liabilities and business processes grouping (generalization) and also it is intended for the monitoring of their condition and movement in the economic activity of enterprises. As a result, business assets and their sources may increase or decrease. Such increase or decrease in accounts shown separately. Therefore accounts represent as bilateral table left side of which denote the term “debit” and right – “credit”.

The term "debit" is derived from Latin. debet, which means "he is guilty" and "credit" – from the Latin. credit, which means "he believes". This method is again traced to Pacioli, the Franciscan monk, who is given credit for the development of our enduring accounting model.

Debits (abbreviated “dr”) and credits (abbreviated “cr”) are unique accounting tools to describe the change in a particular account that is necessitated by a transaction. This form is still used and understood by accountants worldwide. Each party appointed for separate display increasing or decreasing amounts. Schematically account has such form (fig. 2.1).

Dr	Account name	Cr

Fig. 2.1. The scheme of account

Because the object of accounting it is characterized by a certain state, i.e. the presence of a certain moment of time, money and sources, primarily this state is fixed on account what is called an initial residue, or the balance of the initial.

Having information about the initial balance of the accounting object and changes during the reporting period, it’s easy to determine the balance at the end of the reporting period. Accumulated information about the movement of accounting objects, reflected in the debit and credit, called turnover. Results of recordings in the debit of account are called debit turnover, results of recording in credited – credit turnover.

Depending on the accounting of assets or sources of their formation accounts are divided into active and passive. Active accounts are intended to account for the presence and movement of assets, expenses, dividends. Debits increase these accounts and credits decrease these accounts. Active accounts normally carry a debit balance (fig. 2.2).

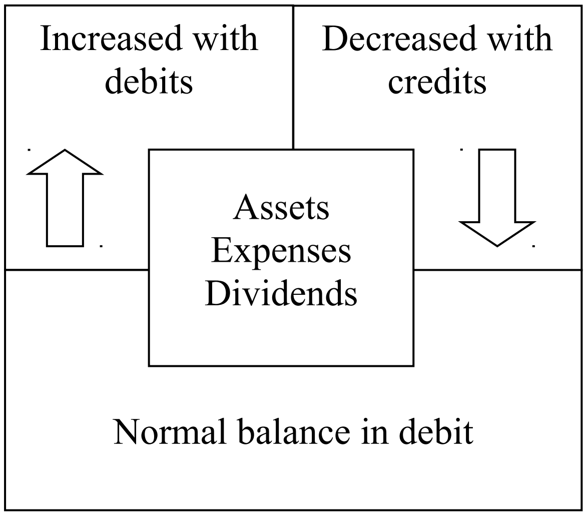

Fig. 2.2. Features of active accounts

You might think of D – E – A – L when recalling the accounts that are increased with a debit (Dividends, Expenses, Assets, Losses).

To determine the balance at end of an active account it is necessary: to the initial debit balance add debit turnover and subtract credit turnover.

Let's look at an example and illustrate it. The company has on account "Cash in hand" balance at the beginning of the month in amount 5000 UAH. During the month to cash desk were received money from the bank in the amount 23500 UAH, for the services – 10000 UAH, were issued salary from the cash deck of 22000 UAH, for business trips – 7500 UAH, deposited in the bank – 5000 UAH (fig. 2.3).

Account "Cash in hand "

Dr			Cr
Balance at the beginning of the month	5 000		
from the bank account	23 500	for wages	22 000
for services from customers	10 000	for business trips	7 500
		deposited in the bank	5 000
Turnover (total received)	33 500	Turnover (total paid)	34 500
Balance at the end of the month	4 000		

Fig. 2.3. Illustration for example

In the example above, the beginning balance is 5000 UAH. During the month receipts and debit turnover amounted to 33500 (23000 + 10000) UAH, spending and, accordingly, credit turnovers – 34500 (22000 + 7500 + 5000) UAH. Balance at the end of the month equals 4000 UAH (5000 + 33500 - 34500).

Passive accounts are intended to account availability and changes in the sources of assets creation: liabilities, revenues, equities. Credits increase liabilities, revenues, and equity, while debits result in decreases. These accounts normally carry a credit balance (fig. 2.4).

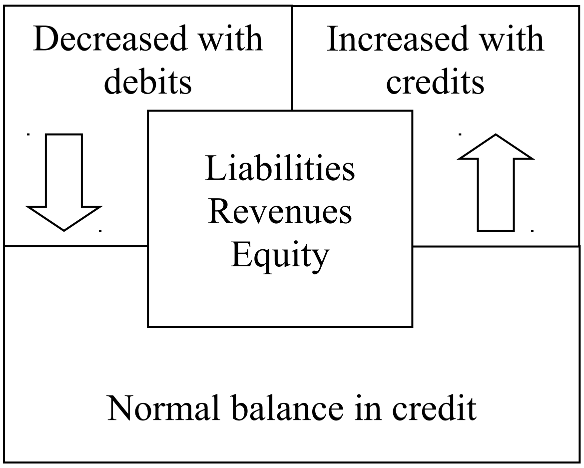

Fig. 2.4. Features of passive accounts

You might think of G – I – R – L – S when recalling the accounts that are increased with a credit (Gains, Income, Revenues, Liabilities, Stockholders' (Owner's) Equity). In passive accounts to determine the balance at end of the month it is necessary to the initial credit balances add credit turnover and subtract debit turnover.

Let us consider an example and illustrate it (fig. 2.5). At the enterprise on account "Payments to suppliers and contractors" balance of payables was 120000 UAH. During the month following business transactions occurred: transferred money to suppliers for materials received in the amount 250000 UAH, came from another party of goods from suppliers worth – 150000 UAH, accepted for payment account of the contractor for work done in the amount 75000 UAH.

Account "Payments to suppliers and contractors"

Dr		Cr	
		Balance at the beginning of the month	120 000
transferred to suppliers (paid)	250 000	received from suppliers nventories	150 000
		account the contractor for payment	75 000
Turnover (paid)	250 000	Turnover (for payment)	225 000
		Balance at the end of the month	95 000

Fig. 2.5. Illustration for example

In this example, the initial credit balance was 120000 UAH. During the reporting period, debt has increased and, consequently, the turnover of credit amounted 225000 (150000 + 75000) UAH, accounts were paid and accordingly debit turnover amounted to 250000 UAH. Balance at the end of the month will be 95000 (120000 + 225000 – 250000) UAH.

2.2. Content and appointment of double entry

Economic essence of business operations is that it causes double and equal changes in assets and sources of their formation. The dual nature of business operations makes it necessary to reflect it in the accounts by double entry.

Under the double-entry system every business transaction is recorded in at least two accounts. One account will receive a "debit" entry, meaning the amount will be entered on the left side of that account. Another account will receive a "credit" entry, meaning the amount will be entered on the right side of that account. The initial challenge with double-entry is to know which account should be debited and which account should be credited. Although the system is referred to as double-entry, a transaction may involve more than two accounts.

To understand the double entry method advisable to take into accounts two very important observations:

(1) every transaction can be described in debit/credit form

and

(2) for every transaction, debits = credits

This relationship between the accounts arising by double entry is called the correspondence of accounts. As a synonym the terms accounting entries are used.

In order to understand the principles of double-entry, lets consider an example. We will begin with two accounts: Cash and Notes Payable. Let us recall the features of these accounts (fig. 2.6.)

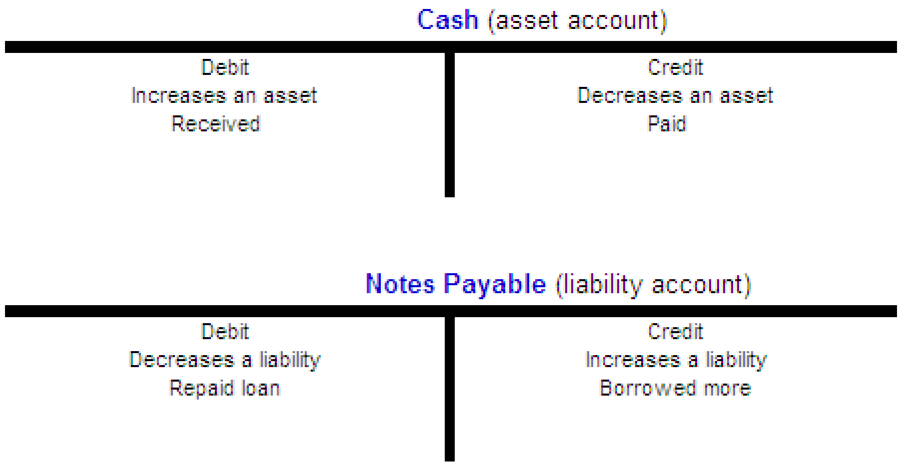

Fig. 2.6. Illustration of accounts “Cash” and “Notes Payable”

Transaction 1. On June 1, 2012 a company borrows 5000 UAH from its bank. It causes the company's asset Cash to increase by 5000 UAH and its liability Notes Payable to increase also by 5000 UAH. To increase the asset Cash the account needs to be debited. To increase the company's liability “Notes Payable” account needs to be credited. After entering the debits and credits the accounts look like this (fig. 2.6.):

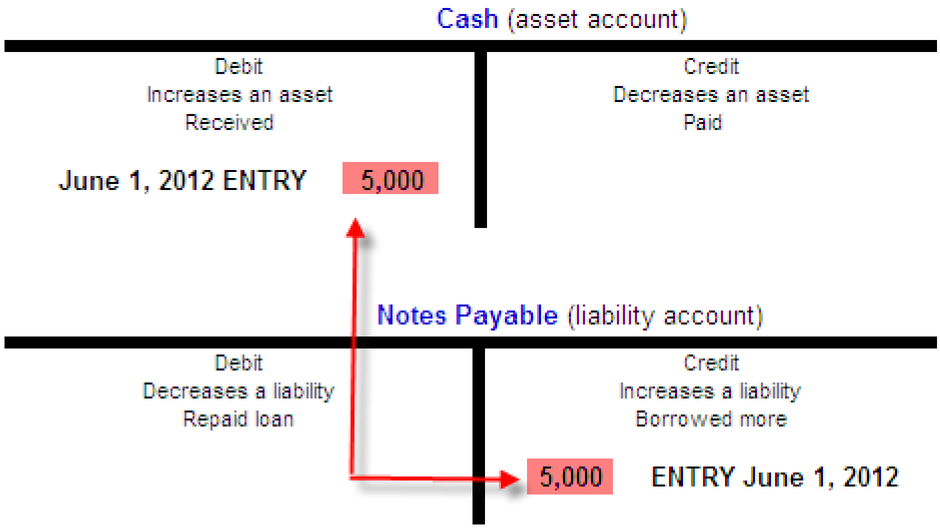

Fig. 2.7. Illustration of transaction 1

Transaction 2. On June 2, 2012 the company repaid 2000 UAH of the debt for notes. This causes the company's asset "Cash" to decrease by 2000 UAH and its liability Notes Payable also to decrease by 2000 UAH. To reduce the asset Cash account will need to be credited for 2000 UAH. To decrease the liability Notes Payable that account will need to be debited. The accounts will look like this (fig. 2.7).

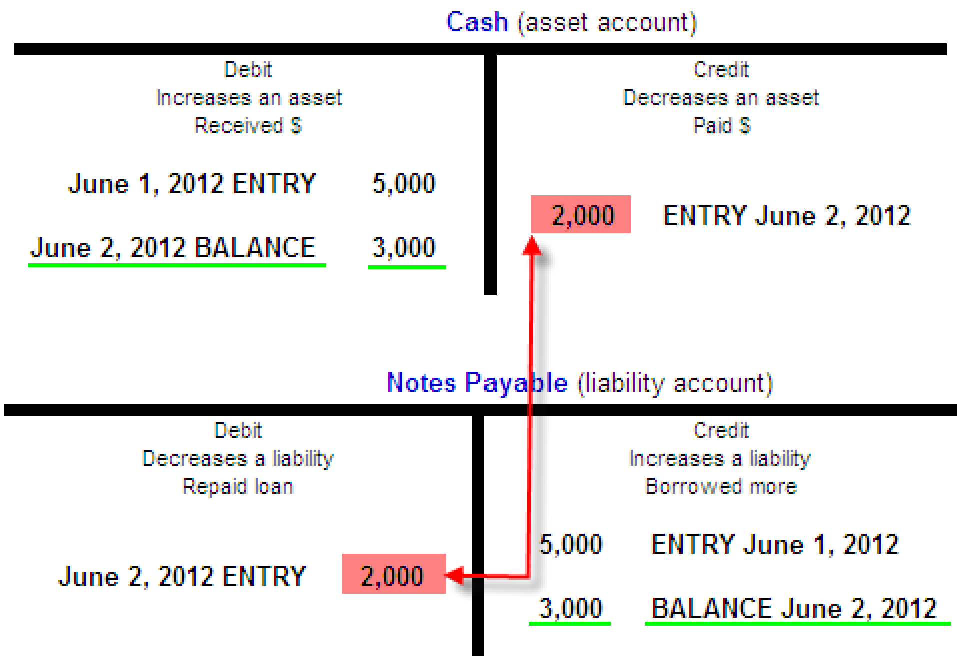

Fig. 2.8. Illustration of transaction 2

Because cash is involved in many transactions, it is helpful to memorize the following:

- Whenever cash is received, debit Cash.
- Whenever cash is paid out, credit Cash.

Having reviewed the features of double entry can be identified such advantages of this system:

– It is possible to keep a full record of dual aspect of each transaction.

– Transactions are recorded in a scientific and systematic manner and thus the books of accounts provide the most reliable information for controlling the organization efficiently and effectively.

– Since the total debit under this system be equal to total credit, arithmetical accuracy of the books can be tested by means of a trial balance.

– An income and expenditure accounts can be prepared to know the excess income/expenditure during a particular period and to know how such excess income/expenditure has arisen.

– The financial position of the organization can be readily ascertained by preparing a Balance sheet.

– Frauds are prevented, because alteration in accounts becomes difficult and discovery of irregularities is facilitated.

2.3. Accounting entries. Journal of business transactions registration

Depending on the number of corresponding accounts distinguish simple and complex accounting entries. Simply calls such accounting entries in which one account is debited and the other credited for the same amount that corresponds with each other when only two accounts. Considered in the above examples of accounting entries were simple:

Dr "Cash"	Cr "Notes Payable"	5000 UAH
Dr "Notes Payable"	Cr "Cash"	2000 UAH

In complex entries one account is debited, some credited to the total amount, or vice versa – one credited and several debited for the total amount. Let's consider the example of complex accounting entries.

Transaction 3. From the cash office of enterprise were given wages in the amount of 25000 UAH, in accountability for business travel – 3500 UAH, for payment of administrative expenses – 500 UAH. Accounting entries for this transaction will be as follows:

Dr "Payments for wages"	25000		
Dr "Receivable of accountable persons"	3500	Cr "Cash"	29000
Dr "Administrative expenses"	500		

In complex accounting entries not violated the principle of double entry because interconnected reflection of business operations persists by various debit and credit accounts on the same amount. Each complex accounting entries can be decomposed into several simple ones. However, the application in practice of complex accounting transactions prevails because it reduces the number of records, making them more visible.

Business transactions occur and are registered in a particular chronological order, and information about the status and movement of objects systematized in accounts. Therefore, accounting entries are chronological and systematic.

Registration of business transactions occur the journal – simple book of accounts in which all business transactions are originally recorded in chronological order and from which they are posted to the ledger accounts at any convenient time.

The following are the inherent advantages of using journal, though the transactions can also be directly recorded in the respective ledger accounts:

1. As all the transactions are entered in the journal chronologically, a date wise record can easily be maintained.
2. All the necessary information and the required explanations regarding all transactions can be obtained from the journal.
3. Errors can be easily located and prevented by the use of journal or book of prime entry.

The specimen journal can be shown as follows (table 2.1).

Table 2.1

The journal of business transactions registration

№	Date	Particulars	Dr	Cr	Sum

The journal has six columns: Number, Data, Particulars, Debit, Credit and Sum. In column "Particulars" summary of business operations and its grounds are recorded.

The illustrated journal was referred to as a "general" journal. All transactions and events can be recorded in the general journal. However, a business may sometimes use "special journals." Special journals are totally optional; they are typically employed when there are many redundant transactions. Thus, a company could have special journals for each of the following: cash receipts, cash payments, sales, purchases, and/or payroll. These special journals do not replace the general journal. Instead, they just strip out recurring type transactions and place them into their own separate journal.

Tests for self-control

Each question contains one correct answer.

1. Account represents a:

1) Means of grouping (generalization) of accounting objects and monitoring of their condition and movement in the economic activity of enterprises;
2) Method of the current accounting for companies' assets movement;
3) Method of payment documenting;

4) Method of accounting for movement of companies' sources of assets.

2. Accumulated information about the movement of accounting objects, reflected in the debit and credit is called:
1) Initial balance;
2) Balance at end;
3) Turnover;
4) Trial balance.

3. Active accounts are intended to account for the presence and movement of:
1) Assets, expenses, dividends, losses;
2) Liabilities, owners' equity, expenses;
3) Assets, expenses, liabilities, losses;
4) Liabilities, owners' equity, dividends, losses.

4. Active accounts normally carry:
1) Debit balances;
2) Credit balances;
3) Debit turnover;
4) Credit turnover.

5. Passive accounts are intended to account availability and changes in the:
1) Liabilities, owners' equity, expenses;
2) Assets, expenses, liabilities, revenues;
3) Assets, expenses, dividends, losses;
4) Liabilities, revenues, owners' equities.

6. Liability accounts will normally have:
1) Debit balances;
2) Credit balances;
3) Debit turnover;
4) Credit turnover.

7. The following contention is correct:
1) A debit entry increases an expense. A credit entry reduces the capital. A debit entry increases the sales;
2) A credit entry increases a liability. A debit entry increases an asset. A credit entry increases profit;
3) A debit entry increases a loss. A credit entry reduces the sales. A debit entry increase the receivables;
4) A debit entry reduces an asset. A credit entry increases a liability. A debit balance increases the drawings.

8. The following contention is correct:

1) A debit entry increases an expense. A credit entry reduces the capital. A debit entry increases the sales;
2) A debit entry increases a loss. A credit entry reduces the sales. A debit entry reduces the receivables;
3) A credit entry increases a liability. A debit entry increases an asset. A credit entry increases profit;
4) A debit entry reduces an asset. A credit entry increases a liability. A debit balance increases the drawings.

9. Accounting entries involve a minimum:
1) One account;
2) Two accounts;
3) Three accounts;
4) Four accounts.

10. Accounting entries in which one account is debited and the other credited for the same amount that corresponds with each other are called:
1) Complex entries;
2) Usual entries;
3) Common entries;
4) Simply entries;

11. The book of original entry is the definition of the:
1) Journal;
2) Ledger;
3) Balance sheet;
4) Recorder.

12. Determine the balance in the active account "Inventories", knowing that the balance at the beginning of the month – 7000 UAH, receipt per month –30000 UAH, used– 15000 UAH:
1) 8000 (credit);
2) 22000 (debit);
3) 8000 (debit);
4) 22000 (credit).

13. Determine the balance in the active account "Production" if the balance at the beginning of the month was 100000 UAH, the cost per month – 75000 UAH, output – 150000 UAH:
1) 25000 (credit);
2) 25000 (debit);
3) 175000 (credit);
4) 175000 (debit).

14. Determine the balance of the passive account “Payments for employee benefits” if payable to workers at the beginning of the month – 60000 UAH, accrued – 45000 UAH, paid – 50000 UAH:
1) 55000 (credit);
2) 65000 (credit);
3) 55000 (debit);
4) 65000 (credit).

15. Determine the balance on the passive account “Short-term loans” knowing that the balance at the beginning of the month – 50000 UAH, company received loan in the amount 30000 UAH and partially repaid the debt on the loan – 20000 UAH:
1) 40000 (credit);
2) 60000 (debit);
3) 40000 (debit);
4) 60000 (credit).

16. Control value of double entry lies in the following assertion:
1) Total entries of debits equals the sum of entries in each credit account;
2) Debit and credit are displaying the same amount;
3) The sum of debit turnovers equals the sum of credit turnovers of all accounts;
4) Debit turnovers equal credit turnovers.

17. One of the following accounts is not active:
1) Cash;
2) Inventories;
3) Authorized capital;
4) Production.

18. One of the following is not a type of active account:
1) Land;
2) Mortgage payable;
3) Cash;
4) Accounts receivable.

19. One of the following accounts is not increased by a credit:
1) Liability;
2) Owners’ equity;
3) Assets;
4) Revenue.

20. One of the following accounts is not increased by a debit:
1) Revenue;
2) Asset;
3) Expense;
4) Losses.

THEME 3. SYNTHETIC AND ANALYTICAL ACCOUNTING. CHART OF ACCOUNTS

3.1. The concept of synthetic and analytical accounting, their connection.
3.2. Generalization of current accounting data.
3.3. Classification of accounts. Appointment and structure of the Chart of accounts.

Dictionary

Additional capital	Додатковий капітал
Analytical accounts	Аналітичні рахунки
Authorized capital	Статутний капітал
Cash offices	Каса
Cash in hand	Готівка в касі
Chart of Accounts	План рахунків
Chess statement	Шахова відомість
Checking account	Поточний рахунок
Current liabilities	Поточні зобов’язання
Short-term notes receivable	Короткострокові векселя отримані
Depreciation of non-current assets	Амортизація необоротних активів
Financial statements	Фінансова звітність
Finished products	Готова продукція
Fixed assets	Основні засоби
Inventories	Виробничі запаси
Intangible assets	Нематеріальні активи
Long-term liabilities	Довгострокові зобов’язання
Low-value wear items	Малоцінні швидкозношувані предмети
Negotiable statement	Оборотно-сальдова відомість
Non-current assets	Необоротні активи
Off-balance sheet accounts	Позабалансові рахунки
Payments to suppliers and contractors	Розрахунки з постачальниками та підрядниками
Payments to wage	Розрахунки з оплати праці
Retained profit or uncovered loss	Нерозподілений прибуток або непокритий збиток
Reserves for doubtful debts	Резерв сумнівних боргів
Reserve capital	Резервний капітал
Settlements with buyers and customers	Розрахунки з покупцями і замовниками
Share capital	Пайовий капітал
Sub-accounts	Субрахунки
Supplies	Запаси

Synthetic accounts	Синтетичні рахунки
Target-oriented financing	Цільове фінансування

3.1. The concept of synthetic and analytical accounting, their connection

Depending on the volume of information and the level of generalization accounting records are divided into synthetic and analytic.

Accounts, which are opened on the basis of Balance sheet for accounting of economic resources and their sources, contain general (synthetic) indicators in monetary valuation. Thus, account "Fixed Assets" reflects the presence and movement of fixed assets of the company (land, buildings and structures, machinery and equipment, vehicles, etc.); account "Inventories" – the presence and movement of material assets of this group (raw materials, fuel, building materials, spare parts, etc.); account "Payments to suppliers and contractors" – the total amount of payable to all suppliers and contractors for material derived from them, works and services rendered, and changes of this debts as a result of payment. Such accounts are called synthetic.

The term "synthetic" is derived from Latin. syntesis, which means combined, generalized, unification into whole individual elements. Synthetic accounts are intended for accounting of economically homogeneous groups of assets, their sources and business processes in the money measure. Accounting, which is conducted on the basis of these accounts, called synthetic accounting. Data of synthetic accounting used in the preparation of Balance sheet and other financial reporting.

However, for operational management, control over maintenance and utilization of resources, it is not enough getting only summarized information, it is need detailed information about specific types of assets, their sources and business processes. This information is obtained through the analytical accounts.

The term "analytical" comes from the Latin analysis – decomposition, the whole division of the components (elements). Accounting that carried out on the basis of analytical accounts is called analytic. This is accounting, which, in addition to money, use natural and labor meters. For example, synthetic account "Payments for employee benefits" open up analytical accounts for the names of the personnel; "Administrative expenses" – by costs, "Finished products" – by the kinds of finished products and so on. Number of analytic accounts determined by corresponding synthetic account, it is depending on the availability of facilities and accounting tasks on detail.

Synthetic accounts are concretized in the analytical accounts. There is inextricably relationship between synthetic and analytical accounts, as on the basis of the same documents they show the same operation, but with varying degrees of detail: on synthetic account shows the total amount, and on analytical accounts – partial amounts.

Relationship between synthetic and analytical accounts turns out as follows:

1. On the synthetic and analytical accounts balance is located on the same side of the account.

2. If synthetic account is debited or credited, it still debited or credited to its analytical accounts.

3. Each transaction in the synthetic account record total amount and on the corresponding analytical accounts – partial sums.

4. Total balances and turnovers for all analytical accounts should equal the balance and turnover, respectively, of synthetic account. Absence of such equality indicates the presence of errors in accounting records that should be founded and promptly corrected.

For the purposes of economic analysis and operational management it is necessary to have more extensive information about assets, their sources and business processes than it can be provided by synthetic account. In this case, resorted to additional grouping of similar analytical accounts within a synthetic account to get generalized indicators. This grouping is carried out by sub-accounts.

Schematically, relationship between synthetic accounts, sub-accounts and analytic accounts is shown on figure 3.1.

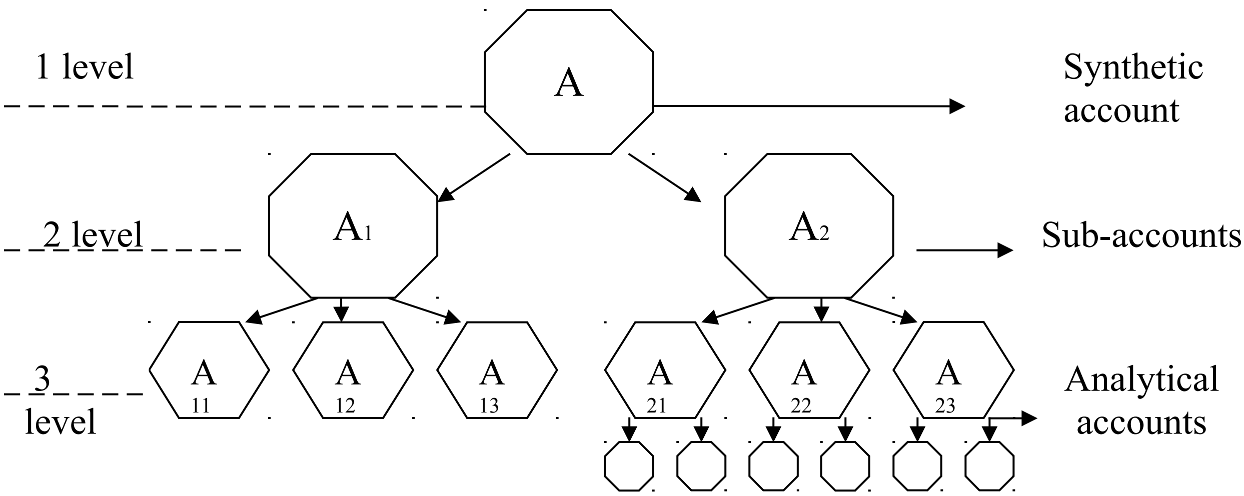

Fig. 3.1. Relationship between synthetic accounts, sub-accounts and analytic accounts

Lets consider the above scheme on example: synthetic account – “Inventories”; sub-account – “Raw materials and materials”; analytical accounts – “Materials”, “Ferrous metals”, “Non-ferrous metals”, “Varnishes, paints” etc. To each analytic account can also be opened detailing accounts. For example, account “Ferrous metals” can be divided into “Steel”, “Pig iron”, “Ferroalloy” and so on.

3.2. Generalization of current accounting data

The process of displaying of business transactions on synthetic and analytical accounts is called current accounting. Since the balance is always describes the existence and status of economic resources and their sources in value measuring on a certain date, then for current reflection of changes in assets and their sources accounts are intended. Accounts are opened on the basis of Balance sheet, whose balances on the beginning of the month in form of the opening balance are recorded in such way: on active accounts – in the debit, on passive accounts – in the credit.

Within a month accounting entries are transferred from the journal of business transactions to open synthetic and analytical accounts. At the end of the month turnovers on the debit and credit of each synthetic and analytical account are counted and the ending balance (balance at end of month) is compiled. Data of synthetic and analytical accounts compiled by negotiable statements that presented separately for synthetic and analytical accounts.

Current generalization of the changes that occurs in the assets and their sources is carried out by the negotiable statements. Negotiable statements summarize turnovers and balances for the period (month), and set the relationship between balance and accounts, that is important for the control of accounts correctness.

Thus negotiable statements made on synthetic as well as on analytical accounts. They reflect the turnover of debit and credit accounts and balances (deficit) at beginning and at the end of the reporting period (month).

Negotiable statement on synthetic accounts is based in a table that includes sequentially: name of synthetic accounts, beginning balance on the debit or credit, turnover for the month on debit and credit, and the ending balance on the debit or credit. For each graph shows the results of negotiable statement (table. 3.1).

Table 3.1

Example of negotiable statement on synthetic accounts

The name of accounts	Balance at the beginning of the month		Turnover for the month		Balance at the end of the month	
	Debit	Credit	Debit	Credit	Debit	Credit
Fixed assets	270 000		50 000		320 000	
Inventories	50 000		80 000	100 000	30 000	
Production	25 000		120 000		145 000	
Cash in hand	2 000		40 000	40 000	2 000	
Checking account	90 000		20 000	90 000	20 000	
Authorized capital		87 000		55 000		142 000
Retained earnings		160 000	30 000	60 000		190 000
Short-term loans		35 000	30 000			5 000
Calculation of wages		155 000	35 000			120 000
Payments to suppliers and contractors			110 000	170 000		60 000
Total	437 000	437 000	525 000	525 000	517 000	517 000

If the initial balance of the accounts is written correctly, all the correspondence of accounts (accounting entries) are separated, turnovers are counted and final balance is derived, there will be three pairs of equations in negotiable statement:

1. Equality totals of the first pair columns due to equality totals of assets and liabilities, which are the basis for recording balance at the beginning on synthetic accounts.

2. Equality totals of the second pair columns due to double-entry operations, under which each business operation in the same amount is reflected in the debit and credit of the various accounts.

3. Equality totals of the third pair columns due to the previous two equalities: if the initial balance on synthetic accounts equal to each other (initial balance), and amounts of turnover on debit and credit (negotiable balance) are equal, then the balances at the end of the reporting period as a result should be equal each other (final balance).

Violation of these equations shows the errors that have been made in the correspondence of accounts or in the preparation of negotiable statement.

Analytical accounts are opened to the most of synthetic accounts, therefore compilation of negotiable statement for analytical accounts facilitates detailed information about the movement and balance of certain assets and their sources, necessary for the evaluation, monitoring and economic analysis for effective management.

Consider procedure of negotiable statement for analytical accounts preparing on the example of synthetic account “Payments to suppliers and contractors” (table. 3.2).

Table 3.2

Example of negotiable statement on analytical accounts to account “Payments to suppliers and contractors”

№	The name of analytical accounts	Balance at the beginning of the month		Turnover for the month		Balance at the end of the month	
		Debit	Credit	Debit	Credit	Debit	Credit
1	PSC "Rainbow"			65 000	90 000		25 000
2	JSC "Spring"			45 000	80 000		35 000
Total		–	–	110 000	170 000	–	60 000

When accounts are correct, totals turnover and balance in negotiable statement on analytical accounts equals to amounts of turnovers and balance of appropriate synthetic account. This is the control meaning of negotiable statement on analytical accounts.

Negotiable statements on synthetic accounts are used for the preparation of the Balance sheet and for the filling of the other financial statements. Thus, the negotiable statement on synthetic accounts is a way to generalize of the current accounting data to verify the completeness and correctness of the accounts and characteristics of the assets and liabilities movement for the reporting period. Negotiable statement gives an overview of the status and movement of economic resources and their sources, but insufficient reveals the economic content of turns, their structure by assets as well as by sources. Chess statement is more effective in this respect. It is built on the principle of chessboard.

All accounts in chess statement recorded twice in the same sequence: vertically and horizontally, on the debit and on the credit. Amount in cell of chess statement shows which account debited and which credited. Turnovers of each account are detailed according to correspondence. Comparatively with a simple negotiable statement it gives a broader picture of changes in economic resources and processes that have occurred. In chess statement can be given balances at the beginning and at the end of the month, that significantly improves its accounting and analytical capabilities.

Having examined the peculiarities of the accounting information we can schematically show the process of accounting information generalization (fid. 3.1).

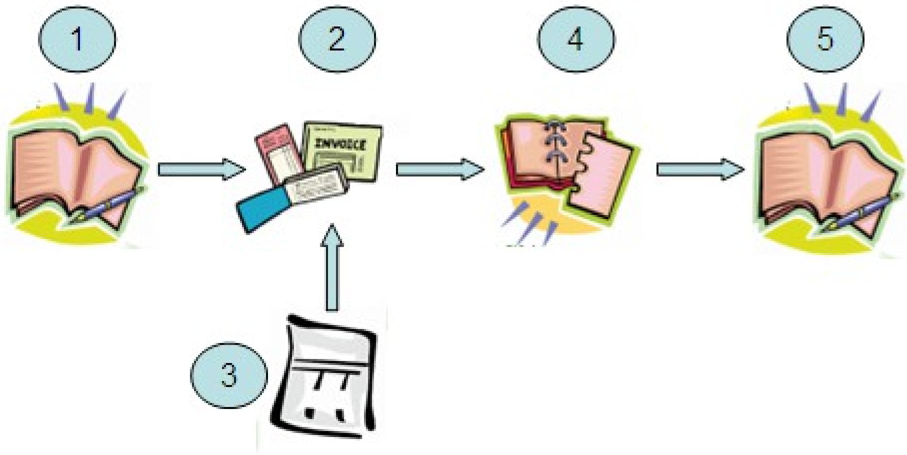

Fig. 3.2. Process of accounting information generalization

Where:
1. Balance sheet at the beginning of the month;
2. Accounts;
3. Journal of business transactions;
4. Negotiable statement;
5. Balance sheet at the end of the month.

3.3. Classification of accounts. Appointment and structure of the Chart of accounts

Depending on the economic content of accounting objects accounts are divided into three groups:

– accounts of economic resources (assets);
– accounts of sources of economic resources (liabilities);
– accounts of business processes.

On account of economic resources (assets) shows the presence (state) and the movement of means. Depending on the functions performed in the economy, they are divided into: non-current assets, inventories, cash funds in the calculations.

Classification of accounts by the economic content shown in Fig. 3.3.

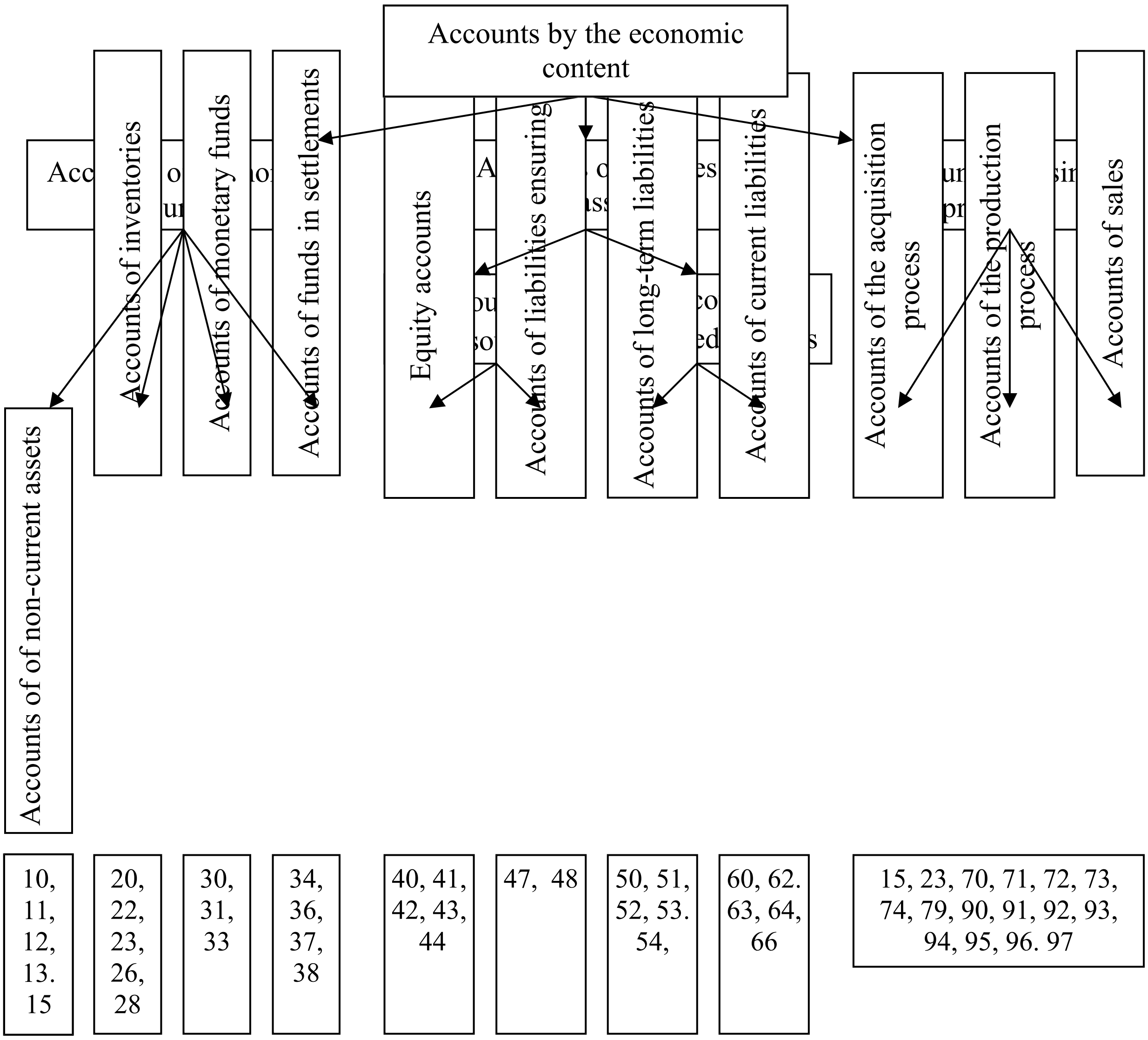

Fig. 3.3. Classification of accounts by the economic content

The accounts of non-current assets are intended for the generalization of information about the presence and movement of the organization’s assets, which in accordance with the rules for accounting relate to fixed and intangible assets and other extra-budgetary assets, and also about transactions associated with their construction, acquisition and retirement. These include accounts: 10 “Fixed assets”, 11 “Other non-current tangible assets”, 12 “Intangible assets”, 13 “Depreciation of non-current assets”, 15 “Capital investments”.

