Foreword

Accounting is a specific language in business. Mastering accounting regulations allows not only the maintaining of records of economic operations and their appropriate analysis, but also the creation of financial reports in accordance with international standards of accounting.

In this publication we can find selected issues related to business accounting. The regulations put forward by the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as well as domestic regulations were taken into consideration. The work contains examples, test questions and tasks which may be used during lectures and classes.

Accounting is normally associated with incomprehensible records, columns and tables of figures. Meanwhile, it is a system which besides documenting accounts, records the events affecting a business entity. While also gathering and providing information indispensable for managers, owners, shareholders, investors, banks, etc.

Mastering accounting techniques and finding that these rules actually "open doors" to the world of company finances, gives us the opportunity of not only analysing data, but verifying and planning activity as well.

Financial reports implement the conditions of business entity and become a fundamental material resource for financial analysis. Owing to this, they are to be prepared diligently and according to the true, current and accurate view of the enterprise. Therefore, it is unacceptable to mislead the users of financial reports.

Comprehensible reading, converting and analyzing the financial reports by managers allows establishment of the reasons behind unfavorable changes, as well as the planning and forecasting of results and cash flow.

It is necessary to remember that "double-entry bookkeeping" is not the aim in itself. It is a recording method allowing the presentation of information in an acceptable way, and enabling accurate and appropriate decision making. Therefore, it is most critical is to competently interpret records, balances, results and contents of financial reports, i.e. creating them accurately and "reading" them.

This book may be used by managers, students of economic universities, bookkeepers and other.

A range of accounting standards, regulations and principles are introduced in Chapter 1 where aspects of the significance of the balance sheet, as well as its relation with economic operations, are taken into consideration. Moreover, accounts have been classified and charts of account defined, as well as the possibilities of combining and dividing accounts.

Chapter 2 concerns the methods of valuation of assets, capital, liabilities and inventory. Fundamental notions of accounting were defined based on IAS and IFRS.

In chapter 3 recording of inventory trading is presented as well as the methods of correcting and classifying complaints.

In chapter 4, the division of accounts is carried out and the rules of their recording are illustrated. There is also information on recording and the evaluation of bills of exchange turnover.

Chapter 5 employs the issues of income and expenses (costs). These categories are divided according to various types of costs. Two basic cost systems have been introduced i.e. absorption and variable cost systems, as well as the aim of their creation. Issues related to cost calculating are also explained.

Chapter 6 concerns financial statement and certain elements of financial analysis. Requirements for business entities are indicated according to International Accounting Standards and International Financial Reporting Standards.

The chapters, particular lectures as well as tasks have been translated into English in order to familiarize Polish students with international accounting language as well as to help international students to master accounting principles and to provide easy access to the literature.

I am profoundly grateful to Mrs Magdalena Anderson and Mr Ian Anderson for help in translating the lectures and tasks.

I also appreciate Ms **Agnieszka Patykowska** for her advice and help in translating some parts of the work.

Welcome to the study of accounting!!

Chapter 1

Concept of accounting, principles, definition, divisions of accounts

1.1. The concept and range of accounting. The principles of accounting and definition

Accounting (first definition) is a system of gathering, registering, storing and presenting economic information. The fundamental goal of accounting is to supply a true and reliable view of the property and financial situation of a business entity to managers, bankers, investors and creditors. **Accounting** (second definition) is the system of recording, verifying, and reporting of the value of assets, liabilities, income, and expenses in the books of account (ledger) to which debit and credit entries (recognizing transactions) are chronologically posted to record changes in value (bookkeeping). Accounting also concern analysis financial statements and other repots.

Financial information's are primarily used by lenders, managers, investors, tax authorities and other decision makers to make resource allocation decisions between and within companies, organizations, and public agencies.[1]

It is possible to differ following types accountancy:

- ❑ **Financial accounting.**
- ❑ **Management accounting.**
- ❑ **Open-book accounting.**
- ❑ **Tax accounting.**
- ❑ **Accounting scholarship.**

[1] Framework IAS/IFRS, Kiziukiewicz T., *Rachunkowość*.... and accounting act and accounting sources.

