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Tatiana V. Pashchenko

BASIC ACCOUNTING

Т. В. Пащенко

ТЕОРИЯ БУХГАЛТЕРСКОГО УЧЕТА

ИЗДАТЕЛЬСКИЙ ЦЕНТР
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Perm State University

Tatiana V. Pashchenko

BASIC ACCOUNTING

*Approved by the Methodological Board
of Perm State University as a textbook
for undergraduate students of Economics,
program «International Business»*

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The textbook is intended for full-time and distant Bachelor's degree students of the Economic Faculty, program «International Business» (the program is taught in English). In accordance with the thematic plan of the discipline, it contains a summary of the main provisions of the course on organizational issues of accounting, a list of basic literature, as well as test questions for independent work. The textbook is based on international accounting principles and Conceptual Framework for Financial Reporting.

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Учебное пособие предназначено для студентов очной и заочной форм обучения экономического факультета направления подготовки бакалавров «Экономика», профиль «Международный бизнес» (преподавание программы на английском языке). В соответствии с тематическим планом дисциплины содержит изложение основных положений курса по организационным вопросам производства бухгалтерского учета, список основной литературы, а также контрольные вопросы для самостоятельного решения. Изложенные в пособии подходы базируются на международных принципах учета и полностью согласуются с Концептуальными положениями финансовой отчетности.

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INTRODUCTION

The course outlines the main issues of the theory and technique of accounting in economic entities in all forms of ownership, namely the principles of accounting, the subject and method of accounting. The issues of documentation and reflection on the accounts of non-current assets, current assets, liabilities, capital, income and expenses are highlighted. In some subjects, attention is paid to the issues of taxation. The content of the course reveals the components of financial statements.

The content of the course is aimed at studying the essence of economic accounting and its component part – accounting, the requirements for the organization of accounting; understanding the relationship of existing methods of processing economic information, the meaning and place of each of them in the system; getting an idea of the documentary justification of records as the basis for reflecting them in accounting, the need for control by accounting for the legality of operations performed.

As a result of studying the course the student must:

– have an idea of the basics of accounting, and the requirements imposed on it;

– composition of accounting (financial) statements;

– know about the organization of accounting in economic entities based on the scale, scope of activity and needs;

– basic regulations on accounting and reporting;

– rules and sequence of processing of accounting information;

– know the objects of accounting and the method of its study;

– to know the basic ways of an estimation of objects of accounting.

1. THE ESSENCE, MEANING AND FUNDAMENTAL PRINCIPLES OF ACCOUNTING

Accounting as a management function. The role of accounting in the enterprise management system.
Using of accounting knowledge: accounting, bookkeeping, financial analysis, internal audit, independent audit.
The concept of accounting, its types, tasks and functions. Basic accounting principles (requirements and assumptions).
Regulatory of accounting. Reform of accounting in accordance with international standards.

Accounting refers to the process of recording a company's financial transactions. It involves analyzing, summarizing and reporting these transactions to regulators, oversight agencies and tax collection entities. The financial statements used in basic accounting are a brief summary of financial transactions over an accounting period, summarizing a company's cash flows, operations and financial position.

Basic accounting is one of the key functions in almost all types of business. It is typically performed by an accountant or a bookkeeper at a small company, or by large finance departments with dozens of employees at larger companies. The reports that various streams of accounting generate, such as managerial accounting and cost accounting, are crucial in helping a company's management make informed business decisions.

Without accounting, it would be impossible to determine which products were successful, which business decisions were effective and whether the company is generating revenue or making a profit. It would also be impossible to determine how much taxes to pay, whether to buy or lease a property or whether to merge with another company. In other words, accounting is not just about recording financial transactions, it measures a company's success at achieving its goals and helps shareholders understand how efficiently their money is being used. This is why businesses must be proficient in accounting in order to make good decisions.

Example of basic accounting

To illustrate double-entry accounting, imagine your company is going to record sales revenue of $10,000, you would need to make two entries. These include a debit entry of $10,000 to increase the balance sheet *account called "Cash" and credit entry of $10,000 to increase the income statement account called "Revenue."*

Another example might be the purchase of a new office desk for $250. In this example, you would need to enter a $250 debit to increase your company's income statement "office furniture" expense account and a $250 credit to reduce your balance sheet "Cash" account.

The opposite also holds true: if you borrow money from a bank, your company's assets will increase but your liabilities will also increase by the same amount. The double-entry accounting carefully reviews the accuracy because once you have completed your entries, the sum of the accounts with debit balance should match the sum of the credit balance accounts, making sure that you have captured both parts of the transaction.

Accounting is an orderly system of collecting, registering and summarizing information in monetary terms about property, the sources of its formation and their movement through a continuous, continuous and documentary reflection of all economic operations

Accountants ensure companies and organizations are operating efficiently by accessing financial records and analyzing data, finance reports, budgets, tax returns and accounting records.

Financial accounting is a system focused on preparing financial statements for internal and external users, and monitoring the indicators that form it, reflecting the state and movement of property, liabilities, income and expenses based on the fait accompli of economic life and activity

Management accounting is a preparation of information based on the measurement and evaluation of costs and results of activities at cost-generating locations and responsibility centers, including forecasting and planning based on standards, accounting for actual values, identification and analysis of deviations from set values

Tax accounting is a system of summarizing information for determining the tax base, mainly for income tax, based on the data of primary documents grouped in accordance with the procedure provided for by the Tax Code

Accountants may work alongside Senior Accountants and other professionals within the accounting or finance department. Specific responsibilities may vary based on the company the accountant works for and the industry of the company, but typically include:

- Perform monthly, quarterly and annual accounting activities including reconciliations of bank and credit card accounts, coordination and completion of annual audits and reviewing financial reports/support as necessary.
- Analyze and report on financial status including income statement variances, communicating financial results to management, budget preparation and analysis.
- Documents financial transactions.
- Recommends financial actions by analyzing accounting options.
- Improve systems and procedures and begin corrective actions.
- Oversee taxes and abide by federal regulations.

Bookkeeping is the recording of financial transactions, and is part of the process of accounting connected with preparing source documents for all transactions, operations, and other events of a business

A bookkeeper is a finance professional whose primary responsibilities in an organization revolve around maintaining the company's financial records. A bookkeeper will commonly be in charge of recording both expenditures and income, including organizing and recording all receipts, bills invoices and other financial transactions. In modern workforces, it is standard for the bookkeeper to use computing software to create digital financial records. Other duties for a bookkeeper may include:

• Receiving, recording and properly handling cash, checks and vouchers from clientele

• Creating reports on the company's financial transactions for executives and members of other departments to use

• Auditing financial records to ensure that no errors have been made and that the books are balanced

• Noting any inconsistencies to allow for investigations to reconcile inaccuracies

• Processing payroll and ensuring that all staff are compensated the correct amounts and through their preferred methods

• Receiving invoices from outside vendors and authorizing payments via the correct methods and at the correct time

! **Financial analysis is a set of techniques and methods for processing economic information in order to obtain data for making effective decisions on financial and managerial issues, taxation and internal control issues**

Financial analysts predict investment performances by gathering and evaluating the industry and economic fiscal data. They assess the performance of stocks, bonds and other investments and make recommendations to people and businesses about investment decisions. They work in banks, securities firms, insurance companies, pension funds, mutual funds and other businesses. In general, financial analysts can be divided into two categories: buy-side analysts and sell-side analysts. Buy-side analysts develop investment strategies for organizations, while sell-side analysts advise financial services sales agents on selling stocks, bonds and other investments. Some of their primary responsibilities include:

• Compiling and analyzing financial reports and finding discrepancies that require the attention of senior management.

• Recommending individual or a collection of investments, known as a portfolio.

• Evaluating financial data — both current and past — and identifying economic and business trends.

• Meeting with senior management and executives to gain better insight into the organization's prospects.

- Preparing financial reports with reliable conclusions that management can use to implement more effective operational strategies.
- Providing EOM reports for C-level executives.

! **Internal Audit is a system of self-control by the management of the organization of the safety of property, the rationality of economic operations and related expenses, checking compliance with the provisions of regulatory acts, accounting policies and instructions of management and owners**

An internal auditor (IA) is a trained professional employed by companies to provide independent and objective evaluations of financial and operational business activities, including corporate governance. They are tasked with ensuring that companies comply with laws and regulations, follow proper procedures, and function as efficiently as possible.

The main job of an internal auditor (IA) is to identify problems and correct them before they are discovered during an external audit by an outside firm or regulatory agencies, such as the Securities and Exchange Commission. One of the roles of the SEC is to regulate how companies report their financial statements to help ensure that investors have access to all of the necessary information before investing.

An internal audit generally performs the three tasks outlined below.

- Assess any risks and the internal controls within a company.
- Ensure that a company and its employees are in compliance with federal and state laws and regulations.
- Make suggestions as to what needs to be done to rectify a failed audit or issues that were identified as problematic during the audit.

Independent (External) Audit is independent financial audit in order to express an opinion on the reliability of the financial statements in all its material aspects, including confirmation of the safety of assets, the reality of the reflected profit and the possibility of continuing operations in the foreseeable future

An independent auditor is a certified public accountant (CPA) or chartered accountant (CA) who examines the financial records and business transactions of a company with which they are not affiliated. An independent auditor is typically used to avoid conflicts of interest and to ensure the integrity of performing an audit.

Independent auditors are often used — or even mandated — to protect shareholders and potential investors from the occasional fraudulent or unrepresentative financial claims made by public companies. The use of independent auditors became more critical after the implosion of the dotcom bubble and the passage of the Sarbanes-Oxley Act (SOX) in 2002.

An auditor may perform various auditing, tax, and consulting services for individuals, corporations, nonprofit organizations, or government entities.

An independent auditor either works for a public accounting firm or is self-employed. An auditor examines financial statements and related data, analyzes business operations and processes, and provides recommendations on achieving greater efficiency. They evaluate company assets for impairment and proper valuation and determine tax liability, ensuring compliance with tax code and laws.

The auditor develops an opinion asserting the reliability and fairness of clients' financial statements, then communicates the information to investors, creditors, and government organizations. Also, an auditor may perform other auditing, tax, and consulting services for individuals, corporations, nonprofit organizations, or government entities.

Qualitative characteristics of useful financial information

If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

The fundamental qualitative characteristics are relevance and faithful representation.

Relevance

Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.

Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value.

Financial information with predictive value is employed by users in making their own predictions.

Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

The predictive value and confirmatory value of financial information are interrelated. Information that has predictive value often also has confirmatory value. For example, revenue information for the current year, which can be used as the basis for predicting revenues in future years, can also be compared with revenue predictions for the current year that were made in past years.

The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.

Materiality

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Faithful representation

Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximize those qualities to the extent possible.

A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. For example, a complete depiction of a group of assets would include, at a minimum, a description of the nature of the assets in the group, a numerical depiction of all of the assets in the group, and a description of what the numerical depiction represents (for example, historical cost or fair value). For some items, a complete depiction may also entail explanations of significant facts about the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction.

A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users.

Neutral information does not mean information with no purpose or no influence on behaviour. On the contrary, relevant financial information is, by definition, capable of making a difference in users' decisions.

Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated.6 Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods.

The exercise of prudence does not imply a need for asymmetry, for example, a systematic need for more persuasive evidence to support the recognition of assets or income than the recognition of liabilities or expenses. Such asymmetry is not a qualitative characteristic of useful financial information.

Nevertheless, particular Standards may contain asymmetric requirements if this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

When monetary amounts in financial reports cannot be observed directly and must instead be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained. Even a high level of measurement uncertainty does not necessarily prevent such an estimate from providing useful information.

Enhancing qualitative characteristics

Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon.

Comparability

Users' decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another.

Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities.

Comparability is the goal; consistency helps to achieve that goal.

Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

Some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. A faithful representation of a relevant economic phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant economic phenomenon by another reporting entity.

Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability.

Verifiability

Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation, for example, by counting cash. Indirect verification means checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, using the firstin, first-out method).

It may not be possible to verify some explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

Timeliness

Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

Classifying, characterizing and presenting information clearly and concisely makes it understandable.

Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore possibly misleading.

Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

There are a lot of international and regional accounting organizations which try to unite different rules of accounting and financial reporting. The most known of them are:

International Federation of Accountants (1977);

Committee on International Financial Reporting Standards (1973) (Now – International Accounting Standards Board (IASB));

European Federation of Accountants (1986);

The American Accounting Association (1916);

The Institute of Public Accountants (1923).

The IFRS Foundation is a not-for-profit, public interest organisation established to develop a single set of high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards, IFRS Standards, and to promote and facilitate adoption of the standards.

Its Standards are developed by our two standard-setting boards, the International Accounting Standards Board (IASB) and the newly created International Sustainability Standards Board (ISSB). The IASB sets IFRS Accounting Standards and the ISSB sets IFRS Sustainability Disclosure Standards.

IFRS Accounting Standards set out how a company prepares its financial statements. IFRS Sustainability Disclosure Standards set out how a company discloses information about sustainability-related factors that may help or hinder a company in creating value.

The two boards will work closely to ensure their Standards complement each other to provide investors with transparent and reliable information about a company's financial position and performance, as well as information about actors that could create or erode its enterprise value in the short, medium and long term.

Generally accepted accounting principles (GAAP) refer to a group of major accounting rules, standards, and ways of reporting financial information. The Financial Accounting Standards Board sets GAAP. Using GAAP can improve the consistency and transparency of financial reporting across organizations. The U.S. Securities and Exchange Commission requires publicly traded companies to use GAAP. Internationally, most countries use the International Financial Reporting Standards.

Control questions and tasks

1. An investment group is looking to invest some money into a company. Where should the investment group look for relevant information about the company's performance?

A. The Company's Management Books
B. The Company's Tax Books
C. The Company's Financial Books
D. The Company's Budgets

2. A U.S. company is preparing its financial books to file with the Securities and Exchange Commission. Which of the following should direct the preparation of the company's financial books?

A. International Audit Firms
B. US General Accepted Accounting Principals
C. International Investors and Creditors
D. International Accounting Standards and International Financial Reporting Standards

3. A European Union-based company is preparing its financial books. Which of the following should direct the preparation of the company's financial books?

A. International Audit Firms
B. US General Accepted Accounting Principals

C. International Investors and Creditors
D. International Accounting Standards and International Financial Reporting Standards

4. Near the end of a fiscal period, a company is working on reporting its financial position, to share with investors and creditors. Which financial statement should the company use to report this information?
A. Balance Sheet
B. Income Statement
C. Statement of Cash Flows
Tax Statement

5. A company is working on reporting its net earnings for a fiscal period, to share with investors and creditors. Which financial statement should the company use to report this information?
A. Balance Sheet
B. Income Statement
C. Statement of Cash Flows
Tax Statement

6. A company is working on reporting changes in the company's cash balance during a fiscal period, to share with investors and creditors. Which financial statement should the company use to report this information?
A. Balance Sheet
B. Income Statement
C. Statement of Cash Flows
D. Tax Statement

2. OBJECT OF ACCOUNTING

The concept of economic processes and facts of economic life. The main economic processes of an economic entity. The procedure for creating an economic entity. Accounting of the authorized capital. The organization's own capital, composition, accounting procedure.
The most important objects of accounting, their characteristics.
Classification of assets, liabilities and equity of the enterprise.

Economic process is a flow of economic facts.

Economic fact is an elementary moment of the economic process that confirms or changes the volume, composition, placement of the company's funds (recourses), or their sources, or funds and sources at the same time. A fact means a status, an action or an event.