The accounts of inventories are designed for the generalization of information about the presence and movement of materials, intended for processing, treatment or use in production or for meeting economic needs; finished products and goods, which in accordance with the established order are included in the composition of means in turnover. These include accounts: 20 “Inventories”, 22 “Low-value wear items”, 23 “Production”, 26 “Finished products”, 28 “Goods”.

The accounts of monetary funds are designed to generalize information about the presence and movement of monetary funds in national and foreign currencies in cash offices and on settlement and other accounts that have been opened with credit organizations on the territory of country and beyond its borders, and also of securities, payment and monetary documents. These include accounts: 30 “Cash in hand”, 31 “Checking accounts” and 33 “Other monetary funds”.

The accounts of funds in settlements are designed to generalize information about all types of settlements of the organization with different juridical and natural persons, and also of intra-economic settlements. These include accounts: 34 “Short-term notes receivable”, 36 “Settlements with buyers and customers”, 37 “Settlements with various debtors” and 38 “Reserves for doubtful debts”.

All examined above accounts are active. On the debit of these accounts are displayed revenues (increase) of economic resources (assets) and on credit – decrease (outflow) of assets. Balance on active accounts always indicates the presence of economic resources at the beginning and at the end of accounting period.

On account of the sources of economic recourses the presence and movement of equity and liabilities are displayed. By the nature of these sources accounts of this group are divided into accounts of own sources and accounts of involved sources.

Equity accounts are intended for the generalization of information about the state and movement of the organization’s capital. This group included such accounts: 40 “Authorized capital”, 41 “Share capital”, 42 “Additional capital”, 43 “Reserve capital”, 44 “Retained profit or uncovered loss”, 45 “Withdrawn capital” and 46 “Unpaid capital”.

Accounts of liabilities ensuring are used to obtain information about the status and movement of various ensuring, target financing and other targeted receipts. These include accounts: 47 “Ensuring future expenses and payments”, 48 “Target-oriented financing” and 49 “Insurance reserves”.

Accounts of long-term liabilities used to recording and generalization of information about the status and movement of enterprises liabilities for received bank loans, for bonds issued, for issued promissory notes and other long-term debts, i.e. arrears that are not repayable during the operational cycle of an enterprise or over twelve months after the Balance sheet date. These include the accounts 50 “Long-term loans”, 51 “Long-term promissory notes issued”, 52 “Long-term liabilities for bonds”, 53 “Long-term liabilities of rent”, 54 “Deferred tax liabilities”, 55 “Other long-term liabilities”.

Accounts of current liabilities used for accounting and generalization of information about the status and movement of current liabilities of the enterprises for received bank loans, for issued promissory notes and other liabilities, repayment of which occurs in the normal course of business and operating cycle or over twelve months from the Balance sheet date. This group included such accounts: 60 “Short-term loans”, 62 “Short-term promissory notes issued”, 63 “Settlements with suppliers and contractors”, 64 “Payments of taxes and fees”, 65 “Payments of insurance”, 66 “Payments for employee benefits” and other.

Accounts reflecting the formation of assets’ sources are passive. On the credited of these accounts reflects an increase in sources of funds, and on the debit – their decrease, debiting. Balance of these accounts is always characterized by the presence of sources for economic resources at the beginning and at end of the accounting period.

As noted in the previous themes, circulation of enterprises' capital is carried out through business processes: supply (purchasing), production and realization (sale). Economic meaning of these operations reflects the accounts of economic processes. On these accounts business transactions of the resources supplying and purchasing, production of goods (works and services) and its realization are reflected. Accounts of economic processes include: 15 "Capital investments", 23 "Production", 90 "Cost of sales", "Revenues from sales" and others.

Classification of accounts by the purpose and structure answers the question how exactly these or other means, their sources and business processes are recorded, how they are reflected in the debit and credit of account and what describes the balance of the account. The general classification of accounts by the purpose and structure is presented in fig. 3.4.

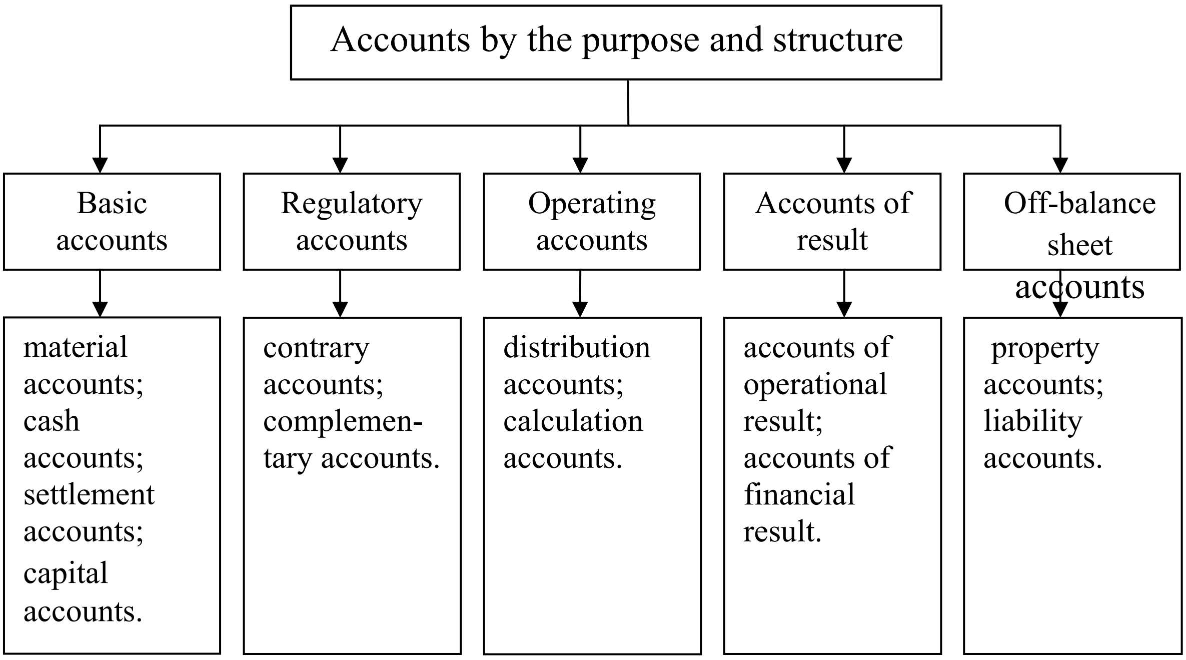

Fig. 3.3. General classification of accounts by the purpose and structure

Basic accounts are intended for accounting of condition and movement of economic resources and their sources. They are combined to characterize the property of the companies and they are the basis for the preparation of the Balance sheet. Basic accounts are divided into material ("Fixed assets", "Inventories", "Goods" etc.), cash ("Cash in hand", "Checking account" est.), settlement ("Settlements with buyers and customers", "Settlements with suppliers and contractors" est.) and capital accounts (40 "Authorized capital", 42 "Additional capital", 43 "Reserve capital" etc.).

Regulatory accounts are intended to adjustment basic indicators of individual accounts and Balance sheet items. Regulatory accounts may reduce or increase the assessment means on the basic accounts. Depending on this they are divided on the contrary and complementary. Contrary accounts are used to regulate the results of active and passive basic accounts, as they are called contrastive and contrpassive accordingly. Regulatory accounts at Balance sheet reflected in lines after the main account and are not included to the total of Balance sheet. Thus, the sub-account "Depreciation of fixed assets" is a regulatory to account "Fixed

Assets", which assets are carried at initial cost. During the operation of fixed assets wear out their residual value decreases. The latter take into account as the difference between the balance of the account "Fixed Assets" and balance of sub-account "Depreciation of fixed assets".

Complementary regulatory accounts always increase the balance of accounts, which is adjustable. An example of active complementary accounts is analytical account "Transportation and procurement costs," which is a part of synthetic account "Inventories" in sub-accounts "Raw Materials", "Fuel", "Spare parts", etc. The actual cost of inventories in this case is determined by adding up the value of their purchase price and the amount of transportation, procurement and other costs directly attributable to the acquisition of inventories and bringing them to a state suitable for use as shown on the analytical accounts “Transportation and procurement casts”.

Operating accounts are intended to reflect the business processes, i.e. processes of supplying, production and sales, as well as the results of the enterprise. These accounts are designed to collect information about the costs, revenues and financial results, and most of them have no balance. Distribution accounts intended for cost accounting, which by their nature can not be classified to the appropriate accounts and requiring distribution according to certain criteria (for example, account 91 “General manufacturing expenses”).

Calculation accounts are intended to account for costs associated with the production of goods, works and services for the purpose of calculating their cost. Accounts "Production", "Capital investments" and others are included to calculation.

Accounts of result are used to display and compare the costs and revenues. Depending on the degree of comparison (at the level of incomes and the level of net incomes) they are divided into: accounts of operational result and accounts of financial result. First kind of these accounts are intended to identify the economic performance of enterprises by comparing gross income and gross expenses and determine the outcome: gains or losses (79 “Financial Results”). Second kind of these accounts are intended to account and control of net financial results of the company – profits or losses (44 “Retained profit or uncovered loss”).

Considered accounts – basic, regulatory, operating constitute system that covers all economic means, source of their formation, business processes and its results. These accounts are mutually corresponds to each other and are shown in the Balance sheet. Along with the Balance sheet accounts, accounts that do not appear in the Balance sheet are used. These are called off-balance sheet accounts.

Off-balance sheet accounts are intended for the generalization of information about the presence and movement of values temporarily used or disposed by the respective organization (leased fixed assets, material values in safe custody and processing, etc.), of conditional rights and obligations, and also for the exercise of control over individual economic operations. The accounting records of said objects shall be kept according to a simple system (without double-entry).

To ensure unity, comparing and summarizing of accounting data, business transactions are still displayed on company’s accounts regardless of their organizational forms. Such unity is achieved by a single system of accounts and uniform requirements for it. In Ukraine had been applied a special list of accounts, called the Chart of accounts of assets, capital, liabilities and business operations of enterprises and organizations (Appendix 2). It was approved by order of the Ministry of Finance of Ukraine N 1591 from 09.12.2011.

Chart of accounts – a systematic list of accounts on which business transactions are reflected and accounting information about the activities of the company, which needed by users to make decisions, are accumulated. Chart of accounts of assets, capital, liabilities and business operations of enterprises and organizations structurally consists of 10 classes, which include balance, nominal and off-balance sheet accounts (table 3.3).

Table 3.3

The structure of Chart of accounts

Class	Name	Characteristic
1	Non-current assets	Includes accounts for generalization information about the presence and movement of fixed assets and other non-current tangible assets, intangible assets, long-term receivables and other non-current assets and depreciation of fixed assets.
2	Supplies	United accounts to compile information about the presence and movement of enterprises' items of work for processing, using in production and for household needs as well as low value wear items.
3	Monetary funds, settlements and other assets	Includes accounts to compile information about the presence and movement of funds (in national and foreign currency on hand, checking accounts in banks), bank documents, notes receivable and short-term financial investments, accounts receivable, reserve for doubtful receivables and prepaid expenses.
4	Equity and ensuring of liabilities	Includes accounts to summarize the information about the condition and movement of funds for varieties equity - share, additional, reserve, unpaid capital and retained earnings (accumulated losses), target-oriented financing, ensuring of future expenses and payments, insurance reserves.
5	Long-term liabilities	Combines accounts for recording and summarizing enterprise's data for debt to banks loans obtained, for issued promissory notes, other debt that is not repayable within enterprises operating cycle or within twelve months after the Balance sheet date.
6	Current liabilities	Includes accounts for records and compile information on commitments for short-term bank loans, issued bills, payments to suppliers and contractors, for taxes, insurance, for other transactions to be repaid in the normal course of operating cycle or within twelve months from the Balance sheet date.
7	Revenues and results of activities	Includes accounts intended to summarize information about income from operating, investing and financing activities of the enterprise, as well as emergencies.
8	Expenses by the elements	United accounts to compile information about costs of the company during the year under the cost elements: material costs, labor costs, contributions to social programs, amortization and other operating expenses.
9	Expenses of activity	Includes accounts that are used to summarize information about the costs of operating, investing and financial activities of the enterprise and the

		cost of accidents preventing.
0	Off-balance sheet accounts	Includes accounts designed to account for assets and liabilities that are not reflected in the Balance sheet.

The methodological bases of the existing in Ukraine Chart of accounts are:

– Generally accepted principles of accounting and financial reporting.

– International Accounting Standards (IAS) and national regulations (standards) of accounting.

– Law of Ukraine "On Accounting and Financial Reporting in Ukraine".

The current Chart of accounts contains 99 accounts of the first order. Sub-accounts to synthetic are entered by enterprises independently based on the needs of management, monitoring, analysis and statements.

To ensure proper use of accounts, simultaneously with the adoption of the Chart of accounts, Ministry of Finance of Ukraine has developed and approved Instructions for its application. It includes characteristic of economic content, purpose and structure of each account, a typical correspondence of accounts, also instructions concerning the order of analytical accounting are given.

Chart of Accounts and Instructions for its application are an important means of state regulation of accounting and financial reporting that are carried out to establish common rules of accounting and financial reporting, that are compulsory for all companies, guarantees and protects the interests of the users of accounting information.

Tests for self-control

Each question contains one correct answer.

1. Accounts intended for accounting of economically homogeneous groups of assets, their sources and business processes in the money measure are called:
1) Synthetic accounts;
2) Sub-accounts;
3) Analytical accounts;
4) Collective accounts.

2. Analytical accounts contain the following information:
1) Data used in the preparation of Balance sheet and other financial reporting;
2) Detailed information about specific types of assets, their sources and business processes;
3) General information about specific types of assets, their sources and business processes;
4) All of the listed answers are correct.

3. Sub-account “Raw materials and materials” can be opened to detail information on synthetic account:
1) “Fixed assets”;
2) “Non-current assets”;
3) “Inventories”;
4) “Finished goods”.

4. Following measures are used in synthetic accounting:
1) Natural;
2) Labor;
3) Monetary;
4) All of the listed.

5. Following measures are used in analytical accounting:
1) Natural;
2) Labor;
3) Monetary;
4) All of the listed.

6. What analytical accounts are maintained to account “Payments to suppliers and contractors”?
1) By specific suppliers;
2) By types of material and services supplied;
3) By composition of materials;
4) By payables to providers.

7. On which of the following analytical accounts will be displayed receipt of the material from the supplier:
1) On account of the supplier;
2) On account of the specific type of material;
3) On account of the type of product to which materials will be used;
4) On account of the customer.

8. On which of the following analytical accounts receivable for goods shipped will be displayed:
1) On account of the individual customer;
2) On account of the type of product;
3) On account of the supplier;
4) On a personal account.

9. Account of the single company’ employee refers to:
1) Synthetic account;
2) Sub-account account;
3) Analytical account;
4) Second order accounts.

10. Which analytical accounts are maintained to account “Materials”?
1) By specific types of materials;
2) By responsible persons;
3) By workshops that use materials;
4) By types of products for which materials are used.

11. Which document summarizes turnovers and balances for the period (month), and sets the relationship between balance and accounts:
1) Income statement;
2) Balance Sheet;
3) Ledger;
4) Negotiable statement.

12. Which of the following statements is correct?
1) Negotiable statements made only on synthetic accounts;
2) Negotiable statements made only on analytical accounts;
3) Negotiable statements made on synthetic as well as on analytical accounts;
4) Negotiable statements made only on sub-accounts.

13. There is the following number of pairs of equations in negotiable statement:
1) One;
2) Two;
3) Three;
4) Four.

14. The control meaning of negotiable statement on analytical accounts is that:
1) Totals turnover and balance in negotiable statement on analytical accounts equal amounts of turnovers and balance of appropriate synthetic account;
2) Totals turnover and balance in negotiable statement on synthetic account equal amounts of turnovers and balance of analytical accounts;
3) Totals turnover and balance in negotiable statement on analytical accounts equal amounts of turnovers and balance of all synthetic accounts;
4) Totals turnover and balance in negotiable statement on analytical accounts equal to the sum of turnovers and balance of synthetic account.

15. Which of the following statements is correct?
1) Analytical accounts are independent of synthetic account;
2) Analytical accounts are only degree of detail for synthetic accounts;
3) Accounting entries can be made between the analytical accounts;
4) There is no relationship between synthetic and analytical accounts.

16. A detailed listing of accounts is called:
1) Account groups;
2) Chart of accounts;

3) T-accounts;
4) None of the listed answer is correct.

17. An account in the Chart of accounts normally has:
1) The account's number;
2) A brief description of account;
3) The account's name;
4) All of the listed answers are correct.

18. Chart of Accounts structurally consists of
1) 5 classes;
2) 8 classes;
3) 10 classes;
4) 12 classes.

19. Which of accounts are intended for the generalization of information about the presence and movement of values temporarily used or disposed by the respective organization?
1) Calculation accounts;
2) Operating accounts;
3) Off-balance accounts;
4) Regulatory accounts.

20. Which of accounts are intended to accounting condition and movement of economic resources and their sources?
1) Basic accounts;
2) Accounts of result;
3) Regulatory accounts;
4) Off-balance accounts.

THEME 4. ACCOUNTING DOCUMENTS AND REGISTERS. FORMS OF ACCOUNTING ORGANIZATION

4.1. Documentation of accounting: its essence and appointment.
4.2. Accounting registers and their significance in generalization of information.
4.3. Forms of accounting organization.

Dictionary

Accounting records	Бухгалтерські записи
Accounting register	Регістр бухгалтерського обліку
Advance report of accountable person	Авансовий звіт підзвітної особи
Balance sheet	Бухгалтерський баланс

Bank statement	Виписка банку
Business transaction	Господарська операція
Cashier report	Звіт касира
Correcting method	Коректурний спосіб
Credit slip	Прибутковий ордер
Debit memo	Дебетове авізо
Demand-waybill	Вимога-накладна
Documentation	Документація
Form of accounting	Форма бухгалтерського обліку
Inventory card	Інвентарна картка
Invoice	Рахунок, рахунок-фактура
Journal-order form of accounting	Журнально-ордерна форма бухгалтерського обліку
Ledger	Головна книга
Limit-fence card	Лімітно-забірна картка
Memorial order accounting form	Меморіально-ордерна форма бухгалтерського обліку
Method of additional of records	Спосіб додаткових записів
Payment order	Платіжне доручення
"Red reversal" method	Спосіб «червоне сторно»
Responsibilities	Відповідальність, обов’язки
Simplified form of accounting	Спрощена форма бухгалтерського обліку
Source documents	Первинні документи
Subsidiary sheets	Допоміжні відомості
Tables records of working time	Табель обліку робочого часу

4.1. Documentation of accounting: its essence and appointment

An essential element of an effective financial management system is maintaining of adequate accounting records and source documents. Accounting documents and records are the physical objects upon which transactions are entered and summarized. Examples include such items as cancelled checks, paid bills, payrolls, ledgers, bank reconciliations, etc.

Documentation is an important link in the chain functioning of accounting. This is the beginning and basis of accounting. Without a properly executed document can’t be accounting records, from it depends completeness and accuracy of accounting information for users.

Accounting document –is a written evidence of some form and content, which includes information about business operations and is proof of its implementation. Method of business transactions registration by documents is called documentation. Documentation is an important element of accounting method because it is used for the primary observation of business transactions, and it is a prerequisite for their reflection in accounting.

Source documents, which record the facts of economic operations, are the basis for the accounting of these transactions. Source documents shall be made during the business transaction.

To ensure that an entity's accounting system effectively meets the needs of fiscal control and financial reporting, the entity's accounting records and source documents should have:

– an established form and contain all the necessary requisites (name of the document, its number, date and place of issue, signature etc.);
– name of the company on whose behalf the document is drawn up;
– the content and scope of business operations;
– the measure of business operations;
– the persons responsible for the economic operation and its correctness;
– prepared at the time of the transaction or as soon as possible afterward in order to reduce the likelihood of error;
– sufficiently simply form so that they can be readily understood;
– designed for multiple use whenever its possible, that can help to minimize the number of different forms and reduce the duplication of effort;
– constructed in a manner that encourages for correct preparation and transfer of information through internal checks within the form or record, for example including instructions for proper routing, spaces for authorizations and approvals, footing and cross-footing and pre-printed data.

Source documents shall be drawn up on paper or machine (electronic) medium. Accordingly, there are requirements for the content and design of documents. Procedure of source documents creation and recording in the accounting registers is set by the Regulations about documentation ensuring of accounting records, approved by the Ministry of Finance of Ukraine of 24 May 1995 № 88.

The procedures for proper recordkeeping should be spelled out in an accounting procedures manual to assist personnel in understanding and applying of appropriate procedures. The manual should describe the flow of documents throughout the organization, the responsibilities of each person involved in the process, and instructions for appropriately preparing of documents and records. The manual should be periodically updated to reflect conditions that are changing.

Complete essence of documents and their place in the economic activity of the enterprise is displayed in their classification, division into groups according to certain criteria. Documents are classified by place of drawing up, by appointment, by the procedure of drawing up, by the method of using and by the content (fig. 4.1).

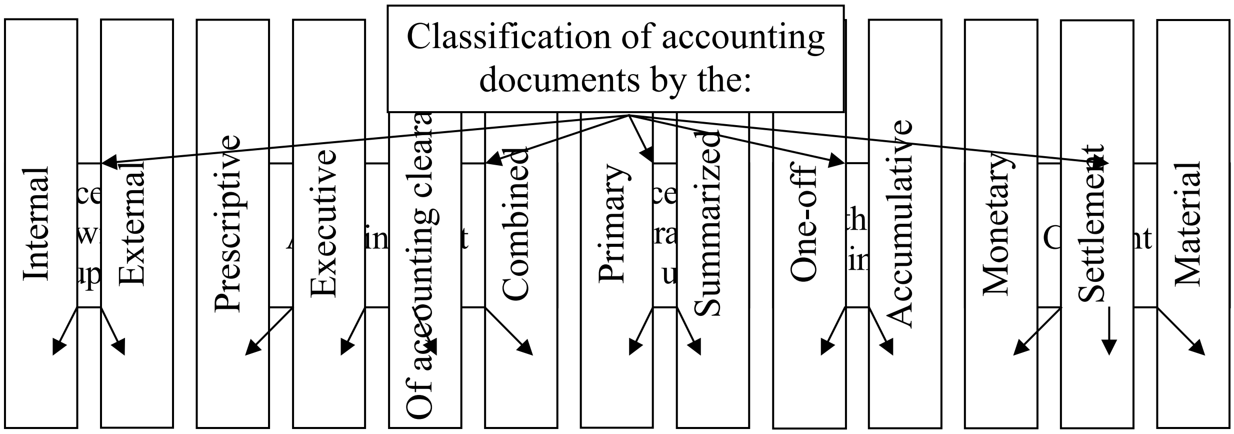

Fig. 4.1. Classification of accounting documents

By the place of drawing up accounting documents are divided into internal and external. Internal documents are drawn at the company and are used right there. These include advance reports of accountable persons, tables of working time records, fixed assets inventory cards, credit slip, etc. External documents are drawing up on the side, they are received from other companies and organizations. This includes invoices, payment orders, bank statements, resolutions, letters, contracts, etc.

By appointment documents are divided into prescriptive, executive, documents of accounting clearance and combined. Prescriptive documents contain orders (tasks) for a particular business transaction. These include orders for acceptance and dismissal from work, orders to bank for money transfer, etc. Executive documents confirm the fact of the business operations and its execution to some person who filed the document. These include advance reports, bank statements, statements, receipts, etc. Documents of accounting clearance are prepared on the basis of executive and administrative documents by staff accountants. These documents include: debit memo, various calculations (amortization, cost-sharing) and others. Combined documents unite functions of the above documents. An example of a combined document may be spending cash order, which contains order of the head about cash delivery and confirmation of its actual issuance and obtaining by signatures of the cashier and recipient of money.

By procedure of drawing up documents are divided into primary and summarized. Primary documents make up at the time of the business transaction (profit and expense cash orders, invoices, etc.). Summary documents are based on the homogeneous primary documents by grouping and summarizing of their indicator (cashier reports, expense reports, trade reports, payroll, etc.).

By the way of using documents are divided into one-off and accumulative. One-off documents simultaneously record one or more business transactions (orders, requirements, statements, etc.). Accumulative documents form information about business transactions over a certain period of time (day, ten days, month). Such documents are used repeatedly. These include timesheets, limit-fence card and so on.

By the content documents are divided into monetary documents (profit and expense cash orders, bank checks, etc.), settlement documents (invoices, receipts, etc.) and material documents (demand-waybill, invoices, limit-fence card etc.).

4.2. Accounting registers and their significance in generalization of information

All business transactions after registration by source documents are recorded in the accounting registers. Accounting register – a special table designed for displaying of documented business transactions in the system of accounts, accumulation and storage of accounting information.

Accounting registers – documents of special format (paper and machine) in the form of statements, magazines, books, journals, orders, etc., they are intended for chronological, systematic or combined savings, grouping, and summarizing of information from source documents which are taken into account. Writing to the accounting registers is performed on the basis of source accounting documents which record the facts of business transactions execution. Information is transferred to the accounting registers after checking of source documents in form and content.

Information about business transactions that were made by enterprise for the period is transferred in grouped form from accounting registers to the financial statements. In accounting various accounting registers are used according to the form, content and method of information displaying (fig. 4.2).

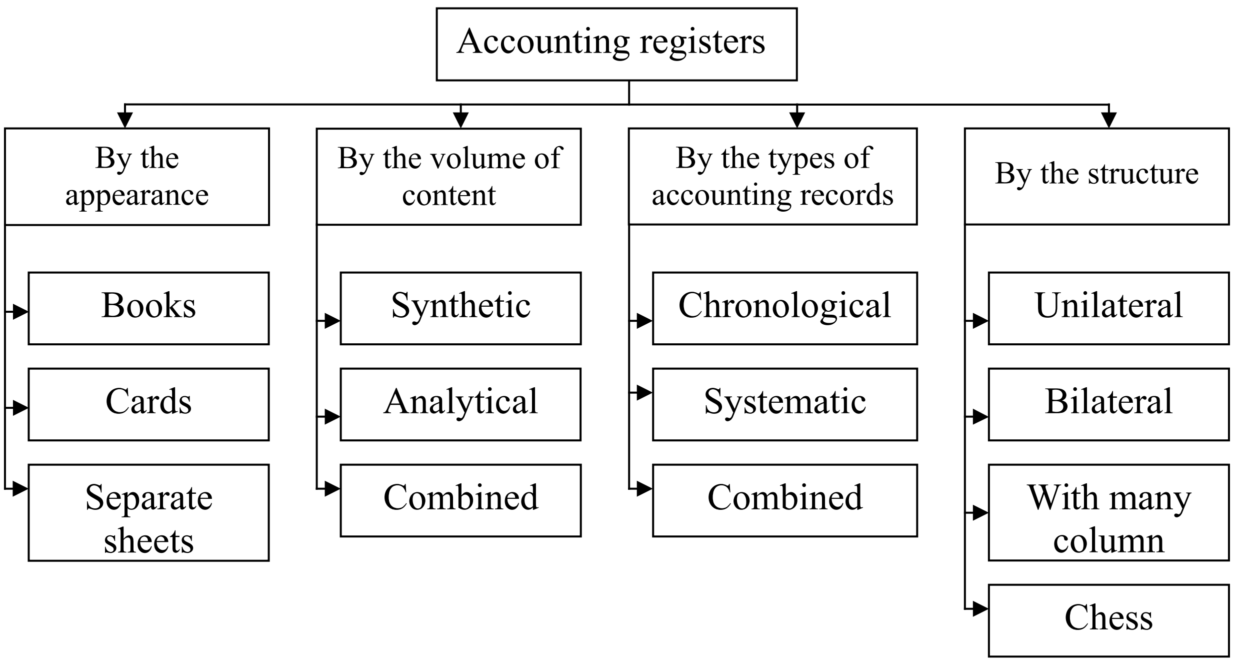

Fig. 4.2. Classification of accounting registers

Forms of accounting registers are recommended by the Ministry of Finance of Ukraine or developed by the ministries and agencies in compliance with the general methodological principles. So, now the issues of using of accounting registers are regulated by the Law of Ukraine "About accounting and Financial Reporting in Ukraine" dated July 16, 1999 p. № 966-XIV and methodological recommendations on the application of accounting registers approved by the Ministry of Finance of Ukraine of 29 December 2000 № 356. But display order of business transactions in accounting registers depends from the form of accounting that is used in the enterprise.

At the end of each month accounting registers are closed. This procedure includes the calculations of results on the debit, credit and balance for each synthetic and analytical accounts. The final information is transferred to the registers on which the statements are made up. System of records monitoring that is usually based on relationships and mutual control of data accounting registers is important. Thus, the overall result of turnovers on synthetic accounts for the reporting period that has been shown in accounting register on synthetic accounts should match the total of Journal of business transactions registration.

While completing of the accounting registers errors are possible. Error correction procedure depends on their nature and time of detection. There are three ways to correct errors: correcting method, "red reversal" method and method of additional records. Correcting method consists in the fact that incorrect record crossed out one slash so that you can read the crossed out, and write at the top correct value or text. Correction of errors should be reserved by title "Corrected" and confirmed by the signature.

Method "red reversal" is that incorrect accounting records makes in the same correspondence of accounts that false account, but in red, which means that negative numbers. In this case, the amount which was written in red ink, is subtracted (canceled). In computing data processing amount of "red reversal" should be taken in brackets or frame.

Method of additional records used in cases when accounting correspondence is drawn up correctly, but in a smaller amount than business operation is actually done. For correct such error it is necessary to additionally conduct operation on the difference between right and wrong (drawn) value.

4.3. Forms of accounting organization

Form of accounting – is a system of accounting registers, that includes the order and method of registration and summarizing of the information in these registers by using uniform accounting principles.

Each company chooses the appropriate form of accounting, based on the specific characteristics of economic activities and accounting data processing technology. Choice of accounting form is predetermined also by the volume of accounting procedures, their complexity, the availability of qualified accountants, features of using automated data processing systems, computing.

The basic distinctive features that define characteristics of individual accounting forms are: appearance, structure and quantity of accounting registers; registers combination of chronological and systematic recording, synthetic and analytical accounting; consistency and equipment of accounting registration.

Form of accounting as a reflection of a certain level of technology of accounting process must meet the following requirements:

– ensuring full and real reflection of economic operations in accounting registers;

– ensuring reasonable distribution of work between individual accounting staff for their prompt implementation;

– providing managers by information on the implementation of business plans for the company as a whole and for each subdivision;

– provision by necessary data processes of reporting, monitoring and economic analysis;

– providing efficiency of accounting process through its automation and scientific organization of accountants' labor.

At present in Ukraine there are four main forms of accounting: memorial-order, journal-order, simplified and computerized.

Journal-order form of accounting based on the wide application of cumulative accounting registers – journals and subsidiary sheets to them. Journal-order – a table, it records maintained by credit of one or more accounts, indicating debit accounts.

Complete and abbreviated journal-order forms are produced. Complete journal-order form has 17 log-orders and sheets to them. This form is used in large enterprises. Abbreviated journal-order form consists of seven log-orders used on medium-sized enterprises. The scheme of journal-orders form of accounting is shown in Fig. 4.3.

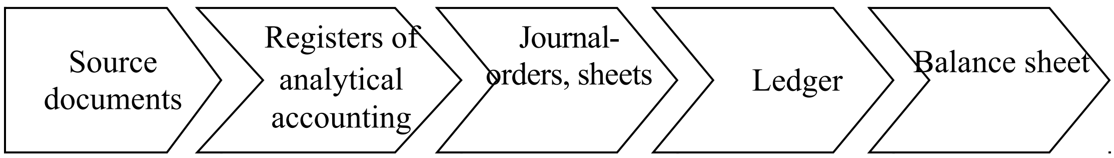

Fig. 4.3. Scheme of journal-orders form of accounting

Since the journal-order form is most common in use by enterprises and organizations of Ukraine, let's look more detailed the system of registers of journal-order accounting forms:

– Journal 1 "Accounting for cash and monetary instruments" and sheets to it;

– Journal 2 "Accounting for long-term and short term loans" and sheets to it;

– Journal 3 "Accounting for settlements, long-term and current liabilities" and sheets to it;

– Journal 4 "Accounting for non-current assets and financial investments" and sheets to it;

– Journals 5, 5A "Accounting for expenditures" and sheets to it;

– Journal 6 "Accounting for incomes and results of activity";

– Journal 7 “Accounting for equity and commitments ensuring”

Memorial order accounting form is characterized by the using of accounting books to conduct ensuring of synthetic accounting and cards – for analytical. The essence of the memorial-order forms consists in the fact that memorial orders are made up on the basis of issued and verified documents. In the memorial orders indicates summary and basis of economic transactions, corresponding accounts for the operation and amount. Compared with journal-order this form is more detailed, but contains a lot of duplicate information.

A simplified form of accounting is used for small businesses. Order of the Ministry of Finance of Ukraine from 15.06.2011, № 720 approved Methodical recommendations on the application of accounting registers by small businesses. Simplified accounting form provides the use of journals from 1 ms to 4 ms and sheets to them [10].

Small businesses with the negligible quantity of business transactions can perform a simple form of accounting – Journal of business transactions.

At this stage of accounting development in Ukraine an important place occupies automation of collection and processing of accounting information. Using of the automated accounting enables fully insure against many errors, since, as a rule, in an automated accounting is only one accounting registers and all other generated automatically, that’s why the risk of errors when transferring data between registers equal zero. In Ukraine significant amounts of software for automation of accounting are consumed, the most popular among them – “1C - Accounting”, “Parus”, “Finance without problems”, “Fin Expert” and others.

Tests for self-control

Each question contains one correct answer.

1. Cancelled checks, paid bills, payrolls, ledgers, bank reconciliations are an example of:
1) Accounting documents;
2) Accounting transactions;
3) Management documents;
4) Financial statements.

2. By appointment accounting documents are divided into:
1) Internal and external;
2) Primary and summarized;
3) Prescriptive, executive, of accounting clearance and combined;
4) Monetary, settlement and material.

3. Invoices, payment orders, bank statements, resolutions, letters, contracts are:
1) Accumulative documents;
2) External documents;

3) Monetary documents;
4) Internal documents.

4 The credit notes are issued with the purpose:
1) To record the total number of creditors;
2) To record a sale;
3) To record the delivery of goods;
4) To reduce the amount of payables.

5. Which of the following is a source document?
1) Journals;
2) Bank statement;
3) Ledger;
4) Cash book.

6. Which of the following statement about invoice is correct?
1) It is issued for cash sales;
2) It is issued when damaged goods are returned;
3) Issued by seller to a buyer;
4) Issued by buyer to the seller.

7. Which document contains the information about sales, returns, goods supplied?
1) Statement of account;
2) Invoice;
3) Bank statement;
4) Credit note.

8. Identify the correct order of documents used when goods are purchased on credit:
1) Delivery note, purchase order, payment by cheque;
2) Invoice, purchase order, payment by cheque;
3) Purchase order, invoice, payment by cheque;
4) Statement of account, invoice, delivery note.

9. Special table designed for displaying documented business transactions in the system of accounts, accumulation and storage of accounting information is called:
1) Balance sheet;
2) Statement of account;
3) Trial balance;
4) Accounting register.