Financial accounting is one branch of accounting and historically has involved processes by which financial information about a business is recorded, classified, summarized, interpreted, and communicated. This information is generally publicly-accessible for public companies.

Management accounting creates information, which is used within an organization and is usually confidential and accessible only to a small group, mostly decision-makers.

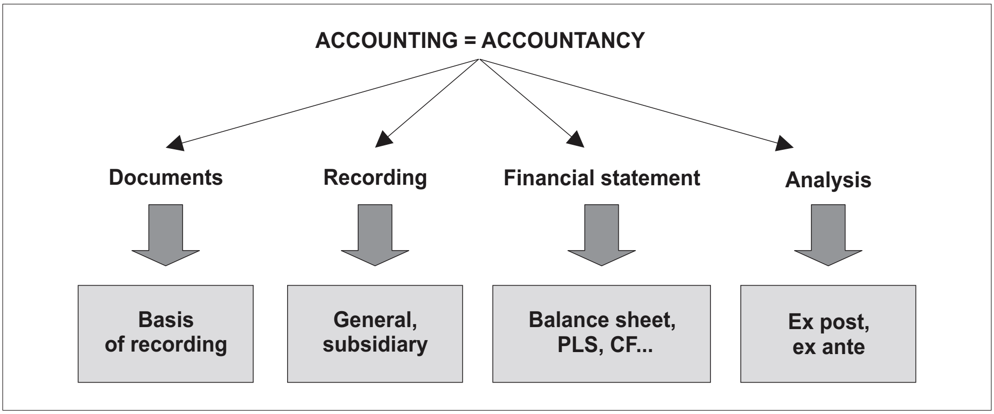
Open-book accounting aims to improve accounting transparency.

Tax accounting is the accounting needed to comply with jurisdictional tax regulations.

Accounting scholarship is the academic discipline which studies the theory of accountancy.[2]

There are four divisions within accounting. These are bookkeeping, calculating, reporting and analysis (figure 1).

Figure 1. Division of accounting



Source: Author's work based on IAS literature.

Accounting consists of:
– accounting principles, accounting policies,
– valuation of assets, liabilities and measurement financial result,
– inventory,
– evidence of transactions (economic events) on the basis of accounting documents,
– financial reporting,
– researching and publicizing reports,
– document storage.[3]

[2] www.answers.com/topic/financial-statement-analysis.
[3] Polish Accounting Act art. 4 and relevant literature.

The object of accounting is every economic event (transaction) expressed in monetary terms and which has an effect on changing the situation of entity and results. Business activities are related to events in the company. Events causing a change to the assets, capital, income and costs are called economic operations. Examples of economic events, which are not economic operations, can be the sending of a commercial offer or the signing of an agreement. Examples economic operations are the purchase of goods, sale of final products, and calculation of salary or payment tax.

The subject of accounting is all economic units that keep account books (ledgers). The subject might be an individual, private companies, partnerships, banks and budgetary units. In the accountancy act of 29 September 1994 (with the subsequent changes) article 2 lists the institutions under obligation to exercise full accountancy (in accordance with Polish law).

The accounting ledgers (accounting books) consist of:

- a journal (where confirmed records of economic transactions are registered in chronological order),
- the general ledger (the stated value of general accounts according to the principles double-entry bookkeeping),
- subsidiary ledgers (entries into itemised accounts – especially in accordance with the principles of repeat-entry bookkeeping),
- turnover statement and the balance of the general and itemised accounts – trial balance, which transfers the debit and credit balances and turnovers of different accounts onto one page,
- inventory.[4]

Now is many accounting programs which in are this elements. Examples on the Polish market include Symphonies and Rewident.

The basis of the accounting records are in accounting evidence, proving operations.

Document – this is paper which confirms realisation of the transaction. Is signet by two transaction said. Documents concern economic transactions (within the wider meaning of the term) while accounting evidence (accounting document) concerns only economic operation. The accounting documents are basis of entries in books of accounting. Examples of accounting evidence are VAT invoices, bills of exchange and incoming/outgoing warehouse documents.

Evidence must contain all crucial information (delivery dates, receivers, transaction value, transaction amounts and signatures of qualified individuals). They must be compiled diligently.

[4] Polish Accounting Act, .art. 13–16.