Examples of economic facts

Purchases: *These are transactions that businesses require in order to obtain materials and services necessary to accomplish their goals. Purchases made in cash are recorded as a debit to the inventory account and a credit to cash. If the purchase is made with a credit account, the credit entry would be recorded in the accounts payable account and the debit entry would be recorded in the inventory account. Purchases often involve the issuance of purchase orders and disbursement of supplier invoices.*

Sales: *These are transactions in which products/services are transferred from buyers to sellers for cash or credit. Sales transactions are recorded in the seller's accounting journal (a document that contains a summary of the transaction) as a credit to the sales account and a debit to cash or accounts receivable. Sales typically involve the creation of an invoice to be sent to the customers, detailing the amount that the customer owes.*

Receipts: *These are the transactions that refer to a company getting paid for providing services or goods to customers. The receipt transaction is recorded in the journal for the seller as a credit to accounts receivable and a debit to cash.*

Employee's compensation: *This requires information about the number of hours that employees spent at paid labor, which is then used to generate tax deductions, gross wage information and other deductions, which result in net pay to employees.*

Asset is a present economic resource controlled by the entity as a result of past events

An economic resource is a right that has the potential to produce economic benefits.

This section discusses three aspects of those definitions:

1) right;

2) potential to produce economic benefits;

3) control.

Rights that have the potential to produce economic benefits take many forms, including:

– rights that correspond to an obligation of another party, for example:

rights to receive cash;

rights to receive goods or services;

rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward contract to buy an economic resource on terms that are currently favourable or an option to buy an economic resource;

rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs;

– rights that do not correspond to an obligation of another party, for example:

rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from the residual value of a leased object;

rights to use intellectual property.

Many rights are established by contract, legislation or similar means. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. However, an entity might also obtain rights in other ways, for example:

– by acquiring or creating know-how that is not in the public domain;

– through an obligation of another party that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements.

Some goods or services, for example, employee services, are received and immediately consumed. An entity's right to obtain the economic benefits produced by such goods or services exists momentarily until the entity consumes the goods or services.

Not all of an entity's rights are assets of that entity – to be assets of the entity, the rights must both have the potential to produce for the entity economic benefits beyond the economic benefits available to all other parties and be controlled by the entity. For example, rights available to all parties without significant cost – for instance, rights of access to public goods, such as public rights of way over land, or know-how that is in the public domain – are typically not assets for the entities that hold them.

An entity cannot have a right to obtain economic benefits from itself. Hence:

– debt instruments or equity instruments issued by the entity and repurchased and held by it, for example, treasury shares, are not economic resources of that entity;

– if a reporting entity comprises more than one legal entity, debt instruments or equity instruments issued by one of those legal entities and held by another of those legal entities are not economic resources of the reporting entity.

In principle, each of an entity's rights is a separate asset. However, for accounting purposes, related rights are often treated as a single unit of account that is a single asset. For example, legal ownership of a physical object may give rise to several rights, including:

1) the right to use the object;

2) the right to sell rights over the object;

3) the right to pledge rights over the object; and

4) other rights not listed in 1–3.

In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. Conceptually, the economic resource is the set of rights, not the physical object. Nevertheless, describing the set of rights as the physical object will often provide a faithful representation of those rights in the most concise and understandable way.

In some cases, it is uncertain whether a right exists. For example, an entity and another party might dispute whether the entity has a right to receive an economic resource from that other party. Until that existence uncertainty is resolved, for example, by a court ruling, it is uncertain whether the entity has a right and, consequently, whether an asset exists.

Potential to produce economic benefits

An economic resource is a right that has the potential to produce economic benefits. For that potential to exist, it does not need to be certain, or even likely, that the right will produce economic benefits. It is only necessary that the right already exists and that, in at least one circumstance, it would produce for the entity economic benefits beyond those available to all other parties. A right can meet the definition of an economic resource, and hence can be an asset, even if the probability that it will produce economic benefits is low.

Nevertheless, that low probability might affect decisions about what information to provide about the asset and how to provide that information, including decisions about whether the asset is recognised and how it is measured.

An economic resource could produce economic benefits for an entity by entitling or enabling it to do, for example, one or more of the following:

1) receive contractual cash flows or another economic resource;

2) exchange economic resources with another party on favourable terms;

3) produce cash inflows or avoid cash outflows by, for example:

– using the economic resource either individually or in combination with other economic resources to produce goods or provide services;

– using the economic resource to enhance the value of other economic resources;

– leasing the economic resource to another party;

4) receive cash or other economic resources by selling the economic resource;

5) extinguish liabilities by transferring the economic resource.

Although an economic resource derives its value from its present potential to produce future economic benefits, the economic resource is the present right that contains that potential, not the future economic benefits that the right may produce. For example, a purchased option derives its value from its potential to produce economic benefits through exercise of the option at a future date. However, the economic resource is the present right – the right to exercise the option at a future date. The economic resource is not the future economic benefits that the holder will receive if the option is exercised.

There is a close association between incurring expenditure and acquiring assets, but the two do not necessarily coincide. Hence, when an entity incurs expenditure, this may provide evidence that the entity has sought future economic benefits, but does not provide conclusive proof that the entity has obtained an asset. Similarly, the absence of related expenditure does not preclude an item from meeting the definition of an asset. Assets can include, for example, rights that a government has granted to the entity free of charge or that another party has donated to the entity.

Control

Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts.

For example, an entity may control a proportionate share in a property without controlling the rights arising from ownership of the entire property. In such cases, the entity's asset is the share in the property, which it controls, not the rights arising from ownership of the entire property, which it does not control.

An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource.

An entity has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.

Control of an economic resource usually arises from an ability to enforce legal rights. However, control can also arise if an entity has other means of ensuring that it, and no other party, has the present ability to direct the use of the economic resource and obtain the benefits that may flow from it. For example, an entity could control a right to use know-how that is not in the public domain if the entity has access to the know-how and the present ability to keep the know-how secret, even if that know-how is not protected by a registered patent.

For an entity to control an economic resource, the future economic benefits from that resource must flow to the entity either directly or indirectly rather than to another party. This aspect of control does not imply that the entity can ensure that the resource will produce economic benefits in all circumstances. Instead, it means that if the resource produces economic benefits, the entity is the party that will obtain them either directly or indirectly.

Having exposure to significant variations in the amount of the economic benefits produced by an economic resource may indicate that the entity controls the resource. However, it is only one factor to consider in the overall assessment of whether control exists.

Sometimes one party (a principal) engages another party (an agent) to act on behalf of, and for the benefit of, the principal. For example, a principal may engage an agent to arrange sales of goods controlled by the principal. If an agent has custody of an economic resource controlled by the principal, that economic resource is not an asset of the agent. Furthermore, if the agent has an obligation to transfer to a third party an economic resource controlled by the principal, that obligation is not a liability of the agent, because the economic resource that would be transferred is the principal's economic resource, not the agent's.

! **Liability is a present obligation of the entity to transfer an economic resource as a result of past events**

For a liability to exist, three criteria must all be satisfied:

1) the entity has an obligation;

2) the obligation is to transfer an economic resource;

3) the obligation is a present obligation that exists as a result of past events.

Obligation

The first criterion for a liability is that the entity has an obligation. An obligation is a duty or responsibility that an entity has no practical ability to avoid. An obligation is always owed to another party (or parties). The other party (or parties) could be a person or another entity, a group of people or other entities, or society at large. It is not necessary to know the identity of the party (or parties) to whom the obligation is owed. If one party has an obligation to transfer an economic resource, it follows that another party (or parties) has a right to receive that economic resource.

However, a requirement for one party to recognise a liability and measure it at a specified amount does not imply that the other party (or parties) must recognise an asset or measure it at the same amount. For example, particular IAS may contain different recognition criteria or measurement requirements for the liability of one party and the corresponding asset of the other party (or parties) if those different criteria or requirements are a consequence of decisions intended to select the most relevant informationthat faithfully represents what it purports to represent.

Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed.

Obligations can also arise, however, from an entity's customary practices, published policies or specific statements if the entity has no practical ability to act in a manner inconsistent with those practices, policies or statements. The obligation that arises in such situations is sometimes referred to as a 'constructive obligation'.

In some situations, an entity's duty or responsibility to transfer an economic resource is conditional on a particular future action that the entity itself may take. Such actions could include operating a particular business or operating in a particular market on a specified future date, or exercising particular options within a contract. In such situations, the entity has an obligation if it has no practical ability to avoid taking that action.

A conclusion that it is appropriate to prepare an entity's financial statements on a going concern basis also implies a conclusion that the entity has no practical ability to avoid a transfer that could be avoided only by liquidating the entity or by ceasing to trade.

The factors used to assess whether an entity has the practical ability to avoid transferring an economic resource may depend on the nature of the entity's duty or responsibility. For example, in some cases, an entity may have no practical ability to avoid a transfer if any action that it could take to avoid the transfer would have economic consequences significantly more adverse than the transfer itself. However, neither an intention to make a transfer, nor a high likelihood of a transfer, is sufficient reason for concluding that the entity has no practical ability to avoid a transfer.

In some cases, it is uncertain whether an obligation exists. For example, if another party is seeking compensation for an entity's alleged act of wrongdoing, it might be uncertain whether the act occurred, whether the entity committed it or how the law applies. Until that existence uncertainty is resolved, for example, by a court ruling, it is uncertain whether the entity has an obligation to the party seeking compensation and, consequently, whether a liability exists.

Transfer of an economic resource

The second criterion for a liability is that the obligation is to transfer an economic resource.

To satisfy this criterion, the obligation must have the potential to require the entity to transfer an economic resource to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer an economic resource, the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the entity to transfer an economic resource.

An obligation can meet the definition of a liability even if the probability of a transfer of an economic resource is low. Nevertheless, that low probability might affect decisions about what information to provide about the liability and how to provide that information, including decisions about whether the liability is recognised and how it is measured.

Obligations to transfer an economic resource include, for example:

1) obligations to pay cash;

2) obligations to deliver goods or provide services;

3) obligations to exchange economic resources with another party on unfavourable terms. Such obligations include, for example, a forward contract to sell an economic resource on terms that are currently unfavourable or an option that entitles another party to buy an economic resource from the entity;

4) obligations to transfer an economic resource if a specified uncertain future event occurs;

5) obligations to issue a financial instrument if that financial instrument will oblige the entity to transfer an economic resource.

Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, entities sometimes decide to, for example:

– settle the obligation by negotiating a release from the obligation;

– transfer the obligation to a third party;

– replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.

Present obligation as a result of past events

The third criterion for a liability is that the obligation is a present obligation that exists as a result of past events.

A present obligation exists as a result of past events only if:

– the entity has already obtained economic benefits or taken an action;

– as a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.

The economic benefits obtained could include, for example, goods or services. The action taken could include, for example, operating a particular business or operating in a particular market. If economic benefits are obtained, or an action is taken, over time, the resulting present obligation may accumulateover that time.

If new legislation is enacted, a present obligation arises only when, as a consequence of obtaining economic benefits or taking an action to which that legislation applies, an entity will or may have to transfer an economic resource that it would not otherwise have had to transfer. The enactment of legislation is not in itself sufficient to give an entity a present obligation.

Similarly, an entity's customary practice, published policy or specific statement gives rise to a present obligation only when, as a consequence of obtaining economic benefits, or taking an action, to which that practice, policy or statement applies, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.

A present obligation can exist even if a transfer of economic resources cannot be enforced until some point in the future. For example, a contractual liability to pay cash may exist now even if the contract does not require a payment until a future date. Similarly, a contractual obligation for an entity to perform work at a future date may exist now even if the counterparty cannot require the entity to perform the work until that future date.

An entity does not yet have a present obligation to transfer an economic resource if it has not yet satisfied the criteria, that is, if it has not yet obtained economic benefits, or taken an action, that would or could require the entity to transfer an economic resource that it would not otherwise have had to transfer. For example, if an entity has entered into a contract to pay an employee a salary in exchange for receiving the employee's services, the entity does not have a present obligation to pay the salary until it has received the employee's services. Before then the contract is executory – the entity has a combined right and obligation to exchange future salary for future employee services.

Substance of contractual rights and contractual obligations

The terms of a contract create rights and obligations for an entity that is a party to that contract. To represent those rights and obligations faithfully, financial statements report their substance. In some cases, the substance of the rights and obligations is clear from the legal form of the contract. In other cases, the terms of the contract or a group or series of contracts require analysis to identify the substance of the rights and obligations.

All terms in a contract, whether explicit or implicit, are considered unless they have no substance. Implicit terms could include, for example, obligations imposed by statute, such as statutory warranty obligations imposed on entities that enter into contracts to sell goods to customers.

Terms that have no substance are disregarded. A term has no substance if it has no discernible effect on the economics of the contract. Terms that have no substance could include, for example:

– terms that bind neither party;

– rights, including options, that the holder will not have the practical ability to exercise in any circumstances.

Equity is the residual interest in the assets of the entity after deducting all its liabilities

Equity claims are claims on the residual interest in the assets of the entity after deducting all its liabilities. In other words, they are claims against the entity that do not meet the definition of a liability. Such claims may be established by contract, legislation or similar means, and include, to the extent that they do not meet the definition of a liability:

– shares of various types, issued by the entity;

– some obligations of the entity to issue another equity claim.

Different classes of equity claims, such as ordinary shares and preference shares, may confer on their holders different rights, for example, rights to receive some or all of the following from the entity:

1) dividends, if the entity decides to pay dividends to eligible holders;

2) the proceeds from satisfying the equity claims, either in full on liquidation, or in part at other times;

3) other equity claims.

Sometimes, legal, regulatory or other requirements affect particular components of equity, such as share capital or retained earnings. For example, some such requirements permit an entity to make distributions to holders of equity claims only if the entity has sufficient reserves that those requirements specify as being distributable.

Business activities are often undertaken by entities such as sole proprietorships, partnerships, trusts or various types of government business undertakings. The legal and regulatory frameworks for such entities are often different from frameworks that apply to corporate entities. For example, there may be few, if any, restrictions on the distribution to holders of equity claims against such entities.

! **Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims**

! **Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims**

It follows from these definitions of income and expenses that contributions from holders of equity claims are not income, and distributions to holders of equity claims are not expenses.

Income and expenses are the elements of financial statements that relate to an entity's financial performance. Users of financial statements need information about both an entity's financial position and its financial performance. Hence, although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.

Different transactions and other events generate income and expenses with different characteristics. Providing information separately about income and expenses with different characteristics can help users of financial statements to understand the entity's financial performance

Each fact shows the two-way nature of economic relations between the objects of accounting:

Table 1

Economic relations between the objects of accounting

Type of connection	Property (Balance sheet Asset)	Sources (Balance sheet Liability & Equity)
I	**+ / –**	
II		**+ / –**
III	**+**	**+**
IV	**–**	**–**

Control questions and tasks

1. A company purchases inventory they hope to resell to customers. In which of the following Balance Sheet accounts should the company record the inventory purchased?

A. Current Liability Account
B. Liability Account
C. Owner's Equity Account
D. Asset Account

2. A company delivers inventory to a customer who will pay for it next month. In which of the following Balance Sheet accounts should the company record the amount it is owed by the customer?

A. Current Liability Account
B. Liability Account
C. Owner’s Equity Account
D. Asset Account

3. A company purchases inventory from its supplier this month and will pay its supplier next month. In which of the following Balance Sheet accounts should the company record the obligation to pay its supplier?

A. Current Owner’s Account
B. Liability Account
C. Owner’s Equity Account
D. Asset Account

4. A company obtains a 5-year loan from a bank. In which of the following Balance Sheet accounts should the company record the obligation to repay the loan?

A. Current Asset Account
B. Liability Account
C. Owner’s Equity Account
D. Asset Account

5. A company issues some capital stock to investors. In which of the following Balance Sheet accounts should the company record the change in capital stock?

A. Current Liability Account
B. Liability Account
C. Owner’s Equity Account
D. Asset Account

6. A company buys back some of its stock from investors. In which of the following Balance Sheet accounts should the company record the change in treasury stock?