10. Information to accounting registers is transferred from:
1) Source documents;
2) Ledger;
3) Negotiable statement;

4) Income statement.

11. Information about business transactions is transferred in grouped form from accounting registers to:
1) Journal of business transactions;
2) Financial statements;
3) Bank statement;
4) All of the listed.

12. Display order of business transactions in accounting registers depends on:
1) The form of accounting that is used in the enterprise;
2) Organizational form of the enterprise;
3) Shares of the enterprise on market;
4) Organizational structure of accounting department.

13. The procedure of registers closing includes the following activities:
1) Calculations of results on the debit, credit and balance for each synthetic accounts;
2) Calculations of results on the debit and credit for each synthetic and analytical accounts;
3) Calculations of results on the debit, credit and balance for each synthetic and analytical accounts;
4) Calculations of results on the debit, credit and balance for each analytical accounts.

14. Overall result of turnovers on synthetic accounts for the reporting period shown in accounting register should match the total of:
1) Bank statement;
2) Journal of business transactions registration;
3) Cash book;
4) Invoices.

15. Which way to correct errors in accounting registers does not exist?
1) Correcting method
2) "Red reversal" method;
3) Method of additional records;
4) Canceling method.

16. System of accounting registers, that includes the order and method of registration and summarizing the information in these registers by using uniform accounting principles is:
1) Accounting book;
2) Form of accounting;
3) Organization of accounting;
4) Accounting documentation.

17. What is the process of accounting forms selection?
1) Form of accounting is set by the tax authorities;
2) Each company chooses the appropriate form of accounting;
3) All companies have the same form of accounting.
4) There is no correct answer.

18. Which form of accounting should be used for small businesses?
1) Simplified form;
2) Journal-order form;
3) Memorial order form;
4) Computerized form.

19. At present in Ukraine there are:
1) Three main forms of accounting;
2) Four main forms of accounting;
3) Five main forms of accounting;
4) Six main forms of accounting.

20. Form of accounting must meet the following requirements:
1) Provision by necessary data processes of reporting, monitoring and economic analysis;
2) Providing managers information on the implementation of business plans for the company as a whole and for each subdivision;
3) Ensuring full and real reflection of economic operations in accounting registers;
4) All of the listed answers are correct.

THEME 5. ACCOUNTING OF NON-CURRENT ASSETS

5.1. The concept of fixed assets, their classification and evaluation.
5.2. Accounting for proceeds of fixed assets and capital investments.
5.3. Accounting for depreciation of fixed assets.
5.4. Accounting of expenditures on fixed assets improvement and their repair.
5.5. Accounting for disposals of fixed assets.
5.6. Features of accounting for other non-current tangible assets and intangible assets.

Dictionary

Acquisition	Придбання
Administrative expenses	Адміністративні витрати
Assets	Активи
At cost	За собівартістю, за первісною вартістю
Capital investments	Капітальні інвестиції
Copyright and allied rights	Авторське право та суміжні права
Cost that is depreciated	Вартість, що амортизується

Cumulative method	Кумулятивний метод
Depreciation of non-current assets	Амортизація нематеріальних активів
Distribution expenses	Витрати на збут
Fair value	Справедлива вартість
Fixed assets	Основні засоби
Fixed assets improvement	Поліпшення основних засобів
Future economic benefit	Майбутня економічна вигода
General manufacturing expenses	Загальновиробничі витрати
Goodwill	Гудвіл
Historical cost	Первісна вартість, фактична вартість придбання
Initial cost	Первісна вартість
Intangible assets	Нематеріальні активи
Inventory card of fixed assets	Інвентарна картка обліку основних засобів
Liquidation value	Ліквідаційна вартість
Manufacturing method	Виробничий метод
Market value	Ринкова вартість
Method of reducing the residual value	Метод зменшення залишкової вартості
Method of accelerated reduction of residual value	Метод прискореного зменшення залишкової вартості
Non-current assets	Необоротні активи
Other non-current tangible assets	Інші необоротні матеріальні активи
Regulation (standard) of accounting	Положення (стандарт) бухгалтерського обліку
Repair of fixed assets	Ремонт основних засобів
Residual value (book value)	Залишкова вартість
Revalued cost	Переоцінена вартість
Right to use property	Право користування майном
Rights for commercial designations	Право на комерційні позначення
Rights of industrial property	Право на промислову власність
Rights of natural resources use	Право користування природними ресурсами
Straight-line method	Прямолінійний метод
Tax Code of Ukraine	Податковий кодекс України
Useful life of a fixed asset	Строк корисного використання об'єкта основних засобів

5.1. The concept of fixed assets, their classification and evaluation

Methodological bases of formation of the information about fixed assets in accounting and disclosure of this information in the financial statements of companies, organizations and other entities of all forms of ownership are governed by Regulation (standard) of Accounting (R(s)A) 7 "Fixed Assets" [14].

According to abovementioned Regulation, *fixed assets* – tangible assets that are held by enterprise for use in the production or supply of goods, services, lease to others or to carry out of administrative, social and cultural functions; their expected useful life (exploitation) is more than one year (or operating cycle, if longer than a year).

There are many classifications of fixed assets used in the accounting in order to create the necessary management information: by the functional purpose, by the participation in economic activities, by belonging, by the degree of use, by term of exploitation, etc. Let us consider the most common of them.

For accounting purposes, non-current assets are classified into the following groups:

1. Fixed Assets
   - 1.1. Land
   - 1.2. Capital expenditures for land improvement
   - 1.3. Buildings, structures and transmission devices
   - 1.4. Machinery and equipment
   - 1.5. Vehicles
   - 1.6. Tools, instruments, equipment (furniture)
   - 1.7. Animals
   - 1.8. Perennial plantings
   - 1.9. Other fixed assets.
2. Other non-current assets
   - 2.1. Library funds
   - 2.2. Low-value non-current assets
   - 2.3. Temporary (denotified) facilities
   - 2.4. Natural resources
   - 2.5. Inventory container
   - 2.6. Subjects of rent
   - 2.7. Other non-current assets
3. Uncompleted capital investments

According to the above classification non-current assets are considered in the Tax Code of Ukraine and in R(s)A 7 "Fixed Assets".

Depending on the nature of participation in economic activity fixed assets are divided into productive (involved in production) and non-productive (not involved in production, but intended to service, meet cultural and social needs of workers).

On the criterion of belonging, fixed assets share to the own (belonging to the enterprise and recognized in the Balance sheet) and leased (not owned by the company and are not shown on the Balance sheet).

According to R(s)A 7 "Fixed Assets" object is recognized as asset when it is probable that the company will receive future economic benefits from its use and its cost can be reliably measured.

There are several types of evaluation of fixed assets in accounting (table 5.1).

Table 5.1

Types of fixed assets' evaluation

№	Type of evaluation	Characteristic
1.	The initial cost	Historical (actual) cost of fixed assets in the amount of cash or the fair value of other assets paid (transferred) for the acquisition (creation) of non-current assets.
2.	The fair value	The amount for which can be exchanged asset or liability settled as a result of the transaction between knowledgeable, interested and independent parties.
3.	Market value	Price that was determined by assessing of professional qualified valuers.
4.	Residual value (book value)	Initial value of fixed assets minus its depreciation. To the Balance sheet fixed assets are included according to residual value.
5.	The cost that is depreciated	Initial or revalued cost of fixed assets less their residual value.
6.	Revalued cost	Cost of fixed assets after revaluation.
7.	Liquidation value	Amount of money or value of other assets, which the company expects to realize from the sale (liquidation) of non-current assets at the end of their useful life (exploitation), less expenses related to its sale (liquidation).

Purchased (created) fixed assets are credited to the Balance sheet of the enterprise at initial cost. The initial cost of fixed assets consists of the following costs:

- amounts paid to suppliers and contractors for the execution of construction works (excluding indirect taxes);
- registration fees, government duties and similar payments that are made in connection with the purchase (receiving) of rights to fixed asset;
- the amount of import duties;
- the amount of indirect taxes in connection with the acquisition (creation) of fixed assets (if they are not reimbursed to the company);
- cost of risks insurance of fixed assets delivery;
- costs of transportation, installation, assembly, adjustment of fixed assets;
- other costs that are directly related to the bringing of assets to the state in which they are suitable for use with the planned purpose.

Financial costs are not included in the initial cost of fixed assets that were acquired (created) in whole or in part by borrowing.

Initial cost of fixed assets that were received free of charge is equal to their fair value on the date of given above costs.

The original value of fixed assets tat were included in the charter capital of the company is recognized as fair value, which should be agreed between the founders (participants) of the company.

The initial value of the fixed assets that were received in exchange for such an object is equal to the residual value of the transferred asset. The initial cost of fixed asset that were acquired in exchange (or partial exchange) for dissimilar asset is equal to the fair value of the transferred asset.

The initial value of fixed assets is increased by the expenses related with improving of the object (modernization, modification, finishing, further equipping, reconstruction, etc.), which leads to increasing of future economic benefits that are expected from the using of the object.

To account of fixed assets movement a relatively small number of primary documents is using. The list of such documents was ratified by the Ministry of Statistics of Ukraine of 12.29.1995, № 352 "On approval of typical forms of primary accounting" [9].

The most common primary documents that are used to record the fixed assets include:

- Typical form № OZ - 1 “Protocol of acceptance-transfer (internal moving) of fixed assets” composed in the event of objects receiving, transfer to other companies, displacement between the units of the enterprise;
- Performing of repair work and other activities of fixed assets improvement are issued by “Protocol of reception and transmission of repaired, reconstructed and modernized facilities” typical form № OZ – 2;
- Typical form № OZ - 3 “Protocol of writing off of fixed assets” is used for processing of fixed assets liquidation;
- Elimination of vehicles is arranged by the typical form № OZ - 4 “Protocol of writing off of motor vehicles”.

For synthetic accounting of fixed assets account 10 “Fixed assets” is provided by Chart of Accounts. It is recommended to use the following sub-accounts (accounts of second order) to account 10 “Fixed Assets”:

100. Investment Property
101. Land
102. Capital expenditures for land improvement
103. Buildings, structures and transmission devices
104. Machinery and equipment
105. Vehicles
106. Tools, instruments, equipment (furniture)
107. Animals
108. Perennial plantings
109. Other fixed assets

Account 10 “Fixed assets” is active, basic, inventory. Initial balance on this account reflects the initial or revalued cost of fixed assets, which are recorded on the Balance sheet of enterprise. Turnover on the debit of account – it is the amounts of the receipts of objects at initial cost and the amount of revaluation or surplus of fixed assets. Turnover on credit – is initial or revalued cost of objects that are eliminated for various reasons (liquidation, realization, free transfer, mismatch of criteria for asset, shortage) and the amount of spent devaluation of objects' value.

Also to show the presence and movement of non-current assets the following accounts are used: 11 "Other non-current tangible assets" 13 "Depreciation of non-current assets", 15 "Capital investments" and others.

Account 11 "Other non-current tangible assets" – active, basic, inventory. On the debit of account initial value of the arrived other non-current assets is displayed as well as the amount of costs related to improvements of objects and the amount of revaluation. On the credit of account 11 cancellation of object for various reasons and the amount of reduction are displayed. The following sub-accounts to the account 11 "Other non-current tangible assets" can be used:

111. Library funds
112. Low-value non-current assets
113. Temporary (denotified) facilities
114. Natural resources
115. Inventory containers
116. Subjects of rent
117. Other non-current assets

Account 13 "Depreciation of non-current assets" – passive, control to account 10 "Fixed Assets", 11 "Other non-current assets", 12 "Intangible Assets". Balance on this account represents the amount of depreciation of objects that are recorded on the Balance sheet. Turnover on credit shows the increase of depreciation. On credit of this account an increase of depreciation in connection with the revaluation of initial value also displayed. Turnover on debit shows the reduction of the amount of depreciation due to impairment or disposals of objects. To account 13 "Depreciation of non-current assets" can be opened such sub-accounts:

131. Depreciation of fixed assets
132. Depreciation of other tangible non-current assets
133. Accumulated amortization of intangible assets
134. Accumulated amortization of long-term biological assets
135. Depreciation of investment property

Account 15 "Capital investments" – basic, active, inventory, is intended to account the cost of acquisition or creation of tangible and intangible non-current assets. On the debit of account reflects an increase in costs that were incurred on the acquisition or creation of fixed assets, on credit – their cancellation (commissioning of acquired or created objects). Balance of this account reflects the cost of unfinished capital investments. It is recommended to use the following sub-accounts (accounts of second order) to account 15 "Capital investments":

151. Capital construction
152. Acquisition (manufacturing) of fixed assets
153. Acquisition (manufacturing) of other non-current tangible assets
154. Acquisition (creation) of intangible assets
155. Acquisition (growing) of long-term biological assets

Synthetic accounting of fixed assets movement conducted in the journal 4 that shows turnover on credit of accounts 10 "Fixed assets", 13 "Depreciation of non-current assets” and 15 “Capital investments”.

Analytical accounting on account 10 “Fixed assets” shall be kept per separate inventory facilities of fixed assets. The system of analytical accounting shall make possible the reception of data about existence and movement of fixed assets (according to types, location, etc.).

For analytical accounting of fixed assets the following registers are appointed:

– “Inventory card of fixed assets", typical form № OZ - 6;

– “Description of the inventory cards of fixed assets accounting”, typical form № OZ - 7;

– “Card of the movement of fixed assets”, typical form № OZ - 8;

– “Inventory list of fixed assets”, typical form № OZ - 9.

5.2. Accounting for proceeds of fixed assets and capital investments

Proceeds of fixed assets can be carried out by the different ways: acquisition for fee, construction (by contractors and commercial methods), as contributions of founders to the authorized capital, free reception, receiving in exchange for dissimilar objects.

In accounting formation of total expenditures for capital investments on individual objects is carried out. This amount is the initial value of fixed assets, the composition of which is given in R(s)A 7 “Fixed Assets”. Collection of costs associated with the capital investments in non-current assets occurs on account 15 “Capital investments”, which was discussed above.

Operations of proceeds of fixed assets and formation of initial value are considered in Example 1.

Example 1. The company purchased equipment of the price 4800 UAH, including VAT. In addition, it paid the shipping costs of equipment in the amount of 360 UAH, including VAT and cost of assembly and equipment installation in the amount of 350 UAH (table 5.2).

Table 5.2

The journal of business transactions registration to Example 1

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	5
1.	Equipment were received by supply agreement	152	631	4000
2.	The amount of VAT that is included in the cost of equipment was displayed	641	631	800
3.	Paid to supplier from the checking account	631	311	4800
4.	Transportation costs were displayed	152	631	300
5.	The amount of VAT that was included in the transportation costs was displayed	641	631	60
6.	Paid for transport services from the checking account	631	311	360
7.	The costs for the assembly and installation of	152	66,65	350

	equipment were reflected			
8.	Equipment was accepted to objects of fixed assets	104	152	4650

Example 2. Acquisition of fixed assets for cash.

The company acquired in LLC "Delta" new car of "Nissan" under a purchase contract № 25 on 31.03.2013 at a price of 168 000 UAH. The account of supplier № 72 and tax invoice № 8 on 01.04.2013 was received. Account of the supplier has been paid 05.04.2013 by bank transfer (table 5.3).

Table 5.3

The journal of business transactions registration to Example 2

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	5
1.	Capital investment on the basis of account for received car was increased	152	631	140000
2.	The amount of VAT that was included in the cost of the car is displayed	641	631	28000
3.	Account of the supplier LLC "Delta" was paid	631	311	168000
4.	Fee at the mandatory pension insurance was accrued (3% from initial cost)	152	651	4200
5.	The fee for the first registration of the vehicle was accrued	152	642	382,22
6.	Fee at the mandatory pension insurance was paid	651	311	4200
7.	The fee for the first registration of the vehicle was paid	642	311	382,22
8.	Car was commissioned	105	152	144582,22

Example 3. Receipts of fixed assets in order of free transfer.

10.08.2013 the company received free from LLC "Sail" computer, initial cost of which is 4500 UAH. Accumulated depreciation is 1200 UAH. Market value of fixed asset is 3700 UAH. The computer was commissioning to the accounting department.

Enrollment of computer to enterprises' balance is displayed as follows:

Debit 104 "Machinery and equipment" – 3700 UAH

Credit 424 "Non-current assets received free of charge" – 3700 UAH

According to the Tax Code of Ukraine, fixed assets that were received free of charge should be recognized in the tax revenues. And since in operations with obtained free of charge fixed assets there are no expenses, depreciation for tax purposes is not made.

Example 4. Receipts of fixed assets as a contribution of founders to the authorized capital of the company.

The company has received factory building as contribution to the authorized capital from LLC "South". Agreed value of the building was 240000 UAH. Company "South" is a VAT payer. In accounting this operation is shown as follows:

1) Building was transferred to the enterprises' balance at the fair value:

Debit 103 "Buildings, structures and transmission devices" – 20000 UAH

Credit 46 “Unpaid capital” – 200000 UAH.

2) The tax credit under the tax invoice was shown:

Debit 641 "Payments for taxes" – 40000 UAH

Credit 46 "Unpaid capital" – 40000 UAH.

In accordance with paragraphs 136.1.3 of the Tax Code of Ukraine receiving of property in the form of contributions to the authorized capital will not result to increasing of income in tax accounting. Such objects are shown as non-current assets in the respective groups.

Example 5. Manufacturing of fixed assets by commercial method.

In September 2013 the company carried out the construction of office room through its own construction crews. To build it the company purchased materials. Account № 51 for the amount of 1200 UAH and tax invoice № 43 on 11.09.2013 was received from the supplier. Account of the supplier was paid by bank transfer. In September, all purchased building materials were completely spent for building purposes. Wages for builders amounted 5600 UAH, all required deductions from wages on social measures were conducted. Building was commissioned. Accounting entries for transactions effected are shown in the table 5.4.

Table 5.4

The journal of business transactions registration to Example 5

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	5
1.	Construction materials from the supplier were received	205	631	10000
2.	Tax credit according to the tax invoice was reflected	641	631	2000
3.	Account of the supplier was paid from checking account	631	311	12000
4.	Materials for the construction of the office were spent	151	205	10000
5.	Wages for builders were accrued	151	661	5600
6.	Deductions on social measures from wages (total amount of contributions - 38%) were carried out	151	651	2128
7.	Building of office was commissioned	103	151	17728

5.3. Accounting for depreciation of fixed assets

Though it may be long, the useful life of a fixed asset is limited. Eventually the asset will lose all productive worth and will possess only salvage value or scrap value. The accrual basis of accounting demands a period- by-period matching of costs against derived revenues. Hence the cost of a fixed asset (over its residual value) is distributed over the asset's entire estimated lifetime. This spreading of the cost over the periods that receive benefits is known as depreciation.

According to R(s)A 7 “Fixed Assets” depreciation – a systematic allocation of the cost of fixed assets that is depreciable over their useful life (exploitation). Also, this document establishes general rules for accounting of depreciation of fixed assets:

– Depreciation is carried during the term of useful life, which is set by enterprise in the time of object enrolling to the balance;

– Companies themselves select the depreciation method based on the expected method of obtaining economic benefits from its use;

– Depreciation is calculated monthly;

– Depreciation begins from the month that is following the month in which the fixed asset was suitable for use;

– Depreciation calculating ends, beginning with the month that is following the month of fixed assets disposals;

– The amount of accumulated depreciation all enterprises reflect by growing of company's costs and depreciation of fixed assets;

Also these rules accompany depreciation in terms of taxation. As by the Tax Code, and R(s)A 7 "Fixed Assets" five methods of depreciation are identified:

1. Straight-line method under which annual depreciation is determined by dividing the cost that is depreciated on the useful life of fixed assets;

2. Method of reducing of the residual value, on which annual depreciation is calculated by multiplying the residual value of the object at the beginning of the year or the initial value for the start date of depreciation and annual depreciation rate. Annual depreciation rate (percentage) is calculated as the difference between one and the result of root level of years of object's useful life from the result of dividing the liquidation value of its initial value;

3. Method of accelerated reduction of residual value, on which annual depreciation is calculated by multiplying the residual value of the property at the beginning of the year or the initial value for the start date of depreciation and annual depreciation rate, which is calculated based on the useful life of the object and doubles;

4. Cumulative method by which annual depreciation is calculated by multiplying the cost, that is depreciated, and the cumulative coefficient. Cumulative coefficient is calculated by dividing the number of years remaining until the end of useful life of the fixed assets, amounting to the number of years of its useful life;

5. Manufacturing method by which monthly depreciation is calculated by multiplying the actual monthly amount of goods (works, services) and production rate of depreciation. The production rate of depreciation is calculated by dividing the value that is depreciated on the total amount of goods (works, services), which the company expects to produce (perform) using the assets.

Depreciation in accounting is recorded at credit of account 13 "Depreciation of non-current assets" and debit of expenses accounts:

23 "Production" – for the fixed assets that are used in the production process;

91 "General manufacturing expenses" – for the objects that are used in production units (equipment, buildings of workshops, etc.)

92 “Administrative expenses” – for the objects of general business purpose (office buildings, office equipment, motor vehicles and others.)

93 “Distribution expenses” – for the objects that prove sales process.

94 “Other operating expenses” – for the objects of social infrastructure of the enterprise.

Amounts of accumulated depreciation are also displayed on the debit of off-balance sheet account 09 “Depreciation”. With further acquisition of fixed assets and carrying out capital expenditure of their improvement on credit of account 09 shows the use of depreciation.

Calculation and displaying of depreciation in accounting by various methods are considered in examples.

Example 6. In September 2010, the company purchased a melting machine. Cost of machine – 50000 UAH, the term of its useful life – 4 years, the expected liquidation value – 2000 UAH. Total production of melting machine is 36000 pcs. Machine will be used in machine workshop. Calculate the annual depreciation of machine, using different methods.

Straight-line method is the simplest and most widely used depreciation method. Under this method, an equal portion of the cost of the asset is allocated to each period of using (table 5.5).

Annual depreciation is equal to:

$$Annual\ deprisiation \equiv \frac{The\ \cos t\ that\ is\ depreciated}{Term\ of\ useful\ life} \qquad (1)$$

Table 5.5

Calculation of depreciation by straight-line method

The year	Initial value, UAH	Annual amount of depreciation, UAH	Calculation	Residual value on the end of the year, UAH	Amount of accumulated depreciation, UAH
1	50000	12000	(50000-2000) / 4 = 12000 UAH	38000	12000
2	50000	12000		26000	24000
3	50000	12000		14000	36000
4	50000	12000		2000	48000

Method of reducing of the residual value is an accelerated method of depreciation because a greater amount of depreciation is taken in the early years of an asset's useful life. This method is preferred for the following reasons:

- technology can make an asset obsolete or inadequate before the asset wears out;
- most plant assets decline in value more quickly in their early years than in later years;
- often, an asset contributes most to a business during its first years;
- the expenditure for equipment is made at the beginning of the asset's life.
- it is good accounting practice to charge more depreciation in the early years of an asset's useful life.

According to this method, annual depreciation rate is equal to:

$$Annual\ depreciation\ rate = 1 - \sqrt[n]{\frac{Liquidation\ value}{Initial\ value}} * 100\% = 1 - \sqrt[4]{\frac{2000}{50000}} * 100\% = 55.3\%, \quad (2)$$

where *n* – is the term of useful life

The annual depreciation is calculated as follows:

$$Annual\ depreciation = \mathrm{Re}\,sidual\ value * Annual\ depreciationr\ rate \quad (3)$$

Calculation of depreciation by method of reducing of the residual value is presented in table 5.6.

Table 5.6

Calculation of depreciation by method of reducing of the residual value

The year	Initial value, UAH	Annual amount of depreciation, UAH	Calculation	Residual value on the end of the year, UAH	Amount of accumulated depreciation, UAH
1	50000	27650	50000 x 0,553 = 27650	22350	27650
2	50000	12360	22350 x 0,553 = 12360	9990	40010
3	50000	5524	9990 x 0,553 = 5524	4456	45534
4	50000	2456	4456-2000 = 2456	2000	48000

Method of accelerated reduction of residual value produces the highest amount of depreciation in earlier years. Many companies prefer this method because of the faster write-off in the earlier years when asset contributes to the business in most part and when the expenditure was actually made.

The annual depreciation rate is equal to:

$$Annual\ depreciation\ rate = \frac{100\%}{Term\ of\ useful\ life} = \frac{100\%}{4} = 25\% \quad (4)$$

The annual depreciation is calculated as follows:

$$Annual\ depreciation = \mathrm{Re}\,sidual\ value * Annual\ depreciation\ rate * 2 \quad (5)$$

Calculation of depreciation by method of accelerated reducing of the residual value is presented in table 5.7.

Table 5.7

Calculation of depreciation by method of accelerated reduction of residual value

The year	Initial value, UAH	Annual amount of depreciation, UAH	Calculation	Residual value on the end of the year, UAH	Amount of accumulated depreciation, UAH
1	50000	25000	50000 x 0,25 = 25000	25000	25000
2	50000	12500	25000 x 0,25 = 12500	12500	37500
3	50000	6250	12500 x 0,25 = 6250	6250	43750
4	50000	4250	6250-2000 = 4250	2000	48000

The fourth method of depreciation is *cumulative method* (table 5.8). It is an accelerated method that allows more depreciation expense to be recorded in the early years of an asset's life and less in the later years. To determine depreciation expense under this method, the cost that is depreciated is multiplied by a cumulative coefficient. Cumulative coefficient is a fraction, in the numerator of this fraction is the years remaining in the asset's life, but in reverse order. It changes each year. The denominator is the sum of all the digits making up the life of the asset, it remains constant (in our example 1+2+3+4 = 10).

Table 5.8

Calculation of depreciation by cumulative method

The year	Initial value, UAH	The cost that is depreciated, UAH	Cumulative coefficient	Annual amount of depreciation, UAH	Calculation	Residual value on the end of the year, UAH	Amount of accumulated depreciation, UAH
1	50000	48000	4/10 = 0,4	19200	48000 x 0,4 = 19200	30800	19200
2	50000	48000	3/10 = 0,3	14400	48000 x 0,3 = 14400	16400	33600
3	50000	48000	2/10 = 0,2	9600	48000 x 0,2 = 9600	6800	43200
4	50000	48000	1/10 = 0,1	4800	6800-2000 = 4800	2000	48000

Under the *manufacturing method*, a fixed amount of depreciation is allocated to each unit of output that was produced by the machine. The per-unit depreciation expense is multiplied by the number of units that were produced in each accounting period. This depreciation method accurately reflects the depreciation expense for the asset because it is based on the number of units that were produced in each period. Depreciation per unit is computed in two steps:

$$\Pr oduction\ rate = \frac{The\ \cos t\ that\ is\ depreciat\,ed}{Total\ ammount\ of\ product\ that\ company\ \exp ects\ to\ produse} \quad (6)$$

$$Monthly\ depreciation = Actual\ monthly\ output * \Pr oduction\ rate\ of\ depreciation \quad (7)$$

5.4. Accounting of expenditures on fixed assets improvement and their repair

Maintenance of fixed assets in condition suitable for use needs their periodic repair. Repairs of fixed assets are classified:

1) by type – current and capital;
2) as belonging – repair of own and leased fixed assets;
3) by the method of conducting – by own forces and contracting process;

4) in relation to economic activity – reparation of production or non-production assets and more.

Current repair involves performing of minor works: correct or partial replacement of individual parts of fixed assets, maintaining them in good working order. This repair does not increase the benefits that were planned to get from repaired asset. Thus, the costs of current repair are not included to the cost of fixed asset (not capitalized) and are included to expenses of the current period (Debit of accounts 91, 92, 93, 94 depending on spheres of using). Current repair can be carried out on their own and by contractors.

Current repair of fixed assets by economic means was considered at below example.

Example 7. In October 2012 machine tool was renovated by the company's workers of subsidiary repair shop. For repair were spent supporting materials in amount of 1150 UAH and spare parts in amount of 800 UAH. Wages to workers for repairs were 3700 UAH. All required contributions from wages on social measures (38%) were conducted.

Accounting records of transactions are presented in table 5.9.

Table 5.9

Accounting of expenditures on current repair by own forces of enterprise

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	5
1.	Supporting materials for repair were realized	23.1*	201	1150
2.	Spare parts for repair were realized	23.1	207	800
3.	Wages for workers were accrued	23.1	661	3700
4.	Deductions on social measures from wages (total amount of contributions - 38%) were carried out	23.1	651	1406
5.	Repair costs were included into the general production expenses	91	23.1	7056

* sub-account 23.1. "Repair workshop"

In case of contracting method, payments are carried out for work performed according to accounts that were issued by supplier (contractor). Repair of fixed assets by service of contractors can be displayed by the following accounting entities:

1. Services on current repair were performed by contractor:
   Dr 91,92,93,94 Cr 63
2. Tax credit under the tax invoice was reflected:
   Dr 641 Cr 631
3. Account of contractors for work performed was paid:
   Dr 63 Cr 31

When the capital repair of fixed assets is carried out at the company, replacement of worn designs and components and their renewal (upgrade, retrofit, modification, completion, reconstruction) took place. Such events lead to increase in those benefits that the company originally planned to get from the use of fixed assets. Therefore, the cost of capital repair increases the initial value of fixed assets (in the debit account 15 "Capital investments").

Correspondence of accounts for transactions with improvement of fixed assets is represented in table 5.10.

Table 5.10

Transactions of fixed assets improvement

№	Particulars	Dr	Cr
1	2	3	4
Capital repair is done directly by the enterprise			
1.	Materials to capital repair were used	15	20
2.	Salary for works of capital repair were accrued and contributions to social measures were made	15	66, 65
3.	Capital expenditures were attributed to increase the initial cost of fixed assets	10	15
Capital repair performs by contracting organization			
4.	Current repair works performed by the contracting entity were adopted	15	63
5.	Account of contractors for work performed was paid	63	31
6.	Capital expenditures were attributed to increase the initial cost of fixed assets	10	15

Displaying of repair costs in tax accounting has certain peculiarities. The initial cost of fixed asset is increased by the costs associated with the repair and improvement of fixed assets (modernization, modification, completion, retrofit, renovation), which leads to increase in the future economic benefits of the expected use of objects in amount that exceeds 10% of the book value of all groups of fixed assets at the beginning of the tax year.

Amount of costs associated with the repairs and improvement of fixed assets (including leased) in amount not exceeding 10% of the aggregate book value of all groups of fixed assets at the beginning of the year, refers to the cost of the tax period in which such repairs and improvements was conducted. Should be noted that in tax accounting to the improvement of fixed assets are included both current and capital repairs, the cost of which is within the limit of the repair can be included in tax expense.

Under the rules of the Tax Code repair limit applies to the aggregate book value of all groups of assets that are depreciated at the beginning of the tax year. Procedure for calculating of repair limit is considered an example.

Example 8. As of 01.01.2013, the carrying value of fixed assets of the company is amounted 600000 UAH. Repair limit on 2012 year – 60000 UAH (600000* 10%). In I quarter of this year, the cost of repairs was 10000 UAH.

In II quarter company spent on repairing 70000 UAH. Thus, in the II quarter of the year the company is entitled to carry in the costs only 50 000 UAH (60000 - 10000), and the remaining 10000 UAH refers to increase book value of the relevant group proportionally to the costs that were incurred.

5.5. Accounting for disposals of fixed assets

Fixed assets can be written off from the balance of the company as a result of liquidation, sales, free transfer and inconsistencies criteria of asset. In any case, writing off of depreciation and residual value of withdrawn object takes place. These operations are also associated with the receipt of income and expenditure, which is reflected in the accounts of 7 and 9 classes and affects financial results.

According to R(s)A 27 “Non-current assets held for sale and termination of activity”, fixed assets that are recognized as held for sale shall should be transferred to the current assets if they will be sold within one year. If the residual value of the object exceeds its fair value, the excess amount is recognized as other operating expenses.

Example 9. Sales of fixed assets for cash.

LLC "Spring" sells industrial equipment on contractual value 150 000 UAH, including VAT under the contract № 25 from 05.12.2008. There are account № 85 and tax invoice № 65 from 07.12.2008. Account was paid by bank transfer. Initial cost of the object is 112000 UAH, amount of depreciation at the time of retirement – 54000 UAH. Wages of workers for removal of plant and machinery was 5200 UAH. All required deductions from wages for social events were conducted in amount of 2000 UAH.

The following entries were compiled in table 5.11.

Table 5.11

Accounting for sale of fixed assets

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	5
1.	The object was transferred to the non-current assets held for sale	286	104	58000
2.	Depreciation of fixed asset was written off	131	104	54000
3.	Revenue from the sale of equipment was displayed	377	712	150000
4.	Value added tax was reflected	712	641	25000
5.	Equipment was written off from the balance of the enterprise	943	286	58000
6.	Wages to factory workers were accrued	943	66	5200
7.	Contributions on social measures from wages were made	943	66	2000

Contributions to the charter capital of other companies are regarded as long-term financial investments. To summarize the information about the presence and movement of long-term investments in the authorized capital of other enterprises that are established in the territory of Ukraine or abroad, active account 14 “Long-term financial investments” is designed.

According to the paragraph 146.17 article 146 of the Tax Code of Ukraine transactions with contributions of fixed and intangible assets to the authorized capital to another person are equal to the sale or other alienation of fixed assets and intangible assets and is taxed by value added tax.

Example 10. Retire of fixed assets due to a contribution to the authorized capital of another company.

LLC "Orchid" transferred to the authorized capital of LLC “Autumn” factory building. Initial value of building was defined at 135000 UAH, depreciation – 36000 UAH. By agreement of the parties the cost of building was estimated at 180000 UAH, including VAT.

Table 5.12

Accounting for the contribution of fixed assets to the authorized capital

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	5
1.	Depreciation of building was written off	131	103	36000
2.	Residual value of building was written off	14	103	99000
3.	The difference between the cost of investments and residual value was displayed	14	746	81000
4.	Tax liability of VAT was reflected	746	641	13500
5.	Income was shown in the financial result	746	793	67500

Free transfer of assets in accounting is not recognized as income: capital is not growing, assets are not increasing and liabilities are not decreasing. In addition, in result of operations of the free transfer of assets enterprise does not expect any economic benefits. Free transfer of assets is costly (unprofitable) operation, because while assets were withdrawn from the balance sheet, therefore, equity was reduced by the book value of assets withdrew (after which they cease to be assets). The amount of VAT charged as a liability to the budget due to the free transfer based on normal prices for such assets.

Operations with free transfer of assets to other entities (both legal entities and individuals), including non-profit organizations and institutions, are inherently operations of alienation of fixed assets and are recognized in tax accounting in accordance with paragraph 146.13 article 146 of the Tax Code of Ukraine. In this case, income from the alienation of fixed assets is determined on the basis of normal price for such objects.

Example 11. Disposals of fixed assets in order of free transfer.

LLC "Sana" carries free transfer of car that was bought for cash. Initial value of the car is 68000 UAH, depreciation is 23500 UAH. In accounting shall be made the following entries:

1) Residual value of the car was written-off:

Dr 976 "Write-off of fixed assets" 44500

Cr 105 "Vehicles" 44500

2) Depreciation of the car was written-off:

Dr 131 "Depreciation" 23500

Cr 105 "Vehicles" 23500

3) Liability of VAT becomes chargeable from the residual value of fixed asset (44500*0,2= 8900):

Dr 976 "Write-off of fixed assets" 8900

Cr 641 "Payments for taxes" 8900

To determine the profit or loss from liquidation of fixed assets it is necessary to compare income that will be received from such liquidation with the costs. According to the paragraph 146.16 article 146 of the Tax Code in the case of liquidation of fixed assets by the decision of taxpayer or in case of independent from the taxpayer circumstances, property (part of them) are destroyed, stolen or liquidated, or the taxpayer is forced to stop using such fixed assets as a result of the threat or imminence of change, destruction or elimination, taxpayer in the accounting period in which there are such circumstances, should increase costs in the amount of value that is depreciated, net of accumulated depreciation of individual assets. If in the case of liquidation of fixed assets the company gets inventories that can be used in economic activities and realized, in accordance with paragraphs 135.5.14. article 135 of Tax Code, this inventories recognizes such assets in the reporting period and their value is included into the taxable income.

Example 12. Accounting for liquidation of fixed assets

The company "Happiness" decided to liquidate the asset (building structure). Initial cost and accumulated depreciation is 150 000 UAH and 60000 UAH respectively, liquidation value is set at zero. As a result of the object's liquidation, building materials for the total amount of 10000 UAH were obtained. In the process of liquidation were employed workers, their wages amounts 1500 UAH. Rate calculation of a single social contribution (conventionally) is 37.26%. The results of this operation are given in the table 5.13.