A list of types of evidence according to relevant area:

- warehouse (incoming goods IG or RM, outgoing goods OG, delivery of materials to production MP),
- cash records (paid-in, paid-out, cash report),
- bookkeeping – transaction (VAT invoice, bill of exchange, payroll),
- calculation – settle (accounting entries, bank statement),
- assets (received fixed assets, transfer of assets, and liquidation of assets).

Other types of evidence (or accounting documents):

- individual/overall,
- original/secondary,
- own/ from others,
- correction,
- internal/external.[5]

The values included in the records must not be corrected by erasing. It is possible to correct an accounting error in internal documents by crossing it out (with date and initials). Errors in external documents are corrected by issuing correction documents (correction statements or corrected invoices).

Basic principles of accounting (factual):

- (more important) true and fair view,
- accrual basis
- matching concept,
- going concern,
- prudence principle,
- materiality,
- consistency.[6]

The *Accounting Principles* says that an enterprise should provide true and fair view about its financial conditions and operating results. The concept of true and fair view does not mean absolute truth about enterprises. Financial statements are a product of management's judgments and estimates. The principle of true and fair view requires comparative truth about enterprises' pictures.

Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an entity. Although this *Framework* does not deal directly with such concepts, the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view, or as presenting fairly such information.[7]

[5] Polish Accounting Act, art. 20.
[6] IAS 1, art. 23–40.
[7] Framework, art 46.

Accrual basis – the effect of transactions and other events are recognised when they occur, not as cash is received or paid.

Financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving.[8]

The payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.[9]

Going concern – the financial statements are prepared on the basis that an entity will continue in operation for the foreseeable future.

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.[10]

The principle of prudence requires that accounts always record the least favourable position. That means that if stock has become damaged, it is recorded at a reduced value, and not its purchase or normal sale value. Accounts act as a source of information to business people, proprietors, investors and so forth. Prudence requires that you are realistic about your assets and profits, and that you do not shy away from hard facts.

Substance over form – financial statements should reflect a complete, relevant (applied, useful, appropriate) and accurate picture of the transactions and events.

Consistency – the basic accounting concept that once an accounting method is adopted, it should be followed consistently from one accounting period to the next. If, for any reason, the accounting method is changed, a full disclosure of the change and an explanation of its effects on the items of the financial statements must be given in the accompanying notes (footnotes).

Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The

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[8] Framework, art 22, IFRS.
[9] Framework, art 82.
[10] IAS 1, art. 23–40.

elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity. The elements directly related to the measurement of performance in the income statement are income and expenses. The statement of changes in financial position usually reflects income statement elements and changes in balance sheet elements.[11]

Technical principles:

Balance Equilibrium, Assets = Capital + Liabilities (Balance sheet principle)

– **double-entry** (every transaction requires is recorded in at least two entries, opposite each other, of the same amount),
– **repeat-entry bookkeeping** (the entry at the end of the particular is in agreement with the entry at the end of the synthetic),
– **periodicity principles** (compliance the same time balance).

At the heart of modern financial accounting is the double-entry bookkeeping system. This system involves making at least two entries for every transaction: a debit in one bookkeeping **account,** and a corresponding credit in another **bookkeeping account**. The sum of all debits should always equal the sum of all credits, providing a simple way to check for errors. This system was first used in medieval Europe, although claims have been made that the system dates back to Ancient Rome or Greece.[12]

The presentation of these elements in the balance sheet and the income statement involves a process of sub-classification. For example, assets and liabilities may be classified by their nature or function in the business of the entity in order to display information in the manner most useful to users for purposes of making economic decisions.[13]

Important definition as fallowes:

- **Assets** an entity's property, financial assets, inventory, receivables or cash.
- **Capital and liabilities are** financial sources of the assets.
- **Bookkeeping account** – this is an account which includes (has the following elements) number, name, and two sides Debit and Credit.
- **Economic operation** – economic event causing changes in assets, capital or liabilities.
- **Fixed assets** – assets of high value and low liquidity.
  Fixed assets are not used completely in one production cycle, they are owned by a particular business entity within a longer period of time (more than one year).

[11] Framework.
[12] www.en.allexperts.com and www.fact-index.com/a/ac/accountancy
[13] Framework.