A. Current Asset Account
B. Liability Account
C. Owner’s Equity Account
D. Asset Account

3. METHODS OF ACCOUNTING

Accounting methodology and technique. Elements of the accounting method: documentation and inventory, valuation and calculation, accounts and double entry, balance sheet and reporting.

The concept of primary documents. Classification of documents. Required and optional banking details. Correction of errors in primary and summary documents. Electronic document management. Organization of the archive. The concept of document management. Document flow schedule. Withdrawal of documents in the organization.

Inventory is an element of the accounting method. Types of inventory. The stages of inventory. The procedure for identifying and recording inventory differences.

The accounting method is a set of tools, techniques and methods by which accounting information is generated and accounting statements are compiled.

Table 2

Methods of accounting

Groups of accounting methods	Elements of methods
1. Methods of primary observation	Documentation and document management Inventory
2. Data grouping methods	Accounting accounts Double entry
3. Methods of monetary measurement	Measurement Calculation
4. Methods of final generalization	Balance sheet Accounting statements (Financial reporting)

Documenting is a method of primary observation and registration of business transactions in primary accounting documents.

Document flow in accounting – the movement of accounting documents in an economic entity from the moment of their compilation to the completion of execution (in particular, use for the preparation of accounting (financial) statements, placement in the archive).

Primary accounting documents – documents for confirming the fact of economic life.

Accounting books (Journal entries) – documents for registration, accumulation and generalization of primary documents and similar facts of economic life.

Mandatory details of accounting documents:

1) name of the document;
2) the date of the document;
3) the name of the economic entity that drafted the document;
4) the content of the fact of economic life;
5) the value of the natural and (or) monetary measurement of the fact of economic life, indicating the units of measurement;
6) the name of the position of the person (persons) who made (committed) the transaction, operation and responsible (responsible) for its execution, or the name of the position of the person (persons) responsible (responsible) for the execution of the event;
7) signatures of responsible persons.

Inventory is a reconciliation of actual data on assets, liabilities and capital with accounting data. It's a method of verifying the actual existence of assets and liabilities by transferring, weighing, measuring, evaluating all the remaining assets of the enterprise and comparing them with accounting data.

Double entry is a method of reflecting a business transaction that shows a dual change in the composition of assets, sources, or simultaneously assets and sources for the debit of one and the credit of another account in the same amount.

Accounts – economic grouping of similar data; the method of current accounting and control of the presence and movement of assets and liabilities of the enterprise.

Measurement is the reflection of accounting objects in a single monetary meter in order to generalize them as a whole across the enterprise.

Calculation is a method of calculating the cost of manufacturing products or work performed, services provided.

Balance sheet is a way of summarizing and grouping information about the assets of an enterprise by composition and placement and sources of their formation on a certain date.

Accounting statements is a method of summarizing and obtaining the final performance indicators of the enterprise for the reporting period.

! Accounting cycle is the collective process of recording and sorting out a company's financial transactions

Accounting cycle ensures that a company's financial statements are prepared accurately and are a true reflection of its financial position. It is considered a cycle because the workflow is circular—moving from one accounting period to the next. The full accounting cycle consists of nine steps, which in the past were done manually and recorded in journals. Today, most accountants use accounting software to process many of these steps simultaneously.

Table 3

Steps of the accounting cycle

Step	Characteristics
1. Transactions	The accounting cycle starts with transactions. This means that every time a sale is made, an asset is purchased, a product is returned or debt is paid, the accounting cycle begins. All financial activities that involve the exchange of a company's assets are considered a transaction

Step	Characteristics
2. Journal entries	A journal is a physical record or digital document kept as a data, spreadsheet or book within the company's accounting software. When a financial transaction is made, a bookkeeper records it as a journal entry. If the income or expense affects one or more business accounts, the journal entry will reflect that as well. Journaling is a crucial part of record-keeping and allows for a brief review and records-transfer later in the accounting process. Along with the general ledger, journals are carefully reviewed as part of the audit process
3. Posting from the journal to the general ledger	All information recorded in the journal is posted to the general ledger. The general ledger contains the account information that is needed to create the company's financial statements. The transaction data recorded in the general ledger is segregated by type into accounts for expenses, revenues, shareholder's equity, liabilities and assets
4. Trial balance	When the business transactions are summarized or closed out to the general ledger, the accountant creates a trial balance, which serves as a report of every ledger account's balance. A company generates a trial balance periodically, typically at the end of every reporting period. The trial balance helps a company ensure that entries in its bookkeeping system are mathematically correct. The trial balance is carefully reviewed to make sure there are no errors and adjusted by adding necessary entries

Step	Characteristics
5. Adjusting entries	When accountants adjust entries, they take into account deferrals and accruals that have affected the final balances of accounts on the general ledger. These adjustments are made to make sure that the reported results are consistent with the financial position of the company before financial statements are made
6. Adjusted trial balance	Once the adjustments on the entries are made and finalized, the accountant prepares the adjusted trial balance. Like the trial balance, the adjusted trial balance ensures the debits and credits match after adjustments on the entries are made. The adjusted trial balance is the most accurate record of a company's financial transactions
7. Financial statements	Using the adjusted trial balance, the accountant prepares the cash statement, income statement and balance sheet. These will be used to show the company's financial condition, results and cash flow
8. Closing entries	At this stage, the accountant moves data from temporary accounts to permanent accounts on the balance sheet. Temporary accounts include expenses, revenues and dividends. These accounts must be closed (reduced to zero) at the end of the accounting period to prepare them for the next period of transactions. For instance, $500 in revenue this year doesn't count as $500 of revenue for next year, even if your company retained the funds for use next year
9. Post-closing trial balance	The post-closing trial balance is the final step of the accounting cycle. At this stage, the accountant checks the debits and credits match after closing entries are made. They also make sure that the trial balance only contains permanent accounts, since temporary accounts are already reduced to zero

Control questions and tasks

Classify the objects presented in the task into groups and subgroups; calculate the sum of the final generalization. Groups and subgroups should be correlated with sections and balance indicators.

The calculation should be presented in the table in the form provided below:

Property group	*Property subgroup*	*Name of the object*	*Amount, monetary units*	*Sources group*	*Sources subgroup*	*Name of the object*	*Amount, monetary units*

The list of accounting objects of a non-state kindergarten

№	*The name of the company's property and the sources of its formation*	*Amount, monetary units*
1.	Advance payment transferred for the organization of the New Year's holiday	150 000,00
2.	Sketchbooks	350,00
3.	Budget financing (subsidy received by competition)	700 000,00
4.	Video camera	75 000,00
5.	The guarantee received for participation in the competition of social projects	300 000,00
6.	Cash on the current account	167 800,00
7.	White marker board	35 000,00
8.	Chalk drawing board	6 000,00
9.	Deferred income	415 000,00
10.	Arrears for the rent of a music hall	50 000,00

№	*The name of the company's property and the sources of its formation*	*Amount, monetary units*
11.	Arrears for the rent of a dance hall	75 000,00
12.	Organization's debt for lunch delivery	177 000,00
13.	Income tax arrears to the budget for the 3rd quarter	45 000,00
14.	Arrears on the transfer of alimony withheld from employees	25 310,00
15.	Arrears on social insurance and social security payments	150 000,00
16.	The debt of the accountable person on the advances issued	3 250,00
17.	Debt to the contractor for the organization of the autumn holiday	67 800,00
18.	Arrears to employees of the enterprise on remuneration	500 000,00
19.	Costs for October for the provision of services for the maintenance of children	986 510,00
20.	Toys for children	65 000,00
21.	Pencils are simple	300,00
22.	Colored pencils	986,00
23.	Brushes for drawing	250,00
24.	Children's books	65 000,00
25.	Watercolor paint	525,00
26.	Bank loan for a period of 3 years	1 250 000,00
27.	Beds for children	630 000,00
28.	Markers for the board	7 800,00
29.	Colored crayons	520,00
30.	Retained earnings of the reporting year	360 000,00
31.	Retained earnings of previous years	962 530,00
32.	Deductions to the reserve for vacation pay	100 000,00
33.	Children's desks	540 000,00
34.	Patent for a unique developing method of teaching preschoolers	76 360,00

№	*The name of the company's property and the sources of its formation*	*Amount, monetary units*
35.	Company seal	1 780,00
36.	Premises (owned)	3 000 000,00
37.	Dinnerware	125 000,00
38.	Current interest on the bank loan	20 841,00
39.	Reserve for the repair of fixed assets	325 600,00
40.	Video surveillance system (assembled)	126 870,00
41.	Sports corner	68 000,00
42.	Funds from parents received on account of child maintenance fees	2 402 720,00
43.	Stereo system	59 400,00
44.	Children's chairs	370 050,00
45.	Authorized capital	10 000,00
46.	Flip Chat	15 000,00
47.	Flowers in tubs decorative	90 000,00
48.	Large bookcase	165 320,00
49.	A large crockery cabinet	145 830,00
50.	Lockers for children	658 900,00

4. MEASUREMENT IN ACCOUNTING

Measurement as a way to measure the value of objects. Calculation as a method of cost measurement of objects. Types of calculations. Basic estimates used in accounting and financial reporting.

Measurement of non-current assets in accounting and reporting.

Measurement of current assets in accounting and reporting. Basic principles of accounting for production costs, works, and services. General scheme (system) of accounting for the costs of production of products, works, services.

Objects of accounting are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature, for example, historical cost, fair value or fulfilment value, of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.

Consideration of the qualitative characteristics of useful financial information and of the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities, income and expenses.

! **Historical cost measures provide monetary information about assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them**

Unlike current value, historical cost does not reflect changes in values, except to the extent that those changes relate to impairment of an asset or a liability becoming onerous.

The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus transaction costs. The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs.

When an asset is acquired or created, or a liability is incurred or taken on, as a result of an event that is not a transaction on market terms, it may not be possible to identify a cost, or the cost may not provide relevant information about the asset or liability. In some such cases, a current value of the asset or liability is used as a deemed cost on initial recognition and that deemed cost is then used as a starting point for subsequent measurement at historical cost.

The historical cost of an asset is updated over time to depict, if applicable:

– the consumption of part or all of the economic resource that constitutes the asset (depreciation or amortisation);

– payments received that extinguish part or all of the asset;

– the effect of events that cause part or all of the historical cost of the asset to be no longer recoverable (impairment);

– accrual of interest to reflect any financing component of the asset.

The historical cost of a liability is updated over time to depict, if applicable:

– fulfilment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods;

– the effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to such an extent that the liability becomes onerous. A liability is onerous if the historical cost is no longer sufficient to depict the obligation to fulfil the liability

– accrual of interest to reflect any financing component of the liability.

One way to apply a historical cost measurement basis to financial assets and financial liabilities is to measure them at amortised cost. The amortised cost of a financial asset or financial liability reflects estimates of future cash flows, discounted at a rate determined at initial recognition. For variable rate instruments, the discount rate is updated to reflect changes in the variable rate. The amortised cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset and receipts or payments.

Information provided by measuring an asset or liability at historical cost may be relevant to users of financial statements, because historical cost uses information derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability.

Normally, if an entity acquired an asset in a recent transaction on market terms, the entity expects that the asset will provide sufficient economic benefits that the entity will at least recover the cost of the asset. Similarly, if a liability was incurred or taken on as a result of a recent transaction on market terms, the entity expects that the value of the obligation to transfer economic resources to fulfil the liability will normally be no more than the value of the consideration received minus transaction costs. Hence, measuring an asset or liability at historical cost in such cases provides relevant information about both the asset or liability and the price of the transaction that gave rise to that asset or liability.

Because historical cost is reduced to reflect consumption of an asset and its impairment, the amount expected to be recovered from an asset measured at historical cost is at least as great as its carrying amount. Similarly, because the historical cost of a liability is increased when it becomes onerous, the value of the obligation to transfer the economic resources needed to fulfil the liability is no more than the carrying amount of the liability.

If an asset other than a financial asset is measured at historical cost, consumption or sale of the asset, or of part of the asset, gives rise to an expense measured at the historical cost of the asset, or of part of the asset, consumed or sold.

The expense arising from the sale of an asset is recognised at the same time as the consideration for that sale is recognised as income. The difference between the income and the expense is the margin resulting from the sale.

Expenses arising from consumption of an asset can be compared to related income to provide information about margins.

Similarly, if a liability other than a financial liability was incurred or taken on in exchange for consideration and is measured at historical cost, the fulfilment of all or part of the liability gives rise to income measured at the value of the consideration received for the part fulfilled. The difference between that income and the expenses incurred in fulfilling the liability is the margin resulting from the fulfilment.

Information about the cost of assets sold or consumed, including goods and services consumed immediately (see paragraph 4.8), and about the consideration received, may have predictive value. That information can be used as an input in predicting future margins from the future sale of goods (including goods not currently held by the entity) and services and hence to assess the entity's prospects for future net cash inflows. To assess an entity's prospects for future cash flows, users of financial statements often focus on the entity's prospects for generating future margins over many periods, not just on its prospects for generating margins from goods already held. Income and expenses measured at historical cost may also have confirmatory value because they may provide feedback to users of financial statements about their previous predictions of cash flows or of margins. Information about the cost of assets sold or consumed may also help in an assessment of how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's economic resources.

For similar reasons, information about interest earned on assets, and interest incurred on liabilities, measured at amortised cost may have predictive and confirmatory value.

In many situations, it is simpler, and hence less costly, to measure historical cost than it is to measure a current value. In addition, measures determined applying a historical cost measurement basis are generally well understood and, in many cases, verifiable.

However, estimating consumption and identifying and measuring impairment losses or onerous liabilities can be subjective. Hence, the historical cost of an asset or liability can sometimes be as difficult to measure or verify as a current value.

Using a historical cost measurement basis, identical assets acquired, or liabilities incurred, at different times can be reported in the financial statements at different amounts. This can reduce comparability, both from period to period for a reporting entity and in a single period across entities.

! **Current value measures provide monetary information about assets, liabilities and related income and expenses, using information updated to reflect conditions at the measurement date**

Because of the updating, current values of assets and liabilities reflect changes, since the previous measurement date, in estimates of cash flows and other factors reflected in those current values. Unlike historical cost, the current value of an asset or liability is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or liability.

Current value measurement bases include:

– fair value;

– value in use for assets and fulfilment value for liabilities;

– current cost.

! **Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date**

Fair value reflects the perspective of market participants, participants in a market to which the entity has access. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest.

In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques, for example, cash-flow-based measurement techniques, reflecting all the following factors:

– estimates of future cash flows;

– possible variations in the estimated amount or timing of future cash flows for the asset or liability being measured, caused by the uncertainty inherent in the cash flows;

– the time value of money;

– the price for bearing the uncertainty inherent in the cash flows (a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset (and generally require more for taking on a liability) that has uncertain cash flows than for an asset (or liability) whose cash flows are certain;

– other factors, for example, liquidity, if market participants would take those factors into account in the circumstances.

The factors mentioned above include the possibility that a counterparty may fail to fulfil its liability to the entity (credit risk), or that the entity may fail to fulfil its liability (own credit risk).

Because fair value is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or liability, fair value is not increased by the transaction costs incurred when acquiring the asset and is not decreased by the transaction costs incurred when the liability is incurred or taken on. In addition, fair value does not reflect the transaction costs that would be incurred on the ultimate disposal of the asset or on transferring or settling the liability.

Information provided by measuring assets and liabilities at fair value may have predictive value because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows.

These expectations are priced in a manner that reflects the current risk preferences of market participants. That information may also have confirmatory value by providing feedback about previous expectations.

Income and expenses reflecting market participants' current expectations may have some predictive value, because such income and expenses can be used as an input in predicting future income and expenses. Such income and expenses may also help in an assessment of how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's economic resources.

A change in the fair value of an asset or liability can result from various factors. When those factors have different characteristics, identifying separately income and expenses that result from those factors can provide useful information to users of financial statements.