Table 5.13

Accounting for liquidation of fixed assets

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	5
1.	The amount of accumulated depreciation was written off	131	103	60000
2.	The amount of residual value was written-off	976	103	90000
3.	Building materials from liquidation were received	205	746	10000
4.	Wages to employees for liquidation were accrued	976	661	1500
5.	Single social contribution from wages was displayed	976	651	558,90

5.6. Features of accounting for other non-current tangible assets and intangible assets

Other non-current tangible assets include objects, working lifetime of which is more than 12 months, but which does not included as part of fixed assets. The basic list of these objects corresponds to account 11 "Other non-current tangible assets" and is shown in R(s)A 7. These include library funds, low-value non-current assets, natural resources, inventory containers, subjects of rent and other non-current assets.

On the debit of account 11 "Other non-current assets" reflects receipt at initial value of purchased, created or received free of charge other non-current tangible assets and the amount of expenses associated with improved of this object (reconstruction, modernization); and the amount of revaluated cost of non-current intangible assets. On the credit of account 11 “Other non-current assets” reflects disposal of other tangible fixed assets as a result of the sale, free transfer or inconsistency the criteria for recognition of assets; in the case of a partial liquidation of the object; the amount of their markdown.

Other non-current assets are recorded at initial cost. Moreover, the process of acquisition of such assets and their documentation is similar to capitalization of fixed assets.

Method of depreciation for the other tangible non-current assets is determined by enterprises independently on the basis of expected term of their use (should be fixed in the order of the company's accounting policies). According to R(s)A 7, depreciation is calculated over the term of use (operation) of facility that the company must sets up while the recognition of this object as asset to recording in the balance. This period may be terminated for a period of reconstruction, modernization, completion, retrofit and conservation of specified asset.

When calculating the depreciation to other tangible fixed assets methods defined by paragraph 27 R(s)A 7 are used: straight-line and manufacturing methods. Depreciation of low value non-current tangible assets and library funds may be charged by choice of the enterprise at the following methods:

1) in the first month of the facility using – at 50% of its value, which is amortized and the remaining 50% – in the month of removal of assets (the cancellation from the balance) due to inconsistencies criteria for recognition of an asset or

2) in the first month of use of the facility in the amount of 100% of its value.

Depreciation is reflected on the credit of account 132 “Depreciation of other non-current tangible assets” and debit of expenses’ accounts in accordance with the directions of their using in the enterprise (for production, management and administrative purposes, marketing, another operations).

Depreciation is reflected on the accounts of operations as follows:

– Accrued depreciation of assets that are used directly in the process of production: Dr 23 Cr 132;

– Accrued depreciation of fixed assets that are used in the enterprise’s office: Dr 92 Cr 132;

– Accrued depreciation of assets that are used in dining room of enterprise: Dr 949 Cr 132 and other.

Typical operations with other non-current tangible assets and their accounting are presented in table 5.14.

Table 5.14

Accounting for transactions with other non-current tangible assets

№	Particulars	Dr	Cr
1	2	3	4
1.	Other non-current tangible assets were received in accordance with the sales contract	153	631
2.	Other non-current tangible assets were purchased by the imprest	153	372

3.	Other non-current tangible assets were obtained as a contribution to the share capital	11	46
4.	Other non-current tangible assets were obtained free of charge	11	42
5.	Other non-current tangible assets were transferred into the operation (were commissioned)	11	153
6.	Depreciation for other non-current tangible assets was accrued	23, 39, 91, 93, 93, 94	132
7.	Other non-current tangible assets were decommissioned	132	11

Intangible assets – non-monetary assets that have no physical form and can be identified. Methodological principles of formation in accounting information about intangible assets and disclosures in the financial statements are set out in Regulation (standard) of accounting 8 "Intangible Assets" [15].

Purchased or obtained intangible assets are shown in the Balance sheet if it is probable that future economic benefits associated with its use will be obtained and its cost can be reliably determined.

The following is not recognized as an intangible asset and is recognized as an expense of the period in which they were made:

– costs of research;
– the cost of training and retraining;
– expenditure on advertising and promotion of products on the market;
– costs of establishing, reorganizing and moving of the company or its part;
– costs of increasing of the enterprise's reputation, the cost of publications and the cost of creating brands (trademarks).

For recording and summarizing of information about presence and movement of intangible assets account 12 "Intangible assets" is intended by Chart of accounts. On debit of this account shows a purchase or receive of intangible assets and the amount of their revaluation surplus, on credit – disposal of intangible assets through sale, free transfer and the amount of reduction of intangible assets.

Account 12 "Intangible assets" – active, balance, synthetic, has the following sub-accounts that meet certain groups of intangible assets:

121 "Rights of natural resources use" (keeps records of the presence of subsoil use rights and other resource of the environment, geological and other information about them);

122 "Right to use property" (keeps records of the presence of use rights for land plots, buildings, rights to premises etc.);

123 "Rights for commercial designations" (keeps records of the presence of rights to trademarks (marks for goods and services), trade name (brand), etc.);

124 "Rights of industrial property" (keeps records of the presence of rights to inventions, utility models, industrial designs, plant varieties, animal breeds, layout (topographies) of integrated circuits, trade secrets, and so on);

125 "Copyright and allied rights" (keeps records of the presence of copyright, literary, artistic, musical works, computer programs, compilations of data (databases), performance, phonogram, etc.);

126 “Goodwill” (keeps records of goodwill – the excess of the cost of acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities at the acquisition date);

127 “Other intangible assets” (keeps records of intangible assets that are held by the company and are not reflected in the previous five sub-accounts: right to operate, the use of economic and other privileges, etc.).

Sub-account 154 “Acquisition (creation) of intangible assets” is intended to account for the costs that are associated with the acquisition (the creation) of intangibles. On the debit of this account all expenses that compile the initial value of intangible assets are shown, and on the credit – cancellation of their initial value is shown.

Depreciation of intangible assets (other than the right to permanent use of land) is carried out during the period of their useful life, which is set by the enterprise (in the directive act). Intangible assets with indefinite useful life do not belong to subjects of depreciation.

The method of depreciation of intangible assets is chosen by the company on the basis of future economic benefits. If these conditions can not be determined, depreciation is calculated by the straight-line method. Accrual of depreciation begins in the month that follows the month in which the intangible asset was available for use and stops from the month that follows the month in witch intangible asset was disposal.

To summarize the information about accrued depreciation of intangible assets account 13 “Depreciation of non-current assets” and sub-account 133 “Depreciation of intangible assets” is designed. On the credit of sub-account 133 amount of intangible assets depreciation is reflected, on the debit – amount of wear reducing.

Tests for self-control

Each question contains one correct answer.

1. The book value (residual) of an asset is defined as:
1) Initial cost minus liquidation value;
2) Initial cost minus accumulated depreciation;
3) Initial cost minus liquidation value minus accumulated depreciation;
4) Estimated fair market value.

2. By which value fixed asset can be exchanged as a result of the transaction between knowledgeable, interested and independent parties?
1) Initial cost;
2) Residual (book value);
3) Fair value;
4) Market value.

3. Which costs are not included into the initial cost of fixed assets?
1) The amount of import duties;
2) Amounts that were paid to suppliers and contractors;
3) Registration fees and government duties;
4) Financial costs.

4. Which register is used for analytical accounting of fixed assets?
1) Card of stock control;
2) Inventory card of fixed assets;
3) Limit-taking card;
4) Protocol of acceptance-transfer (internal moving) of fixed assets.

5. Which of the following accounts are passive?
1) 10 "Fixed assets";
2) 11 "Other non-current tangible assets";
3) 13 "Depreciation of non-current assets";
4) 15 "Capital investments".

6. Which of the following objects is part of the intangible assets?
1) Computer;
2) Software;
3) Guide to the legal regulation of economic activity;
4) Office Furniture.

7. Systematic allocation of the cost of fixed assets over their useful life (exploitation) is called:
1) Depreciation;
2) Proceeds;
3) Distribution;
4) Modernization.

8. What posting should be passed to the amount of production equipment repair by contracting method?
1) Dr 91 "General manufacturing expenses"
   Cr 63 "Settlements with suppliers and contractors";
2) Dr 23 "Production"
   Cr 63 "Settlements with suppliers and contractors";
3) Dr 10 "Fixed assets"
   Cr 23 "Production";
4) Dr 91 "General manufacturing expenses";
   Cr 10 "Fixed assets".

9. What document issues purchase of fixed assets?
1) The Act of implementation;
2) Protocol of acceptance-transfer (internal moving) of fixed assets;

3) Invoice;
4) Credit slip.

10. On which account records of intangible assets purchasing are kept?
1) 12 “Intangible assets”;
2) 14 “Long-term financial investments”;
3) 15 “Capital investments”;
4) 40 “Authorized capital”.

11. The meaning of such accounting entry: Dr 10 “Fixed Assets” Cr 15 “Capital investment” is:
1) Displayed depreciation of fixed assets;
2) Accepted subject as a part of fixed assets;
3) Written off fixed assets;
4) Decommissioned depreciation of liquidated assets.

12. Which of the following depreciation method is not an accelerated method?
1) Method of reducing the residual value;
2) Straight-line method;
3) Method of accelerated reduction of residual value;
4) Cumulative method.

13. A company purchases equipment for 30000 UAH on June 15, 2012 (liquidation value is 2000 UAH and its useful life is 7 years). Which amount of depreciation for the 2012 year will be by straight-line method?
1) 2000 UAH;
2) 3000 UAH;
3) 4000 UAH;
4) 4500 UAH.

14. A company purchases equipment for 30000 UAH on June 15, 2012 (liquidation value of 2000 UAH and its useful life will be 7 years). Which amount of depreciation for the 2013 year will be by straight-line method?
5) 2000 UAH;
6) 3000 UAH;
7) 4000 UAH;
8) 4500 UAH.

15 The following synthetic account is intended to display library funds:
1) 10 “Fixed assets”;
2) 11 “Other non-current tangible assets”;
3) 12 “Intangible assets”;
4) 20 “Inventories”.

16. Which accounting entries should be made according to the following business transaction: “Depreciation of sold equipment was written off”:
1) Dr 10 “Fixed assets”
   Cr 13 “Depreciation of non-current assets”;
2) Dr 13 “Depreciation of non-current assets”
   Cr 972 “Cost of sold fixed assets”;
3) Dr 972 “Cost of sold fixed assets”
   Cr 13 “Depreciation of non-current assets”;
4) Dr 13 “Depreciation of non-current assets”
   Cr 10 “Fixed assets”.

17. What is meant by such accounting entry: Dr 14 “Long-term financial investments” Cr 12 “Intangible Assets”?
1) Intangible assets were transferred as a contribution to the share capital;
2) Residual value of intangible assets that had been transferred to the charter of another company was written off;
3) Payable to the share capital was displayed;
4) Intangible assets were donated.

18. Other non-current tangible assets include objects with following characteristic:
1) Working lifetime of which is less than 12 months, but which does not included as part of fixed assets;
2) Working lifetime of which is more than 12 months, but which does not included as part of fixed assets;
3) Working lifetime of which is more than 12 months, initial cost is less than 1000 UAH;
4) Working lifetime of which is less than 12 months, initial cost is more than 1000 UAH.

19. Non-monetary assets that have no physical form and can be identified are called:
1) Goodwill;
2) Intangible assets;
3) Invisible assets;
4) Other non-current assets.

20. Which entry it is necessary to make during the write-off of intangible assets?
1) Dr 46 “Unpaid capital”
   Cr 40 “Authorized capital”;
2) Dr 12 “Intangible assets”
   Cr 23 “Production”;
3) Dr 12 “Intangible assets”
   Cr 46 “Unpaid capital”;
4) Dr 13 “Depreciation of non-current assets”
   Cr 12 “Intangible Assets”.

THEME 6. ACCOUNTING OF INVENTORIES

6.1. The concept, evaluation and classification of inventories at their receipt.
6.2. Documentation of the movement and using of inventories. Analytical accounting of inventories.
6.3. Evaluation of inventories at their outflow. Transportation and procurement costs.
6.4. Synthetic accounting of receipts and using inventories.

Dictionary

Act of receiving materials	Акт про приймання матеріалів
Acquisition	Придбання
Asset	Актив
Consignment note	Товарно-транспортна накладна
Containers and packaging materials	Тара й тарні матеріали
Credit slip	Прибутковий ордер
Current biological assets	Поточні біологічні активи
Finished goods	Готова продукція
General manufacturing expenses	Загальновиробничі витрати
Initial cost	Первісна вартість
Inventories	Виробничі запаси
Journal of receipt cargoes	Журнал обліку вантажів, що надійшли
Limit-fence card	Лімітно-забірна картка
Low value items	Малоцінні та швидкозношувані предмети
Method of identified cost	Метод ідентифікованої собівартості
Method of weighted average cost	Метод середньозваженої собівартості
Method of selling price	Метод ціни продажу
Method of regulatory costs	Нормативний метод
Net realizable value	Чиста реалізаційна вартість
Nomenclature number	Номенклатурний номер
Proxy	Довіреність
Purchased components and semi-finished products	Покупні комплектуючі вироби та напівфабрикати
Raw materials	Сировина
Stocks	Запаси
Transport and procurement costs	Транспортно-заготівельні витрати
Waybill-requirement	Накладна-вимога
Work-in-process	Незавершене виробництво

6.1. The concept, evaluation and classification of inventories at their

receipt

Methodological principles of formation of information about stocks and its disclosures in the financial statements are regulated by Regulation (standard) of accounting 9 “Stocks” [16].

Inventories are assets that:

– held for sale in the ordinary course of business;

– are in the process of production for such sale;

– held in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Items that may be included in inventory are those that are held for sale, are being produced prior to sale, or consumed in the production of such items. The main categories of inventory are:

- Raw materials, basic and supporting materials, components. Any materials that are used in the production process, and that will become a part of salable product, belong to this category.
- Work-in-process. Any materials, labor, and related overhead costs that are used during the production process fall into this category.
- Finished goods. Any goods that have passed through the production process, or which have been purchased for resale, fall into this category.
- Consignment inventory. Goods held at another location for sale by another party (such as through a distributor agreement) fall into this category. Consigned inventory is not owned by the secondary party, and should not be listed on its books.
- Low value items. Any materials that are used for not more than one year or the normal operating cycle if it is longer than one year.
- Current biological assets, if they are evaluated by Regulation (standard) of accounting 9 as well as agricultural and forestry products after its initial recognition.

Inventories recognized as an asset if it is probable that the company will receive economic benefits associated with their use, and their cost can be reliably measured.

Purchased (received) or produced inventories credited to the balance sheet at the initial cost. The initial cost of inventory that was purchased for a fee is the cost of inventories that consists of the following actual expenses:

- amounts payable under the contract to supplier (seller), net indirect taxes;
- amount of import duties;
- amount of indirect taxes in connection with the purchase of inventory that are not reimbursed to the company;
- transport and procurement costs (the cost of procurement of inventory, payment rates (freight) for handling and transportation of inventory by all kinds of transport to the place of use, including costs of risk transporting insurance of inventory);
- other costs those are directly attribute to the acquisition of inventories and bring them to the condition in which they are suitable for use in the planned

purposes.

Initial cost of inventories that were produced by company is recognized as a production cost, which is determined by the Regulations (standard) of accounting 16 “Expenses”. The initial value of stocks that were included in the authorized capital of the company is recognized as fair value agreed upon founders (participants) of the company. The initial value of inventories that were obtained free is also recognized by the fair value. Initial cost of inventory that was acquired in exchange for similar inventories is equal to the book value of transferred inventory. If the book value of inventories that were transferred exceeds their fair value, the initial value of the inventories is equal to their fair value. The difference between the book value and the fair value of the stocks is included into the costs of reporting period.

The following expenses are not included into the initial cost of inventory, but belong to the costs of the period in which they were performed (installed):

- overtime losses and a lack of inventories;
- financial expenses;
- expenses for sale;
- general manufacturing expenses and other similar costs that are not directly associated with the acquisition and delivery of inventories and bringing them to a state that is suitable for use in the planned purposes.

Inventories are recorded by the lower of two costs: initial cost or net realizable value. Net realizable value of inventories – is the expected price of stocks in the normal course of business, less the costs for completion of its production and sale. The amount by which the initial cost of inventories exceeds their net realizable cost should be written off to the costs of reporting period.

6.2. Documentation of the movement and usage of inventories. Analytical accounting of inventories

Materials, raw materials and fuel resources are the most important in the company, therefore documentation of income, availability and consumption of these resources is very responsible process, which should provide the necessary information for registration, operational control and traffic management of material assets. Source documents, which are often made out of inventory receipts, are listed in table. 6.1.

Table 6.1

Source documents which issued receipts of inventories

Number of forms	Name of forms	Appointment of the document
M-1	Journal of receipt of cargoes	Used for registration of documents that are related to receipt of cargoes by railways, waterways and posting them on the warehouse of the enterprise
M-2	Proxy	It is intended for registering the right of a

		particular official person to act as a trustee of the enterprise while receiving of inventories
M-4	Credit slip	It is intended for posting of materials that were received from suppliers or processed. It is filled in case of the absence of qualitative and quantitative differences with the documents of supplier as well as in the posting of inventories processing. Credit slip is used for operational accounting in warehouses, analytical and synthetic accounting of receipts of inventories
M-7	The act of receiving of materials	It is used for registration of inventories acceptance when there are quantitative and qualitative differences with the data in supporting documents of supplier, as well as for inventories that were received without documents
1-TN	Consignment note	It is intended for accounting of delivery of inventories. Consignment note is used for quantitative and qualitative accounting of inventories.

Inventories from the warehouses of enterprises are released to the workshops for the manufacture of products and household needs, as well as are realized for processing or sale as redundant or unnecessary. Materials should be dispensed into the production according to the limits established on the basis of norms of inventories costs per unit of product, and plan of production per month.

The main document that reflects the distribution of materials from the warehouse for intraeconomic purposes is limit-fence card (typical form of M-8) and false-claims and waybill-requirement (typical form of M-11). Waybill-requirement represents unity of prescriptive and justificatory documents and is used for one-time delivery of materials. Repetitive distribution of materials can be drawn in limit-fence card that combines prescriptive document, which contains the limit (maximum number) of release, and accumulation justificatory document, which confirms reusable dispensing of material from the count of limit. Limit-fence cards are discharged in two copies: one is transferred to the workshop – consumer, and the second – to the storage. At the end of the month limit-fence cards are handed to the accounting department.

Distribution of materials to the buyers is performed under the contracts, orders and other documents and is carried out according to the written disposal of the head of the enterprise.

Analytical accounting of inventory is carried out in the context of their names or homogeneous groups. Each group of inventory is divided by the type, grade, brand and size. A short numeric designation (nomenclature number) is assigned to each name, grade and size of inventory. Analytical accounting of inventory in warehouses is maintained by cards of stock control that are placed in the files by the technical groups of inventory in accordance with the nomenclature. Document "Card of stock control of materials" is used to account for the movement of materials in stock for each group, type and size. It is filled for each nomenclature number and is carried out by financially responsible person (storekeeper, head of the warehouse etc).

6.3. Evaluation of inventories at their outflow. Transportation and procurement costs

Material resources are released from the storage, primarily for basic operations, i.e. for the production of goods, works or further realization.

Enterprises can choose one of the variants of estimates that are proposed by R(s)A 9 "Stocks". So-called actual cost of inventories that are written off can be calculated by the following methods:

1. identified cost;
2. weighted average cost;
3. first-in, first-out calculation (FIFO);
4. regulatory cost;
5. selling price.

The theoretical basis for valuing of inventories and cost of goods sold requires assigning the production and/or acquisition costs to the specific goods they relate to. For example, the cost of ending inventory for an entity in its first year, during which it produced ten items (e.g., exclusive single family homes), might be the actual production cost of the first, sixth, and eighth unit produced if those are the actual units still on hand at the balance sheet date. This method of inventory valuation is usually referred to as identified cost.

Specific identification is generally not a practical technique, as the product will generally loose its separate identity as it passes through the production and sales process. Exceptions to this would arise in situations invading small inventory quantities with high unit value and low turnover rate. Specific identification must be employed to cost of inventories that are not ordinarily interchangeable, and goods and services produced and segregated for specific projects. For inventories meeting either of these criteria the specific identification method is mandatory and the other benchmark methods cannot be used.

The weighted-average method relies on average unit cost to calculate cost of units sold and ending inventory. Average cost is determined by dividing total cost of goods available for sale by total units available for sale.

To understand this method, let's consider a simple example. Company "Edelweiss" has a storage barrel full of nails. The barrel was restocked three times with 100 kg of nails being added at each restocking. The first batch cost company 100 UAH (1,00 UAH per kg), the second batch cost 110 UAH (1,10 UAH per kg), and the third batch cost 120 UAH (1,20 UAH per kg). At the end of the accounting period, head of the stock weighs the barrel and decides that 140 kg of nails are on hand (from the 300 kg available). Further, the barrel was never allowed to empty completely and customers have picked all around in the barrel as they bought nails from the company (and new nails were just dumped in on top of the remaining pile at each restocking).

According to the weighted-average method: company paid 330 UAH for 300 kg of nails, producing an average cost of 1.10 UAH per kg (330 UAH/300). The ending inventory consisted of 140 kg or 154 UAH. The cost of goods sold was 176 UAH (160 kg X 1.10 UAH). The illustration of weighted-average method of estimation outflow inventories is presented in figure 6.1.

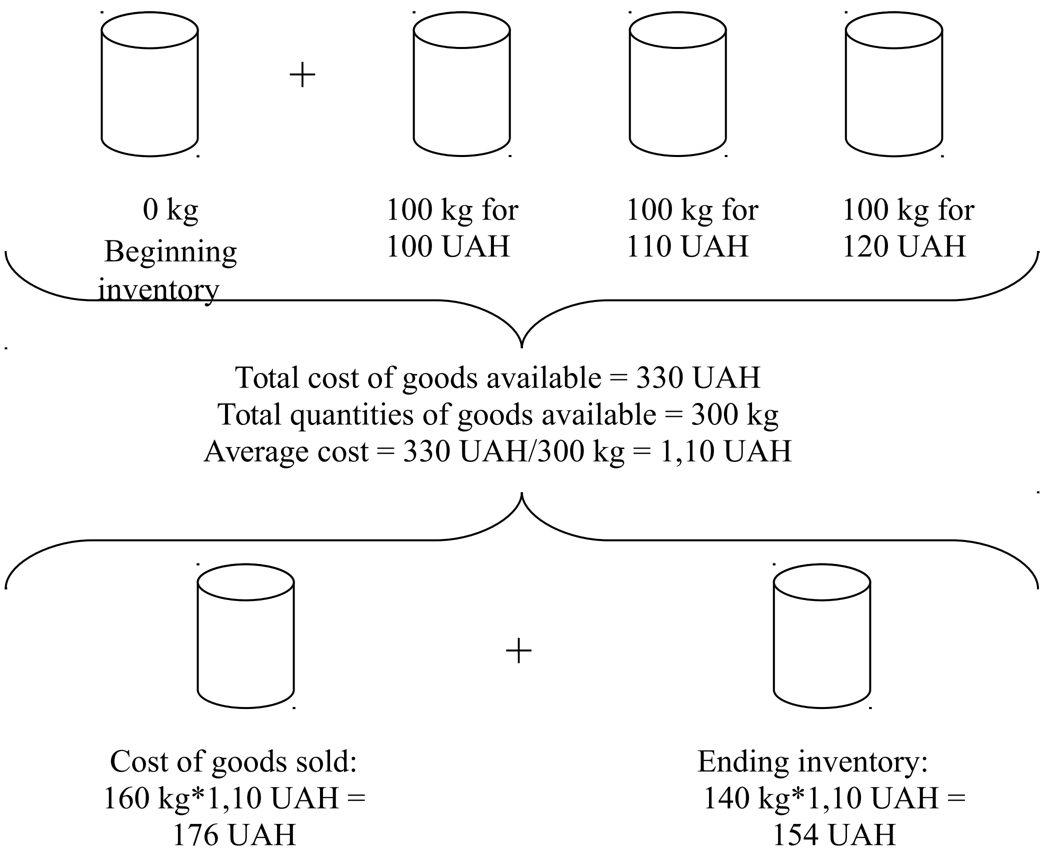

Fig. 6.1. Illustration of weighted-average method of estimation outflow inventories

The FIFO method of inventory valuation assumes that the first goods purchased are the first goods used or sold, regardless of the actual physical flow. This method is thought to parallel most closely the physical flow of the units for most industries having moderate to rapid turnover of goods. The strength of this cost flow assumption lies in the inventory amount reported on the Balance sheet. Because the earliest goods purchased are the first ones removed from the inventory account, the remaining balance consists of items acquired at more recent costs.

However, the FIFO method does not necessarily reflect the most accurate income figure when viewed from the perspective of underlying economic performance, as older historical costs are being matched against current revenues. Depending on the rate of inventory turnover and the speed general and specific prices are changing with, this mismatching could potentially have a material distorting effect on reported income. At the extreme, if reported earnings are fully distributed to owners as dividends, the enterprise could be left without sufficient resources to replenish its inventory stocks due to changing prices.

Illustration of FIFO method of inventories estimation is presented in figure 6.2.

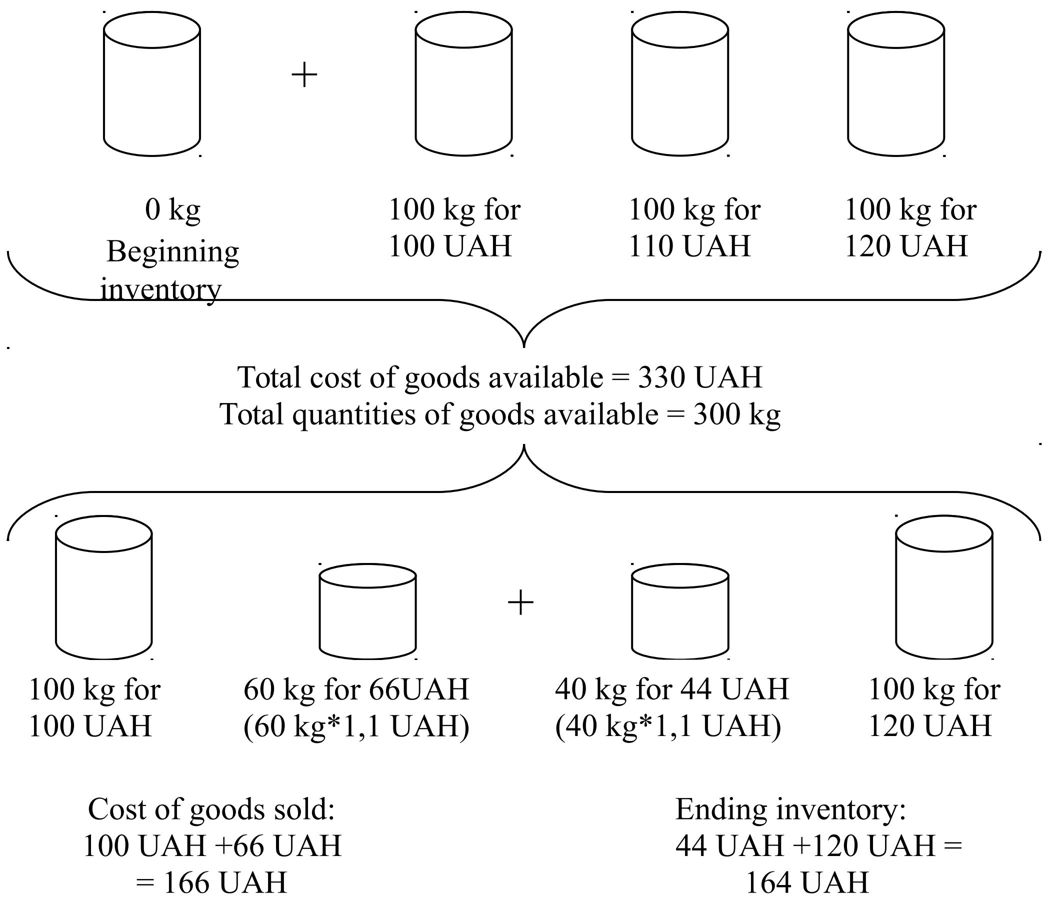

Fig. 6.1. Illustration of FIFO method of inventories estimation

Estimation by regulatory costs consists in application of norms for costs per unit of production (works, services) that are installed by enterprise. In order to ensure maximal approach of regulatory costs to actual cost and price, regulations should be regularly checked in the normative base and reviewed. Evaluation of production by the normative cost is adjusted to the actual production cost.

Method of evaluation by selling prices based on average percentage of trade margin commodities. This method can be used (unless other outflow methods for evaluating of inventories are not justified) by the companies with large and variable range of products from approximately the same level of trade margin. Cost of goods sold is determined as the difference between the retail cost of goods sold and the amount of trade margins on these products.

As was noted earlier, transport and procurement costs include the cost of procurement of inventory, payment rates (freight) for handling and transportation of inventory by all kinds of transport to the place of use, including costs of insurance of transporting risk. The sum of transport and procurement costs is summarized in a separate sub-accounts of stocks, its is monthly shared between the amount of stocks at the end of the month and the amount of stocks that were withdrew (used, sold, donated, etc.) for the reporting month. The sum of transportation and procurement costs, which refers to withdrew stocks, is calculated by multiplying the average rate of transport and procurement costs and the value of inventories that were withdrew.

The average percentage of transportation and procurement costs is determined by dividing the balance of transport and procurement costs at the beginning of the month and transportation and procurement costs for the reporting month on the balance of stocks at the beginning of the month and stocks that were received in the reporting month.

Let's consider the calculation and allocation of transportation and procurement costs (TPC) on example. The balance of transportation and procurement costs at the beginning of the month is 300 UAH and balance of inventories at the beginning of the month is 1200 UAH. Company's warehouse received the following materials during the month:

- Paint - 1500 kg (for 5 UAH per item);
- Plywood - 50 sheets (for 10 UAH per item);
- Moldings - 500 meters (for 4 UAH per item).

Delivery of materials according to the agreement was carried out by car that belongs to the transport company. At the end of month transportation company sent an account for the total amount of 500 UAH (VAT is UAH 100). Salary of heave and contributions from it to social insurance were amounted for 350 UAH.

Total TPC is 850 USD (500 + 350). For the distribution of this amount between the types of materials one must perform the following statement:

1) To determine the average percentage of transportation and procurement costs=

$$= \frac{300+500}{1200+(1500*5+50*10+500*4)} * 100\% = 7,14\ \%$$

2) Using the percentage, to determine the amount TPC that apply to each type of material:

Paint – 7500 * 7.14% = 535,5 UAH

Plywood – 500 * 7.14% = 35.7 UAH

Moldings – 2000 * 7.14% = 142.8 UAH

3) To determine the initial value each type of material:

Paint – 7500 + 535.5 = 8035.5 UAH

Plywood – 500 + 35.7 = 535.7 UAH

Moldings – 2000 + 142.8 = 2142.8 UAH

6.4. Synthetic accounting of receipts and using inventories

Account 20 "Inventories" is designed for the generalization of information about the presence and movement of raw and auxiliary materials, fuel, spare parts, stock and household accessories, containers and other such valuables of the organization The following sub-accounts may be opened for account 20

“Inventories”:

– 201 “Raw Materials”. The presence and movement of the following materials shall be accounted on this sub-account: the raw and basic materials, which are a part of manufactured products by forming its basis or which are essential components during their manufacture; auxiliary materials, which take part in the output of products or consumed to meet economic needs, for technical purposes, for promoting production process; farm products procured for processing, etc.

– 202 “Purchased components and semi-finished products”. On this sub-account it is necessary to account the presence and movement of purchased semi-finished products, ready-made complimentary parts, acquired for completing manufactured goods (construction), which require processing or assembly costs. Items acquired for completing, whose cost is not included in the cost-price of products, shall be accounted on account 28 (Goods).

– 203 “Fuel”. On this sub-account it is necessary to account the presence and movement of oil products (oil, diesel fuel, paraffin oil, petrol, etc.) and lubricants meant for the operation of motor transport vehicles, for meeting the technological needs of production, generation of power and heating, solid fuel (coal, peat, firewood, etc.) and gaseous fuel.

– 204 “Containers and packaging materials”. On this sub-account it is necessary to account the presence and movement of all types of container (except for that used as farm implements), and also of the materials and details intended for the production of packaging and its repair (details for the assembly of boxes, barrel riveting, band iron, etc.). Objects intended for the additional equipment of goods wagons, barges, vessels and other transportation facilities, used for the purpose of keeping safe shipped products shall be accounted on sub-account 201.

– 205 “Building materials” shall be used by organizations-developers. It is necessary to keep a record on this sub-account of the presence and movement of materials used directly in the process of construction and assembly works, for the manufacture of building parts, for the erection and finishing of constructions and parts of buildings and structures, steel sections and parts, and also other material values needed to meet the needs of construction (explosives, etc.).

– 206 “Materials turned over for processing” On sub-account 206 it is necessary to keep a record of the movement of materials turned for processing elsewhere, whose cost shall be subsequently included in the costs of production of the items received from them. Expenses on the processing of materials paid for outside organizations and persons shall be directly charged in debit of the accounts on which items received from processing are recorded.

– 207 “Spare parts”. On this sub-account it is necessary to keep a record of the existence and movement of the spare parts acquired or manufactured to meet the needs of production and intended for repairs, the replacement of worn-out parts of machinery, equipment, transport vehicles, etc., and also of car tyres in reserve and turnover. The movement of the exchange stock of fully complete machines, equipment, engines, units and joints produced in the repair subdivisions of organizations, in technical interchange points and repair works is also recorded on this account. Automobile tyres (outer types, inner tubes and rim bands) on wheels and in reserve on a transport vehicle, included in its original cost shall be recorded as part of fixed assets.

– 208 “Materials for agricultural purposes”. Accounted for fertilizers, chemicals for pest and diseases of crops, medicines, chemicals that are used for disease control of the agricultural animals. It is also displayed seedlings, seed and feed that are used for planting, seeding and fattening of animals directly on the farm.

– 209 “Other materials” it is necessary to keep a record of the presence and movement of production waste (chopping, cuttings, shavings, etc.) irreparable spoilage; material values received from the retirement of fixed assets, which may not be used as materials, fuel or spare parts in the given organization (metal scrap, utility waste); worn-out tyres and scrap rubber, etc.

In the debit of such accounts are displaying: the cost of acquisition or production of material resources and bring them to the state in which they can be used for the planned purposes, amount of inventories that were received free of charge, surplus of value that detected as a result of stocktaking, amount of revaluation.

In the credit of these accounts are displayed the value of inventory that have been spent on production and other business needs, and have been implemented or withdrew from any other circumstances (shortage, price reduction, free transfer).

One of the major tasks of accounting for material resources is a reflection of payments to suppliers. For this purpose such multiple accounts are used: 63 “Settlements with suppliers and contractors”, 37 “Settlements with various debtors”, 64 “Payments of taxes and fees”.

Account 63 “Settlements with suppliers and contractors” are mostly passive. Balance on credit represents the amount of debt of the company for materials that were received but not paid at the end of the month. In the credit of account value of the property and services that were obtained in accordance with the bills, invoices and acts of suppliers and contractors is recorded. On the debit of account the amount of money paid to suppliers is reflected. Analytical accounting on account 63 “Settlements with suppliers and contractors” conducted for each individual supplier.

If there is an agreement between supplier and buyer to prepay for resources, accounting of payments to suppliers is made in account 37 “Settlements with various debtors”, sub-account 371 “Settlement of advances paid”. In relation to the Balance sheet this account is active. Balance on the debit reflects the amount of prepayments for tangible resources that have not been received by an enterprise. Debit of account includes amount of prepayments that were made during the month. On credited the amount of inventories that were previously paid and received during the month is recorded. Analytical accounting to this account is conducted for each supplier.

Companies have the right to pay for material resources in cash. In such cases, money is given from the cash desk to the workers. Workers, which receive money for this purpose, are called accountable persons. Settlements with accountable persons are accounted on the same sub-account 372. In relation to the balance this is active-passive account. Debit balance shows the receivables of accountable persons, credit balance – reflects the companies' debts to accountable persons. On the debit of account the amount of money that was given to accountable persons is displayed, on credit – the amount of the value of the purchased property and returned unspent money are shown.

Typical accounting entries for accounting of inventories are given in table 6.2.

Table 6.2

Typical accounting entries for accounting of inventories

№	Particulars	Dr	Cr
1	2	3	4
Transactions with receipts of inventories			
1.	Inventories were received from the supplier	20	631
2.	The amount of tax credit with VAT was reflected	641	631
3.	Transport costs of inventory were displayed	20/TPC	631
4.	Stocks that have been purchased by the accountable person for cash were received	20	372
5.	Inventories were manufactured by own forces of an enterprise	20	23
6.	Inventories were received as a contribution to the authorized capital	20	46
7.	Inventories were received free of charge	20	718
8.	Residues of inventory were identified	20	719
9.	Prepayment to supplier for inventories was made	371	311
10.	Amount of tax credit for VAT in the amount of prepayment was reflected	641	644
11.	Purchased inventories were received from supplier	20	631
12.	Previously recorded amount of the tax credit on VAT was written off while posting of inventories	644	631
13.	Offset of debts were made	631	371
Transactions with disposals of inventories			
14.	Inventories were released from the warehouse for production	23	20
15.	Inventories were written off for general production needs	91	20
16.	Inventories were used or administrative purposes	92	20
17.	Inventories were used for the cost of production distribution	93	20
18.	Inventories were released from the warehouse for capital construction by enterprise	15	20

19.	Accounting value of the sold inventories was written off	943	20
20.	The amount of shortage of inventories was displayed as expenses of the reporting period	947	20
21.	Inventories were transferred in exchange for shares of the company (as contribution to the share capital)	14	20
22.	Inventories were donated to another enterprise	949	20
23.	Inventory that was used in case of incident were written off	99	20

Tests for self-control

Each question contains one correct answer.