If an entity acquired an asset in one market and determines fair value using prices in a different market (the market in which the entity would sell the asset), any difference between the prices in those two markets is recognised as income when that fair value is first determined.

Sale of an asset or transfer of a liability would normally be for consideration of an amount similar to its fair value, if the transaction were to occur in the market that was the source for the prices used when measuring that fair value. In those cases, if the asset or liability is measured at fair value, the net income or net expenses arising at the time of the sale or transfer would usually be small, unless the effect of transaction costs is significant.

! **Value in use is the present value of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal**

Fulfilment value is the present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability. Those amounts of cash or other economic resources include not only the amounts to be transferred to the liability counterparty, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfil the liability.

Because value in use and fulfilment value are based on future cash flows, they do not include transaction costs incurred on acquiring an asset or taking on a liability. However, value in use and fulfilment value include the present value of any transaction costs an entity expects to incur on the ultimate disposal of the asset or on fulfilling the liability.

Value in use and fulfilment value reflect entity-specific assumptions rather than assumptions by market participants. In practice, there may sometimes be little difference between the assumptions that market participants would use and those that an entity itself uses.

Value in use and fulfilment value cannot be observed directly and are determined using cash-flow-based measurement techniques. Value in use and fulfilment value reflect the same factors described for fair value in paragraph 6.14, but from an entity-specific perspective rather than from a market-participant perspective.

Value in use provides information about the present value of the estimated cash flows from the use of an asset and from its ultimate disposal. This information may have predictive value because it can be used in assessing the prospects for future net cash inflows.

Fulfilment value provides information about the present value of the estimated cash flows needed to fulfil a liability. Hence, fulfilment value may have predictive value, particularly if the liability will be fulfilled, rather than transferred or settled by negotiation.

Updated estimates of value in use or fulfilment value, combined with information about estimates of the amount, timing and uncertainty of future cash flows, may also have confirmatory value because they provide feedback about previous estimates of value in use or fulfilment value.

The current cost of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date

The current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date. Current cost, like historical cost, is an entry value: it reflects prices in the market in which the entity would acquire the asset or would incur the liability. Hence, it is different from fair value, value in use and fulfilment value, which are exit values. However, unlike historical cost, current cost reflects conditions at the measurement date.

In some cases, current cost cannot be determined directly by observing prices in an active market and must be determined indirectly by other means. For example, if prices are available only for new assets, the current cost of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity.

Information about assets and liabilities measured at current cost may be relevant because current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received for incurring or taking on an equivalent liability.

Like historical cost, current cost provides information about the cost of an asset consumed or about income from the fulfilment of liabilities. That information can be used to derive current margins and can be used as an input in predicting future margins. Unlike historical cost, current cost reflects prices prevailing at the time of consumption or fulfilment. When price changes are significant, margins based on current cost may be more useful for predicting future margins than margins based on historical cost.

To report the current cost of consumption (or current income from fulfilment), it is necessary to split the change in the carrying amount in the reporting period into the current cost of consumption (or current income from fulfilment), and the effect of changes in prices. The effect of a change in prices is sometimes referred to as a 'holding gain' or a 'holding loss'.

Because fair value is determined from the perspective of market participants, not from an entity-specific perspective, and is independent of when the asset was acquired or the liability was incurred, identical assets or liabilities measured at fair value will, in principle, be measured at the same amount by entities that have access to the same markets. This can enhance comparability both from period to period for a reporting entity and in a single period across entities. In contrast, because value in use and fulfilment value reflect an entity-specific perspective, those measures could differ for identical assets or liabilities in different entities. Those differences may reduce comparability, particularly if the assets or liabilities contribute to cash flows in a similar manner.

If the fair value of an asset or liability can be determined directly by observing prices in an active market, the process of fair value measurement is low-cost, simple and easy to understand; and the fair value can be verified through direct observation.

Valuation techniques, sometimes including the use of cash-flow-based measurement techniques, may be needed to estimate fair value when it cannot be observed directly in an active market and are generally needed when determining value in use and fulfilment value. Depending on the techniques used:

– estimating inputs to the valuation and applying the valuation technique may be costly and complex;

– the inputs into the process may be subjective and it may be difficult to verify both the inputs and the validity of the process itself.

Consequently, the measures of identical assets or liabilities may differ. That would reduce comparability. In many cases, value in use cannot be determined meaningfully for an individual asset used in combination with other assets. Instead, the value in use is determined for a group of assets and the result may then need to be allocated to individual assets. This process can be subjective and arbitrary. In addition, estimates of value in use for an asset may inadvertently reflect the effect of synergies with other assets in the group. Hence, determining the value in use of an asset used in combination with other assets can be a costly process and its complexity and subjectivity reduces verifiability. For these reasons, value in use may not be a practical measurement basis for regular remeasurements of such assets. However, it may be useful for occasional remeasurements of assets, for example, when it is used in an impairment test to determine whether historical cost is fully recoverable.

Using a current cost measurement basis, identical assets acquired or liabilities incurred at different times are reported in the financial statements at the same amount. This can enhance comparability, both from period to period for a reporting entity and in a single period across entities. However, determining current cost can be complex, subjective and costly. For example, it may be necessary to estimate the current cost of an asset by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity. In addition, because of changes in technology and changes in business practices, many assets would not be replaced with identical assets. Thus, a further subjective adjustment to the current price of a new asset would be required in order to estimate the current cost of an asset equivalent to the existing asset. Also, splitting changes in current cost carrying amounts between the current cost of consumption and the effect of changes in prices may be complex and require arbitrary assumptions. Because of these difficulties, current cost measures may lack verifiability and understandability.

The total carrying amount of equity (total equity) is not measured directly. It equals the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities.

Because general purpose financial statements are not designed to show an entity's value, the total carrying amount of equity will not generally equal:

– the aggregate market value of equity claims on the entity;

– the amount that could be raised by selling the entity as a whole on a going concern basis;

– the amount that could be raised by selling all of the entity's assets and settling all of its liabilities.

Although total equity is not measured directly, it may be appropriate to measure directly the carrying amount of some individual classes of equity and some components of equity.

Nevertheless, because total equity is measured as a residual, at least one class of equity cannot be measured directly. Similarly, at least one component of equity cannot be measured directly.

The total carrying amount of an individual class of equity or component of equity is normally positive, but can be negative in some circumstances.

Similarly, total equity is generally positive, but it can be negative, depending on which assets and liabilities are recognised and on how they are measured.

Control questions and tasks

Determine the best way to evaluate the following objects and situations:

– the initial cost of the fixed asset;

– book value of an intangible asset;

– valuation of financial instruments (shares) at the reporting date;

– income in the form of the value of tangible assets recorded during the disassembly of the object of fixed assets;

– the cost of finished products.

5. DOUBLE ENTRY SYSTEM

Double entry as an element of the accounting method of grouping and current reflection of information about accounting objects. Correspondence of accounts. Types of records on accounts.
The relationship between accounting accounts and the balance sheet.

Double-entry accounting and double-entry bookkeeping both use debits and credits to record and manage financial transactions.

By using double-entry accounting, company can be sure all of your transactions are following the rules of the accounting equation. Using this system is the only way to do that. Unlike single-entry accounting, which requires only that company posts a transaction into a ledger, double-entry tracks both sides (debit and credit) of each transaction you enter. Using this system reduces errors and makes it easier to produce accurate financial statements.

An overview of double-entry accounting

Benedetto Cotrugli, an Italian merchant, invented the double-entry accounting system in 1458. The system was later shared by Italian mathematician and Franciscan monk Luca Pacioli, who wrote The Collected Knowledge of Arithmetic, Geometry, Proportion, and Proportionality in 1494, which included a detailed description of the double entry-accounting system.

If you're a freelancer, sole entrepreneur, or contractor, chances are you've been using single-entry accounting, especially if you aren't using accounting software. While this may have been sufficient in the beginning, if company plans on growing its business, company should probably move to using accounting software and double entry accounting.

In order to understand how important double-entry accounting is, first it's needed to understand single-entry accounting.

The closest example of this basic accounting is the bank account ledger you use to keep track of your spending.

When you log into your bank account online, or receive your bank statement in the mail, you'll see a list of all of your activity for the month. That activity includes things like the 1 000.00 you spent at the coffee shop during your breakfast meeting as well as the customer payment you deposited.

While having a record of these transactions is a good first step toward better managing your cash flow, this type of recording doesn't make clear the impact each transaction has on your business.

If company has five or fewer transactions monthly, it can probably use single-entry accounting, but company will want to switch to double entry if it is in a growth phase, currently looking for investors, planning on applying for a bank loan or other financing for your business.

! **Double entry is a method of reflecting a business transaction that shows a dual change in the composition of assets, sources, or simultaneously assets and sources for the debit of one and the credit of another account in the same amount**

Step 1: Set up a list of accounting object indicators or chart of accounts

While you can certainly create a chart of accounts manually, accounting software applications typically do this for you. Once you have your chart of accounts in place, you can start using double-entry accounting.

Step 2: Use Left-side (debits) and Right-side (credits) for all transactions

A debit is always on the left side of the ledger, while a credit is always on the right side of the ledger.

A debit entry will increase the balance of both asset and expense accounts, while a credit entry will increase the balance of liabilities, revenue, and equity accounts.

Step 3: Make sure every financial transaction has two components

Once your chart of accounts is set up and you have a basic understanding of debits and credits, you can start entering your transactions.

For example, you overpaid your electric bill in error last month, and you receive a refund of 3 200,00 from the electric company.

To enter that transaction properly, you would need to debit (increase) your cash account, and credit (decrease) your utilities expense ac-

count. If you'd only entered the 3 200,00 as a deposit, your bank account balance would be accurate, but your utility expense would be too high. This can be particularly important when creating an invoice or posting multiple expense reports for travel.

For instance, let's assume you recently spent 4 500, on travel. If you were using single-entry accounting, you would simply reduce your bank account balance by 4 500,00.

But when using double-entry accounting, you would post your travel expenses in detail, allowing you to see just how much you've spent on transportation or other travel expenses, while also providing you with the financial information you need to make better decisions about travel in the future.

Step 4: Run your financial statements

It's impossible to find investors or get a loan without accurate financial statements, and it's impossible to produce accurate financial statements without using double-entry accounting. By entering transactions properly, your financial statements will always be in balance.

If business is really small, you may be able to get by using a spreadsheet application in order to post your financial transactions, but spreadsheets are onlyuseful if you have a very small business and are using single-entry accounting.

While it's possible to create an adequate business ledger for your business manually, you'll find yourself spending a lot of time referring to multiple account books to make entries, calculate totals, and later transfer those totals to the correct accounts in order to produce financial statements.

The best way to get started with double-entry accounting is by using accounting software. All popular accounting software applications today use double-entry accounting, and they make it easy for you to get started, allowing you to get your business up and running in an hour or less. Using software will also reduce errors and eliminate out-of-balance accounts.

Double entry example

Example

Initial data

Recourses			Sourses	
Non-current assets			**Equity**	
Car	10 000,00		Previous years' profit	10 000,00
Company building	10 000,00		Stocks	10 000,00
			Total E	**20 000,00**
			Non-current Liabilities	
			Long-term loan	10 000,00
Total NCA	**20 000,00**		Provisions for upcoming expenses	10 000,00
Current assets				
The debt of buyers for the shipped products	10 000,00			
Advances paid to suppliers	10 000,00		**Total NCL**	**20 000,00**
Fabric for production	10 000,00		**Current Liabilities**	
			Tax arrears	10 000,00
Bank accounts	10 000,00		Salary arrears to employees	10 000,00
Cash	10 000,00		Loans received	10 000,00
Total CA	**50 000,00**		**Total CL**	**30 000,00**
Total assets	***70 000,00***		***Total equity and liabilities***	***70 000,00***

Total amounts are equal

Example
Step 1

Transaction for type I – *<u>changes only in state of the resources (property)</u>*:

we received cash (5 000,00) from our bank account

=> The result:
cash increased (+ 5 000,00)
bank account decreased (- 5 000,00)

Example

Step 1

Recourses		Sourses	
Non-current assets		**Equity**	
Car	10 000,00	Previous years' profit	10 000,00
Company building	10 000,00	Stocks	10 000,00
		Total E	**20 000,00**
		Non-current Liabilities	
		Long-term loan	10 000,00
Total NCA	**20 000,00**	Provisions for upcoming expenses	10 000,00
Current assets			
The debt of buyers for the shipped products	10 000,00		
Advances paid to suppliers	10 000,00	**Total NCL**	**20 000,00**
Fabric for production	10 000,00	**Current Liabilities**	
		Tax arrears	10 000,00
Bank accounts	5 000,00	Salary arrears to employees	10 000,00
Cash	15 000,00	Loans received	10 000,00
Total CA	**50 000,00**	**Total CL**	**30 000,00**
Total assets	***70 000,00***	***Total equity and liabilities***	***70 000,00***

Total amounts haven't changed

Example

Step 2

Transaction for type II – *<u>changes only in state of the sources</u>*:

we decided to pay part of company's profit
(5 000,00) to stakeholders

=> The result:

profit decreased (- 5 000,00)
arrears (debt) to stakeholders increased (+5 000,00)

Example
Step 2

Recourses			Sourses	
Non-current assets			**Equity**	
Car	10 000,00		Previous years' profit	5 000,00
Company building	10 000,00		Stocks	10 000,00
			Total E	**15 000,00**
			Non-current Liabilities	
			Long-term loan	10 000,00
Total NCA	**20 000,00**		Provisions for upcoming expenses	10 000,00
Current assets			**Total NCL**	**20 000,00**
The debt of buyers for the shipped products	10 000,00		**Current Liabilities**	
Advances paid to suppliers	10 000,00		Tax arrears	10 000,00
Fabric for production	10 000,00		Salary arrears to employees	10 000,00
			Loans received	10 000,00
Bank accounts	5 000,00		Arrears (debt) to stakeholders	5 000,00
Cash	15 000,00			
Total CA	**50 000,00**		**Total CL**	**35 000,00**
Total assets	***70 000,00***		***Total equity and liabilities***	***70 000,00***

Total amounts haven't changed

Example

Step 3

Transaction for type III – *increase both in resources (property) and sources*:

we received advance from buyers (25 000,00)

=> The result:

bank account increased (+ 25 000,00)
arrears (debt) to buyers increased (+ 25 000,00)

Example

Step 3

Recourses			Sourses	
Non-current assets			**Equity**	
Car	10 000,00		Previous years' profit	5 000,00
Company building	10 000,00		Stocks	10 000,00
			Total E	**15 000,00**
			Non-current Liabilities	
			Long-term loan	10 000,00
Total NCA	**20 000,00**		Provisions for upcoming expenses	10 000,00
Current assets			**Total NCL**	**20 000,00**
The debt of buyers for the shipped products	10 000,00		**Current Liabilities**	
Advances paid to suppliers	10 000,00		Tax arrears	10 000,00
Fabric for production	10 000,00		Salary arrears to employees	10 000,00
			Loans received	10 000,00
Bank accounts	30 000,00		Arrears (debt) to stakeholders	5 000,00
Cash	15 000,00		Arrears (debt) to buyers	25 000,00
Total CA	**75 000,00**		**Total CL**	**60 000,00**
Total assets	***95 000,00***		***Total equity and liabilities***	***95 000,00***

Total amounts have changed: increased by 25 000,00

Example
Step 4

Transaction for type IV – *decrease both in resources (property) and sources*:

we have paid the debt to our stakeholders (5 000,00)

=> The result:
    cash decreased (- 5 000,00)
    arrears (debt) to stakeholders decreased(- 5 000,00)

Example
Step 4

Recourses			Sourses	
Non-current assets			**Equity**	
Car	10 000,00		Previous years' profit	5 000,00
Company building	10 000,00		Stocks	10 000,00
			Total E	**15 000,00**
			Non-current Liabilities	
			Long-term loan	10 000,00
Total NCA	**20 000,00**		Provisions for upcoming expenses	10 000,00
Current assets			**Total NCL**	**20 000,00**
The debt of buyers for the shipped products	10 000,00		**Current Liabilities**	
Advances paid to suppliers	10 000,00		Tax arrears	10 000,00
Fabric for production	10 000,00		Salary arrears to employees	10 000,00
			Loans received	10 000,00
Bank accounts	30 000,00		Arrears (debt) to stakeholders	0,00
Cash	10 000,00		Arrears (debt) to buyers	25 000,00
Total CA	**70 000,00**		**Total CL**	**55 000,00**
Total assets	***90 000,00***		***Total equity and liabilities***	***90 000,00***

Total amounts have changed:

Example

Step 5

Transaction for type III – *<u>increase both in resources (property) and sources</u>*:

we bought a fence from construction company. the price = 10 000,00

=> The result:

fence increased (+ 10 000,00)

arrears (debt) to construction company increased (+ 10 000,00)

Example

Step 5

Recourses			Sourses	
Non-current assets			**Equity**	
Car	10 000,00		Previous years' profit	5 000,00
Company building	10 000,00		Stocks	10 000,00
Fence	10 000,00		**Total E**	**15 000,00**
			Non-current Liabilities	
			Long-term loan	10 000,00
Total NCA	**30 000,00**		Provisions for upcoming expenses	10 000,00
Current assets			**Total NCL**	**20 000,00**
The debt of buyers for the shipped products	10 000,00		**Current Liabilities**	
Advances paid to suppliers	10 000,00		Tax arrears	10 000,00
Fabric for production	10 000,00		Salary arrears to employees	10 000,00
			Loans received	10 000,00
Bank accounts	30 000,00		Arrears (debt) to constrution company	10 000,00
Cash	10 000,00		Arrears (debt) to buyers	25 000,00
Total CA	**70 000,00**		**Total CL**	**65 000,00**
Total assets	***100 000,00***		***Total equity and liabilities***	***100 000,00***

Total amounts have changed: increased by 10 000,00

Example
Step 6. Connection between Balance Sheet and Profit & Loss Statement

Transaction for type IV – *decrease both in resources (property) and sources*:

One day you see that your fence is broken because of strong wind

=> The result:
fence decreases (- 10 000,00)
if fence decreases in our Balance sheet and we have no any return
=> we can speak about Expenses
=> Profit & Loss decreases (- 10 000,00)

Example

Step 6

Balance Sheet

Recourses		Sourses	
Non-current assets		**Equity**	
Car	10 000,00	**Previous years' profit / Loss**	**-5 000,00**
Company building	10 000,00	Stocks	10 000,00
Fence	**0,00**	**Total E**	**5 000,00**
		Non-current Liabilities	
		Long-term loan	10 000,00
Total NCA	**20 000,00**	Provisions for upcoming expenses	10 000,00
Current assets		**Total NCL**	**20 000,00**
The debt of buyers for the shipped products	10 000,00	**Current Liabilities**	
Advances paid to suppliers	10 000,00	Tax arrears	10 000,00
Fabric for production	10 000,00	Salary arrears to employees	10 000,00
		Loans received	10 000,00
Bank accounts	30 000,00	Arrears (debt) to construction company	10 000,00
Cash	10 000,00	Arrears (debt) to buyers	25 000,00
Total CA	**70 000,00**	**Total CL**	**65 000,00**
Total assets	***90 000,00***	***Total equity and liabilities***	***90 000,00***

Profit and Loss Statement

Incomes (+)	
Expenses (-)	10 000,00
Profit (+) / Loss (-)	**-10 000,00**

Total amounts have changed:
decreased by 10 000,00

Example
Step 7. Connection between Balance Sheet and Profit & Loss Statement

Transaction for type III – *<u>increase both in resources (property) and sources</u>*:

we found inventory on factory territory. we assessed this inventory in 5 000,00

=> The result:
inventory increases (+ 5 000,00)
if inventory increases in our Balance sheet and no need to pay
=> we can speak about Incomes
=> Profit & Loss increases (+ 5 000,00)

Example

Step 7

Balance Sheet

Recourses			Sourses	
Non-current assets			**Equity**	
Car	10 000,00		**Previous years' profit / Loss**	**0,00**
Company building	10 000,00		Stocks	10 000,00
Fence	0,00		**Total E**	**10 000,00**
			Non-current Liabilities	
			Long-term loan	10 000,00
Total NCA	**20 000,00**		Provisions for upcoming expenses	10 000,00
Current assets			**Total NCL**	**20 000,00**
The debt of buyers for the shipped products	10 000,00		**Current Liabilities**	
Advances paid to suppliers	10 000,00		Tax arrears	10 000,00
Fabric for production	10 000,00		Salary arrears to employees	10 000,00
Inventory	**5 000,00**		Loans received	10 000,00
Bank accounts	30 000,00		Arrears (debt) to construction company	10 000,00
Cash	10 000,00		Arrears (debt) to buyers	25 000,00
Total CA	**75 000,00**		**Total CL**	**65 000,00**
Total assets	***95 000,00***		***Total equity and liabilities***	***95 000,00***

Profit and Loss Statement

Incomes (+)	**5 000,00**
Found inventories	5 000,00
Expenses (-)	**10 000,00**
Broken fence	10 000,00
Profit (+) / Loss (-)	**-5 000,00**

Total amounts have changed: increased by 5 000,00

Control questions and tasks

Determine which balance sheet indicators will be affected by the following operations:

– the company received an advance payment from the buyer at the checkout;

– the company deposited funds from the cash register to its bank account;

– the company has accrued wages to workers;

– the company has accrued income tax;

– the company paid dividends to the participants.

6. ACCOUNTS

Purpose and structure of accounts.
Classification of accounts in relation to the balance sheet: balance sheet and off-balance sheet accounts. Classification of balance sheet accounts by purpose: active, passive, active-passive. The order of reflection on the accounts of the state and changes in accounting objects. Classification of accounts according to the level of generalization of information: synthetic, analytical and sub-accounts.
The concept of synthetic and analytical accounting. The chart of accounts of accounting, its value. Justification for the use of double entry. Accounting entries, rules for their compilation. Balances on accounts of synthetic accounting and on the accounts of analytical accounting.

Double-entry accounting means every transaction entered into your accounting system or ledger will affect at least two accounts. For every debit entry you make, you will need to make a corresponding credit entry.

Likewise, if you're making a credit entry, you will have to make a corresponding debit entry. This ensures that your accounts remain in balance. While sole proprietors and freelancers may not need to employ double-entry accounting, small and growing businesses will be better served by doing so.

Debits and credits are used to record all of your small business bookkeeping and accounting transactions. The effect that a debit or credit has on a particular account is largely dependent on the account type being affected.

! **Accounts – economic grouping of similar data; the method of current accounting and control of the presence and movement of assets and liabilities of the enterprise**

Types of Accounts:
– In relation to the balance (active, passive, active-passive).
– By the degree of detail (synthetic and analytical).
– By economic content (asset accounting accounts, source accounting accounts, business processes and results accounting accounts).

– By structure (basic, regulatory, operational, budgetary and distributive, financial and productive, off-balance sheet).

Account title (name)	
Left side - Debit (Dt)	**Right side - Credit (Cr)**

Rule 1. Initial balance (data)

Assets are on the Left side of BS => Initial and final balance (data) is on the Left side (Dt) of Assets' Accounts.

Equity and Liabilities are on the Right side of BS => Initial and final balance (data) is on the Right side (Cr) of Equity's and Liabilities' Accounts.

Rule 2. Changes on Accounts

Increasing for Assets' Accounts shows on the Left side, decreasing – on the Right side.

Increasing for Equity's and Liabilities' Accounts shows on the Right side, decreasing – on the Left side.

Accounts example

Example

Initial data. Assets

Recourses		Sourses	
Non-current assets		**Equity**	
Car	10 000,00	Previous years' profit	10 000,00
Company building	10 000,00	Stocks	10 000,00
		Total E	**20 000,00**
		Non-current Liabilities	
		Long-term loan	10 000,00
Total NCA	**20 000,00**	Provisions for upcoming expenses	10 000,00
Current assets			
The debt of buyers for the shipped products	10 000,00		
Advances paid to suppliers	10 000,00	**Total NCL**	**20 000,00**
Fabric for production	10 000,00	**Current Liabilities**	
		Tax arrears	10 000,00
Bank accounts	10 000,00	Salary arrears to employees	10 000,00
Cash	10 000,00	Loans received	10 000,00
Total CA	**50 000,00**	**Total CL**	**30 000,00**
Total assets	***70 000,00***	***Total equity and liabilities***	***70 000,00***

Bank Account - Asset	
LS - Dt	Cr - RS
Initial balance: **10 000,00**	
Final balance = IB + Dt - Cr: **10 000,00**	

Cash - Asset	
LS - Dt	Cr - RS
Initial balance: **10 000,00**	
Final balance = IB + Dt - Cr: **10 000,00**	

Example

Initial data. Equity and Liabilities

Recourses	
Non-current assets	
Car	10 000,00
Company building	10 000,00
Total NCA	**20 000,00**
Current assets	
The debt of buyers for the shipped products	10 000,00
Advances paid to suppliers	10 000,00
Fabric for production	10 000,00
Bank accounts	10 000,00
Cash	10 000,00
Total CA	**50 000,00**
Total assets	***70 000,00***

Sourses	
Equity	
Previous years' profit	10 000,00
Stocks	10 000,00
Total E	**20 000,00**
Non-current Liabilities	
Long-term loan	10 000,00
Provisions for upcoming expenses	10 000,00
Total NCL	**20 000,00**
Current Liabilities	
Tax arrears	10 000,00
Salary arrears to employees	10 000,00
Loans received	10 000,00
Total CL	**30 000,00**
Total equity and liabilities	***70 000,00***

0,00 initial balance => no in Balance Sheet

Profit & Loss - Equity	
LS - Dt	Cr - RS
Initial balance:	**10 000,00**
Final balance	*= IB - Dt + Cr:* **10 000,00**

Arrears to Stakeholders - Liabilities	
LS - Dt	Cr - RS
Initial balance:	**0,00**
Final balance	*= IB - Dt + Cr:* **0,00**

Example

Step 1

Green Ltd. received cash (5 000,00) from its bank account

=> The result:

cash increased (+ 5 000,00)

bank account decreased (- 5 000,00)

Example

Step 1

Recourses		Sourses	
Non-current assets		**Equity**	
Car	10 000,00	Previous years' profit	10 000,00
Company building	10 000,00	Stocks	10 000,00
		Total E	**20 000,00**
		Non-current Liabilities	
		Long-term loan	10 000,00
Total NCA	**20 000,00**	Provisions for upcoming expenses	10 000,00
Current assets			
The debt of buyers for the shipped products	10 000,00		
Advances paid to suppliers	10 000,00	**Total NCL**	**20 000,00**
Fabric for production	10 000,00	**Current Liabilities**	
		Tax arrears	10 000,00
Bank accounts	5 000,00	Salary arrears to employees	10 000,00
Cash	15 000,00	Loans received	10 000,00
Total CA	**50 000,00**	**Total CL**	**30 000,00**
Total assets	***70 000,00***	***Total equity and liabilities***	***70 000,00***

Bank Account - Asset	
LS - Dt	Cr - RS
Initial balance: **10 000,00**	
	5 000,00
Final balance = IB + Dt - Cr:	

Cash - Asset	
LS - Dt	Cr - RS
Initial balance: **10 000,00**	
5 000,00	
Final balance = IB + Dt - Cr:	

Example
Step 2

Green Ltd decided to pay part of company's profit (5 000,00) to stakeholders

=> The result:

profit decreased (- 5 000,00)

arrears (debt) to stakeholders increased (+5 000,00)

Example

Step 2

Recourses	
Non-current assets	
Car	10 000,00
Company building	10 000,00
Total NCA	**20 000,00**
Current assets	
The debt of buyers for the shipped products	10 000,00
Advances paid to suppliers	10 000,00
Fabric for production	10 000,00
Bank accounts	5 000,00
Cash	15 000,00
Total CA	**50 000,00**
Total assets	***70 000,00***

Sourses	
Equity	
Previous years' profit	5 000,00
Stocks	10 000,00
Total E	**15 000,00**
Non-current Liabilities	
Long-term loan	10 000,00
Provisions for upcoming expenses	10 000,00
Total NCL	**20 000,00**
Current Liabilities	
Tax arrears	10 000,00
Salary arrears to employees	10 000,00
Loans received	10 000,00
Arrears (debt) to stakeholders	5 000,00
Total CL	**35 000,00**
Total equity and liabilities	***70 000,00***

Profit & Loss - Equity	
LS - Dt	Cr - RS
Initial balance:	**10 000,00**
5 000,00	
Final balance	*= IB - Dt + Cr:* **5 000,00**

Arrears to Stakeholders - Liabilities	
LS - Dt	Cr - RS
Initial balance:	**0,00**
	5 000,00
Final balance	*= IB - Dt + Cr:* **5 000,00**

Example
Step 3

Green Ltd has paid the debt to its stakeholders (5 000,00)

=> The result:

cash decreased (- 5 000,00)

arrears (debt) to stakeholders decreased (- 5 000,00)

Example
Step 3

Recourses	
Non-current assets	
Car	10 000,00
Company building	10 000,00
Total NCA	**20 000,00**
Current assets	
The debt of buyers for the shipped products	10 000,00
Advances paid to suppliers	10 000,00
Fabric for production	10 000,00
Bank accounts	30 000,00
Cash	10 000,00
Total CA	**70 000,00**
Total assets	***90 000,00***

Sourses	
Equity	
Previous years' profit	5 000,00
Stocks	10 000,00
Total E	**15 000,00**
Non-current Liabilities	
Long-term loan	10 000,00
Provisions for upcoming expenses	10 000,00
Total NCL	**20 000,00**
Current Liabilities	
Tax arrears	10 000,00
Salary arrears to employees	10 000,00
Loans received	10 000,00
Arrears (debt) to stakeholders	0,00
Arrears (debt) to buyers	25 000,00
Total CL	**55 000,00**
Total equity and liabilities	***90 000,00***

Cash - Asset	
LS - Dt	Cr - RS
Initial balance: **10 000,00**	
5 000,00	5 000,00
Final balance = IB + Dt - Cr: **10 000,00**	

Arrears to Stakeholders - Liabilities	
LS - Dt	Cr - RS
Initial balance:	**0,00**
5 000,00	5 000,00
Final balance	*= IB - Dt + Cr:* **0,00**

Example
Step 4

One day manager Green Ltd saw that its fence is broken because of strong wind

=> The result:

fence decreases (- 10 000,00)
Profit & Loss decreases (- 10 000,00)

Example

Step 4

Balance Sheet

Recourses		Sourses	
Non-current assets		**Equity**	
Car	10 000,00	**Previous years' profit / Loss**	**-5 000,00**
Company building	10 000,00	Stocks	10 000,00
Fence	**0,00**	**Total E**	**5 000,00**
		Non-current Liabilities	
		Long-term loan	10 000,00
Total NCA	**20 000,00**	Provisions for upcoming expenses	10 000,00
Current assets		**Total NCL**	**20 000,00**
The debt of buyers for the shipped products	10 000,00	**Current Liabilities**	
Advances paid to suppliers	10 000,00	Tax arrears	10 000,00
Fabric for production	10 000,00	Salary arrears to employees	10 000,00
		Loans received	10 000,00
Bank accounts	30 000,00	Arrears (debt) to construction company	10 000,00
Cash	10 000,00	Arrears (debt) to buyers	25 000,00
Total CA	**70 000,00**	**Total CL**	**65 000,00**
Total assets	***90 000,00***	***Total equity and liabilities***	***90 000,00***