1. Which objects are not included into the inventory?
1) Raw materials;
2) Work-in-process;
3) Equipment;
4) Finished goods.

2. Cost of inventory procurement, payment rates (freight) for handling and transportation of inventory to the place of use are called:
1) Transport and procurement costs;
2) Installation and procurement costs;
3) Insurance costs;
4) Other costs.

3. The following expenses are not included into the initial cost of inventory, but increase the costs of reporting period:
1) Overtime losses and a lack of inventories;
2) Financial expenses;
3) General manufacturing expenses;
4) All of the listed.

4. Inventories are recorded in the accounting and reporting for the lower of two costs:
1) Market cost or initial cost;
2) Initial cost or net realizable value;
3) Book cost or net realizable value;
4) Initial cost or book cost.

5. Expected price of stocks in the normal course of business, less estimated costs of completion of their production and sale is called:
1) Average realizable value;
2) Expert value;
3) Net realizable value;

4) Initial value.

6. Which document is intended for registering the right of a particular official person to act as a trustee of the enterprise while inventories receiving?
1) Credit slip;
2) The act of receiving materials;
3) Consignment note;
4) Proxy.

7. Analytical accounting of inventory in warehouses is maintained by:
1) Inventory cards;
2) Journal of receipt cargoes;
3) The act of receiving materials;
4) Cards of stock control.

8. The inventory cost flow assumption where the cost of the most recent purchases are likely to remain in inventory is called:
1) First-in, first-out calculation (FIFO);
2) Identified cost;
3) Weighted average cost;
4) Regulatory cost.

9. A company purchased inventories in 2013. The purchases were made in the following way:
January 1, 2013 (carried over from 2012)   20 units at 10 UAH
January 25, 2013 purchase   40 units at 11 UAH
June 20, 2013 purchase   40 units at 12 UAH
September 10, 2013 purchase   50 units at 13 UAH.
Assuming the FIFO cost flow assumption, what will be the company's cost of inventories used for the 120 items sold in 2013?
1) 1380;
2) 1386;
3) 1410;
4) 1460.

10. A company purchased inventories in 2013. The purchases were made in the following way:
January 1, 2013 (carried over from 2012)   20 units at 10 UAH
January 25, 2013 purchase   40 units at 11 UAH
Assuming the perpetual weighted average cost flow assumption, what is the company's cost of inventories used for the 50 items sold in January 2013?
1) 533,33;
2) 530;
3) 531,25;
4) 543, 17.

11. Which accounting entries should be made to display the following business operation: “Materials for maintenance of workshop are used”?
1) Dr 23 “Production”
   Cr 20 “Inventories”;
2) Dr 91 “General manufacturing expenses”
   Cr 20 “Inventories”;
3) Dr 92 “Administrative expenses”
   Cr 20 “Inventories”;
4) Dr 20 “Inventories”
   Cr 91 “General manufacturing expenses”.

12. Determine the average percentage of transportation and procurement costs based on the following data:
- balance of material at the beginning of the month for contract prices – 9900 UAH
- balance of material at the beginning of the month for actual cost – 10296 UAH
- materials were purchased at contractual prices – 5300 UAH
- amount of transport and procurement costs per month – 212 UAH
1) 2%;
2) 4%;
3) 3%;
4) 6%.

13. Which accounting entries should be drawn if materials received from suppliers with VAT and they are intended for production?
1) Dr 23 “Production”
   Cr 20 “Inventories”;
2) Dr 20 “Inventories”
   Dr 64 “Payments of taxes and fees”
   Cr 63 “Settlements with suppliers and contractors”;
3) Dr 20 “Inventories”
   Cr 63 “Settlements with suppliers and contractors”;
4) Dr 23 “Production”
   Dr 64 “Payments of taxes and fees”
   Cr 63 “Settlements with suppliers and contractors”.

14. Determine the actual cost of spending for the production materials, select the necessary data:
- average percentage of transportation and procurement costs - 2%
- cost of received materials at contractual prices - 15800 UAH.
- cost of spent materials at contractual prices - 12400 UAH.

1. 248;
3. 12152;
2. 12648;
4. 16320.

15. What expenses are not included into the initial cost of purchased inventory, if the company is a VAT payer?
1) Purchase price;
2) The cost of transport services;
3) Value Added Tax;
4) The cost of insurance against risks of transportation.

16. What is meant by such accounting entry: Dr 63 “Settlements with suppliers and contractors” Cr 311 “Checking accounts”?
1) Received payment from suppliers;
2) Commitment to suppliers was repaid from checking account;
3) Payable to suppliers was displayed;
4) Payment for materials was received.

17. Which of the following costs are not included into the transportation and procurement costs?
1) Costs on the insurance of risks on the road;
2) Salaries to movers of materials;
3) The cost of materials transportation;
4) Purchase price of materials.

18. Determine the actual cost of purchased materials, if the purchase price of materials was 18000 UAH, including VAT – 3000 UAH. Transport costs – 500 UAH, payroll for company’s director – 15000 UAH.
1) 10500;
2) 18500;
3) 15500;
4) 14000.

19. What is meant by such accounting entry: Dr 20 “Inventories” Cr 66 “Payments for employee benefits”?
1) Wages of production workers are accrued;
2) Wages for unloading of materials are accrued;
3) Displayed inventories obtained free;
4) Wages of movers of materials were paid.

20. The average percentage of transportation and procurement costs is determined in following way:
1) By dividing the balance of transport and procurement costs at the beginning of the month and transportation and procurement costs for the reporting month on the balance of stocks at the beginning of the month and stocks received in the reporting month;
2) By dividing the balance of stocks at the beginning of the month and stocks received in the reporting month on the balance of transport and procurement costs

at the beginning of the month and transportation and procurement costs for the reporting month;
3) By dividing the balance of stocks received in the reporting month on the balance of transport and procurement costs at the beginning of the month and transportation and procurement costs for the reporting month;
4) By dividing the balance of transport and procurement costs for the reporting month on the balance of stocks at the beginning of the month and stocks received in the reporting month.

THEME 7. ACCOUNTING FOR SETTLEMENTS OF WAGES AND STATE INSURANCE

7.1. The composition of wage fund. Forms, types and payroll systems.
7.2. Source documents for payroll accounting.
7.3. Procedure of salaries calculation. Compulsory withholdings from salaries.
7.4. Analytical and synthetic accounting for settlements of wages.

Dictionary

Act of spoilage	Акт про брак
Annual basic vacations	Щорічна основна відпустка
Array	Наряд
Basic wage fund	Фонд основної заробітної плати

Child support	Аліменти
Disability sheet	Лист непрацездатності
Employee benefit	Винагорода працівникам
Fund of additional salary	Фонд додаткової заробітної плати
Income tax of individuals	Податок на доходи фізичних осіб
Labor resources	Трудові ресурси
Labor discipline	Трудова дисципліна
Obligatory medical insurance	Обов'язкове медичне страхування
Other incentive and compensation payments	Інші стимулюючи та компенсаційні виплати
Payments of insurance	Розрахунки зі страхування
Payments from deposited amounts	Розрахунки з депонентами
Payroll accounting	Облік заробітної плати
Payroll system	Система оплати праці
Personal card	Особова картка
Piecework form of wage payment	Відрядна форма оплати праці
Report on the output	Рапортах про виробіток
Route sheet	Маршрутний лист
Salary	Заробітна плата
Settlements of wages	Розрахунки з заробітної плати
Sheet of overpay	Доплатний лист
Statement of account output	Відомість облік виробітку
Stoppage sheet	Простійний лист
Temporary incapacity for work	Тимчасова непрацездатності
Time-based form of wage payment	Почасова форма оплати праці
Time-board number	Табельний номер
Timesheet	Табель
Unified social contribution	Єдиний соціальний внесок
Vacation	Відпустка
Vacation pay	Оплата відпустки, відпускні
Wages	Заробітна плата
Wages payable	Заборгованість по оплаті праці
Withholding from salaries	Утримання із заробітної плати

7.1. The composition of wage fund. Forms, types and payroll systems

Payroll accounting – is one of the most important and complex areas of accounting that requires accurate data about the number of employees, categories of workers, staff time, cost items and using of labor resources.

In accordance with article 1 Law of Ukraine "On labor remuneration", wages – a reward that are usually calculated in monetary terms, which the owner or its authorized body shall pay to the employee for work done by him under the contract of employment [5].

The main levers of wage regulation are the forms and systems of salary. The main forms of salary are time-based and piecework. Time-based form of payment is a payment by the amount of calendar working time (in days or hours) that are spent to certain qualifications. It is used in cases where the results of the work of individual employees do not lend themselves to precise accounting and standardization, such as the work in conditions of mechanization and automation of production etc. This form of payment has its own varieties (systems):

1. simple time-based (labor of workers is paid only based on the number of hours worked and wage rates in line with their qualification);
2. time basis – premium (premium is added to the rate, that increases the material interest of workers in the achievement of specific indicators).

At piecework pay, wages of employees directly depends on the amount of work performed and size of the rates. This form is used for payments to employees whose work is lent to standardization. Piecework form is more conducive to the growth of labor productivity, better utilization of equipment and materials and it provides the most complete combination of personal interests of the workers with the interests of the enterprise. Piece wage may be straight, progressive, chord and premium. It can be an individual and the brigade.

Forms and system of wages in the enterprise are regulates by the head of the company. Government regulates wages by establishing of minimum salary and minimum non-taxable income.

The structure of labor costs in the company includes wages that are accrued on the basis of piece rates, tariffs and salaries that are set according to the results of labor, its quantity and quality; stimulating and compensating payments; systems of bonuses to workers, managers, specialists, employees for production results; other conditions according to the forms and systems of payroll.

According to Instruction on statistics of wage that was approved by the Ministry of Statistics of Ukraine of 13.01.2004, № 114/8713, the cost of labor is divided into the basic wage fund, the fund of additional salary and other incentive and compensation payments [11].

Basic wage – a reward for work done under the established norms of labor (time, output, maintenance), job commitment. It installs as a wage rates (salaries) and corresponding rates for workers and salaries for employees.

Additional salary – is compensation for work over the established norm, for labor achievements, inventiveness and for special working conditions. It includes bonuses, allowances, warranties and compensation that are provided by applicable law, the premium for the execution of production tasks and functions.

Other stimulating and compensation payments. These include payment in the form of remuneration for the results of the year, award for special systems and regulations, compensation and other monetary and material payments that are unforeseen by the acts of legislation or implemented in excess of the norms of law.

7.2. Source documents for payroll accounting

Accounting for the use of working time and monitoring of labor discipline in enterprises is carried out by timecard. At the time of employee hiring, time-board number is given to him, and record about his enrollment shall be made in the workbook (located in the department of personnel) pursuant to the order of the company's head.

In the personnel department for each employee personal card is opened, Personal card indicate the necessary personal data of the employee and the changes that takes place in his work. Accounts department opens personal card to each employee.

Accounting for the use of working time is carried out in the timesheet. Timecard objectives are:

a) monitoring of attendance to work and its leaving;

b) identify the causes of delay or absence on the work;

c) obtaining information about the actually time worked by employees, composition of work;

d) prepare reporting about presence of workers and their movement, about the state of labor discipline.

To the timecard all names of employees are entered. Separate timesheet is conducted for each workshop and department by timekeeper or foremen, craftsmen and others. Number of working hours by each employee and absence at work (using conditional tags - ciphers) is indicated in the timesheet.

To ensure proper payroll accounting it is necessary to accurately account for the output of products or the amount of work performed by each employee. Depending on the technology and organization of production different accounting systems are used. Accounting of output by pieceworkers in manufacturing is carried out on typical forms that depend from the production process, system of organization and wages in the report on the output, route sheets, statements of account output, arrays and other documents.

The main source document of labor accounting, output and basic wage of pieceworker on individual manufactures is array. In serial production can be used more advanced documentation for labor accounting of output and wages – route sheets, combined with variable report.

Source documents of additional payments to pieceworkers are represented by:

– Sheet of overpay – is filled out in cases of independent from worker conditions that occur deviation from the prescribed technological process and cause support time costs in comparison with established standards;

– Stoppage sheet – a letter on payment of downtime that have arisen through no fault of the worker;

– Act of spoilage – is filled out in the case when a partial defect of production is occurred through the fault (or no fault) of worker;

– Timesheet – used to indicate the actual hours of overtime work for each employee and work at night.

Each source document should contain the following information: the name of the executors and their time-board numbers; place of work (department, division, etc.); period of operation; type and quality of work performed; rate per unit of output (per unit of work); hours, minutes (according to the norm) per unit of work and on all work done.

7.3. Procedure of salaries calculation. Compulsory withholdings from salaries

There is the following methodology of wages calculation for time-based system: if it is a full working month, benefit should be counted in amount of salary that was established according to the order for the company. When there are incomplete work months – salary is divided by the number of working days in the working month and multiplied by the number of working days (according to the timesheet).

Procedure of payment for downtime, as well as for the development of new manufacture (product) is regulated by the article 113 of the Labor Code of Ukraine [2].

During the downtime that was caused by worker wages are not paid, but for a downtime through no fault of employee (lack of energy, materials, etc.) on the basis of stoppage sheets (which shall include the name, number of time-board of worker, causes, perpetrators, the term of downtime) fee is accrued with a reduced size, but not more than the half of the wage rate for time-based salary of worker according to his qualifications.

Complete spoilage of products that occurred through the fault of the worker, is not paid, in addition cost of defective materials should be withheld from him. Partial shortage that was caused by the worker is paid with a reduced rate: less than half of the wage rate per hour. Full spoilage that occurred through no fault of the worker is paid at the rate of two-thirds of the wage rate of hourly wages per hour that is set by the norm of given work.

Wages for work at night time are carried out according to article 108 of the Labor Code of Ukraine. It is established by the general, sectoral (regional) agreements, collective agreement, but not less than 20% of tariff rate (salary) for each hour of the night.

The Law of Ukraine "On vacations" from 15.11.96 № 504/96-VR sets the state guarantees of the right to leave, determines the conditions, duration, order of granting vacations to employee [6].

The following types of vacations are established:

1) Annual vacation:

- The basic vacation;
- Additional leave for work in hazardous and difficult working conditions;
- Additional leave for special nature of work;
- Other additional leave under the law.

2) Additional leave for studying.

3) Creative vacation.

4) Social vacations:

- Leave due to pregnancy and childbirth;
- Leave to care for a child under the age of three years;

- Additional leave to employees who have children.

Duration of annual basic vacations should be not less than 24 calendar days per year for working year that is counted from the date of conclusion of the employment contract. Vacation pay should be calculated by the formula:

$$Vacation\ pay = \frac{Total\ earnings\ for\ the\ last\ 12\ month}{Number\ of\ calendar\ days\ of\ the\ year} * Number\ of\ calendar\ days\ of\ vacation$$

(8)

It is reasonable to note that holidays and days off that are specified by law (for today 10 days) are not taken into account while calculation of the number of calendar days in the year.

For example, let's calculate vacation pay for manager. Total earnings of manager in the past 12 months (from 1.09.2012 to 31.08.2013) were 46860 UAH. Calendar days without a holiday are 355 days (365-10). The average salary per calendar day is 132 UAH (46860/355). Manager has a vacation from 19 to 30 September 2013 for 12 days. Amount of vacation pay will be 1584 UAH (132 UAH*12 days).

Besides the basic and additional wages to employees of the companies compensation payments are accrued.

Payment of allowances for temporary incapacity for work is carried out on the basis of piece of disability. Allowance for temporary disablement shall be calculated on the basis of the general seniority of the employee, it is available in the following sizes:

– 60% of average wage (income) – for persons with insurance experience up to 5 years;

– 80% of average wage (income) – for persons with insurance experience from 5 to 8 years;

– 100% of average wage (income) – for persons with insurance experience over 8 years.

Average earnings are determined by dividing of actual earnings for the last 6 calendar months to the number that was actually worked by employee (hours) of in this period.

The total amount of allowance for temporary disablement is calculated as follows:

$$BD = ADW \times WD \times PD \qquad (9)$$

Where:

BD - amount of benefit for temporary disablement;

ADW - average daily (hourly) wage

WD - number of working days (hours) that were missed due to illness;

PD - percentage of disability sheet payment.

For example, let's consider calculation for disability sheet of accountant for September 2013. The data required for the calculation are listed in table 7.1.

Table 7.1

Calculation of payments for disability sheet

Period	Accumulated wage	Amount of working days
March	2903.60	22
April	2892.40	20
May	2886.80	19
June	2920.40	20
July	3004.40	21
August	3018.40	22
Total	17626.00	124
Average daily wage	17626/124 = 142.15	
Percentage of disability sheet payment (seniority 11 years)	100.0	
Number of working days (hours) missed due to illness (from 6.09 to 18.09)	9	
Amount of benefit for temporary disablement	142.15*9*100% = 1279.35	

To calculate the wages for all categories of workers payroll register or pay sheet is used.

According to the Law of Ukraine "On the collection and accounting of United contribution for obligatory state social insurance" from 08.07.10 № 2464 - IV businesses and workers are payers of United contribution for obligatory social insurance (further - USC (unified social contribution)) [7]. The basis for calculating of USC is the sum of gross wages and salaries by type of payment.

United contribution is set as a percentage of the amount of gross wages and salaries by type of payment, including basic, additional salary and other incentive and compensation payments, according to the class of professional risk. The amount of United contribution is attributed to the class of professional. Class of professional risk depends from the types of economic activities. There are 67 classes of professional risk and amount of United contribution is ranging from 36.76% to 49.7% to the object of taxation.

The following withholdings can be made from the gross wages and salaries of employees:

1. Income tax of individuals is deducted from wages according to the rate of 15% (17% if income is more than 10 minimum wages). If the total taxable income is less than the minimum wage that is multiplied by a factor of 1.4, then the worker is entitled to a tax credit. The amount of tax credit is equal to 50% of the minimum wage on January 1 of current year.
2. Unified social contribution – in the amount 3.6% of gross wages and salaries;
3. Child support;
4. Union dues and others.

For example, let's calculate salary of manager in January 2013. Employee wages is 5000 UAH. At the enterprise the first class of professional risk with percentage 36,76% is established.

Deduction of USC = 5000*3.6% = 180 UAH

Income tax of individuals = (5000 – 180)*15% = 723 UAH

Net salary that employee will receive = 5000 – 180 – 732 = 4088 UAH

Accruals of USC by the enterprise = 5000*36,76% = 1838 UAH.

7.4. Analytical and synthetic accounting for settlements of wages

According to the Cart of accounts synthetic account 66 "Payments for employee benefits" is designed to generalize information about payroll settlements with workers (for all types of labor remuneration, social benefits and other payments), and also data about payments of incomes from shares and other securities of an organization. It is advisable to open the following sub-accounts to account 66 "Payments for employee benefits":

661 "Payments for payroll";

662 "Payments from deposited amounts";

663 "Payments for other benefits".

In credit of account 66 "Payments for employee benefits" it is necessary to reflect the amounts of:

– remuneration of workers – in correspondence with the accounts of production costs or sale costs and other sources;
– remunerations of workers according to reserves of vacation pay;
– social insurance benefits, pensions and other similar amounts;
– income from participation in the organization's capital, etc.

In debit of account 66 "Payments for employee benefits" it is necessary to reflect amounts of labor remuneration, bonuses, social benefits, pensions, incomes from participation in the capital of the organization that were paid; amounts of taxes, payments under executive documents that were accrued and other deductions.

Amounts that were charged but were not paid out within the fixed period of time – 3 days (due to the absence of recipients) shall be reflected on debit of sub-account 661 "Payments for payroll" and on credit of sub-account 662 "Payments from deposited amounts".

Analytical accounting on account 66 "Payments for employee benefits" shall be kept for each worker of the organization.

Account 65 "Payments of insurance" is designed to generalize information about payments for social insurance, pensions and obligatory medical insurance of the organization's workers. Account 65 "Payments of insurance" shall be credited to the amounts of payments on the social insurance and social security of workers, and also on their obligatory medical insurance, these amounts being transferred to the relevant funds. In this case records shall be made in correspondence with the accounts which reflect the payroll charges.

Furthermore, on credit of account 65 "Payments of insurance" in correspondence with the profit and loss account or settlements with workers in other transactions (in respect of settlements with guilty persons) it is necessary to reflect the accrued amount of penalty fees for the untimely contribution of payments. In correspondence with account 31 “Checking accounts” it is necessary to reflect the amounts that were received in cases of the excess of relevant expenses over payments.

In debit of account 65 Payments for insurance” it is necessary to reflect the transferred amounts of payments, and also amounts that were paid for social insurance, pensions and obligatory medical insurance.

Typical correspondence of accounts for payroll is given in table 7.2.

Table 7.2

Typical entries for accounting of payroll

№	Particulars	Dr	Cr
1	2	3	4
1.	Wages for workers of basic and auxiliary production were accrued	23	661
2.	Wages for engineering and technical personnel of workshop were accrued	91	661
3.	Salaries of administrative personnel were accrued	92	661
4.	Salaries of workers that are engaged in sales and marketing were accrued	93	661
5.	Fees related to the correction of products’ defect were accrued	24	661
6.	Vacation pay due to the reserve of vacation payment was accrued	471	661
7.	Unpaid salaries were deposited	661	662
8.	Income tax of individuals was deducted from wages	661	641
9.	Unified social contribution was deducted from wages	661	651
10.	Contributions to the union dues were deducted from wages	661	681
11.	Wages were paid from cash desk	661	301
12.	The amount of child support was deducted from the wage	661	377

Tests for self-control

Each question contains one correct answer.

1. The form of payroll when payment is carried by the amount of calendar working time (in days or hours) that was spent to certain qualifications is called:
1) Piecework form;
2) Time-based form;
3) Calendar form;
4) Time and attendance form.

2. Other stimulating and compensation payments don’t include:

1) Payment in form of remuneration for the results of the year;
2) Award for special systems and regulations;
3) Compensation and other monetary and material payments unforeseen by the acts of legislation or implemented in excess of the norms of law;
4) Compensation for work over the established norm, for labor achievements and inventiveness and for special working conditions.

3. In the personnel department for each employee should be opened:
1) Dossier;
2) Informational card;
3) Personal card;
4) All of listed.

4. Accounting of working time is carried out in:
1) Timesheet;
2) Personal card;
3) Statements of account output;
4) Route sheets.

5. This document is filled out in the case when a partial defect of production was occurred through the fault (or no fault) of worker:
1) Stoppage sheet;
2) Sheet of overpay;
3) Act of spoilage;
4) Timesheet.

6. Sheet of overpay is filled out in the following cases:
1) When independent from worker conditions were occurred the deviation from the prescribed technological process;
2) When there was a downtime that have arisen through no fault of the worker;
3) When a partial defect of production was occurred through the fault (or no fault) of worker;
4) When it is necessary to indicate the actual hours of overtime work of each employee and work at night.

7. What kind of vacations does not exist?
1) Creative vacation;
2) Unpredictable vacation;
3) Additional vacation for studying;
4) Social vacations.

8. In 2013 rate for the United contribution for obligatory state social insurance that is withheld from employees' salaries and wages is:
1) 3%;
2) 15%;

3) 3,6%;
4) 13%.

9. The amount of Unified social contribution that should be withheld from an employee's salary of 3500 UAH in September 2013 is:
1) 525 UAH;
2) 126 UAH;
3) 105 UAH;
4) 147 UAH.

10. Calculate Income tax from salary of accountant in October 2013. Employee salary is 6000 UAH:
1) 216 UAH;
2) 812, 7 UAH;
3) 867,6 UAH;
4) 212, 6 UAH.

11. From gross wages and salaries of employees can't be made such withholdings:
1) Income tax of individuals;
2) Unified social contribution;
3) Child support;
4) Communal tax.

12. On this account records of settlements with depositors are kept:
1) 66 "Payments for employee benefits";
2) 64 "Payments of taxes and fees";
3) 37 "Settlements with various debtors";
4) 65 "Payments of insurance".

13. On which accounts will be show deduction from the manager's salary?
1) Dr 641 "Payments of taxes and fees"
   Cr 661 "Payments for employee benefits";
2) Dr 661 "Payments for employee benefits"
   Cr 651 "Payments of insurance";
3) Dr 641 "Payments of taxes and fees"
   Cr 92 "Administrative expenses";
4) Dr 92 "Administrative expenses"
   Cr 641 "Payments of taxes and fees"

14. Calculate the amount of the company's payables for payroll at the end of the month (the balance on the account 66), if debt in the beginning of the month was 2300 UAH, salaries per month were accrued in the amount 19100 UAH, was deducted from the salaries – 1700 UAH, salaries were paid for 13800 UAH:
1) Debit balance – 5900;
2) Credit balance – 3600;
3) Credit balance – 760;

4) Credit balance – 5900.

15. In credit of account 66 “Payments for employee benefits” it is necessary to reflect the following amounts:
1) Remuneration of workers – in correspondence with the accounts of production costs or sale costs and other sources;
2) Remunerations of workers according to reserves of vacation pay;
3) Social insurance benefits, pensions and other similar amounts;
4) All of listed answers are correct.

16. Analytical accounting on account 66 “Payments for employee benefits” shall be kept:
1) for each structural departments of enterprises;
2) for each employee of the organization;
3) for each type of wages;
4) for each period of payment.

17. What is the economic content of the following accounting entry: Dr 66 “Payments for employee benefits” Cr 65 “Payments of insurance”:
1) Wages of production workers were accrued;
2) Income tax was deducted from the employee’s salary;
3) Unified social contribution was deducted from the employee’s salary;
4) Wages were paid from the cash office.

18. What accounting entry should be made during the accrual of wages for production workers?
1) Dr 91 “General manufacturing expenses”;
   Cr 66 “Payments for employee benefits”
2) Dr 92 “Administrative expenses”
   Cr 66 “Payments for employee benefits”;
3) Dr 66 “Payments for employee benefits”
   Cr 23 “Production”;
4) Dr 23 “Production”
   Cr 66 “Payments for employee benefits”.

19. What accounting entry should be made during the accrual of wages for the head of the company?
5) Dr 91 “General manufacturing expenses”;
   Cr 66 “Payments for employee benefits”
6) Dr 92 “Administrative expenses”
   Cr 66 “Payments for employee benefits”;
7) Dr 66 “Payments for employee benefits”
   Cr 23 “Production”;
8) Dr 23 “Production”
   Cr 66 “Payments for employee benefits”.

20. What does the following correspondence of accounts mean: Dr 66 "“Payments for employee benefits” Cr 64 “Payments of taxes and fees”?
1) Settlements with the budget were implemented;
2) Value added tax was accrued;
3) Income tax of individuals was retained;
4) Tax credit was accrued.

THEME 8. ACCOUNTING FOR CASH FLOW

8.1. Accounting for cash in hand.
8.2. Accounting for cash on checking accounts in banks. Accounting for funds on other bank accounts.
8.3. Accounting for other monetary funds.

Dictionary

Ads by cash contribution	Оголошення на внесок готівки
Applications for letters of credit	Заява на відкриття акредитиве
Asset	Актив
Bank statement	Виписка банку
Cash	Грошові кошти
Cash equivalents	Еквіваленти грошових коштів
Cash in transit	Грошові кошти в дорозі
Cash in hand	Грошові кошти в касі, каса
Cash payments	Грошові платежі, виплати, розрахунки
Cash book	Касова книга
Cash desk	Каса
Cash office	Каса
Cash limit	Ліміт каси
Cash inventory	Інвентаризація каси
Cash check	Грошовий чек
Cashiers’ report	Звіт касира
Checking account	Поточний рахунок
Compensation of previously written off assets	Відшкодування раніше списаних активів
Consumables cash order	Видатковий касовий ордер
Forms of strict registration	Бланки суворої звітності
Money orders	Платіжне доручення
Monetary funds	Грошові кошти
Payment-requests orders	Платіжна вимога-доручення
Receipts cash order	Прибутковий касовий ордер
Settlement of reparation	Розрахунки за відшкодуванням

	завданих збитків
Settlement check	Розрахунковий чек
Shortages and losses from property damage	Нестачі і втрати від псування цінностей

8.1. Accounting for cash in hand

Cash includes those items that are acceptable to a bank for deposit and are free from restrictions (i.e., available for use in satisfying of current debts). Cash typically includes coins, currency, funds on deposit accounts, checks and money orders. Such items like postdated checks, certificates of deposit, stamps and travel advances are typically not classified as cash.

Accounting for the cash flow is very important to ensure sufficient cash availability with the purpose to meet obligations and to make sure that idle cash is appropriately invested to maximize the return to the company.

Enterprises and private entrepreneurs have the right to make payments both in non-cash or cash form. Operations with cash are regulated by the Order of cash transactions in the national currency of Ukraine, approved by the Resolution of the Board National Bank of Ukraine 15.12.2004 № 637 [12].

To provide settlements by cash each company should have a cash desk (cash office). Cash desk – is a specially equipped and isolated room, which is intended for receipt, delivery and temporary storage of cash. Cash desk can also be understood as the totality of cash, located in the company at a particular time. For the safety of cash agreement on the full individual responsibility with the cashier should be concluded.

In order to reduce cash circulation government regulates the limits for residues of cash in hand. Cash limit is set by companies themselves on the basis of calculation of cash balance on hand and signed by the chief accountant and head of the company. Above the established limits enterprises have the right to keep in the box office money that are intended for wages, bonuses, allowances for temporary disability within 3 working days. If after this period money were not used for its intended purpose they should be returned to the bank account.

Receipts and issues of money from cash desk are executed by receipts cash order (form № KO-1) and consumables cash order (form № KO-2), which are issued and registered by accountant in the log of incoming and outgoing of cash documents. The numbering of incoming and outgoing cash orders is conducted in order, starting from January 1 to the end of the year. The documents on the cash issuance should be signed by director and chief accountant. No erasures or corrections to the cash documents are allowed.

Cash that was given to accountable persons but not consumed by appointment should be returned to the cash desk of the company on the following dates:

– for economic needs – no more than two working days, including the day of cash receipt on account;

– for business trips – within five working days after the end of travel;

– for the purchase of agricultural products – within ten working days from the date of issue.

Company have the right to keep in its cash desk money for wage payments, pensions, scholarships, dividends over prescribed limit of cash within three working days, including date of cash receipts.

Analytical accounting for cash transactions is conducted in the cash book (form number KO-4). Sheets of cash book should be numbered, laced in and stamped. The number of sheets in the cash book should be certified by the signatures of the head and chief accountant of the company. Entries in the cash book are maintained in two copies by carbon paper. The second one (the tear) piece of the book serves as report of cashier, who at the end of the day sends it to accountant together with attached documents (under signature in the cash book). This procedure is necessary to validate entries and derive cash balances at the end of the day.

Synthetic account 30 “Cash in hand” is intended for the generalization of information about the presence and movement of monetary funds in the organization’s cash offices. The following sub-accounts may be opened for account 30 “Cash in hand”:

301 “Cash in hand in national currency”

302 “Cash in hand in foreign currency”

In debit of account 30 “Cash n hand” it is necessary to reflect the receipt of monetary funds by the organization's cash office. In credit of account 30 “Cash in hand” it is necessary to reflect the payment of monetary funds from the organization’s cash office.

Typical entries for accounting of cash are listed in the table 8.1.

Table 8.1

Typical entries for accounting of cash

№	Particulars	Dr	Cr
1	2	3	4
1.	Money was received to cash office from the checking account in national currency	301	311
2.	Payments from customers were received to cash desk	301	361
3.	Unspent advances from accountable persons were returned	301	372
4.	Contribution to the share capital in monetary form were received from founder	301	46
5.	Excessive amount of issued wages was returned	301	661
6.	Proceeds from the sale of goods in retail trade were received	301	702
7.	Money was transferred from the cash office to the checking account	311	301
8.	Money was issued to accountable persons for administrative needs or business trip	372	301
9.	Employee's salary was paid from the cash office of the company	661	301
10.	Previously deposited wages were paid from cash office	662	301

At established by the head of company deadlines a special commission should conduct the cash inventory. Results of inventory are drawn up in the act that is showing the amounts of cash's shortages or surpluses and their causes. Surplus of cash increases the incomes of the company:

Dr 30 “Cash in hand” Cr 719 “Other revenues from operational activity”.

Shortage of cash is written off by the entity:

Dr 947 “Shortages and losses from property damage” Cr 30 “Cash in hand”

Further it is necessary to include the amount of slack to compensation by the cashier:

Dr 375 “Settlement of reparation” Cr 716 “Compensation of previously written off assets”

In consequence compensation of shortage by cashier is drawn in such entry:

Dr “Cash in hand” Cr 375 “Settlement of reparation”.

8.2. Accounting for cash on checking accounts in banks. Accounting of funds in other bank accounts

Settlements between enterprises (organizations) in the course of their business activities are carried out, usually, in cashless form, i.e., transfer of funds from the account of enterprise-payer to the account of the company-recipient. In this settlements bank plays the role of financial intermediary.

The order of payments through the banking system is regulated by the Instruction “On the non-cash payments in Ukraine in national currency” approved by resolution of the Board of the NBU № 22 from 21.01.2004 [25].

For storage of temporarily available cash and conduction of non-cash settlement enterprises open checking accounts in banks in accordance with the instructions “On the order of opening, using and closing of accounts in national and foreign currencies” approved by resolution of the Board of the NBU № 492 from 12.11.2003 [26].

To open an account the company should submit to the bank the following documents: account application, a copy of the state registration certificate, a copy of the document that confirm registration of the enterprise in tax authorities and statistics agencies, a copy of the statute, signature cards of manager, chief accountant and stamp.

Reception and delivery of cash or non-cash transfer on bank accounts are carried out by the instruments of fixed form. The most common of these are:

– ads by cash contribution;
– cash and settlement checks;
– money orders;
– payment-requests orders;
– applications for letters of credit etc.

Ad by cash contribution is used when company decides to transfer money to the checking account. Together with ad by cash contribution should be filled another supporting document – receipt.

Checks are used for making payments in cashless form between entities as well as between individual and legal persons in order to reduce cash payments for goods, works and services. Cash check is the order of issuance some sums from checking account. It can be money to pay salaries, pensions, benefits, traveling expenses, economic needs etc. Supporting document of check is a stub, which is remained in the company checkbook. Check in settlement – a document that contains written order of the owner of account (check issuer) to its bank to pay the certain amount of money to the check holder. Validity of check book is one year. By agreement with the bank validity of unused checkbook can be extended.

Settlements by money orders are one of the most common forms of payment. Money order is a written order of enterprise to its bank to transfer money from his account to the account of another enterprise (organization). Money orders are conducted for settlements on payments as a commodity nature (for products, goods, works, services) and non-commodity outputs (to the budget and extra-budgetary funds, bank loan, etc.) are conducted.

Payment-requests orders are used for settlements between businesses for material goods (works, services). Payment-requests order is filled by the supplier and transferred to the buyer along with the shipped products (goods) or after the provision of services. Also this document can be sent to the buyer's bank for acceptance and payment collection.

Payment-requests order represents a payment document that consists of two parts:

– upper part –is a requirement of the supplier to the customer to pay the cost of delivered material assets (works, services) according to the agreement;

– lower part – is an order of the payer to his bank to transfer the amount of money from his checking account to the supplier.

With letters of credit enterprise-customer transfers part of money to the bank of the supplier for the upcoming pay of shipped goods under the conditions that are set out in the applications for letter of credit. Specified funds are held on the letter of credit to perform supplier’s obligations to the buyer. Letters of credit can be opened as its own funds (covered letter of credit), and at the expense of bank loans (outstanding letter of credit) and are intended for settlements with only one supplier.

About the enrollment or retirement of money from a checking account, the company learns from the bank statement. Documents on the basis of which money were written off or credited to checking account must be attached. Bank statement replaces a register of the analytical account to the checking account and it is the basis for the accounting records. According to the bank statement correctness of moving of money on bank accounts is verifying.

Account 31 “Checking accounts” is designed to generalize information about the presence and movement of monetary funds in the national and foreign currency on checking accounts of the respective organization, opened with credit organizations. In debit of account 31 “Checking accounts” it is necessary to reflect the receipt of monetary funds on the organisation's settlement accounts. In credit of account 31 “Checking accounts” it is necessary to reflect the debiting of monetary funds from the organisation's settlement accounts.