Profit and Loss Statement

Incomes (+)	
Expenses (-)	10 000,00
Profit (+) / Loss (-)	**-10 000,00**

Fence - Asset	
LS - Dt	Cr - RS
Initial balance: **10 000,00**	
	10 000,00
Final balance = IB + Dt - Cr: **0,00**	

Profit & Loss - Equity	
LS - Dt	Cr - RS
Initial balance:	**10 000,00**
5 000,00 10 000,00	
Final balance	*= IB - Dt + Cr:* **-5 000,00**

Example
Step 5

Green Ltd found inventory on factory territory.
Green Ltd assessed this inventory in 5 000,00

=> The result:
inventory increases (+ 5 000,00)
Profit & Loss increases (+ 5 000,00)

Example

Step 5

Balance Sheet

Recourses		Sourses	
Non-current assets		**Equity**	
Car	10 000,00	**Previous years' profit / Loss**	**0,00**
Company building	10 000,00	Stocks	10 000,00
Fence	0,00	**Total E**	**10 000,00**
		Non-current Liabilities	
		Long-term loan	10 000,00
Total NCA	**20 000,00**	Provisions for upcoming expenses	10 000,00
Current assets		**Total NCL**	**20 000,00**
The debt of buyers for the shipped products	10 000,00	**Current Liabilities**	
Advances paid to suppliers	10 000,00	Tax arrears	10 000,00
Fabric for production	10 000,00	Salary arrears to employees	10 000,00
Inventory	**5 000,00**	Loans received	10 000,00
Bank accounts	30 000,00	Arrears (debt) to construction company	10 000,00
Cash	10 000,00	Arrears (debt) to buyers	25 000,00
Total CA	**75 000,00**	**Total CL**	**65 000,00**
Total assets	***95 000,00***	***Total equity and liabilities***	***95 000,00***

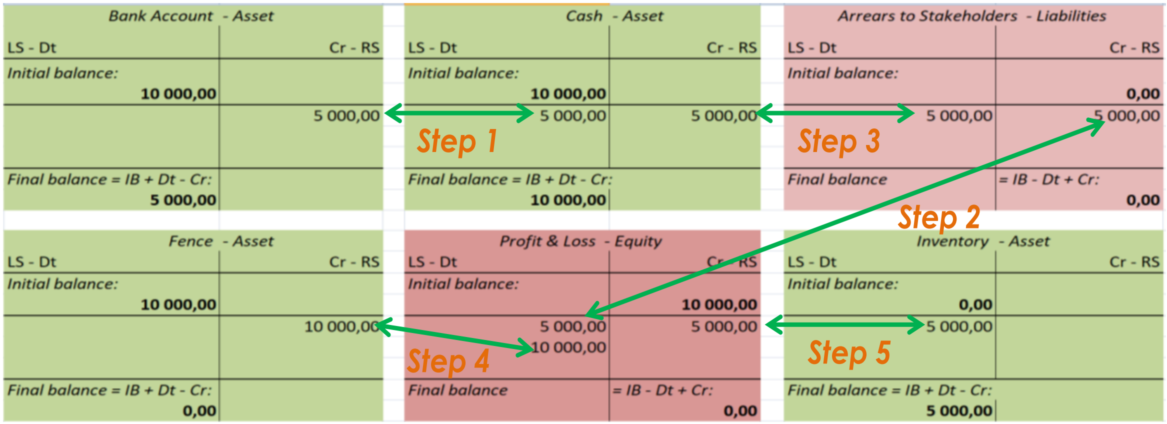
Profit and Loss Statement

Incomes (+)	**5 000,00**
Found inventories	5 000,00
Expenses (-)	**10 000,00**
Broken fence	10 000,00
Profit (+) / Loss (-)	**-5 000,00**

Inventory - Asset	
LS - Dt	Cr - RS
Initial balance:	
0,00	
5 000,00	
Final balance = IB + Dt - Cr:	
5 000,00	

Profit & Loss - Equity	
LS - Dt	Cr - RS
Initial balance:	
	10 000,00
~~5 000,00~~	5 000,00
10 000,00	
Final balance	*= IB - Dt + Cr:*
	0,00

Example
the Final balance on the Accounts



Control questions and tasks

Task: you need

1) to select three accounts in the Chinese Chart of accounts, which take into account homogeneous objects. Specify which groups of objects are reflected in these accounts (Assets, Liabilities or Equity);

2) to describe transactions for these accounts: what does the account balance mean, what transactions are reflected on the Debit and Credit of these accounts, how is the balance on these accounts calculated;

3) to give at least three examples of operations for each account.

For example:

I have selected an account from the Accounting Chart of Russia 50 «Cash», 51 «Bank account», 52 «Currency account». These accounts reflect Current Assets.

Account 50 «Cash» is designed to show the cash flow of the organization. The account balance shows the amount of cash in the organization.

The Debit of these accounts shows transactions on the receipt of funds to the organization from buyers, accountable persons, in the form of a refund of loans issued.

The Credit shows the disbursement of funds from the cash register when paying salaries, reimbursing expenses to accountable persons or issuing loans to employees.

The balance at the end of the period is calculated as the sum of the balance at the beginning and the receipt of funds to the cash register (Debit turnover) minus the cash issued during the period (Credit turnover).

Typical transactions on the 50 «Cash» account will be:

1) the cash received revenue from customers
Debit Cash Credit Revenue

2) the salary was issued from the cash
Debit Payroll payments Credit Cash;

3) the excess cash from the cash has been deposited to the bank
Debit Bank Account Credit Cash

Then the other two selected accounts are described in the same way.

7. FINANCIAL STATEMENTS

Requirements for financial statements. Reporting components. Deadlines for the submission of financial statements.
Balance sheet generalization of the information. Types of balances.
Profit and Loss Statement of: composition and content.
Cash flow Statement: composition and content.
Notes.

Financial statements are reports issued by companies in order to convey information about their financial health and recent results. These statements are intended to convey the financial state of a business as clearly and accurately as possible for investors, prospective investors, analysts, and any other interested parties.

The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses8 that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources

That information is provided:

1) in **the statement of financial position**, by recognising assets, liabilities and equity;

2) in **the statement(s) of financial performance**, by recognising income and expenses;

3) in **other statements and notes**, by presenting and disclosing information about:

– recognised assets, liabilities, equity, income and expenses, including information about their nature and about the risks arising from those recognised assets and liabilities;

– assets and liabilities that have not been recognized,, including information about their nature and about the risks arising from them;

– cash flows;

– contributions from holders of equity claims and distributions to them;

– the methods, assumptions and judgements used in estimating the amounts presented or disclosed, and changes in those methods, assumptions and judgements.

Financial statements are a unified system of data on the property and financial position of an organization and on the results of its economic activities, compiled on the basis of accounting data according to established forms

Financial statements are prepared for a specified period of time (reporting period) and provide information about:

1) assets and liabilities, including unrecognised assets and liabilities, and equity that existed at the end of the reporting period, or during the reporting period;

2) income and expenses for the reporting period.

To help users of financial statements to identify and assess changes and trends, financial statements also provide comparative information for at least one preceding reporting period.

Information about possible future transactions and other possible future events (forward-looking information) is included in financial statements if it:

– relates to the entity's assets or liabilities, including unrecognised assets or liabilities, or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period;

– is useful to users of financial statements.

For example, if an asset or liability is measured by estimating future cash flows, information about those estimated future cash flows may help users of financial statements to understand the reported measures. Financial statements do not typically provide other types of forward-looking information, for example, explanatory material about management's expectations and strategies for the reporting entity.

Financial statements include information about transactions and other events that have occurred after the end of the reporting period if providing that information is necessary to meet the objective of financial statements.

For each numerical indicator of the accounting statements, except for the report compiled for the first reporting period, data for at least two years – the reporting and the preceding reporting period should be provided. If the data for the period preceding the reporting period are not comparable with the data for the reporting period, then the first of these data are subject to adjustment based on the rules established by accounting regulations. Each material adjustment should be disclosed in the notes to the balance sheet and profit and loss statement, together with an indication of the reasons that caused this adjustment.

Articles of the balance sheet, profit and loss statement and other separate forms of accounting statements, which, in accordance with the accounting regulations, are subject to disclosure and for which there are no numerical values of assets, liabilities, income, expenses and other indicators, are crossed out (in standard forms) or are not given (in forms developed independently, and in the explanatory note).

Indicators on individual assets, liabilities, income, expenses and business transactions should be presented separately in the accounting statements in case of their materiality and if it is impossible to assess the financial position of the organization or the financial results of its activities without the knowledge of interested users about them. Indicators on certain types of assets, liabilities, income, expenses and business transactions may be presented in the balance sheet or profit and loss statement in the total amount with disclosure in the notes to the balance sheet and profit and loss statement, if each of these indicators is individually insignificant for the assessment of the financial position of the organization or the financial results of its interested users. activities.

Balance sheet contains information about the company's liabilities, assets, and shareholders' equity, and is based on this accounting equation:

Shareholders' Equity = Assets – Liabilities

Unlike the other two financial statements, a balance sheet shows these figures for a particular moment in time, typically the end of a quarter or fiscal year.

The balance sheet is the place to look if you want information about a company's cash and equivalents, long-term investments, accounts receivable, debts, number of shares outstanding, and retained earnings.

In the balance sheet, assets and liabilities should be presented with a division depending on the maturity (maturity) for short-term and long-term. Assets and liabilities are presented as short-term if their maturity is no more than 12 months after the reporting date or the duration of the operating cycle, if it exceeds 12 months. All other assets and liabilities are presented as long-term.

Table 4

Types of Balance sheet indicators

Chapter	Group of indicators	Indicators (examples)
Non-current assets	Intangible assets	Intellectual (industrial) property rights Patents, licenses, trade-marks, service marks, other similar rights and assets Goodwill
	Fixed assets	Land plots and environ-mental management ob-jects Buildings, machinery, equipment and other fixed assets Construction in progress
	Profitable invest-ments in tangible assets	Property for leasing Property provided under a rental agreement
	Financial invest-ments	Investments in subsi-diaries Investments in depend-ent companies Investments in other or-ganizations Loans granted to organi-zations for a period of more than 12 months Other financial invest-ments
	Deferred taxes	

Chapter	Group of indicators	Indicators (examples)
Current assets	Inventories	Raw materials, materials and other similar values Costs in work-in-progress (circulation costs) Finished products, goods for resale and goods shipped Deferred expenses
	Value added tax on acquired valuables	
	Accounts recei-vable	Buyers and customers Debt of subsidiaries and affiliates Debt of participants (found-ers) on contributions to the authorized capital Advances issued Other debtors
	Financial invest-ments	Loans granted to organiza-tions for a period of less than 12 months Own shares repurchased from shareholders Other financial investments
	Cash and bank ac-counts	Cash Bank accounts Currency accounts Other cash and equivalents
Equity	Authorized capital	
	Additional capital	
	Reserved capital	Reserves formed in accord-ance with the legislation Reserves formed in accord-ance with the constituent documents
	Retained earnings (uncovered loss)	

Chapter	Group of indicators	Indicators (examples)
Long-term liabilities	Borrowed funds	Loans repayable more than 12 months after the reporting date Loans repayable more than 12 months after the reporting date
	Rreserves (Estimated liabilities)	
	Other long-term liabilities	
	Deferred taxes	
Short-term liabilities	Borrowed funds	Loans repayable within 12 months after the reporting date Loans repayable within 12 months after the reporting date
	Accounts payable	Suppliers and contractors Promissory notes payable Debt to subsidiaries and affiliates Debt to the employees Debt to the budget and state extra-budgetary funds Indebtedness to participants (founders) for the payment of income Advances received Other creditors
	Deferred income	
	Rreserves (Estimated liabilities)	
	Other liabilities	

Income statement shows the company's revenue, business expenses, and profitability for a particular reporting period, either annually or quarterly. An income statement is also known as a profit and loss statement.

From the income statement, you can find information such as the total sales, cost of goods sold, gross profit, operating profit, interest income, taxes paid, and net income/profit.

In the income statement, income and expenses should be shown with a division into ordinary and other. The income statement must contain the following numerical indicators:

– Revenue from the sale of goods, products, works, services, net of value added tax, excise taxes, etc. taxes and mandatory payments (net revenue);
– Cost of goods, products, works, services sold (except commercial and management expenses);
– Gross profit;
– Commercial expenses;
– Management expenses;
– Profit/loss from sales;
– Interest receivable;
– Interest payable;
– Income from participation in other organizations;
– Other income;
– Other expenses;
– Profit / loss before taxation;
– Income tax and other similar mandatory payments;
– Profit / loss from ordinary activities;
– Net profit (retained earnings (uncovered loss)).

The statement of retained earnings is designed to display any changes made in earnings during a specified period of time. The statement of retained earnings begins with the prior period balance, adds in any net income as well as any dividends paid out to shareholders in order to arrive at the ending retained earnings balance. The statement of retained earnings is usually provided to outside entities such as financial institutions and investors, and is not always part of the standard financial statement packet that is prepared.

The calculation for retained earnings is:

Beginning retained earnings + Net income – Dividends = Ending retained earnings

Cash flow statement shows how a company's liquid assets are increasing or decreasing over time. Positive cash flow indicates that more money is flowing in than out, and can be an indicator of improving financial strength and flexibility.

On the other hand, negative cash flow can potentially be an indicator of financial difficulty. The cash flow statement can tell you how much money a company is paying in dividends or share repurchases, spending on investments, and how much of a company's net income is actually flowing into the company.

The statement of cash flows shall report cash flows during the period classified by **operating, investing and financing activities**. An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

The amount of cash flows arising from **operating activities** is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows. Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

– cash receipts from the sale of goods and the rendering of services;

– cash receipts from royalties, fees, commissions and other revenue;

– cash payments to suppliers for goods and services;

– cash payments to and on behalf of employees;

– cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities;

– cash receipts and payments from contracts held for dealing or trading purposes.

The separate disclosure of cash flows arising from **investing activities** is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

– cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;

– cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

– cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

– cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

– cash advances and loans made to other parties (other than advances and loans made by a financial institution);

– cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);

– cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities;

– cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

The separate disclosure of cash flows arising from **financing activities** is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

– cash proceeds from issuing shares or other equity instruments;

– cash payments to owners to acquire or redeem the entity's shares;

– cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;

– cash repayments of amounts borrowed;

– cash payments by a lessee for the reduction of the outstanding liability relating to a lease.

An entity shall report cash flows from operating activities using either:

1) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed;

2) the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Entities are encouraged to report cash flows from operating activities using the direct method.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

– from the accounting records of the entity;

– by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the statement of comprehensive income for:

- changes during the period in inventories and operating receivables and payables;

- other non-cash items;
- other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

– changes during the period in inventories and operating receivables and payables;

– non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates;

– all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables.

Notes (explanations) to the balance sheet and profit and loss statement should disclose information related to the accounting policy of the organization and provide users with additional data that is inappropriate to include in the balance sheet and profit and loss statement, but which are necessary for users of accounting statements for a real assessment of the financial position of the organization, the financial results of its activities and changes in its financial situation. In the notes to the balance sheet and profit and loss statement, it should be indicated that the accounting statements were formed by the organization based on the accounting and reporting rules.

Material deviations should be disclosed in the accounting statements, indicating the reasons that caused these deviations, as well as the result that these deviations had on understanding the financial situation of the organization, reflecting the financial results of its activities and changes in its financial position. The Organization must provide confirmation of the assessment in monetary terms of the consequences of deviations from the accounting and reporting rules.

Notes (explanations) to the balance sheet and profit and loss statement should disclose the following additional data:

– on the availability at the beginning and end of the reporting period and the movement during the reporting period of certain types of intangible assets;

– on the availability at the beginning and end of the reporting period and the movement during the reporting period of certain types of fixed assets;

– on the availability at the beginning and end of the reporting period and the movement during the reporting period of leased fixed assets;

– on the availability at the beginning and end of the reporting period and the movement during the reporting period of certain types of financial investments;

– on the availability of certain types of accounts receivable at the beginning and end of the reporting period;

– about changes in the capital (authorized, reserve, additional, etc.) of the organization;

– on the number of shares issued by the joint-stock company and fully paid for; the number of shares issued but not paid for or partially paid for; the nominal value of shares owned by the joint-stock company, its subsidiaries and affiliates;

– on the composition of reserves for upcoming expenses and payments, estimated reserves, their availability at the beginning and end of the reporting period, the movement of funds of each reserve during the reporting period;

– on the availability of certain types of accounts payable at the beginning and end of the reporting period;

– about sales volumes of products, goods, works, services by type (branch) of activity and geographical sales markets (activity);

– on the composition of production costs (circulation costs);

– about the composition of other income and expenses;

– about extraordinary facts of economic activity and their consequences;

– about any issued and received guarantees of obligations and payments of the organization;

– about events after the reporting date and conditional facts of economic activity;

– about discontinued operations;

– about affiliated persons;

– about state aid;

– about earnings per share.

Notes (explanations) to the balance sheet and profit and loss statement disclose information in the form of separate reporting forms (cash flow statement, statement of changes in equity, etc.) and in the form of an explanatory note.

The item of the balance sheet and profit and loss statement to which explanations are given should have an indication of such disclosure.

Control questions and tasks

According to the Sinopec Group reporting data (see appendix 5), determine:

– for what reporting period and on what reporting date the submitted statements were compiled;

– what forms of financial statements are prepared by the company;

– what indicators of the main reporting forms are disclosed in the explanations;

– whether there is sufficient information about income and expenses to assess the reasons for changes in financial results in the reporting period.

CONCLUSION

So, in this course, the basic concepts and techniques of accounting and financial reporting were given. They are the basis not only for the formation of a unified financial and economic information system of the company, but also allow you to understand the order of work of an economist, financial analyst, auditor, forensic accountant.

The course reveals the principles of the formation of financial information of the company necessary for the management and protection of their interests. Individual topics show the systemic and complex, interrelated impact of various factors on the company's activities, financial condition and results.

GLOSSARY

Accounts Payable refers to the money a business owes to its suppliers, vendors, or creditors for goods or services bought on credit. A short-term debt that must be paid back quickly to avoid default, accounts payable shows up as a liability on an organization's balance sheet. An example of accounts payable includes when a restaurant receives a beverage order on credit from an outside supplier. Accounts payable acts as an IOU to another company

Accounts Receivable – Essentially the opposite of accounts payable, accounts receivable refers to the money owed to a business, typically by its customers, for goods or services delivered. An example of accounts receivable includes when a beverage supplier delivers a beverage order on credit to a restaurant. While the restaurant records that transaction to accounts payable, the beverage supplier records it to accounts receivable and a current asset in its balance sheet.

Accounting Period – An accounting period refers to the span of time in which a set of financial statements are released. Businesses and investors analyze financial performance over time by comparing different accounting periods. Accounting cycles track accounting events from when the transactions first occur to when they end, all within given accounting periods. Publicly held companies must report to the Security and Exchanges Commission every three months, so they go through four accounting periods per year. Other organizations use different accounting periods, but no matter the length, accounting periods should remain consistent over time.

Accruals – A type of record-keeping adjustment, accruals recognize businesses' expenses and revenues before exchanges of money take place. Accruals include expenses and revenues not yet recorded in companies' accounts. Accruals affect businesses' net income and must be documented before financial statements are issued.

Types of accrual accounts include accrued interest, accounts receivable, and accounts payable. Companies note accrued expenses before receiving invoices for goods or services. Businesses indicate accrued revenue for goods or services for which they expect to receive payment later on.

Accrual Basis Accounting deals with anticipated expenses and revenues by incorporating accounts receivable and accounts payable. In contrast, cash basis accounting focuses more on immediate expenses and revenues and does not document transactions until the company pays or receives cash. Most people find cash basis accounting easier, but it does not offer as accurate a portrayal of an organization's financial health as accrual basis accounting.

Assets are resources with economic value which companies expect to provide future benefits. These can reduce expenses, generate cash flow, or improve sales for businesses. Companies report assets on their balance sheets. Asset types include fixed, current, liquid, and prepaid expenses. Assets may include long-term resources like buildings and equipment. Current assets include all assets a company expects to use or sell within one year. Liquid assets can easily convert to cash in a short timeframe. Prepaid expenses include advance payments for goods or services a company will use in the future.

Balance sheets are financial statements providing snapshots of organizations' liabilities, assets, and shareholders' equity at specific moments in time. Balance sheets represent one type of financial statement used to evaluate companies' financial health and worth. Accountants use the accounting equation, also known as the balance sheet equation, to create balance sheets: «Assets = Liabilities + Equity».

Capital refers to a person's or organization's financial assets. Capital may include funds in deposit accounts or money from financing sources. Working capital refers to a business's liquid capital, which the owner can use to pay for day-to-day or ongoing expenses. A company's working capital indicates its overall health and ability to meet financial obligations due within a year.

Cash basis accounting is an accounting method that does not incorporate transactions until the business receives or pays cash for goods and services. This method focuses on immediate revenues and expenses. Alternatively, accrual basis accounting includes future revenues and expenses, documenting accounts payable and accounts receivable.

Cash flow is the total amount of money that comes into and goes out of a business. Net cash flow refers to the sum of all money a business makes. Cash flow statements are financial statements, and they include all cash a business receives from its operations, investments, and financing.

Chart of Accounts – An index of the financial accounts in a company's general ledger, a chart of accounts (COA) provides a snapshot of all the financial transactions a company has conducted in a specific accounting period. COAs help companies organize their finances and provide insight into organizations' financial health for investors and stakeholders. COAs can include assets, liabilities, and shareholders' equity.

Closing the Books – Referring to when accountants used physical ledger books to track transactions, closing the books means accounting for all financial transactions within a certain period. This helps ensure the accuracy of companies' reports for given time periods, including their income statements and balance sheets. Closing the books is simple for organizations using cash basis accounting, but it's more complicated for those employing accrual basis accounting. Accountants refer to closing the books at the end of the year as year-end closing.

Cost of Goods Sold – The total cost of producing the goods sold by a business is called cost of goods sold (COGS). COGS includes the direct costs of creating goods, including materials and labor, and it excludes indirect costs, such as distribution expenses.

Credit – Accountants using double-entry bookkeeping systems record numbers for each business transaction in two accounts: credit and debit. Credits are accounting entries that either increase an equity or liability account or decrease an expense or asset account. Credits are made on the right side of an account. Debits must equal credits for an account to be in balance.

Debit – The opposite of a credit, a debit is an accounting entry made on the left side of an account. Used in double-entry bookkeeping systems, debits either increase expense or asset accounts or decrease equity or liability accounts.

Depreciation – The accounting method determines the decreasing value of a tangible asset over its lifetime. A business can make money from a depreciating asset by expensing or deducting part of the asset each year it is in use, for accounting and tax purposes. The Internal Revenue Service (IRS) requires companies to spread out the cost of depreciating assets over time.

Double-Entry System – A type of bookkeeping system that keeps the accounting equation ("Assets = Liabilities + Equity") in balance, double-entry bookkeeping requires every entry to an account to have an opposite, corresponding entry in another account. Every transaction impacts at least two accounts in double-entry bookkeeping, including liability, asset, revenue, equity, or expense accounts. Credits and debits make up the two types of entries, with credits entered on the left side and debits entered on the right. A much more simplified system, single-entry bookkeeping records only one entry per transaction.

Enrolled Agent are federally licensed tax professionals who can represent U.S. taxpayers. They must pass the three-part special enrollment examination from the IRS. Former IRS employees can act as enrolled agents without passing the test. Enrolled agents must take 72 hours of continuing education courses every three years to maintain their credentials. Enrolled agents can typically represent any type of taxpayer.

Expenses refer to costs of conducting business. Companies can deduct some eligible expenses from their taxes. Types of expenses include fixed, variable, accrued, and operation expenses. Fixed expenses do not change from month to month, including rent, salaries, and insurance payments. Variable expenses do change monthly, and they may include discretionary or unpredictable but necessary costs. Accountants recognize accrued expenses when companies incur them, not when companies pay for them. Primarily necessary and unavoidable, businesses incur operating expenses (often abbreviated as OPEX), like rent, marketing, and payroll, through their normal operations. The IRS allows companies to deduct operating expenses.

Equity, often called **stockholders' equity or owners' equity**, is the amount of money left over and returned to shareholders after a business sells all assets and pays off all debt, represented by the equation «Equity = Assets – Liabilities». An indicator of a company's financial health, equity can consist of both tangible (buildings, cash, land) and intangible (copyrights, patents, brand recognition) assets. It exists as a record on a company's balance sheet. Sole proprietorships only use the term owners' equity, because there are no shareholders.

Fixed Cost – A type of expense, fixed costs do not change from month to month. Fixed costs include things like payroll, rent, and insurance payments. Variable costs, on the other hand, change each month and may include discretionary spending or unpredictable expenses.

General Ledger – Accountants use a general ledger to record financial transactions and data for companies. Employed by companies that use double-entry bookkeeping, general ledgers include debit and credit account records. Companies use the information in their general ledgers to prepare financial reports and understand their financial performance and health over time.

Gross profit, also called gross income or sales profit, is the profit businesses make after subtracting the costs related to supplying their services or making and selling their products. Accountants calculate gross profit by subtracting the cost of goods sold from revenue. Gross profit considers variable costs, not fixed costs. Analysts can look at gross profit as indicative of a company's efficiency at delivering services or producing goods.

Gross Margin refers to businesses' net sales revenue after subtracting the costs of goods sold. It represents the revenue companies keep as gross profit. An indicator of financial health, higher gross margins typically mean that a company can make more profit on its sales. Lower gross margins may mean a business needs to reduce production costs. The formula for gross margin is "Gross Margin = Net Sales – Cost of Goods Sold."

Income Statement, also known as **statements of revenue and expense or profit and loss statements**, income statements provide information about businesses' expenses and revenue in specific periods of time. Along with balance sheets and statements of cash flows, income statements offer insight into companies' financial health.

Inventory refers to a company's goods and raw materials used for making the goods it sells. It appears on a balance sheet as an asset. Inventory includes finished goods, raw materials, and works-in-progress. Generally, companies should avoid holding large amounts of inventory for long periods of time, due to the risk of obsolescence and storage costs.

Journal Entry refers to a business transaction recorded in a business's general ledger. A journal entry may include the journal entry date and number, account name and number, debit, and credit. The recorder may also include a description or miscellaneous information about the entry.

Liabilities are when someone owes someone else money. Someone can fulfill the obligation of settling a liability through the transfer of money, services, or goods. Types of liabilities can include loans, mortgages, accounts payable, and accrued expenses. Short-term liabilities conclude in less than a year, while businesses may expect long-term liabilities to take longer than a year to resolve.

Net Income, also called **net earnings or net profit, net income** is the amount an individual or business earns after subtracting deductions and taxes from gross income. To calculate the net income of a business, subtract all expenses and costs from revenue. Sometimes called the bottom line in business, net income appears as the last item in an income statement. Investors and shareholders look at net income to assess companies' financial health and determine businesses' loan eligibility.

Overhead refers to the ongoing costs of doing business, other than those related to directly creating a good or service. Companies must understand the cost of overhead to figure out how much they need to charge for their goods or services and make a profit. Income statements include information about overhead expenses.

Present Value – Money today is typically assumed to be worth more than the same amount of money received in the future. This is due to the assumed rate of return and inflation. Present value is the current value of money in the future, with a specific assumed interest rate that could accrue over that period of time.

Profit and Loss Statement, also called an **income statement, shows the expenses, costs and revenues** for a company during a specific time period. This financial statement, along with the cash flow statement and the balance sheet, provides information about a business's financial health and ability to generate profit.

Receipts are written notices acknowledging that one party received something of value from another. An acknowledgement of ownership, receipts are proof of a financial transaction. The IRS requires small businesses to hold onto some receipts to document tax deductible expenses.

Retained earnings, also called an **earnings surplus**, refers to the amount of net income left for a business to use after paying dividends to its shareholders. A company's management typically decides whether to keep the earnings or give them to shareholders.

Revenue, also called **sales**, is the gross income a business makes through normal business operations. To calculate sales revenue, multiply sales price by number of units sold. Accrual accounting and cash accounting methods calculate revenue differently. When using the accrual accounting method to calculate revenue, accountants include sales made on credit. Those who use the cash accounting method only count sales as revenue once the business receives payment.

Single-entry system is a type of accounting system that records the financial transactions of a business. The system uses one entry per transaction to record cash, taxable income, and tax-deductible expenses going in or out of the business. Businesses can use accounting software or even simple tables to perform single-entry bookkeeping. Single-entry bookkeeping is much simpler than double-entry bookkeeping, which requires two entries per transaction.

Trial Balance – A periodical bookkeeping worksheet, a trial balance compiles the balance of ledgers into credit and debit columns that equal each other. Companies create trial balances to ensure the mathematical accuracy of their bookkeeping systems entries.

Variable cost refers to expenses that change depending on the level of a business's production. Variable costs go up when production increases and down when production decreases. In contrast to variable cost, fixed cost refers to expenses for a company that stay the same, regardless of production. Fixed costs may include insurance, rent, and interest payments.