The following sub-accounts can be opened for account 31 “Checking accounts”:

311 “Checking accounts in national currency”

312 “Checking accounts in foreign currency”

313 “Other bank accounts in national currency”

314 “Other bank accounts in foreign currency”

On bank accounts companies have the funds that are used for various targeted operations. To account such funds sub-accounts 313 “Other bank accounts in national currency” and 314 “Other bank accounts in foreign currency” are designated. This sub-accounts are used to generalize information about the presence and movement of monetary funds in the national and in foreign currencies on the territory of Ukraine and beyond its borders in letters of credit, checks and other payment documents (except bills), on current, special and other special accounts.

Scheme of accounting entries for operations in banks accounts are presented in table 8.2.

Table 8.2

Typical entries of accounting for operations in banks accounts

№	Particulars	Dr	Cr
1	2	3	4
1.	Payment from customers was received on checking account	311	36
2.	Money received from the enterprise’ cash office was credited on the checking account	311	301
3.	Payment of other receivables was received on checking account	311	377
4.	Money was transferred into a special account with purpose to open a letter of credit	313	311
5.	Money from the letter of credit was written off as payment for goods, works and services	63	313
6.	Money was transferred on deposit account	313	311
7.	Money was paid from the checking account to the cash office of enterprise	301	311
8.	Money was paid in advance to suppliers and contractors	371	311
9.	Paid to suppliers and contractors from checking account	63	311
10.	Paid taxes to the budget from checking account	64	311
11.	Paid insurance contributions for social insurance from the checking account	65	311
12.	Wages were paid by money transfer to personal accounts of employees	661	311
13.	Debt on short-term loans was restated from checking account	601	311

8.3. Accounting for other monetary funds

In addition to funds in checking accounts at banks and cash in hand, companies may have other funds: money in letters of credit, in the checkbooks, in prepaid coupons for petrol, heating oil, food, etc., prepaid vouchers to home of resorts, camp sites, reports on postal transfers, notes receivable and other financial instruments. Listed values are usually stored in cash office of the enterprise.

For synthetic account of other monetary funds account 33 "Other monetary funds" is provided by Chart of accounts. The following sub-accounts may be opened for this account:

331 "Monetary documents in national currency"

332 "Monetary documents in foreign currency"

333 "Cash in transit in national currency"

334 "Cash in transit in foreign currency"

On the debit of account 33 "Other monetary funds" receipt of the monetary documents to cash office and funds in transit are reflected, on the credit – disposal of monetary documents and write-offs of cash in transit are displayed.

Monetary instruments include, in particular, shares, bonds, notes and other securities, trips to rest homes and sanatoriums, postage stamps, state tax stamps, tickets, etc. Receipt and issuance of the cash documents is carried out by receipts and consumables cash orders. Analytical accounting of monetary documents is conducted by their types.

The features for accounting of monetary documents can be considered on the following example. The company bought a ticket to a rest home for 4200 UAH, including VAT – 700 UAH, and gave it to employees of the administrative apparatus as incentive payments. Rate of USC that was installed for enterprise is 37%.

Accounting entries for above example are presented in the table 8.3.

Table 8.3

Accounting entries for operations with monetary documents

№	Particulars	Dr	Cr	Sum, UAH
1	2			
1.	Ticket to the rest home was paid from the checking account	685	311	4200
2.	Tax credit for VAT was displayed	641	644	700
3.	Ticket was received	331	685	3500
4.	Tax credit with VAT was displayed	644	685	700
5.	Cost of tour is displayed in the labor expanses	92	661	4200
6.	USC from the cost of the tour accrued	92	65	1554 (4200*37%)
7.	USC from the benefit was withheld	661	65	151,20 (4200*3,6%)
8.	Income tax of individuals from the benefit was withheld	661	641	718,49 (4200*1,176471 – 151,20)*15%
9.	Ticket was given to the employee	661	331	3500

10.	Tax liability for VAT was accrued	661	641	700
11.	Liabilities from USC were paid	65	311	1705,20 (1554+151,20)
12.	Income tax of individuals was transferred to the budget	641	311	718,49

Forms of strict registration (proxy, check books, waybills, etc.) should be kept in cash desk of the enterprise. They are accounted on the off-balance account 08 "Forms of strict registration".

Sub-accounts 333 and 334 are designed to generalize information about the movement of monetary funds (transfers) in the national and foreign currencies in transit, that is, monetary sums (chiefly proceeds from the sale of goods by trading organizations) brought to the cash offices of organizations, savings banks or cash post offices for placing these funds into the organization's settlement or any other account without charge according to designation.

For example, delivery of revenue in national currency to collectors is reflected by such entities:

Dr 333 "Cash in transit in national currency" Cr 301 "Cash in hand"

Enrolment of these funds on the current account will be reflected this way:

Dr 311 "Checking accounts in national currency" 333 "Cash in transit in national currency"

Tests for self-control

Each question contains one correct answer.

1. Company have the right to keep in its cash desk money for wage payments, pensions, scholarships, dividends over prescribed limit of cash within:
1) Two working days;
2) Three working days;
3) Two calendar days;
4) Three calendar days.

2. Analytical accounting of cash transactions is conducted in:
1) Cash book;
2) Receipts cash order;
3) Consumables cash order;
4) Journal of cash transactions.

3. What is the economic content of such accounting entry: Dr 30 "Cash in hand" Cr 719 "Other revenues from operational activity"?
1) Shortage of cash is written off;
2) Payments from customers were received;
3) As a result of inventory was found surplus of cash;
4) Excessive amount of issued wages was returned.

4. What accounting entry must be made when money has been received to cash office from the checking account in national currency?

1) Dr 301 “Cash in hand”
   Cr 311 “Checking accounts”;
2) Dr 301 “Cash in hand”
   Cr 36 “Settlements with buyers and customers”;
3) Cr 311 “Checking accounts”
   Dr 301 “Cash in hand”;
4) Dr 301 “Cash in hand”
   Cr 46 “Unpaid capital”.

5. What accounting entry must be made when founder’s contribution to the share capital in monetary form was received?

1) Dr 301 “Cash in hand”
   Cr 311 “Checking accounts”;
2) Dr 301 “Cash in hand”
   Cr 36 “Settlements with buyers and customers”;
3) Cr 311 “Checking accounts”
   Dr 301 “Cash in hand”;
4) Dr 301 “Cash in hand”
   Cr 46 “Unpaid capital”.

6. What is the economic content of such accounting entries: Dr 311 “Checking accounts” Cr 301 “Cash in hand”?

1) Payments from customers were received;
2) Money from the cash office was transferred to the checking account;
3) Unspent advances from accountable persons were returned;
4) Previously deposited wages were paid from cash office.

7. Which document company should submit to the bank to open checking account?

1) Account application;
2) Copy of the state registration certificate;
3) Signature cards of manager, chief accountant and stamp;
4) All of listed answers are correct.

8. Which document is provided when company decided to transfer money to the bank account?

1) Payment-requests order;
2) Cash and settlement check;
3) Ads by cash contribution;
4) Money order.

9. Normal validity of check book is:

1) One month;
2) Three month;

3) Six months;
4) One year;

10. A written order of company to the bank for transferring from its account amount of money to the account of another enterprise is called:
1) Payment-requests order;
2) Cash and settlement check;
3) Ads by cash contribution;
4) Money order.

11. Which document is filled by the supplier and transferred to the buyer along with the shipped products and can be sent to the buyer's bank for acceptance and payment collection?
1) Money order;
2) Payment-requests order;
3) Cash and settlement check;
4) Applications for letters of credit.

12. From which document does company learn about the enrollment or retirement of money from the checking account?
1) Bank notification;
2) Consumables cash order;
3) Bank statement;
4) Cash flow statement.

13. The difference between the balance in a company's cash account and its bank statement is documented in the:
1) Reconciliation of the bank statement;
2) Bank notification;
3) Cash flow statement;
4) Act of checking.

14. What does the following correspondence of accounts mean: Dr 64 "Payments of taxes and fees" Cr 311 "Checking accounts"?
1) Tax incentives were received;
2) Taxes were paid to the budget;
3) Tax credit was compensated from the budget;
4) Unified social contribution was paid to the budget.

15. What accounting entry should be drawn if debt on short-term loans was repaid from the checking account?
1) Dr 30 "Cash in hand"
   Cr 31 "Checking accounts";
2) Dr 60 "Short-term loans"
   Cr 31 "Checking accounts";

3) Dr 61 "Current indebtedness of long term liabilities"
   Cr 31 "Checking accounts";
4) Dr 31 "Checking accounts";
   Cr 60 "Short-term loans".

16. What does the following correspondence of accounts mean: Dr 313 "Other bank accounts in national currency" Cr 311"Checking accounts in national currency"?
1) Money from the letter of credit was written off;
2) Money from a checking account was transferred to the cash office;
3) Money was transferred into a special account to open a letter of credit;
4) Payment was received on checking account.

17. What accounting entry should be drawn if money were restated in advance to suppliers and contractors?
1) Dr 37 "Settlements with various debtors"
   Cr 31 "Checking accounts";
2) Dr 30 "Cash in hand"
   Cr 31 "Checking accounts";
3) Dr 63 "Settlements with suppliers and contractors"
   Cr 30 "Cash in hand";
4) Dr 61 "Current indebtedness of long term liabilities"
   Cr 31 "Checking accounts".

18. Which items are not included into the monetary instruments?
1) Bonds;
2) Financial investments;
3) Notes;
4) All items are included into monetary instruments.

19. Analytical accounting of monetary documents is conducted:
1) By their types;
2) By their value;
3) By responsible persons;
4) By the period of using.

20. Enterprise has received postage stamps, which entry should be made for this transaction?
1) Dr 68 "Settlement of other operations"
   Cr 31 "Checking accounts";
2) Dr 33 "Other monetary funds"
   Cr 68 "Settlement of other operations";
3) Dr 31 "Checking accounts"
   Cr 68 "Settlement of other operations";
4) Dr 63 "Settlements with suppliers and contractors"
   Cr 33 "Other monetary funds".

THEME 9. ACCOUNTING FOR PRODUCTION COSTS OF ENTERPRISES

9.1. Recognition and classification of production costs.
9.2. Accounting for direct costs.
9.3. Accounting for indirect costs. The procedure of general manufacturing expenses distribution.
9.4. Accounting for losses caused by spoilage.

Dictionary

Actual capacity	Фактична потужність
Allocation of general manufacturing expenses	Розподіл загальновиробничих витрат
Assets	Активи
Auxiliary services	Допоміжні виробництва
Cost of production	Собівартість продукції
Cost of sales	Собівартість реалізації
Deferred expenses	Витрати майбутніх періодів
Direct costs	Прямі витрати
Economic Court	Господарський суд
Expenses	Витрати
Expenses of the period	Витрати періоду
Finished products	Готова продукція
Fixed costs	Постійні витрати
General manufacturing expenses	Загальновиробничі витрати
Indirect costs	Непрямі витрати
Liabilities	Зобов’язання
Losses caused by shortages	Втрати від браку
Normal capacity	Нормальна потужність
Overhead cost	Накладні витрати
Payments under commission agreements	Платежі за договорами комісії
Previous (advance) payment	Попередній (авансовий) платіж
Production	Виробництво
Production costs	Виробничі витрати
Semi-finished products	Напівфабрикати
Spoilage in production	Брак у виробництві
Variable costs	Змінні витрати
Workshop	Майстерня, цех

9.1. Recognition and classification of production costs

Methodological and methodical bases of accounting for the costs of companies are determined by R(s)A 16 “Expenses” [20].

Expenses of the reporting period are recognized as decrease of assets or increase of liabilities that leads decreasing in equity of the enterprise (excluding the reducing of equity due to its withdrawal or allocation by holders), if these costs can be reliably estimated.

Accounting principles provide that expenses are recognized simultaneously with the recognition of revenue, for which they were made. If it is impossible to link costs directly with incomes of certain period, they should be recognized as an expense in that period in which they were made.

If an asset provides reception of economic benefits over several periods, the costs are recognized by the systematic distribution of its value between the relevant reporting periods.

The following expenses aren't recognized and aren't included in the income statement:

1. Payments under commission agency agreements and other similar agreements in favor of consignor, the principal, and so on.
2. Previous (advance) payment for supplies.
3. Repayment of loans obtained.
4. Others decrease in assets or increase in liabilities that do not meet signs of costs (contributions to the share capital, long-term and current financial investments).
5. Costs that are displayed as a result of decreasing in equity of enterprise in accordance with the regulations (standards) of accounting.

Classification of costs –is a grouping of costs according to certain criteria. Classification helps to understand the essence of costs and to study order of their formation and purpose of using. Production costs are grouped according to the following criteria:

I. For elements (element – is a set of economically homogeneous costs):

– material costs;
– labor costs;
– contributions to social events;
– depreciation;
– other operating expenses (travel expenses, communication services, payment for services of banks and others).

II. For relation to cost of products and services:

– the cost of production (costs that are associated with the output of production and forms its production cost);
– expenses of the period (the costs that are not included into the cost of production but increase costs of the period in which they had been arisen, such as the cost of management, marketing etc.

III. By the order of inclusion into the cost of production (only the costs of production are grouped):

– direct costs – costs that can be directly attributed to the cost of certain types of products. Examples of direct costs are listed in the below classification for directions;
– indirect costs – costs that can not be attributed directly to a particular

type of product. They belong to several or all products. These include general manufacturing expenses, the total of which shall be distributed among types of products according to the rules described in R(S)A 16 “Expenses”.

IV. By direction of expenditure (only the costs of production are grouped):

– direct material costs (include the cost of raw materials and basic materials, purchased semi-manufactured goods and components, ancillary and other materials that can be directly attributed to a particular type of goods (works, services));

– direct labor costs (include wages and benefits to workers who are engaged in the production of goods, works or services, if they can be directly attributed to a particular products);

– other direct costs (include all other production costs that are associated with the production of specific products, such as contributions to social insurance, rent and depreciation of special equipment and other expenses);

– general manufacturing expenses (include the costs of production management (payroll of managers of workshops; social contributions from salaries of this personnel; the cost of official business trips of workshops’ staff, etc.), depreciation of fixed assets and intangible assets of general-purpose; costs for repair, maintenance, operation, leasing of general-purpose fixed assets; the cost of heating, lighting and other production facilities).

V. *By the degree of influence on the level of production costs:*

– fixed costs (amount of this costs does not change or changes slightly due to changes in output. For example, the cost of heating and lighting, wages of managers);

– variable costs (amount of this costs depends on the output. For example, the cost of raw materials, which form the basis of production, wages of production workers, fuel for the movement of production equipment and others).

VI. *For the calendar periods:*

– costs of the current period;

– deferred expenses.

Classification of production costs by the basic criteria is presented in figure 9.1.

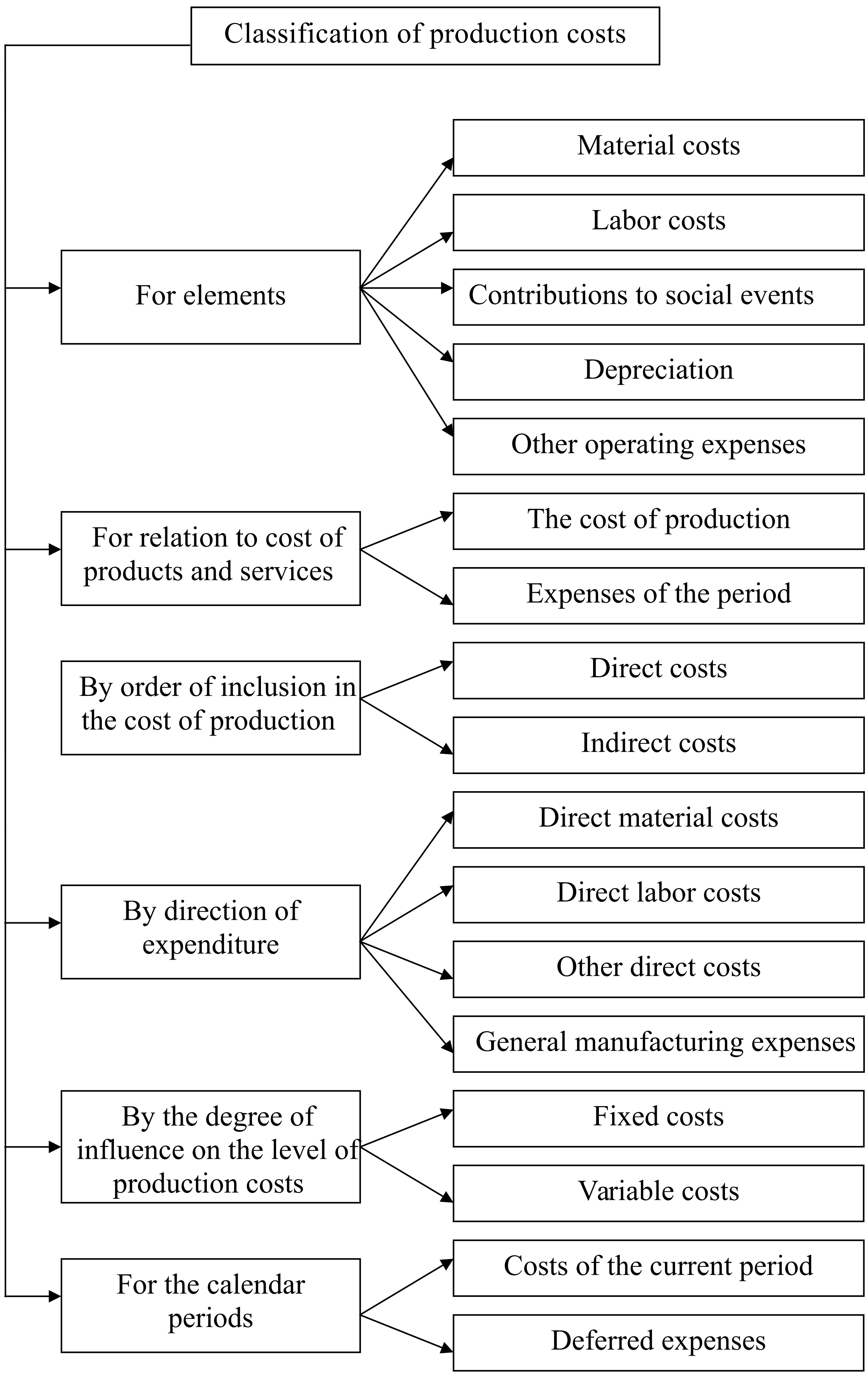

Fig. 9.1. Classification of production costs by the basic criteria

9.2. Accounting for direct costs and general manufacturing expenses

To collect information about the costs of production account 23 "Production" is provided by Chart of accounts.

Account 23 "Production" is intended for the generalization of information about the costs of production, this account shall be used to account outlays on:

– the output of industrial and agricultural products;
– the performance of building and assembly works, geological prospecting, design and survey works;
– the rendering of services by transport and communication organizations;
– the performance of scientific, research and development works;
– the maintenance and repair of motor roads, etc.

In debit of account 23 "Production" it is necessary to reflect the direct expenses on the output of products, the performance of works and the rendering of services, and also the expenses of auxiliary production units, indirect expenses on the management and service of basic industries, and losses from spoilage. Direct expenses on the output of products, the performance of works and the provision of services shall be written off to Account 23 "Production" from credit of accounts of supplies, payroll settlements with workers, etc. Costs of auxiliary services shall be written off to account 23 "Production" from credit of sub-account 23.1 "Auxiliary services" (for example). Losses from spoilage shall be written off to account 23 "Production" from the credit of account 24 "Spoilage in production".

In credit of account 23 "Production" it is necessary to reflect the amounts of the actual prime cost of finished products, performed works and services. These amounts may be written off from account 23 "Production" in debit of account 26 "Finished products".

Balance on account 23 "Production" at the end of the period shows the value of incomplete production.

Analytical accounting on account 23 "Production" shall be kept according to the types of costs and types of the output (works, services). Analytical accounting on this account also can be realized in the subdivisions of the organization.

Typical accounting entries for reflection of production costs are presented in table 9.1.

Table 9.1

Typical entries of accounting for production costs

№	Particulars	Dr	Cr
1	2	3	4
1.	Depreciation of fixed assets and intangible assets that are used in the production was accrued	23	13
2.	Inventories were released from the warehouse for needs of production	23	20
3.	Low-value wear items were rreleased and used in production	23	22
4.	Contributions to reserve of vacation of production workers were conducted	23	471

5.	Salaries of production workers were accrued and contributions to social insurance from wages were displayed	23	65,66
6.	Cost of production spoilages was written off	23	24
7.	Unused materials were returned to warehouse	20	23
8.	Receipts of semi-finished goods were reflected	25	23
9.	Finished products were issued from the production	26	23
10.	Markdowns of work in progress were conducted	946	23

9.3. Accounting for indirect costs. The procedure of general manufacturing expenses distribution

Account 91 "General manufacturing expenses" is intended for the generalization of information about expenses for the servicing of basic and auxiliary services of the organization. In particular, this account may reflect the following expenses: on the maintenance and operation of machinery and equipment; depreciation deductions and expenses on the repair of fixed assets and other assets that are used in production; expenses on the insurance of fixed assets; expenses on heating, lighting and the maintenance of workshops; rental of premises, machines, equipment, etc. that are used in production; wages of workers that provide management of workshop and other similar expenses.

General manufacturing expenses shall be reflected on account 91 "General manufacturing expenses", from credit of the account are recorded amounts of productive supplies, payroll settlements with workers, etc. Expenses those are accounted on account 91 "General manufacturing expenses" should be written off on debit of account 23 "Production" or account 90 "Cost of sales".

Analytical accounting on account 91 "General manufacturing expenses" shall be kept by separate subdivision of the organization and by the items of expenses.

General manufacturing expenses are divided into fixed and variable. Fixed – general manufacturing expenses remain constant (or nearly constant) when volume of activity is changing. Variable general manufacturing expenses – are the costs that vary directly (or almost directly) in proportion to the changes in volume of activity.

According to paragraph 16 of R(s)A 16 "Expenses" companies can independently determine the list and composition of variable and fixed general manufacturing expenses. This information should be included in the order of the accounting policy.

Allocation of fixed and variable general manufacturing expenses of products, works and services produced by an enterprise is carried out by the different ways:

– variable general manufacturing expenses are divided into each cost of object, using a base of allocation based on the actual capacity of the reporting period;

– fixed general manufacturing expenses are allocated to each cost of object, using a base of allocation based on the normal capacity.

Normal capacity is the expected average amount of activity that can be achieved in the ordinary course of the enterprises' activity for several years, or operating cycles. Its also includes planned maintenance.

The following indexes can be used as a basis of general manufacturing expenses allocation:

- hours of work;
- wages;
- volume of output;
- direct costs;
- others.

Businesses should choose the base of allocation that is most accurately reflects the relationship between the expenditure and the amount of the finished product. Accounting policy of enterprise should determine the list of fixed and variable general manufacturing expenses of products, works and services.

Application of allocation that is based on normal capacity means that the fixed general manufacturing expenses are included into the production cost in full amount only if the actual output is equal or greater than normal capacity.

If actual production is lower than expected average level, only part of the fixed general manufacturing expenses will be included into the cost of production. Remaining costs which are called undivided will be displayed as expenses of that period in which they have arisen and will be included in cost of sales. Approach to the allocation of general manufacturing expenses is shown in figure 9.2.

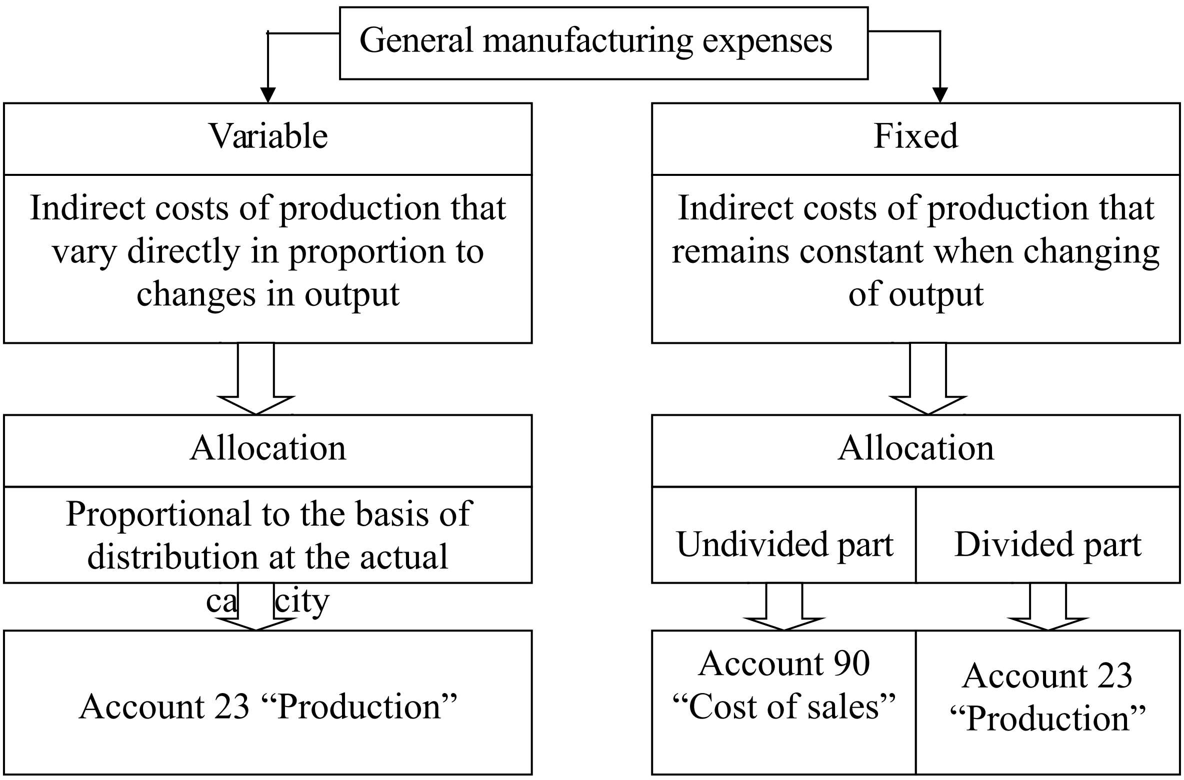

Figure 9.2. Approach to the allocation of general manufacturing expenses

9.4. Accounting for losses caused by spoilages

Spoilage of production – is a production, semi-finished products, parts, components and works quality of which does not meet the established standards or technical specifications. These assets could not be used for its intended purpose or may be used only after additional costs for correction.

Depending on the location of detection, spoilage is divided into internal and external. Internal spoilage of production – is a defect that was fount in the production process. External shortage of production – is a defect that was detected and presented by the consumer for compensation.

Depending on the nature of deviations from the standards, spoilage of production is divided into correctional (can be corrected) and final (can not be corrected).

For accounting and compilation of information about the losses from the spoilage of production account 24 "Spoilage in production" is designed.

In debit of account 24 "Spoilage in production" it is necessary to collect expenses on the revealed internal and external rejects (the value of irreparable or definite spoilage, expenses on correction, etc.).

In credit of account 24 "Spoilage in production" it is necessary to reflect the amounts that are attributed to the diminution of losses from spoilage:

– the value of rejected products at the price of possible use;
– amounts that can be deducted from guilty persons;
– amounts that can be recovered from suppliers for the delivery of defective materials or semi-finished products, etc.

On credit of account 24 "Spoilage in production" amounts that are written off into the production costs as losses from spoilage are also reflected.

Analytical account on account 24 "Spoilage in production" shall be kept by separate subdivision of the organization, type of production, item of expenses, reason for defects and person that are guilty of spoilage.

Typical accounting records that reflect spoilages in production are presented in table 9.2.

Table 9.2

Typical accounting records that reflect spoilages in production

№	Particulars	Dr	Cr
1	2	3	4
1.	Actual cost of final shortage was written off	24	23
2.	Expenses for correction of spoilage were displayed:		
2.1.	inventories	24	20
2.2.	semi-finished goods	24	25
2.3.	salary	24	66
2.4.	contributions to the social programs	24	65
2.5.	costs of outside organizations' services	24	63
3.	Losses from a spoilage were writing off to the cost of production	23	24

4.	Materials were obtained from spoilage production	20	24
5.	Compensation for spoilage was accrued to the workers-causers	375	24
6.	Amounts that will be compensated by suppliers of substandard materials were accrued	374	24

Spoilage of products is drawn by special reports or acts which indicate a product's defect based on laboratory analysis, complaints or peer review by experts; operation on which spoilage was revealed; perpetrators; amount of direct costs that attributes to the spoilage.

Costs of spoilage correction reflect the general procedure. For this procedure should be used documents for payroll calculating, additional write-down of raw materials that were consumed, reflection of spent energy, container and so on.

Posting of the amount of final spoilage of production is also carried out by usual documents in which the value of received scrap or waste is noting. A special calculation is made to write off the cost of correcting spoilages or to refer those to the guilty persons. If there was spoilage because of the low quality of raw materials and Economic Court has made a decision about compensation by supplier, such amount will be also deducted in accounting.

Tests for self-control

Each question contains one correct answer.

1. Expenses of the reporting period are recognized as:
1) Increase of assets or decrease of liabilities that leads decreasing in equity of the enterprise;
2) Decrease of assets or increase of liabilities that leads increasing in equity of the enterprise;
3) Decrease of assets or increase of liabilities that leads decreasing in equity of the enterprise;
4) Increase of assets or decrease of liabilities that leads increasing in equity of the enterprise.

2. The following items are not recognized as expenses and are not included in the income statement:
1) Advance payment for supplies and services;
2) Depreciation of fixed assets;
3) Payment for bank services;
4) All of listed.

3. Which costs are not included in the cost of production but increase costs of the period in which they have been arisen?
1) Direct costs;

2) General manufacturing expenses;
3) Expenses of the period;
4) Other operating expenses.

4. Which items are not included into direct cost?
1) Wages of workers who are engaged in the production of goods;
2) Depreciation of production equipment;
3) Rent for the machinery that is engaged in production process;
4) Cost of workshop heating.

5. Costs the value of which depends on the output are called:
1) Indirect costs;
2) Variable costs;
3) Periodical costs;
4) Deferred expenses.

6. By what posting the output of finished products and its transferring to the warehouse can be reflected:
1) Dr 90 “Cost of sales” Cr 23 “Production”;
2) Dr 26 “Finished products” Cr 23 “Production”;
3) Dr 23 “Production” Cr 26 “Finished products”;
4) Dr 26 “Finished products” Cr 91 “General manufacturing expenses”;

7. Determine the balance on account 23 “Production” knowing that residue of unfinished production at the beginning of the month was 100000 UAH, the cost per month – 150000 UAH, products were released by the actual cost – 120000 UAH:
1) Credit balance – 130000 UAH;
2) Debit balance – 70000 UAH;
3) Debit balance – 130000 UAH;
4) Credit balance – 70000 UAH.

8. What is the content of the following accounting entry: Dr 23 “Production” Cr 20 “Inventories”?
1) Materials were received from the main production;
2) Materials were released for production;
3) Materials were released for administration purpose;
4) Materials were released for general manufacturing needs.

9. Determine the actual cost of output on the account 23 “Production” knowing that the residue of unfinished production at the beginning of the month is absent, the cost per month – 18000 UAH, the balance at the end of the month – 3000 UAH.
1) 18000 UAH;
2) 3000 UAH;

3) 15000 UAH;
4) 21000 UAH.

10. What is meant by the following accounting entry: Dr 23 “Production” Cr 66 “Payments for employee benefits”?
1) Salaries of production workers are accrued;
2) Salaries of general manufacturing workers are accrued;
3) Contributions to social insurance from wages of production workers are accrued;
4) Contributions to reserve of vacation pay of production workers are conducted.

11. Account 91 “General manufacturing expenses” does not reflect the following expenses:
1) Expenses on heating, lighting and the maintenance of premises;
2) Wages to workers that provide management of workshop;
3) Depreciation and expenses on the repair of fixed assets;
4) Cost of raw materials that were used for production.

12. Analytical accounting on account 91 “General manufacturing expenses” shall be kept by:
1) Periods of manufacturing and type of expenses;
2) Separate subdivision of the organization and by item of expenses;
3) Type of manufactured products and costs;
4) Periods of manufacturing and separate subdivision of the organization.

13. Which figure represents the expected amount of activity that can be achieved in the ordinary course of the enterprises’ activity for several years?
1) Planned output;
2) Volume of output;
3) Normal capacity;
4) Preferred capacity.

14. Cannot be used as a basis of general manufacturing expenses allocation:
1) Hours of work;
2) Wages;
3) Direct costs;
4) Depreciation of equipment.

15. Which posting can be made while the payroll to chief of workshops is accrued?
1) Dr 91 “General manufacturing expenses” Cr 66 “Payments for employee benefits”;
2) Dr 92 “Administrative expenses” Cr 66 “Payments for employee benefits”;
3) Dr 66 “Payments for employee benefits” Cr 23 “Production”;
4) Dr 23 “Production” Cr 66 “Payments for employee benefits”.

16. Which accounting posting should be made during the writing-off of variable general manufacturing expenses to the cost of production?
1) Dr 23 “Production” Cr 91 “General manufacturing expenses”;
2) Dr 23 “Production” Cr 92 “Administrative expenses”;
3) Dr 91 “General manufacturing expenses” Cr 23 “Production”;
4) Dr 79 “Financial results” Cr 91 “General manufacturing expenses”.

17. How the depreciation of manufacturing equipment will be reflected on accounts?
1) Dr 92 “Administrative expenses” Cr 13 “Depreciation of non-current assets”;
2) Dr 91 “General manufacturing expenses” Cr 13 “Depreciation of non-current assets”;
3) Dr 13 “Depreciation of non-current assets” Cr 91 “General manufacturing expenses”;
4) Dr 23 “Production” Cr 13 “Depreciation of non-current assets”.

18. On credit of account 24 “Spoilage in production” it is necessary to reflect the following amounts:
1) The value of rejected products at the price of possible use;
2) Amounts that can be deducted from guilty persons;
3) Amounts that can be recovered from suppliers for the delivery of defective materials or semi-finished products;
4) All of listed is right.

19. On which accounts will be shown the next transaction: “Displayed waste obtained from shortage”?
1) Dr 23 “Production” Cr 24 “Spoilage in production”;
2) Dr 24 “Spoilage in production” Cr 20 “Inventories”;
3) Dr 24 “Spoilage in production” Cr 23 “Production”;
4) Dr 20 “Inventories” Cr 24 “Spoilage in production”.

20. What is meant by following accounting entries: Dr 24 “Spoilage in production” Cr 23 “Production”?
1) Losses from a spoilages were written off to the cost of production;
2) Expenses for correction of spoilage were displayed;
3) The actual cost final shortage was written off;
4) Compensation for spoilage was accrued to workers-causers.

THEME 10. ACCOUNTING OF FINISHED PRODUCTS AND ITS REALIZATION

10.1. Documentation of the goods movement.

10.2. Analytical and synthetic accounting of finished products.

10.3. Characteristics of accounts that reflect the process of finished products realization.

10.4. Determination of financial results from the sales of products.

Dictionary

Acceptance bill	Приймально-здавальна накладна
Acceptance act	Приймально-здавальний акт
Administrative expenses	Адміністративні витрати
Bill	Накладна
Card of stock control	Картка складського обліку
Contractual price	Договірна ціна
Distribution expenses	Витрати на збут
Expenses	Витрати
Financial results	Фінансові результати
Finished goods	Готова продукція
Incomes from sales	Доходи від реалізації
Incomes from principal operational activity	Доходи від основної операційної діяльності
Income from investments in capital	Дохід від участі в капіталі
Other financial incomes	Інші фінансові доходи
Other operational incomes	Інші операційні витрати
Order	Наказ
Payments of taxes and fees	Розрахунки за податками й платежами
Profit tax	Податок на прибуток
Retained profit (uncovered loss)	Нерозподілені прибутки (непокриті збитки)
Revenues	Доходи
Settlement of advances received	Розрахунки за авансами одержаними
Settlements with buyers and customers	Розрахунки з покупцями та замовниками
Stocks	Запаси
Tax credit	Податковий кредит
Tax invoice	Податкова накладна
Tax liabilities	Податкові зобов’язання
Warehouse	Склад

10.1. Documentation of the goods movement

Finished goods – are such that were completely passed under all stages of production technology and processes, tested in accordance with specifications and standards and transferred to the warehouse.

Finished goods refer to stocks that's why their recognition and evaluation is performed according to R(s)A 9 "Stocks".

Issue of finished products from the production and its transferring to the warehouse is made by acceptance bill or acceptance acts. Bills are normally issued in quantitative measurement and then translated to accounting prices (planned cost or the average, contract, selling price). Other documents such as accumulative sheet on the delivery of finished products, sheet of delivery for change, acts of acceptance of the finished product can be used.

Finished products are shipped to the customers under agreements, contracts. In some cases, one-off deliveries can be issued by the application-transaction (simplified form of the contract of sale). Transferring of ownership to the goods shipped from the supplier to the buyer, and also procedure of distribution of transportation costs, insurance are determined by the conditions in the contract.

Shipment of finished products is carried out from the warehouse pursuant to the order. In warehouse, after receiving the order for goods shipped, products for the buyer are selected and bill is issued (in this case bill should be signed). Some companies instead of orders and bill use one document – order-bill. Further these documents should be sent to the accounting department for writing the bill and tax invoice to the buyer.

Invoices are issued at contractual prices. Invoices contain the name of consignee and consignor, addresses, contract number, date of shipment, costs, excluding VAT, the VAT, the total sum of the bill and other necessary details. Trade passes are issued to the consignee to take out of finished goods from the enterprise.

Supplying of products for their own needs is based on the order of the head of the company and should be reflected by the bill-request for issue. If in the future finished products will be used as fixed assets, it's enroll as a part of fixed assets of the enterprise must be executed by the typical form № OZ - 1 "Protocol of acceptance-transfer (internal moving) of fixed assets".

In warehouse finished goods are recorded in quantitative expression for its types in the cards or in books of stock control. In the book or card of stock control the following information is defined: name of products, their nomenclature number, unit of measure, size, brand, price per unit, etc. Accounting of finished product is conducted to the extent of its receipt to the warehouse and issuing from the warehouse. Records in cards or books of stock control are made on the receipt and delivery of finished products and daily leftovers are also displayed.

10.2. Analytical and synthetic accounting of finished products

To account for the movement of finished goods account 26 "Finished products" is provided by the Chart of accounts.

Account 26 "Finished products" is designed to generalize information about the presence and movement of finished products. This account shall be used by organizations engaged in industrial, agricultural and other production activity. The acceptance for accounting of finished products manufactured for sale, including products partially intended for meeting the organization's own needs, shall be reflected in debit of account 26 "Finished products" in correspondence with the accounts of production costs.

Account 26 "Finished products" shows the following information:

- Cost of finished goods available at the beginning of an accounting period (i.e. beginning balance as a debit because it is an asset account). The balance represents finished goods available for sale at the beginning of the period.
- Cost of goods manufactured that were transferred from work-in-process to finished goods during the accounting period (debit side).
- Cost of goods sold during the period (credit side).
- Cost of finished goods available at the end of the account period.

When finished products are accounted on synthetic account 26 "Finished products", at actual production costs in analytical accounting, the movement of their individual denominations may be reflected at accounting prices (at planned prime cost, release prices, etc.). Such deviations shall be accounted according to homogenous groups of finished products, which are formed by the organization on the basis of the level of the deviations of the actual production costs from the value at the accounting prices.

The amounts of deviations in the actual production costs of finished, shipped and sold products from their value at accounting prices shall be reflected in credit of account 26 "Finished products" and in debit of relevant accounts by an additional or reversed entry.

Analytical accounting on account 26 "Finished products" as noted shall be kept by the places of storage and types of finished products.

Typical accounting records of the movement of finished goods are presented in table 9.2.

Table 10.1

Typical accounting records of the movement of finished goods

№	Particulars	Dr	Cr
1	2	3	4
1.	Finished products were released from production	26	23
2.	Surpluses of finished products that were found during the inventory are displayed	26	719
3.	Semi-finished goods for sale were received to the warehouse	26	25
4.	The cost of goods sold was written off	901	26
5.	Lack of finished goods that was determined as a result of inventory is identified and written off	947	26
6.	Reduces of assessment of finished goods to the amount of net realizable value were conducted	946	26
7.	The cost of donated finished product is written off	949	26
8.	Losses of finished products as a result extraordinary events were write-off	99	26

10.3. Characteristics of accounts, which reflect the process of finished products realization

In accounting department on basis of documents which have been submitted to shipment of finished products, calculations of analytical accounting with buyers are conducted. For synthetic accounting of calculations with buyers account 36 "Settlements with buyers and customers" is used.

Account 36 "Settlements with buyers and customers" is designed to generalize information about settlements with buyers and customers. This account shall be debited in correspondence with credit of account 70 "Incomes from sales" to the amounts of which accounting documents are presented.

Account 36 "Settlements with buyers and customers" shall be credited in correspondence with the accounts of monetary funds, settlements to the sums of received payments (including amounts of received advances), and so on. The amounts of received advances and preliminary payment shall be recorded separately. For example:

– Finished products are shipped to the customers: Dr 361 Cr 701;
– Payments from customers were received on the checking account: Dr 311 Cr 361;
– Payment from customers was received on the cash desk: Dr 301 Cr 361;
– Offset of debts for barter was conducted: Dr 631 Cr 361.

All the companies should be registered in the government inspection as value added tax (VAT) payers. Enterprise should issue tax invoice at the moment of finished goods realization. The rate of VAT is established by the Tax Code of Ukraine and amounts to 20% or 0% (for a certain transaction).

Account 64 "Payments of taxes and fees" is designed to generalize information about the settlements with budgets in taxes and fees paid by the organization and in taxes with the workers of the organization.

This account shall be credited to the amounts due under tax declarations (calculations) in correspondence with account 98 "Profit tax" – to the amount of profit tax, with account 66 "Payments for employee benefits" – to the amount of income tax, etc. Amounts of money actually transferred to the budget, and also the amounts of credit of value-added tax shall be reflected in debit of account 64 "Payments of taxes and fees". It is recommended to open the following sub-accounts to the account:

641 "Tax settlements"
642 "Settlement of obligatory payments"
643 "Tax liabilities"
644 "Tax credit"

Analytical accounting on account 64 "Payments of taxes and fees" shall be kept by the type of taxes.

Accounting of tax liabilities for VAT is shown in table 10.2.

Table 10.2

Accounting of tax liabilities for value added tax

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	
I. The first event - prepayment from buyers (customers) was received				
1.	Prepayment (advance payment) from the buyer was received on the checking account	311	681	6000
2.	Displaying tax liabilities for VAT	643	641	1000
3.	Finished products were shipped to the buyer	361	701	6000
4.	Tax payments for tax liabilities from VAT were displayed	701	643	1000
5.	Offset of receivable and payable accounts was made	681	361	6000
II. The first event - delivery of goods (services)				
6.	Finished products were shipped to the buyer	361	701	6000
7.	Tax liabilities for VAT were accrued	701	641	1000
8.	Payment from the buyer was received on the checking account	311	361	6000

In this example was also used account 681 “Settlement of advances received”. Account 681 is used when customers of goods are paying in the form of prepayment. Balance of account 681 “Settlement of advances received” is passive. Balance on credit of this account reflects prepayments that were received from the customers but delivery has not yet been made. Turnover on credit shows the amount of prepayments received during the month and recorded in the debit accounts 30 “Cash in hand” or 31 “Checking accounts”. In the debit of account 681 “Settlement of advances received” the cost of products shipped to customers is displayed.

While finished products are sold to the customers, enterprise’ income arises. The order of accounting for income is established by R(s)A 15 “Revenues” [19]. Revenues as well as expenses in the accounting and financial reporting are carried by the types of activities.

According to R(s)A 15 “Revenues”, revenue is recognized when asset is increasing or liability is decreasing that leads to the growth of equity (other than capital growth by contributions from members of the enterprise), provided that the estimate of revenue can be reliably measured.

Incomes from the principal operational activity of the enterprise include:

– Income (loss) from sales of products (sub-account 701);
– Income (loss) from sales of goods (sub-account 702);
– Income (loss) from sales of works and services (sub-account 703).

Revenue from the sales of products (goods) is recognized at the following conditions:

1. The significant risks and benefits associated with the ownership of products (goods) were transferred to the buyer.

2. Company does not carry further control and management of products (goods, other assets).

3. The amount of income (loss) may be reliably measured.

4. There is the confidence that a transaction will increase economic benefits of the enterprise.

5. Costs associated with the transaction can be reliably measured.

Revenue is not recognized if at least one of the above conditions was not met. Revenue from sales is recognized at the time of shipment of the products, goods and services. Revenue should be shown in the accounting records by the amount of the fair value.

Account 70 "Incomes from sales" is intended to summarize the information about incomes from the sale of finished products (goods and services). Account 70 "Incomes from sales" is passive. In the credit of account amounts of revenues, i.e. sales value of finished goods shipped (provided services) are reflected in correspondence with the debit of account 36 "Settlements with buyers and customers" (as shown in table 10.2). The debit reflects the reduction of income on the amount of indirect taxes charged on sales (records on the credit of account 64 "Payments of taxes and fees"). The final amount of income shall be written off on credit of account 79 "Financial Results".

10.4. Determination of financial results from sales of products

In addition to incomes (revenues) from the sale of goods (works, services), incomes from ordinary activities also include:

– Other operational incomes. Its includes: income from sale of foreign currency; revenues from the sale of other current assets (excluding financial investments); income from operations of assets lease; income from operations with foreign currency; the amount of mulcts, fines and other sanctions for violations of commercial contracts, which are recognized or for which the debtor obtained the decision of the court; income from writing off of payables debt for which the limitation period has been expired; recoveries of amounts of assets that were previously written-off; amounts of current assets and subsidies that were received for free; and other operating income. Accounting of these incomes is carried out on account 71 "Other operational income".

– Income from investments in capital. It is includes: income from investments that carried in associates, subsidiaries or joint ventures, and its accounting is conducted by using the equity method. To summarize the above information account 72 "Income from investments in capital" is intended.

– Other financial incomes. Its include incomes that arise in course of financial activity of the enterprise, including dividends, interest and other incomes from financial activities. All of these incomes are reflected on account 73 "Other financial incomes".

– Other incomes. Its includes: revenues that arise in the normal course of business, but are not related to operational and financial activities of the company: incomes from sale of financial investments; incomes from recovery of assets utility; income from non-operating difference of exchange rate; income from assets that were received free of charge and others. Accounting of these incomes is carried out on account 74 “Other incomes”.

To determine the financial result of the company it is necessary to compare values of incomes and expenses. The list of expenses is defined in paragraphs 10-31 of R(s)A 16 “Expenses”. Costs that are related to operating activities and not included in the cost of sold products (goods and services) are divided into administrative expanses, distribution expanses and other operating expanses.

The administrative expenses include such general economic costs that are focused on service and enterprise management:

– general corporate expenses (organizational costs, costs for holding of annual meetings, representative costs, etc.);

– expenses for business trips and maintenance of enterprise management, and other general business personnel;

– costs of fixed assets, other general business assets that are used in management (operating leases, property insurance, depreciation, maintenance, heating, lighting, water etc);

– remuneration for professional services (legal services, accounting, property valuation etc.);

– communication costs (postage, telegraph, telephone, telex, fax, etc.);

– amortization of intangible assets of general business use;

– costs of dispute resolutions in the courts;

– taxes, fees and other obligatory that are stipulated by the legislation charges (excluding taxes, fees and duties that are included to production cost of the goods, works and services);

– fees for cash management services and other banking services as well as costs that are associated with buying and selling of currencies;

– other costs of general business purposes.

Accounting for administrative expenses is carried out on account 92 “Administrative expenses”. On debit of this account amount of incurred costs is displayed, on credit – amount of these costs is wrote off to the account 79 “Financial Results”.

Distribution expenses include costs that are related to marketing (sales) of the products (goods and services):

– costs of packaging materials for pouring of finished goods in warehouse;

– cost of containers repair;

– wages and commissions to sellers, trading agent and employees of departments that provide sales;

– expenditure on advertising and market research (marketing);

– costs for preselling preparation of goods;

– travel expenses of employees engaged in sales;

– costs of fixed assets, other tangible fixed assets that are associated with the sale of products, goods and services (operating leases, insurance, depreciation, maintenance, heating, lighting, security);

– costs of transportation, handling and insurance of finished goods, forwarding and other services that are related to transportation of goods in accordance with the terms of the contract;

– warranty costs and warranty service;

– cost of insurance that is designed to further realization of finished products (goods);

– transport costs of finished goods between of subdivisions of the company;

– other costs that are associated with the sale of products, goods and services.

Accounting for the cost of sales is reflected on account 93 “Distribution expenses”. On debit of this account the amount of listed costs is displayed, on the credit – these cost should be wrote off to the account 79 “Financial Results”.

Other operational costs include:

– expenditure on research and development;
– cost of inventories that had been sold;
– amount of uncollectible receivables and charges to reserves of doubtful debts;
– losses from the difference of operating rate;
– impairment losses on stocks;
– spoilages and losses from property damage;
– fines, wites, forfeits that have been recognized;
– maintenance costs of social and cultural purposes;
– other operating expenses.

Accounting for the listed above costs is reflected on the debit of account 94 “Other operating costs”. On credit of this account the amount of costs that were wrote off to the account 79 “Financial Results” is displayed.

According to the Tax Code, income tax on profits of enterprises must be charged, in 2013 it makes 19%. Income tax is displayed on active account 98 “Profit tax”. Accrual of income taxes is reflected in the accounting by such accounting entries:

1. Income tax was accrued:

Dr 98 “Profit tax” Cr 64“Payments of taxes and fees”

2. Income tax was paid to the budget from checking account:

Dr 64 “Payments of taxes and fees” Cr 31 “Checking accounts”

3. At the end of the reporting period, the accrued amount of income tax is deducted on financial results:

Dr 79 “Financial results” Cr 98 “Profit tax”

The financial result of enterprises’ activity is characterized by a profit or loss. Profit earning is the primary goal of any business.

To account for the financial results accounts 79 “Financial Results” and 44 “Retained profit (uncovered loss)” are used. Account 79 “Financial Results” is nominal, at the end of the reporting period it should be closed to account 44 “Retained profit (uncovered loss)” (account 79 has no residue). Account 44 “Retained profit (uncovered loss)” is passive and it is shown in the Balance sheet of the enterprise.

Generalized model of the formation of financial results and its accounting are shown on figure 10.1.

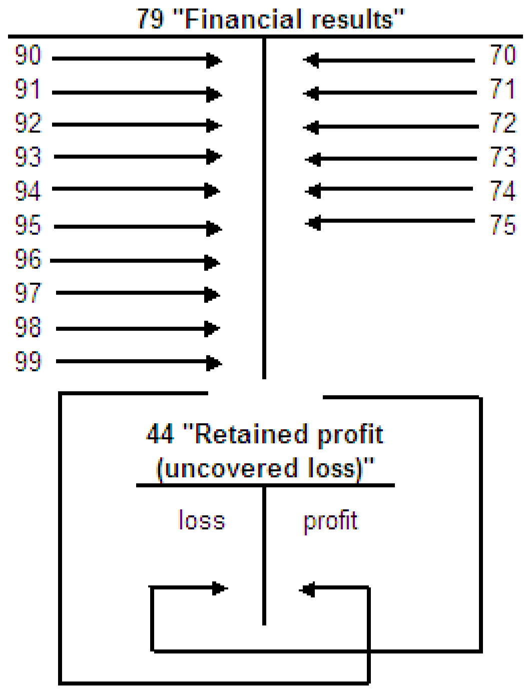

Fig. 10.1. Accounting model of financial results formation

On the credit of account 79 “Financial results” amounts of income accounts are displayed, on the debit – the amounts of expenses accounts and proper amount of accrued income tax are reflected. When account 79 “Financial results” is closed its balance will be debited to the account 44 “Retained profit (uncovered loss)”.

Turnovers on the debit and credit of account 79 “Financial results” are compared, and if the credit turnover of account 79 “Financial Results” will be more than debit turnover of the same account, the company has retained earnings of the current period. If the debit turnover of account 79 “Financial results” is more than the credit turnover of this account, the company has performed more expenses than received incomes.

Tests for self-control

Each question contains one correct answer.

1. Shipment of finished products is carried out from the warehouse pursuant to the:
1) Order;
2) Bill;
3) Invoice;
4) Acceptance act.

2. Invoices are written by accounting department in such measuring:

1) Actual cost;
2) Book value;
3) Contractual prices;
4) Fair price.

3. Goods that are completely passed under all stages of production technology and processes, tested in accordance with specifications and standards and transferred to the warehouse are called:
1) Semi-finished goods;
2) Finished products;
3) Inventories;
4) Goodwill.

4. By which evaluation are finished products displayed on the Balance sheet?
1) For actual cost;
2) For contractual prices;
3) For the purchase price;
4) For fair price.

5. In warehouse finished goods are recorded:
1) In quantitative expression;
2) In qualitative expression;
3) In quantitative and qualitative expression;
4) In labor measuring.

6. What is the moment of product's sale?
1) Moment of compiling of contract for shipment of goods;
2) Time of the shipment of products to the buyer;
3) Moment of products delivery to the customers;
4) Moment of products delivery to suppliers.

7. Which accounting entry should be made for the following transaction: "The cost of goods sold was written off":
1) Dr 36 "Settlements with buyers and customers" Cr 26 "Finished products";
2) Dr 90 "Cost of sales" Cr 26 "Finished products";
3) Dr 79 "Financial results" Cr 26 "Finished products;
4) Dr 26 "Finished products" Cr 901 "Cost of sales".

8. How revenue from sales will be recorded by accounting entry?
1) Dr 31 "Checking accounts" Cr 36 "Settlements with buyers and customers";
2) Dr 31 "Checking accounts" Cr 70 "Incomes from sales";
3) Dr 36 "Settlements with buyers and customers" Cr 70 "Incomes from sales";
4) Dr 441 "Retained profit (uncovered loss)" Cr 79 'Financial results".

9. What is meant by the following accounting entry: Dr 31 “Checking accounts” Cr 36 “Settlements with buyers and customers”?
1) Finished products were shipped to the buyer;
2) Payment from the buyer were received;
3) Prepayment from the buyer were received on checking account;
4) The cost of goods sold was written off t.

10. Company S received money in advance of providing services to Company P. The money received before it is earned is an increase to Company S's asset account “Checking account”. The amount of unearned should also be reported as:
1) Another asset;
2) Liability;
3) Revenues;
4) Expenses.

11. During the reporting period the company received income from sales in the amount 720000 UAH (including VAT). Cost of sales amounted to 98000 UAH, distribution expenses – 15000 UAH. Identify financial results from sales of products.
1) Profit - 998000 UAH;
2) Loss - 487 000 UAH;
3) Profit - 202000 UAH;
4) Profit - 487000 UAH.

12. Which entry will be made during the shipment of finished products from the warehouse to customers at actual cost?
1) Dr 36 “Settlements with buyers and customers” Cr 26 “Finished products”;
2) Dr 90 “Cost of sales” Cr 26 “Finished products”;
3) Dr 79 “Financial results” Cr 26 “Finished products”;
4) Dr 26 “Finished products” Cr 901 “Cost of sales”.

13. What is meant by the following correspondence of accounts: Dr 70 “Incomes from sales” Cr 64 “Payments of taxes and fees”?
1) Tax credit has been accrued;
2) VAT has been transferred to the budget;
3) Settlements with the budget were implemented;
4) Tax obligations of VAT were accrued.

14. At what account will be shown the writing off of incomes from sales at the end of the reporting period?
1) 90 “Cost of sales”;
2) 70 “Incomes from sales”;
3) 79 “Financial results”;
4) 94 “Other operating expenses”.

15. On what account administrative expenses are written off at the end of the month?
1) On account 26 “Finished products”;
2) On account 23 “Production”;
3) On account 79 “Financial Results”;
4) On account 70 “Incomes from sales”.

16. Which posting it is necessary to make during the payroll to workers that are employed in products realization?
1) Dr 91 “General manufacturing expenses” Cr 20 “Inventories”;
2) Dr 93 “Distribution expenses” Cr 66 “Payments for employee benefits”;
3) Dr 79 “Financial Results” Cr 93 “Distribution expenses”;
4) Dr 94 “Other operating expenses” Cr 66 “Payments for employee benefits”.

17. Which posting it is necessary to make during the depreciation of fixed assets that are intended for sales?
1. Dr 93 “Distribution expenses” Cr 13 “Depreciation of non-current assets”;
2. Dr 23 “Production” Cr 13 “Depreciation of non-current assets”;
3. Dr 92 “Administrative expenses” Cr 13 “Depreciation of non-current assets”;
4. Dr 13 “Depreciation of non-current assets” Cr 91 “General manufacturing expenses”.

18. The administrative expenses include the following costs:
1) Expenses for business trips and maintenance of enterprise management;
2) General corporate expenses (organizational costs, costs for holding of annual meetings, representative costs, etc.);
3) Communication costs (postage, telegraph, telephone, telex, fax, etc.);
4) All of listed.

19. Which accounting entry should be made while administrative expenses are written-off?
1) Dr 93 “Distribution expenses" Cr 20 “Inventories”;
2) Dr 93 “Distribution expenses” Cr 66 “Payments for employee benefits”;
3) Dr 79 “Financial results” Cr 92 “Administrative expenses”;
4) Dr 79 “Financial results” Cr 93 “Distribution expenses”.

20. On what account profits of the enterprise will be written off at the end of the reporting period?
1) 70 “Incomes from sales”;
2) 79 “Financial results”;
3) 44 “Retained earnings (uncovered loss)”;
4) 73 “Other financial incomes”.

THEME 11. ACCOUNTING FOR THE PROCESS OF CAPITAL FORMATION

11.1. Concept and structure of owners' equity. Accounting for authorized capital.
11.2. Accounting for additional and reserve capital.
11.3. Accounting for withdrawn and unpaid capital.
11.4. Accounting for retained profits (uncovered losses).

Dictionary

Additional capital	Додатковий капітал
Additional valuation of assets	Дооцінка активів
Authorized capital	Статутний капітал
Chart of account	План рахунків
Constituent documents	Установчі документи
Contributions of the founders	Внески засновників

Dividends	Дивіденди
Financial results	Фінансові результати
Free of charge	Безкоштовно
General meeting of founders	Загальні збори засновників
Joint-stock company	Акціонерне товариство
Liabilities	Зобов'язання
Net income	Чистий прибуток
Nominal value	Номінальна вартість
Non-current assets received free	Безоплатно одержані необоротні активи
Other invested capital	Інший вкладений капітал
Owners' equity	Власний капітал
Owners' equity formation	Формування власного капіталу
Participant (founder)	Учасник, засновник
Profit used in the reporting period	Прибуток, використаний у звітному періоді
Profitable	Прибутковий, рентабельний
Redemption price	Викупна вартість
Redeemed capital	Вилучений капітал
Reserve capital	Резервний капітал
Retained profit	Нерозподілені прибутки
Settlements with founders	Розрахунки з учасниками
Share	Акція, пай
Shareholder	Акціонер, пайовик
Share capital	Пайовий капітал
Shares emission	Випуск акцій
Share premium	Емісійний дохід
Uncovered loss	Непокриті збитки
Unpaid capital	Неоплачений капітал
Withdrawn capital	Вилучений капітал
Withdrawn deposits and fund units	Вилучені вклади й паї
Withdrawn shares	Вилучені акції

11.1. Concept and structure of owner's equity. Accounting for authorized capital

According to the National regulations (standard) 1 "General requirements for financial reporting", owners' equity – is a part of assets of an enterprise that remains after deduction of its liabilities [13].

Owners' equity is reflected in the first section of the passive of Balance sheet and includes:

– Authorized capital;
– Share capital;

– Additional capital;
– Reserve capital;
– Retained profit (uncovered loss);
– Withdrawn capital;
– Unpaid capital.

When the total amount of passive of the Balance sheet is determined, amounts of the unpaid and withdrawn capital as well as uncovered loss should be deducted. It provides a realistic assessment of equity. The ratio of equity and liabilities is largely determined the possibility of loans obtaining. This indicator is used to assess the financial state of the enterprise.

To summarize information about the status and changes in equity by the Chart of accounts fourth class of accounts "Equity and ensuring of liabilities" are provided, in particular: 40 "Authorized capital", 41 "Share capital", 42 "Additional capital", 43 "Reserve capital", 44 "Retained profit (uncovered loss)", 45 "Withdrawn capital" and 46 "Unpaid capital".

One of the main components of the owners' equity is authorized capital. Authorized capital is recorded in the founding documents, it is presented as total value of assets that were contributed by the owners (members) to the capital of the company. The order of authorized capital formation is regulated by the Law of Ukraine "On business associations" № 1576-XII of 01.19.91 [4].

At the time of registration, each of the participants (founders) is required to make at least 30% of amount that is specified in the founding documents. Outstanding debt of contributions to authorized capital must be repaid over the next 12 months. In case of default of this obligation founders will pay a fine in amount 10% per annum for the time delay, unless otherwise is provided by the constituent documents.

The authorized capital of business entities is formed by the contributions of the founders in form of money, tangible and intangible assets, supplies as well as securities.

The order of evaluation of the property contributions of participants must be defined in the founding documents. Fixed assets, tangible and intangible assets are included in the authorized capital of the company at cost that was agreed by the founders.

Account 40 "Authorized capital" is designed to generalize information about the state and movement of authorized capital (pooled capital and chartered fund) of the organization. The balance amount in account 40 "Authorized capital" shall correspond to the amount of authorized capital fixed in the organization's constituent documents. Entries in this account shall be made during the formation of authorized capital only after the introduction of appropriate amendments to the organization's constituent documents.

After the state registration of the organization its authorized capital in the amount of contributions by founders (participants) provided by its constituent documents, shall be reflected in credit of account 40 "Authorized capital".

Analytical accounting in account 40 "Authorized capital" shall be organized in such ways to ensure the formation of information per the founders of the organization, per the stages of the capital formation and types of shares.

Typical accounting records of owners' equity formation are presented in table 11.1.

Table 11.1

Typical accounting records of owners' equity formation

№	Particulars	Dr	Cr
1	2	3	4
1.	Size of the authorized was reflected at the time of enterprise registration	46	40
2.	Amount of cash was shown as a contribution to the authorized capital	30	46
3.	Amount of money on the checking account of the company was displayed as a contribution to the authorized capital	31	46
4.	Value of fixed assets was displayed as a contribution to the authorized capital	10	46
5.	Value of inventory was displayed as a contribution to the authorized capital	20	46

Business entities have the right to change (increase or decrease) the amount of its authorized capital. Such changes are possible only if all contributions by the participants will be made. Changes in authorized capital should be reflected in the protocol of the general meeting of founders and fixed in the charter of business.

11.2. Accounting for additional and reserve capital

Additional capital of the company represents other capital invested by participants in business entity (share premium, etc.), or obtained in the course of the company as a result of increases in the value of assets, free receipt of non-current assets and others.

Account 42 "Additional capital" is intended for the generalization of information about the organization's additional capital. On credited of this account reflects increase of additional capital, on debit – decrease.

The following sun-accounts can be opened to account 42 "Additional capital":

421 "Share premium" – the amount of the difference between the sale value and the nominal value of shares, received in the process of formation of the authorized capital of a joint-stock company (during the establishment of a company and in case of the subsequent growth of authorized capital) at the expense of the sale of shares at a price that exceeds their nominal value.

422 "Other invested capital" – invested by the founders (other than joint stock companies) capital that exceeds the authorized capital, other contributions of the founders that are carried out without the decision to change the size of the authorized capital.

423 "Additional valuation of assets" – is the amount of increment of the value of extra-floating assets that was revealed according to the results of their revaluation – in correspondence with the accounts of assets by which the increment

of value was determined.

424 “Non-current assets received for free” – is the value of non-current assets that enterprise has received free of charge. Balance of additional capital on this sub-account is reduced by the amount of recognized income for the useful period of fixed assets that were obtained for free (except land).

425 “Other additional capital” –are other types of additional capital, which may not be incorporated into the above sub-accounts, namely the cost of capital in the amount of non-current assets by lease agreement.

Analytical accounting on account 42 “Additional capital” shall be organized in a way to ensure the formation of information about the sources of its establishment.

Typical entries for accounting of additional capital are presented in table 11.2.

Table 11.2

Typical entries for accounting of additional capital

№	Particulars	Dr	Cr
1	2	3	4
1.	Accounting for share premium		
1.1.	Share capital of JSC it reflected based on the nominal value of the issued shares	46	40
1.2.	Share premium on issued shares it reflected	46	421
2.	Accounting for other invested capital		
2.1.	Additional contributions of participants were reflected without solutions to increase the authorized capital of the company: - in cash - of fixed assets - of intangible assets - of inventories	 30 (31) 10 12 20	 422 422 422 422
2.2.	Repayment of losses of the enterprise due to its additional capital was recognized	422	442
3.	Accounting for revaluation of non-current assets		
3.1.	Increases in the initial cost of fixed asset were carried out	10	443
3.2.	Revaluation of depreciation was shown	423	131
3.3.	Amount of reduction of the initial value of fixed assets that was previously revaluated is reflected	423	10
3.4.	Reflected devaluation of fixed assets depreciation that were earlier revaluated	131	423
3.5.	Revaluation of the fixed asset that was eliminated is written off	423	441
4.	Accounting for non-current assets received free		
4.1.	Received free of charge non-current assets were capitalize	10,11,12	424
4.2.	income from non-current assets received free of charge was reflected (in the amount of depreciation: Dr 91,92 ... Cr 13)	424	745

Reserve capital of business entity is created to cover possible future unexpected losses, damages, as well as the payment of dividends at failure of retained earnings. According to the article 14 of the Law of Ukraine “ On business associations”, reserve (insurance) funds are created by economic entities in the amount that has been established by the founding documents, but not less than 25 per cent of the authorized capital.

Account 43 “Reserve capital” is designed to generalize information about the state and movement of reserve capital. Deductions to reserve capital from the profit shall be reflected on credit of account 43 “Reserve capital” in correspondence with sub-account 44 “Retained profit (uncovered loss)”.

Using of the resources of reserve capital should be accounted on debit of account 43 “Reserve capital” in correspondence with the following accounts: account 44 “Retained profit (uncovered loss)” – in respect of the amounts of the reserve fund that were used to cover the organization’s losses over the reporting year; account 67 “Settlements with founders” – in respect of the amounts that were used to retire the dividends to participants.

11.3. Accounting for withdrawn and unpaid capital

Withdrawn capital is the amount by which the equity of enterprise decreases as a result of coming out party, redemption or revocation of repurchased shares in a joint stock company, reducing the nominal value of the shares or for other reasons.

To summarize information about the redeemed capital of business entity account 45 “Withdrawn capital” is provided by Chart of account.

In practice, account 45 “Withdrawn capital” is used by JSC with the purpose to account of withdrawn capital in the case of redemption of shares from shareholders. In the debit of account 45 “Withdrawn capital” reflects the actual cost of shares that were repurchased by JSC from its shareholders, on the credit – the cost of shares that were canceled or oversold.

The following sub-accounts can be opened to account 45 “Withdrawn capital”:

451 “Withdrawn shares”

452 “Withdrawn deposits and units of fund”

453 “Other withdrawn capital”

Let us consider example about reflection by Joint Stock Company the repurchase of shares of their own emissions. It is assumes that the nominal value of 500 shares that were repurchased by joint stock company is 50 UAH per share. Redemption price of shares – 55 UAH. 300 shares from the number of repurchased were annulled, 150 – sold at 60 UAH, and the other 50 – at 52 UAH (table 11.3).

Table 11.3

The scheme of accounting records for withdrawn capital

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	
1.	500 shares were purchased at the redemption price	451	31	27500

	55 UAH per share			
2.	Reflecting a decrease in share capital of the nominal value of the shares that were canceled (50 x 300 = 15000)	40	451	15000
3.	Reduction of share premium for the difference between the redemption and the nominal value of the canceled shares was reflected (300 x (55 - 50) = 1500)	421	451	1500
4.	Realization of the 100 company's shares at their redemption value was reflected (150 x 60 = 9000)	31	451	9000
5.	Share premium on the difference between the sale and redemption value of shares was reflected (150 x (60 - 55) = 750)	451	421	750
6.	Realization of the 50 company's shares at a price that is lower than the purchased was reflected (50 x 52 = 2600)	31	451	2600
7.	Difference between the redemption and sale value was attributed to the reduction of share premium (50 x (55 - 52) = 100)	421	451	100

If the share premium is not enough to "cover" the excess of redemption over the nominal value of the shares, profit for the period will be used: Dr 443 “Profits used in the reporting period”, Cr 451 “Withdrawn shares”.

Unpaid capital – is the amount of holders’ debts for contributions to the authorized capital.

Accounting for unpaid capital is conducted on account 46 “Unpaid capital”. On debit of this account debts of founders (participants) of the business entity for contributions to the authorized capital of the company are displayed, on the credit – repayment of contributions to the authorized capital of the enterprise are shown.

Peculiarities of application of this account have been considered more detail previously during the review of the process of authorized capital formation.

11.4. Accounting for retained profits (uncovered losses)

Over the life of a corporation it has two choices of what to do with its net income: to pay it out as dividends to its stockholders, or to keep it and use for business activities.

Retained profit refers to a corporation's cumulative net income (from the date of incorporation to the current Balance sheet date) minus the cumulative amount of dividends that were declared. An established corporation that has been profitable for many years will often have a very large credit balance in its Retained profits account, frequently exceeding the paid-in capital from investors. If, on the other hand, a corporation has experienced significant net losses since it was formed, it could have negative retained earnings (reported as a debit balance instead of the normal credit balance in its Retained profits account).

Account 44 “Retained profit (uncovered loss)” is designed to generalize information about the presence and movement of the amounts of undistributed profit or uncovered loss of the respective organization. This general ledger account is a real or permanent account with a normal credit balance.

The amount of the net profit of the reporting year shall be written off from credit of account 44 “Retained profit (uncovered loss)” in correspondence with account 79 “Financial results”. The amount of the net loss of the reporting year shall be written off r in debit of account 44 “Retained profit (uncovered loss)” in correspondence with account 79 “Financial results”.

Using a part of the profit of the reporting year as payment of income to the founders (participants) of the organization shall be reflected in debit of account 44 “Retained profit (uncovered loss)” and in credit of account 67 “Settlements with founders”. A similar entry shall be made when interim incomes are paid out.

The write-off of the loss of the reporting year shall be reflected in credit of account 44 “Retained profit or uncovered loss” in correspondence with:

– account 40 “Authorized capital”, when the size of authorized capital is brought to the size of the organization’s net assets;

– account 43 “Reserve capital”, when the resources of reserve capital are used to repay the loss;

– account 67 “Settlements with founders”, when the loss of a general partnership is repaid by the contributions of participants of the company and so on.

The following sub-accounts can be opened to the account 44 “Retained profit (uncovered loss)”:

441 “Retained profits”

442 “Uncovered losses”

443 “Profit that gas been used in the reporting period”

Analytical accounting on account 44 “Retained profit (uncovered loss)” shall be organized in a way to ensure the formation of information about trends of the using of monetary funds. The resources of undistributed profit, which are used as financial security for the productive development of the organization and other similar measures of acquiring or creating of new assets and which are not used, may be divided in analytical accounting.

It's important to understand that a large credit balance in retained earnings does not necessarily mean that corporation has a large cash balance. To determine the amount of cash, one must look at the Cash account in the current asset section of the Balance sheet. (For example, a public utility may have a huge retained earnings balance, but it has reinvested those earnings in a new, expensive power plant. Hence, it has relatively little cash in relationship to its retained earnings balance.)

Tests for self-control

Each question contains one correct answer.

1. A part of enterprise’s assets that remains after deduction of its liabilities is:

1) Owners' equity;
2) Accounts receivable;
3) Unpaid capital;
4) Share capital.

2. At the time of registration, each of the participants (founders) should make at least:
1) 15 % of amount that is specified in the founding documents;
2) 20 % of amount that is specified in the founding documents;
3) 30% of amount that is specified in the founding documents;
4) 50 % of amount that is specified in the founding documents.

3. In which form contributions of the founders to authorized capital of business entities can be made?
1) Only in monetary form;
2) In form of money and securities;
3) In form of money, tangible and intangible assets;
4) In form of money, tangible and intangible assets and securities.

4. By which accounting entry the size of the authorized capital is reflected?
1) Dr 31 "Checking accounts" Cr 40 "Authorized capital";
2) Dr 46 "Unpaid capital" Cr 40 "Authorized capital";
3) Dr 31 "Checking accounts" Cr 46 "Unpaid capital";
4) Dr 40 "Authorized capital" Cr 31 "Checking accounts".

5. Do business entities have the right to change (increase or decrease) the amount of its authorized capital?
1) Yes they do, after agreement with the tax authorities;
2) Yes they do, after they will make all contributions by the participants that are reflected in the protocol of the general meeting of founders;
3) No they don't, such changes cannot be made in any situation;
4) This issue must be resolved in the courts.

6. What is meant by the following correspondence of accounts: Dr 31 "Checking accounts" Cr 46 "Unpaid capital"?
1) Amount of money on the checking account of the company was displayed as a contribution to the authorized capital;
2) Value of inventory introduced as a contribution to the authorized capital is displayed;
3) Amount of money made in cash as a contribution to the authorized capital is displayed;
4) The size of the authorized capital in accordance with the constitutive documents was reflected.

7. Which transactions will not lead changes in additional capital?

1) Revaluation of non-current assets;
2) Accounting for non-current assets that were received for free;
3) Calculating of depreciation of non-current assets;
4) Accounting for share premium.

8. By which accounting entry capitalization of fixed assets received for free should be shown?
1) Dr 10 “Fixed assets” Cr 71 “Other operational income”;
2) Dr 10 “Fixed assets” Cr 72 “Income from investment in capital”;
3) Dr 10 “Fixed assets” Cr 42 “Additional capital”;
4) Dr 10 “Fixed assets” Cr 44 “Retained profit (uncovered loss)”.

9. Whish capital is created to cover possible future unexpected losses, damages, as well as the payment of dividends at failure of retained earnings?
1) Additional capital;
2) Reserve capital;
3) Withdrawn capital;
4) Emergency capital.

10. According to the legislation of Ukraine reserve fund of economic entities is established by the founding documents but not less than:
1) 10 per cent of the authorized capital;
2) 25 per cent of the authorized capital;
3) 25 per cent of average annual income;
4) 10 per cent of average annual income.

11. What is the purpose of accounting of withdrawn capital?
1) It is used to cover possible future unexpected losses and damages;
2) It is used to display debts of founders for contributions to the authorized capital of the company;
3) It is used in the case of redemption of shares from shareholders;
4) It is used to pay dividends to company’s stockholders.

12. By which accounting entry purchasing of shares at a redemption price should be shown?
1) Dr 31 “Checking accounts” Cr 45 “Withdrawn capital”;
2) Dr 46 “Unpaid capital” Cr 31 “Checking accounts”;
3) Dr 40 “Authorized capital” Cr 45 “Withdrawn capital”;
4) Dr 45 “Withdrawn capital” Cr 31 “Checking accounts”.

13. The amount of holders’ debts for contributions to the authorized capital is called:
1) Withdrawn capital;
2) Share capital;
3) Debt capital;

4) Unpaid capital.

14. A corporation's net income is eventually recorded in the following stockholders' equity account:
1) 44 “Retained profit (uncovered loss);
2) 70 “Incomes from sales”;
3) 79 “Financial results”;
4) 74 “Other incomes”.

15. The amount of the net loss of the reporting year shall be written off by the following entry:
1) Dr 442 “Uncovered losses” Cr 79 “Financial Results”;
2) Dr 443 “Profit used in the reporting period” Cr 43 “Reserve capital”;
3) Dr 43 “Reserve capital” Cr 442 “Uncovered losses”;
4) Dr 79 “Financial results” Cr 441 “Retained earnings”.

16. The amount of the net profit of the reporting year shall be written off by the following entry:
1) Dr 442 “Uncovered losses” Cr 79 “Financial Results”;
2) Dr 443 “Profit used in the reporting period” Cr 43 “Reserve capital”;
3) Dr 43 “Reserve capital” Cr 442 “Uncovered losses”;
4) Dr 79 “Financial results” Cr 441 “Retained earnings”.

17. Dividends that were declared by a corporation reduce:
1) The uncovered losses section of stockholders' equity;
2) The retained earnings section of stockholders' equity;
3) The payables section of liabilities;
4) The receivable section of current assets;

18. Which accounting entry should be made when the size of authorized capital is brought to the size of the organization’s net assets?
1) Dr 40 “Authorized capital” Cr 44 “Retained profit or uncovered loss”;
2) Dr 43 “Reserve capital” Cr 44 “Retained profit or uncovered loss”;
3) Dr 79 “Financial results” Cr 44 “Retained earnings or uncovered loss”;
4) Dr 67 “Settlements with founders” Cr 44 “Retained earnings or uncovered loss”.

19. Which accounting entry should be made when the resources of reserve capital are used to repay the loss?
1) Dr 40 “Authorized capital” Cr 44 “Retained profit or uncovered loss”;
2) Dr 43 “Reserve capital” Cr 44 “Retained profit or uncovered loss”;
3) Dr 79 “Financial results” Cr 43 “Reserve capital”;
4) Dr 44 “Retained earnings or uncovered loss” Cr 43 “Reserve capital”.

20. Which accounting entry should be made when the loss of a general partnership

is repaid by the contributions of participants of the company?
1) Dr 40 “Authorized capital” Cr 44 “Retained profit or uncovered loss”;
2) Dr 44 “Retained profit or uncovered loss” Cr 67 “Settlements with founders”;
3) Dr 79 “Financial results” Cr 67 “Settlements with founders”;
4) Dr 67 “Settlements with founders” Cr 44 “Retained earnings or uncovered loss”.

THEME 12. ACCOUNTING FOR LIABILITIES OF THE COMPANY

12.1. Definition and classification of liabilities.
12.2. Accounting for current liabilities.
12.3. Accounting for long-term liabilities.
12.4. Evaluation and accounting for ensuring.

Dictionary

Advances received	Аванси отримані
Bond	Облігація
Current indebtedness of long term liabilities	Поточна заборгованість за довгостроковими зобов'язаннями
Current liabilities	Поточні зобов’язання
Deferred tax liabilities	Відстрочені податкові зобов’язання
Discount on issued bonds	Дисконт за випущеними облігаціями
Dividends	Дивіденди
Ensuring	Забезпечення
Excise duty	Акцизний податок
Face value	Номінальна вартість
Financial assistance	Фінансова допомога
Internal settlements	Внутрішні розрахунки
Intra economic settlements	Внутрішньогосподарські розрахунки
Lessor	Орендодавець
Liabilities	Зобов’язання
Long-term liabilities	Довгострокові зобов’язання
Payables for goods, works and services	Кредиторська заборгованість за товари, роботи, послуги
Payments for employee benefits	Розрахунки з оплати праці
Payments of insurance	Розрахунки зі страхування
Payments of taxes and fees	Розрахунки за податками й платежами
Pension insurance	Пенсійне страхування
Premium for bonds issued	Премія за випущеними облігаціями
Profit tax	Податок на прибуток
Promissory note	Вексель

Rent	Оренда
Repayment of one liabilities	Погашення зобов’язань
Settlements with founders	Розрахунки з учасниками
Settlements with suppliers and contractors	Розрахунки з постачальниками та підрядниками
Short-term bank loans	Короткострокові позики банку
Short-term promissory notes issued	Короткострокові векселі видані
Value added tax	Податок на додану вартість
Warranty obligations	Гарантійні зобов’язання

12.1. Definition and classification of liabilities

Methodological principles of accounting for liabilities and its disclosure in the financial statements are specified by R(s)A 11 “Liabilities” [18].

Liabilities – are debts of the enterprise that have arose as a result of past events and their repayment as expected will lead the reduction in enterprise’s resources. Liabilities are recognized in the Balance sheet of the enterprise if their assessment can be reliably measured and there is probable reduction of economic benefits in the future because of their repayment.

Repayment of liabilities can be made by:

– cash payment to the creditor;

– shipment of finished products, goods or services on account of advances received from the buyer or in the order of debts offset;

– transfer of liabilities in corporate law that belongs to the creditor (capital items) and others.

As can be seen, in each case repayment of liabilities is associated with the retirement of assets, and hence with decreasing of future economic benefits as a result of outflow of economic resources of the companies. Sometimes repayment of one liabilities leads to other liabilities. For example, company issued promissory note to the supplier, to which there was a payable. In this case, one liability (payable) is replaced by another (liabilities for promissory notes that were issued). However, the final repayment of liabilities will be associated with the retirement of resources (assets) in the future, i.e. with a decreasing in the future economic benefit.

Classification of liabilities according to various criteria is presented in the table 12.1.

Table 12.1

Classification of liabilities according to various criteria

Criteria of classification	Type of liabilities	Brief description
By complexity	Simple	Repaid by one payment
	Complicated	Includes primary liability and a set of secondary

		liabilities
By definiteness in the time	Terminable	Deadlines of liabilities are specified in the time
	Perpetual	Deadlines of liabilities are not specified in the time
By ensuring	Ensured	Performing of which is ensured by guarantee
	Uninsured	Performing of which is not ensured
Depending on reasons of occurrence	Contractual	Arise as a result of transaction, by the parties' agreement
	Non-contractual	Arise independently from wish of participants
By the method of payment	Monetary	Reflect the amount of cash payable to creditors
	Non monetary	Liabilities to creditors are specified qualitatively and quantitatively
By the time of occurrence	Present	Arise from transactions and other events in the past period
	Future	Determined by the decision of management to acquire assets in the future

According to R(s)A 11 "Liabilities" for accounting purpose liabilities are divided into:

– long-term;
– current;
– ensuring;
– contingent liability;
– deferred revenue.

12.2. Accounting for current liabilities

The current liabilities section of the Balance sheet contains obligations that are due to be satisfied in the near term, and includes amounts that are related to accounts payable, salaries, utilities, taxes, short-term loans, and so on.

Current liabilities are debts that are due to be paid within one year or the operating cycle, whichever is longer; further, such obligations will be typically involved in using of current assets, creation of another current liability, or providing of some services.

R(S)A 11 "Liabilities" distinguishes the following elements of current liabilities:

– Short-term bank loans;
– Current indebtedness of long term liabilities;
– Short-term promissory notes that were issued;
– Payables for goods, works and services;
– Current liabilities of settlements on advances received, for payments to the budget, payments for extrabudgetary funds, settlements of insurance, on settlements of salaries, for calculations with participants, calculations on internal settlements;
– Other current liabilities.

Current liabilities are reflected in the fourth section "Current liabilities" of passive of Balance sheet. Current liabilities are shown in the Balance by the statement amount.

Settlement amount represents an undiscounted amount of cash or cash equivalents, which, as expected, will be paid to settle the liability in the normal course of business.

The table 12.2 describes the differences between classification of current liabilities under R(s)A 11 and under Chart of accounts.

Table 12.2

Classification of current liabilities under R(s)A 11 and under Chart of accounts

Grouping of current liabilities according to R(s)A 11	Account of Chart of accounts	Sub-accounts
Bank loans	60 “Short-term loans”	601 "Short-term bank loans in national currency"
		602 "Short-term bank loans in foreign currency”
		603 "Deferred short-term bank loans in national currency"
		604 "Deferred short-term bank loans in foreign currency"
Current indebtedness of long term liabilities	61 “Current indebtedness of long term liabilities”	611 “Current indebtedness of long term liabilities in national currency”
		612 “Current indebtedness of long term liabilities in foreign currency”
Short-term promissory notes issued	62 “Short-term promissory notes issued”	621 “Short-term promissory notes issued in national currency”
		622 “Short-term promissory notes issued in foreign currency”
Payables for goods, works and services	63 “Settlements with suppliers and contractors”	631 “Settlements with national suppliers and contractors”
		632 “Settlements with foreign suppliers and contractors”
Current liabilities of settlements on advances received, for payments to the budget, payments for extrabudgetary funds, settlements of insurance, on settlements of salaries, for calculations with participants, calculations on internal settlements	64 “Payments of taxes and fees”	641,642,643,644
	65 “Payments of insurance”	651
	66 “Payments for employee benefits”	661,662,663
	67 “Settlements with founders”	671 “Payments for accrued dividends”
		672 “Payments for other benefits”
	68 “Settlement of other operations”	681 “Settlements on advances received”
		682 “Internal settlements”
Other current liabilities	60 “Short-term loans”	605 “Overdue loans in national currency”
		606 “Overdue loans in foreign currency”

	68 “Settlement of other operations	683 “Intra economic settlements”
		684 "Settlement of accrued interest"
		685 "Settlements with other creditors"

Short-term bank loans – are the amount of current company’s obligations to banks for loans that were received from them.

Short-term loans of banks can be provided in case of temporary financial difficulties that arise from the cost of production and circulation and are not backed by money flows in the same period.

Example: 02.01.2013 company received a bank loan of 50000 UAH for two months at 18% per annum. 1.03.2013 the loan was repaid.

Interest amount per month = 50000 * 0,18 / 12 = 750 UAH

The amount of the loan and interests that will be repaid at the date of completion: 50000 + 750*2 = 51500 UAH.

Accounting of the short-term loan is shown in table 12.3

Table 12.3

Accounting for the receipt and payment of short-term loan

№	Particulars	Dr	Cr	Sum, UAH
1	2	3	4	5
1.	The loan was received to the checking account	311	601	50000
2.	Interest for loan was accrued	951	684	1500
3.	Payable of the company by short-term loan was redeemed	601	311	50000
4.	Interest on loan was paid	684	311	1500

On account 61 “Current indebtedness of long-term liabilities” payments for current liabilities that are transferred from the long-term are fixed, upon the occurrence of their maturity over twelve months from the Balance sheet date. On credit of account amount of debt, which translated from the long-term is written, and on the debit – debt repayment during the year.

Displaying of business transactions is issued by the following records:

– long-term loan is transferred to current debt: Dr 50 Cr 61;
– promissory note is reissued in current debt: Dr 51 Cr 61;
– bonds debt was reissued to the current debt: Dr 52 Cr 61;
– debts to lessor were reissued for current debt: Dr 53 Cr 61 and others.

In the credit of account 62 “Short-term promissory notes issued” issuance of promissory notes in support of supplies, works or services to providers and various creditors is displayed, and in the debit – debt repayment and cancellation of notes are displayed. Business transactions are shown as follows:

– promissory note was issued to supplier: Dr 63 Cr 62;
– promissory note was issued in the amount of current debt: Dr 61 Cr 62;
– short-term promissory note was repaid from the checking account: Dr 62 Cr 31;

– debt for goods that were purchased from other organization is repaid by promissory notes: Dr 62 Cr 36;

– issued promissory notes were paid by participants and reduced their debts to the authorized capital: Dr 62 Cr 46 and others.

Taxes are obligatory payments of enterprises and individuals in state and local budgets. In Ukraine national and local taxes and fees are listed in article 9 and 10 of the Tax Code of Ukraine.

To display in the accounting information about liabilities and settlements with the budget account 64 “Payments of taxes and fees” is used. Features of the accounting records and sub-accounts to this account were discussed in previous themes.

Let us recall typical correspondence of accounting for taxes (table 12.4).

Table 12.4

Typical accounting records of taxes calculation

№	Particulars	Dr	Cr
1	2	3	4
1.	Value added tax was accrued	70	641/1
2.	Income tax from ordinary activities of the enterprise was accrued	98	641/2
3.	Excise duty was accrued	70	641/3
4.	Tax on personal income was deducted from wages	66	641/4
5.	The appropriate taxes were paid to the budget	641	31

Payments to participants are maintained on the account 67 “Settlements with founders”. Sub-account 671 is used to record dividends to holders of ordinary and preferred shares (stakes in the authorized capital) or other sources if they are provided by the charter of the company (reserve fund, retained earnings of previous periods).

Sub-account 672 is intended to account other expenses that were accrued by participants for using property (land and property shares), payments in connection with the disposal of the founder.

Sub-account 682 “Internal settlements” is designed for all types of current payments to subsidiary company (transmit and receive of long-term financial investments, capital investments, property, finished goods, works or services, cash, financial support, etc.).

On sub-account 683 “Intra economic settlements" is conducted for accounting of settlements with production units and farms that have an independent (separate) balance. On this sub-account the following transactions are reflected: reciprocal delivery of property, sale of products and services, transfer of general costs of activities, payroll and more.

12.3. Accounting for long-term liabilities

Long-term liabilities are company obligations that extend beyond the current year, or alternately, beyond the current operating cycle.

The emergence of long-term debt is usually determined by agreement that approves schedule of repayment by the borrower commitment and the procedure of payment of the interest, if it is stipulated in the agreement. These conditions and amount of assets that the company receives in exchange for a commitment, define indicators that are related to the existence and repayment of long-term debt.

All long-term liabilities according to the R(s)A 11, are divided into four groups:

1) bank loans;
2) other financial liabilities;
3) deferred tax liabilities;
4) other liabilities.

Such grouping of long-term liabilities does not match grouping that is given in the Chart of accounts. In the Chart of accounts the fifth chapter is intended to reflect the long-term liabilities. It has six accounts and thirteen sub-accounts. Table 12.5 presents division of accounts and sub-accounts of the Chart of accounts in accordance with the group of long-term liabilities of the enterprise that is proposed by R(s)A 11.

Table 12.5

Classification of long-term liabilities under R(s)A 11 and under Chart of Accounts

Grouping of current liabilities according to R(s)A 11	Account of Chart of Accounts	Sub-accounts
Bank loans	50 “Long-term loans”	501 "Long-term bank loans in national currency"
		502 "Long-term bank loans in foreign currency”
		503 "Deferred long-term bank loans in national currency"
		504 "Deferred long-term bank loans in foreign currency"
Other financial liabilities	51 “Long-term promissory notes issued”	521 “Long-term promissory notes that were issued in national currency”
		522 “Long-term promissory notes that were issued in foreign currency”
	52 “Long-term liabilities for bonds”	521 “Commitments on bonds”
		522 “Premium for bonds that were issued”
		523 “Discount on issued bonds”
Deferred tax liabilities	54 “Deferred tax liabilities”	
Other liabilities	50 “Long-term loans”	505 “Other long-term loans in national currency”
		506 “Other long-term loans in foreign currency”
	53 “Long-term liabilities of rent”	531 “Liabilities of financial lease”
		532 ”Liabilities of the lease of integral property complexes”
	55 “Other long-term liabilities”	

Long-term liabilities of the bank loans are shown on account 50 “Long-term loans”. On the credit of this account shows the amount of received long-term loans and deferred short-term loans that were transferred to long-term loans.

Enrollment of long-term loans to the checking accounts is recorded on the accounts: Dr 31 “Checking accounts” Cr 50 "Long-term loans". Transfer of short term loans to long-term due to changes in credit conditions are recorded by entry: Dr 60 “Short-term loans” Cr 50 “Long-term loans”.

For using a long-term bank loans interest is accrued similarly to interest on short-term loan. On the debit of account 50 “Long-term loans” are shown transactions with repayment of long-term loans and interests on them: Dr 50 “Long-term loans” Cr 31 “Checking accounts”.

On the account 51 “Long-term promissory notes issued” records of payments to suppliers, contractors and other creditors for tangible assets, works and services received and of other transactions are kept. Under these transactions debt is secured by issued promissory notes and it is not a current liability.

On the credited of this account issuance of a note to ensuring for the material assets, services, works and for other transactions is displayed. Corresponding accounts in these cases are: 63 “Settlements with suppliers and contractors”, 64 “Payments of taxes and fees”, 65 “Payments of insurance”, 68 “Settlement of other operations”. On the debit of account 51 “Long-term promissory notes issued” repayment of debt for issued promissory notes is shown. Thus the following accounts are corresponding: 30 “Cash in hand”, 31 “Checking accounts”, 36 “Settlements with buyers and customers”, 46 “Unpaid capital”, 50 “Long-term loans”, 60 “Short-term loans”.

Bond – is a security that certifies the obligation to pay to the holder amount (nominal value) that is specified in the bond at specific date and in the prescribed rate of interest. Bonds are classified based on: the presence of ensuring, the order of repayment, order of registration, procedure of interest payment and more. Directly on the bond its value and interest rate are indicated. Interest rate is set for the duration of bond action.

Bonds may be sold:

– at face value (if declared and market rates of bond are equal);
– with a premium (if declared rate is below than market rate);
– at discount (if declared rate is higher than the market rate).

To account for long-term bonds account 52 “Long-term liabilities for bonds” is designated. Discount is reflected on the Balance sheet of the issuer by debit residual in the account 523 “Discount on issued bonds”. Other words this account is kontrpassive, because it’s reducing the nominal value to the current level. Premium is shown on the Balance sheet of the issuer on the credit of account 522 “Premium for bonds issued”. Other words balance of this account is a surcharge to the face value; it is increasing face value to the current level.

The above-mentioned accounts are shown in the Balance sheet of the issuer as a result of coagulation residues of three accounts:

The residue of the account 521 “Commitments on bonds” + residue of account 522 “Premium for bonds issued” – residue of account 523 “Discount on issued bonds”.

Long lease liabilities – the obligation of tenants to landlords for non-current assets that were received under long-term lease. To summarize the information on payments to lessors for non-current assets that were transferred under long-term lease, account 53 “Long-term liabilities of rent” is designed. On the credit of this account accrual of debts to the lessor for the objects received on long-term lease is displayed, on the debit – its repayment, cancellation due to transfer into short-term liabilities.

Deferred tax liabilities are the sum of income tax, which will be paid in the next reporting periods from taxable temporary differences. In other words, the deferred tax liability is a future tax for previous profit, i.e. the savings from the reduction of tax payments.

As was noted earlier, the amount of accrued income tax for the reporting period is shown in the following accounting records: Dr 98 “Profit tax” Cr 641 “Payments of taxes and fees”. Entries for reflection in the accounting the separate calculations of deferred tax liabilities are carried based on the balance in the account 54 “Deferred tax liabilities” at the beginning of reporting year. It is necessary to make such accounting entry: Dr 98 “Profit tax” Cr 54 “Deferred tax liabilities”.

According to R(S)A 35 “Tax differences”, taxable profit of the reporting period, according to the financial result before tax, is determined by comparing incomes with the costs of reporting period and this profit is adjusted for the amount of permanent tax differences and the amount of temporary tax differences related to the reporting period [24]. Temporary tax differences – are tax difference that arises during the reporting period and is canceled in the next tax reporting period (costs of fixed assets improvement, deferred expenses, amounts of repayable financial assistance etc.). Permanent tax differences – are tax difference that arises during the reporting period and is not canceled in the next tax reporting periods (representation expenses, financial sanctions, fines, depreciation of non-production assets etc.).

Accounting for other long-term liabilities, which are not shown on the above accounts of fifth class “Long term liabilities”, is carried out on account 55 “Other long-term liabilities”, typical correspondence of which is presented in table 12.6

Table 12.6

Typical accounting records of transactions with other liabilities

№	Particulars	Dr	Cr
1	2	3	4
1.	Financial assistance was received to checking account	31	55
2.	Long-term debt for obligations was repaid through cash	55	30,31
3.	Indebtedness on which the limitation period has expired was written off to the income	55	746
4.	Current liabilities on taxes were transfer to after the completion of postponement	55	61

12.4. Evaluation and accounting for ensuring

According to R(s)A 11 "Liabilities", ensuring are liabilities of uncertain amount or time of repayment on the balance date.

Ensuring – is a special kind of liabilities, they are created (funds reserved by the decision of the company) to cover the next (future) operating expenses of:

- employee vacation pay;
- additional pension insurance;
- performance of warranty obligations;
- restructuring;
- fulfillment of obligations on the onerous contracts;
- providing other liabilities and charges (e.g. insurance payments of insurance companies).

The amounts of created ensuring are simultaneously recognized as an expense and therefore enterprise's assets do not arise at their calculation. They recognize for the accounting assessment of resources (excluding recoverable amount) that are required in settlement of liability at the balance sheet date.

Provisions are recorded as operating expenses in the current period in which such ensuring was formed and used to cover only those costs for which they were created.

For accounting of ensuring account 47 "Ensuring of future expenses and payments" is used. It is intended to summarize information about the movement of funds that were reserved by the enterprise's decision for future expenses and payments and their inclusion in the cost of the current period. On the credit of this account accrued ensuring are displayed, on the debit – its using is shown.

Account 47 "Ensuring of future expenses and payments" may have the following sub-accounts:

- 471 "Ensuring of vacation payments";
- 472 "Additional pension insurance";
- 473 "Ensuring of warranty";
- 474 "Ensuring of other expenses and payments";
- 475 "Ensuring of prize pool (reserve of payments)";
- 476 "Reserve for payment of the jackpot that is not ensured by payment participation in a lottery";
- 477 "Ensuring of material incentives";
- 478 "Ensuring of land recovery".

The most common in practice is the reserve for vacation payment to employees. It ensures the availability of the source of payment for vacation amounts and evenly their inclusion in the cost of production. Creation of ensuring of vacation payments is especially necessary in seasonal industries and enterprises with a long production cycle.

Reserve for vacation payment to employees is created in a percentage of gross salary and depends on the duration of vacation period. Amount of accrued reserve is recorded in the following accounts: Dr 23 "Production", Dr 91 "General manufacturing expenses", Dr 92 "Administrative expenses", Dr 93 "Distribution expenses" and other accounts, on which wages were attributed and Cr 471 "Ensuring for payment of vacations". Then wages that were accrued during the vacations are written off against reserve and reflected on the accounts: Dr 471 "Ensuring for payment of vacations", Cr 66 "Payments for employee benefits".

Reserve for warranty ensuring that is accounted on account 473 "Ensuring of warranty", is created in manufacturing companies, which realize products with a guarantee. The value of ensuring is determined by the calculation method and reflected on the accounts: Dr 93 "Distribution expenses", Cr 473 "Ensuring of warranty". The debit of account 473 includes the actual costs for repairs of finished products that were sold with warranty.

Tests for self-control

Each question contains one correct answer.

1. Debts of the enterprise that arose as a result of past events and it is expected that repayment of which will lead reduction in enterprise's resources are called:
1) Liabilities;
2) Payables;
3) Assets;
4) Owners' equity.

2. Deadlines of which kind of liabilities are not specified in the time?
1) Present liabilities;
2) Simple liabilities;
3) Perpetual liabilities;
4) Uninsured liabilities.

3. Which liabilities do not belong to the current?
1) Payables for goods, works and services;
2) Deferred tax liabilities;
3) Short-term bank loans;
4) Short-term promissory notes issued.

4. Which liabilities belong to the current?
1) Payables for goods, works and services;
2) Deferred tax liabilities;
3) Long-term loans;
4) Long-term promissory notes issued.

5. Current liabilities reflect in the:
1) Second section "Liabilities" in passive part of Balance sheet;
2) Fourth section "Current liabilities" in passive part of Balance sheet;

3) Second section “Current liabilities” in active part of Balance sheet;
4) Third section “Liabilities” in passive part of Balance sheet.

6. By which accounting entries will be shown the following transaction: “The loan was received to the checking account”?
1) Dr 60 “Short-term loans” Cr 31 “Checking accounts”;
2) Dr 31 “Checking accounts” Cr 73 “Other financial incomes”;
3) Dr 33 “Other monetary funds” Cr 60 “Short-term loans”;
4) Dr 31 “Checking accounts” Cr 60 “Short-term loans”.

7. Which business transaction is displayed by the following records: Dr 51 “Long-term promissory notes issued” Cr 61 “Current indebtedness of long term liabilities”?
1) Bonds debt was reissued to the current debt;
2) Promissory note was reissued in current debt;
3) Long-term loan was transferred to current debt;
4) Debts to lessor were reissued in current debt.

8. Which accounting entry can be made if short-term promissory note is issued to supplier?
1) Dr 63 “Settlements with suppliers and contractors” Cr 62 “Short-term promissory notes issued”;
2) Dr 63 “Settlements with suppliers and contractors” Cr 31 “Checking accounts”;
3) Dr 62 “Short-term promissory notes issued” Cr 31 “Checking accounts”;
4) Dr 62 “Short-term promissory notes issued” Cr 63 “Settlements with suppliers and contractors”.

9. Which business transaction is displayed by the following records: Dr 70 “Incomes from sales” Cr 64 “Payments of taxes and fees”?
1) Income tax from ordinary activities of the enterprise is accrued;
2) Value added tax was accrued in the process of products realization;
3) Tax on personal income was deducted from wages;
4) Value added tax was accrued in the process of inventories supplying.

10. Enrollment of long-term loans to the checking accounts is recorded by the accounting entry:
1) Dr 50 “Long-term loans” Cr 31 “Checking accounts”;
2) Dr 73 “Other financial incomes” Cr 50 “Long-term loans”;
3) Dr 31 “Checking accounts” Cr 50 "Long-term loans";
4) 30 “Cash in hand” Cr 50 "Long-term loans".

11. Security that certifies the obligation to pay to the holder a specified amount (nominal value) at specific date and in the prescribed rate of interest is called:
1) Promissory note;
2) Bond;

3) Share;
4) Investment certificate.

12. If declared rate is higher than the market rate, bonds may be sold:
1) With a premium;
2) At face value;
3) At nominal value;
4) At discount.

13. The sum of income tax, which will be paid in the next reporting periods from the taxable temporary differences, is called:
1) Deferred tax liabilities;
2) Deferred tax assets;
3) Payments of taxes and fees;
4) Profit tax.

14. The amount of accrued income tax for the reporting period will be shown in the following accounting records:
1) Dr 98 “Profit tax” Cr 54 “Deferred tax liabilities”;
2) Dr 98 “Profit tax” Cr 64 “Payments of taxes and fees”;
3) Dr 64 “Payments of taxes and fees” Cr 31 “Checking accounts”;
4) Dr 98 “Profit tax” Cr 79 “Financial results”.

15. Whish of the following items doesn’t belong to the temporary tax differences?
1) Amounts of repayable financial assistance;
2) Costs of fixed assets improvement;
3) Deferred expenses;
4) Depreciation of non-production facilities.

16. Whish of the following items doesn’t belong to permanent tax differences?
1) Financial sanctions and fines;
2) Amounts of repayable of financial assistance;
3) Representation expenses;
4) Depreciation of non-production facilities.

17. Which business transaction is displayed by the following records: Dr 31 “Checking accounts” Cr 55 “Other long-term liabilities”?
1) Long-term debt for obligations was repaid through cash;
2) Indebtedness on which the limitation period has expired was written off to the income;
3) Financial assistance was received to the checking account;
4) Target financing was received to checking account at the bank.

18. The kind of liabilities that is created to cover the next (future) operating expenses is called:

1) Ensuring;
2) Reserve capital;
3) Guarantee fund;
4) Alternate resources.

19. For which operating expenses is ensuring created?
1) For performance of warranty of obligations;
2) To provide employee vacation pay;
3) To fulfillment of obligations on the onerous contracts;
4) All of listed.

20. Creation of reserve for vacation payment to production worker will be shown by the following entry:
1) Dr 92 “Administrative expenses” Cr 471 “Ensuring of vacation payments”;
2) Dr 471 “Ensuring of vacation payments” Cr 66 “Payments for employee benefits”;
3) Dr 23 “Production” Cr 471 “Ensuring of vacation payments”;
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Appendix 1

Balance Sheet (Statement of financial position)
for _______________ 20___

Assets	Line code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4
I. Non-current assets			

Intangible assets:	1000		
- initial value	1001		
- accumulated depreciation	1002		
Incomplete capital investment	1005		
Fixed assets:	1010		
- initial value	1011		
- depreciation	1012		
Investment Property	1015		
Long-term biological assets	1020		
Long-term investments: - accounted for equity method	1030		
- other financial investments	1035		
Long-term receivables	1040		
Deferred tax assets	1045		
Other non-current assets	1090		
Total for Section I	**1095**		
II. Current assets			
Stocks	1100		
Current biological assets	1110		
Accounts receivable for goods, products, works and services	1125		
Accounts receivable for settlements: - on advances paid	1130		
- with the budget	1135		
- including income tax	1136		
Other current accounts receivable	1155		
Current financial investments	1160		
Money and cash equivalents	1165		
Deferred expenses	1170		
Other current assets	1190		
Total for Section II	**1195**		
III. Non-current assets held for sale and disposal groups	**1200**		
The balance	**1300**		
Liabilities and Owners' Equity	Line code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4
I. Owners' equity			
Authorized (share) capital	1400		
Capital in revaluation	1405		
Additional capital	1410		
Reserve capital	1415		

Retained earnings (uncovered losses)	1420		
Unpaid capital	1425		
Withdrawn capital	1430		
Total for Section I	**1495**		
II. Long-term liabilities and ensuring			
Deferred tax liabilities	1500		
Long-term bank loans	1510		
Other long-term liabilities	1515		
Long-term ensuring	1520		
Targeted financing	1525		
Total for Section II	**1595**		
III. Current liabilities and ensuring			
Short-term bank loans	1600		
Current accounts payable: - for long-term debt	1610		
- for goods, works, services	1615		
- payments to the budget	1620		
- including income tax	1621		
- calculations of insurance	1625		
- payroll settlements	1630		
Current ensuring	1660		
Deferred income	1665		
Other current liabilities	1690		
Total for Section III	**1695**		
IV. Liabilities associated with non-current assets held for sale and disposal groups	**1700**		
The balance	**1900**		

Appendix 2

Approved
Order of the Ministry of Finance
Ukraine
30.11.99 N 291
(Z0892-99)
(as amended by the order of the Ministry of Finance

Ukraine
09.12.2011 N 1591)
(Z1556-11)

Registered in the Ministry
of Justice of Ukraine
December 28, 2011
for N 1557/20295

Chart of accounts assets, capital, liabilities and business operations of enterprises and organizations

Synthetic accounts		Scope of application
Code	Name	
1	2	3
Class 1. Non-current assets		
10	Fixed assets	All kinds of activities
11	Other non-current tangible assets	All kinds of activities
12	Intangible assets	All kinds of activities
13	Depreciation of non-current assets	Agricultural enterprises, enterprises of other sectors engaged in agricultural activities
14	Long-term financial investments	All kinds of activities
15	Capital investments	All kinds of activities
16	Long-term biological assets	All kinds of activities
17	Deferred tax assets	All kinds of activities
18	Long-term receivables and other non-current assets	All kinds of activities
19	Goodwill	All kinds of activities
Class 2. Supplies		
20	Inventories	All kinds of activities
21	Current biological assets	Agricultural enterprises, enterprises of other sectors engaged in agricultural activities
22	Low-value wear items	All kinds of activities
23	Production	All kinds of activities
24	Spoilage in production	All kinds of activities
25	Semi-finished goods	All kinds of activities
26	Finished products	All kinds of activities
27	Agricultural products	Agriculture enterprises, companies of other branches with subsidiary agricultural production
28	Goods	All kinds of activities
Class 3. Monetary funds, settlements and other assets		
30	Cash in hand	All kinds of activities

31	Checking accounts	All kinds of activities
33	Other monetary funds	All kinds of activities
34	Short-term notes receivable	All kinds of activities
35	Current financial investments	All kinds of activities
36	Settlements with buyers and customers	All kinds of activities
37	Settlements with various debtors	All kinds of activities
38	Reserves for doubtful debts	All kinds of activities
39	Deferred expenses	All kinds of activities
Class 4. Equity and ensuring of liabilities		
40	Authorized capital	All kinds of activities
41	Share capital	Cooperative organizations, credit unions
42	Additional capital	All kinds of activities
43	Reserve capital	All kinds of activities
44	Retained profit (uncovered loss)	All kinds of activities
45	Withdrawn capital	All kinds of activities
46	Unpaid capital	All kinds of activities
47	Ensuring future expenses and payments	All kinds of activities
48	Target-oriented financing	All kinds of activities
49	Insurance reserves	Insurance activities
Class 5. Long-term liabilities		
50	Long-term loans	All kinds of activities
51	Long-term promissory notes issued	All kinds of activities
52	Long-term liabilities for bonds	All kinds of activities
53	Long-term liabilities of rent	All kinds of activities
54	Deferred tax liabilities	All kinds of activities
55	Other long-term liabilities	All kinds of activities
Class 6. Current liabilities		
60	Short-term loans	All kinds of activities
61	Current indebtedness of long term liabilities	All kinds of activities
62	Short-term promissory notes issued	All kinds of activities
63	Settlements with suppliers and contractors	All kinds of activities
64	Payments of taxes and fees	All kinds of activities
65	Payments of insurance	All kinds of activities
66	Payments for employee benefits	All kinds of activities
67	Settlements with founders	All kinds of activities
68	Settlement of other operations	All kinds of activities
69	Deferred revenue	All kinds of activities
Class 7. Revenues and results of activities		
70	Incomes from sales	All kinds of activities
71	Other operational income	All kinds of activities
72	Income from investment in capital	All kinds of activities

73	Other financial incomes	All kinds of activities
74	Other incomes	All kinds of activities
75	Extraordinary incomes	All kinds of activities
76	Insurance payments	Insurance activities
79	Financial results	All kinds of activities
Class 8. Costs by the elements		
80	Material expenses	All kinds of activities
81	Labor expenses	All kinds of activities
82	Deductions for social measures	All kinds of activities
83	Depreciation	All kinds of activities
84	Other operating expenses	All kinds of activities
85	Other expenses	All kinds of activities
Class 9. Expenses of activity		
90	Cost of sales	All kinds of activities
91	General manufacturing expenses	All kinds of activities
92	Administrative expenses	All kinds of activities
93	Distribution expenses	All kinds of activities
94	Other operating expenses	All kinds of activities
95	Financial expenses	All kinds of activities
96	Losses from participation in capital	All kinds of activities
97	Other expenses	All kinds of activities
98	Profit tax	All kinds of activities
99	Extraordinary expenses	All kinds of activities
Class 0. Off-balance sheet accounts		
01	Leased fixed assets	All kinds of activities
02	Assets taken into safe custody	All kinds of activities
03	Contractual obligations	All kinds of activities
04	Unforeseen assets and liabilities	All kinds of activities
05	Warranty and ensuring provided	All kinds of activities
06	Warranty and ensuring received	All kinds of activities
07	Withdraw assets	All kinds of activities
08	Forms of strict accountancy	All kinds of activities
09	Depreciation charges	All kinds of activities

Educational edition

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THEORY OF ACCOUNTING

Study Guide

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