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Appendix 1

Introduction
Development of accounting

Accounting is… INFORMATION

Accounting is a set of language tools that allow combining the perception of participants in the economic process into a single information system

Language tools – terms used by staff during work (representatives of different professions may use different terms to solve similar tasks)

Perception – people with different experiences understand the same words and processes in different ways

INFORMATION

Participants in the economic process are all employees of the organization, its counterparties, competitors and investors, but first of all – owners and «managers»

A unified information system is a volume of data that allows all users with their different experience and qualifications to understand each other.
Creating a single information space in which it is possible to make effective management decisions

Accounting as…

…an information process

Documentation of business operations, a system for grouping primary data in accounting registers, the formation of a system of generalized information on this basis, ensuring control over the use of the organization's resources

Accounting as…

…a part of automated data processing

Documented source information processed with strict compliance with the sequence and procedures for its processing, using the principle of double entry on accounts, single, predefined registers and reporting forms

Accounting as …

…practical activity

A purposefully organized process of obtaining, processing, presenting and transmitting documented information about the availability, movement and use of funds, the consumption of part of this information to control the legal validity of economic acts, the economy of management, planning and forecasting the results of activities

Accounting as …

…a kind of economic science

the theoretical basis of the organization and maintenance of system accounting and the search for ways to improve it

FROM SIMPLE ACCOUNTING TO UNIVERSAL DOUBLE ENTRY …

Inventory accounting…...

contocorrent…...

money as an object of accounting…...

bank accounting…...

two-way recording and General ledger…...

desk and simple accounting…...

a double-entry system

INVENTORY ACCOUNTING

... fixing only the remnants of material values on material carriers:

- ✓ papyrus
- ✓ sclay tablets and shards

... income and expense accounting with a «triple control system» and daily withdrawal of balances:
tobe issued - actually issued – deviations

… systematic recording (by type of values)

... chronological record (as the facts of economic life arise)

CONTOCORRENT - settlement accounts

... issuing loans and collecting in-kind taxes

... settlement operations for the storage of property: paid and deposit (free)

... formation of funds at the expense of deposits:
- ✓ fixed capital - for the provision of interest-bearing loans
- ✓ working capital - for repayment of current expenses on merchant operations

CONTOCORRENT - settlement accounts

... documentation:
- ✓ promissory notes and receipts for the repayment of debts
- ✓ weight, monetary and natural units of measurement
- ✓ recording on clay, lack of operational accounting, accumulation of turnover by days

=> primary documents

... the development of arithmetic:
- ✓ number theory – mathematics
- ✓ the art of computing - logistics (accounting)

MONEY AS AN OBJECT OF ACCOUNTING

... development of commodity-money circulation

... introduction to the practice of precious metal ingots as a means of exchange

... monopolization of coinage by governments

=> introduction of the cost meter into accounting

... development of the company's management

=> introduction of public control:

- ✓ logisticians controlled financial and accounting affairs
- ✓ auditors checked the reports of officials managing public funds

BANK ACCOUNTING

... the exchange of some money for others

... operations with cash deposits in non-cash circulation

... issuing loans

... guarantee

=> accounting for non-cash payments

=> «*diagrafe*» (payment orders) and «*simbol*» (signet ring, broken coin or clay tablet)

=> proof-reading method (crossing out previously recorded information)

TWO-WAY RECORDING AND GENERAL LEDGER

... entries in the cash receipt and expenditure book and the banker's book with customer accounts «ratio»

- ✓ customer accounts
- ✓ Debtors (debit – «he owes»)
- ✓ Creditors (credit – «he has»)

TWO-WAY RECORDING AND GENERAL LEDGER

... provision of the account book to the court

=> formation of accounting registers:

Adversaria (memorial, or memorial book, - a daily book of facts of economic life)

Codex accepti et expensi (a book for the systematic recording of cash accounts and calculations in a cost meter)

Codex rationum domesticorum (a book for systematic recording of material accounts)

=> maintaining in a monetary meter – *General ledger*

CAMERAL AND SIMPLE ACCOUNTING

... the development of Roman law and the emergence of commercial (economic) law the

=> principle of accuracy and legal validity of accounting records

... the creation of intermediary courts

=> the requirement of maintaining chronological records, the absence of data omissions, documentary confirmation and alphabetic recording of numbers

- ✓ *«cameral» accounting*: the object of accounting is the cash register, receipts and payments from it
- ✓ *simple accounting*: the object of accounting is property, income and expenses

CAMERAL AND SIMPLE ACCOUNTING

... but the result of economic management is an «increase in wealth», so the use of consumer categories, not financial ones

... strengthening control over the use of property

=> separation of accounting and control functions

=> replacement of simple marks with new forms of accounts

DOUBLE ENTRY SYSTEM

... book printing
... development of accounting and business practices
... development of mathematical sciences

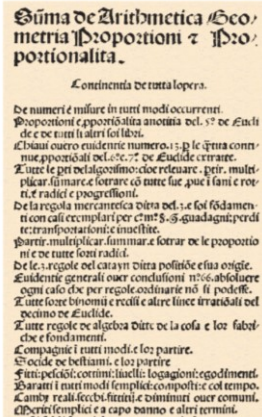
=> construction of an expedient system of accounts and books based on a memorial, a magazine, a general ledger, a copy book and an inventory book

DOUBLE ENTRY SYSTEM

=> the system of double entry – «Old Italian»

(1494, Luca Pacioli, the eleventh treatise «On accounts and records» of the ninth department of the essay «The sum of arithmetic, geometry, the doctrine of proportions and relations»)

DOUBLE ENTRY SYSTEM



Sũma de Arithmetica Geometria Proportioni e Proportionalita.

Continentia de tutta lopera.

De numeri e misure in tutti modi occurrenti.
Proportioni e pportiõalita anotitia del. 5° de Euclide e de tutti li altri soi libri.
Chiaui ouero euidentie numero. 13. p le q̃tita continue pportiõali del. 6° e. 7° de Euclide extratte.
Tutte le pti delalgorismo: cioe releuare. ptir. multiplicar. sũmare. e sotrare cõ tutte sue pue i sani e rotti. e radici e progressioni.
De la regola mercantesca ditta del. 3. e soi fõdamenti con casi exemplari per c° m° §. G. guadagni: perdite: transportationi: e inuestite.
Partir. multiplicar. summar. e sotrar de le proportioni e de tutte sorti radici.
De le. 3. regole del catayn ditta positiõe e sua origie.
Euidentie generali ouer conclusioni n° 66. absoluere ogni caso che per regole ordinarie nõ si podesse.
Tutte sorte binomij e recisi e altre linee irratiõali del decimo de Euclide.
Tutte regole de algebra ditte de la cosa e lor fabriche e fondamenti.
Compagnie i tutti modi. e lor partire.
Socide de bestiami. e lor partire
Fitti: pesciõi: cottimi: liuelli: logagioni: egodimenti.
Baratti i tutti modi semplici: composti: e col tempo.
Cambi reali. secchi. fittitij. e diminuti ouer comuni.
Meriti semplici e a capo danno e altri termini.

Appendix 2

The structure of the accounting system

ACCOUNTING TODAY

... is

an orderly system of collecting, registering and summarizing information in monetary terms about property, the sources of its formation and their movement through a continuous, continuous and documentary reflection of all economic operations

ACCOUNTING TODAY

... is a union of:

- ✓ financial accounting
- ✓ management accounting
- ✓ tax accounting
- ✓ economic analysis
- ✓ internal audit

FINANCIAL ACCOUNTING

It's a system

- ✓ focused on preparing financial statements for internal and external users,
- ✓ and monitoring the indicators that form it,
- ✓ reflecting the state and movement of property, liabilities, income and expenses based on the fait accompli of economic life and activity

MANAGEMENT ACCOUNTING

Preparation of information based on the measurement and evaluation of costs and results of activities at cost-generating locations and responsibility centers,

including forecasting and planning based on standards, accounting for actual values, identification and analysis of deviations from set values

TAX ACCOUNTING

A system of summarizing information for determining the tax base, mainly for income tax, based on the data of primary documents grouped in accordance with the procedure provided for
by the Tax Code

ECONOMIC ANALYSIS

A set of techniques and methods for processing economic information in order to obtain data for making effective decisions on financial and managerial issues, taxation and internal control issues

INTERNAL AUDIT

The system of self-control by the management of the organization of the safety of property, the rationality of economic operations and related expenses, checking compliance with the provisions of regulatory acts, accounting policies and instructions of management and owners

THE PURPOSE OF ACCOUNTING

is preparation of information about the financial position, financial results of activities and changes in the financial position of the organization (hereinafter referred to as information) that is useful to a wide range of interested users when making decisions

GROUPS OF USERS

- ✓ Group I: users with a direct financial interest
- ✓ Group II: users with indirect financial interest
- ✓ Group III: users who do not have a financial interest

TYPES OF USERS

- ✓ investors and their representatives
- ✓ employees and their representatives
- ✓ lenders
- ✓ suppliers and contractors
- ✓ buyers and customers
- ✓ authorities
- ✓ public

TYPES OF USERS

USER INTERESTS

✓ investors and their representatives –

information about the riskiness and profitability of their proposed or implemented investments, on the basis of which it is possible to dispose of investments; about the ability of the organization to pay dividends

USER INTERESTS

✓ employees and their representatives
(trade unions, etc.) –

information about the stability and profitability of employers, the ability of the organization to guarantee remuneration and the preservation of jobs

USER INTERESTS

✓ lenders –

information that allows you to determine whether the loans provided by them to the organization will be repaid in a timely manner and the corresponding interest will be paid

USER INTERESTS

✓suppliers and contractors –

information that allows you to determine whether the amounts due to them will be paid on time

USER INTERESTS

✓buyers and customers –

information about the continuation of the organization's activities

USER INTERESTS

- ✓ authorities –

information for the implementation of their assigned functions: the allocation of resources, the regulation of the national economy, the development and implementation of national policy, the conduct of statistical observation

USER INTERESTS

- ✓ the public –

information about the role and contribution of the organization to improving the welfare of society at the local, regional and federal levels

ACCOUNTING TASKS

preparation of complete and reliable information about the organization's activities and its property status, necessary for internal users of accounting statements – managers, founders, participants and owners of the organization's property, as well as external-investors, lenders and other users of accounting statements

ACCOUNTING TASKS

providing information necessary for internal and external users of accounting statements to monitor compliance with the legislation when performing business operations by an organization and their expediency, the availability and movement of property and obligations, the use of material, labor and financial resources in accordance with approved norms, standards and estimates

ACCOUNTING TASKS

prevention of negative results of the organization's economic activity and identification of on-farm reserves to ensure its financial stability

BASIC REQUIREMENTS FOR THE PREPARATION OF ACCOUNTING INFORMATION

- ✓ *the completeness* of the reflection in the accounting of all the facts of economic activity
- ✓ *timely reflection* of the facts of economic activity in accounting and financial statements

BASIC REQUIREMENTS FOR THE PREPARATION OF ACCOUNTING INFORMATION

✓ greater willingness *to recognize expenses and liabilities* in accounting than possible income and assets, without allowing the creation of hidden reserves *(prudence)*

BASIC REQUIREMENTS FOR THE PREPARATION OF ACCOUNTING INFORMATION

✓ reflection in accounting of the facts of economic activity based not so much on their legal form, but on their economic content and business conditions (*priority of content over form*)

BASIC REQUIREMENTS FOR THE PREPARATION OF ACCOUNTING INFORMATION

✓ the identity of the analytical accounting data to the turnover and balances on the synthetic accounting accounts on the last calendar day of each month (*consistency*)

BASIC REQUIREMENTS FOR THE PREPARATION OF ACCOUNTING INFORMATION

✓ *rational accounting*,
based on the business conditions and the size of the organization

INTERNATIONAL ACCOUNTING ORGANIZATIONS

✓ International Federation of Accountants (1977)
https://www.ifac.org/

✓ Committee on International Financial Reporting Standards (1973)

Now – International Accounting Standards Board (IASB)
https://www.ifrs.org/groups/international-accounting-standards-board/

REGIONAL ACCOUNTING ORGANIZATIONS

✓ European Federation of Accountants (1986)
https://efaa.com/

✓ The American Accounting Association (1916)
https://aaahq.org/About

✓ The Institute of Public Accountants (1923)
https://www.publicaccountants.org.au/about/history

Appendix 3

Accounting objects

ACCOUNTING OBJECTS

All activities:

- ✓ economic facts
  - ✓ assets
    - ✓ liabilities
      - ✓ equity
        - ✓ income
          - ✓ expenses
            - ✓ other objects (internal and external processes and events)

ECONOMIC FACTS

✓ An elementary moment of the economic process that confirms or changes the volume, composition, placement of the company's funds (recourses), or their sources, or funds and sources at the same time

The flow of economic facts is an <u>economic process</u>

✓ A fact means a *status, an action or an event*

STATUS

The presence of objects
on a certain date,
in a certain volume
and in a certain place

ACTIONS and EVENTS

- ✓ Actions are purposeful conscious activities that lead to a change in the state

- ✓ Events are random facts or indirect processes that lead to a change in the state

FACT has

- ✓The place of commission
- ✓The moment (the time of occurrence or flow)
- ✓Persons participating in it
- ✓Content
- ✓Language (terminology)

THE ACCOUNTING CYCLE

- ✓ Identification by object and time
- ✓ Measurement
- ✓ Record transactions
- ✓ Accumulation in accounting registers (books)
- ✓ Prepare Financial Statements

STATUS

Assets

are resources with economic value which companies expect to provide future benefits

STATUS

Three aspects of assets' definitions:

- ✓ right
- ✓ potential to produce economic benefits
- ✓ control

STATUS
(note)

An economic resource could produce economic benefits for an entity by

entitling or enabling it to do, for example, one or more of the following:

- ✓ receive contractual cash flows or another economic resource
- ✓ exchange economic resources with another party on favourable terms

- ✓ produce cash inflows or avoid cash outflows by, for example:
  - ✓ using the economic resource either individually or in combination with other economic resources to produce goods or provide services
  - ✓ using the economic resource to enhance the value of other economic resources
  - ✓ or leasing the economic resource to another party
- ✓ receive cash or other economic resources by selling the economic resource;
- ✓ or extinguish liabilities by transferring the economic resource

STATUS

Liabilities

are obligations of the company; they are amounts owed to others as of the balance sheet date

STATUS

Equity

is the residual interest in the assets of the entity after deducting all its liabilities

the *Balance Equation*:

$$A - L = E \textit{ или } A = L + E$$

STATUS

Income

is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims

STATUS

Expenses

are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims

THE IMPACT OF THE ECONOMIC FACTS ON THE FINANCIAL POSITION

Each fact shows the two-way nature of economic relations between the objects of accounting:

Type of connection	Property (Balance sheet Asset)	Sources (Balance sheet Liability & Equity)
I	+ / -	
II		+ / -
III	+	+
IV	-	-

Appendix 4

Accounting methods

GROUPS of METHODS

Groups of accounting methods	Elements of methods
1. Methods of primary observation	Documentation and document management Inventory
2. Data grouping methods	Accounting accounts Double entry
3. Methods of monetary measurement	Measurement Calculation
4. Methods of final generalization	Balance sheet Accounting statements (Financial reporting)

Methods of primary observation

Documenting is a method of primary observation and registration of business transactions in primary accounting documents

Inventory is a reconciliation of actual data on assets, liabilities and capital with accounting data

It's a method of verifying the actual existence of assets and liabilities by transferring, weighing, measuring, evaluating all the remaining assets of the enterprise and comparing them with accounting data

Documentation

Document flow in accounting – the movement of accounting documents in an economic entity from the moment of their compilation to the completion of execution (in particular, use for the preparation of accounting (financial) statements, placement in the archive)

Documentation

Primary accounting documents – documents for confirming the fact of economic life

Accounting books (Journal entries) – documents for registration, accumulation and generalization of primary documents and similar facts of economic life

Documentation

Mandatory details of accounting documents:
1) name of the document
2) the date of the document
3) the name of the economic entity that drafted the document
4) the content of the fact of economic life
5) the value of the natural and (or) monetary measurement of the fact of economic life, indicating the units of measurement

6) the name of the position of the person (persons) who made (committed) the transaction, operation and responsible (responsible) for its execution, or the name of the position of the person (persons) responsible (responsible) for the execution of the event

7) signatures of responsible persons

Data grouping methods

Double entry is a method of reflecting a business transaction that shows a dual change in the composition of assets, sources, or simultaneously assets and sources for the debit of one and the credit of another account in the same amount

Data grouping methods

Accounts – economic grouping of similar data;
the method of current accounting and control of the presence and movement of assets and liabilities of the enterprise

Classification of accounts

- In relation to the balance (active, passive, active-passive)
- By the degree of detail (synthetic and analytical)
- By economic content (asset accounting accounts, source accounting accounts, business processes and results accounting accounts)
- By structure (basic, regulatory, operational, budgetary and distributive, financial and productive, off-balance sheet)

Methods of monetary measurement

Measurement is the reflection of accounting objects in a single monetary meter in order to generalize them as a whole across the enterprise

Calculation is a method of calculating the cost of manufacturing products or work performed, services provided

Methods of final generalization

Balance sheet is a way of summarizing and grouping information about the assets of an enterprise by composition and placement and sources of their formation on a certain date

Accounting statements is a method of summarizing and obtaining the final performance indicators of the enterprise for the reporting period

Appendix 5

Financial Reporting of Sinopec Group

(http://www.sinopecgroup.com/group/en/companyprofile/Companyreportsandpublications/)

COMPANY PROFILE

Company Profile

IMPORTANT NOTICE: THE BOARD OF DIRECTORS, DIRECTORS, THE BOARD OF SUPERVISORS, SUPERVISORS AND SENIOR MANAGEMENT OF SINOPEC CORP. WARRANT THAT THERE ARE NO FALSE REPRESENTATIONS, MISLEADING STATEMENTS OR MATERIAL OMISSIONS IN THIS ANNUAL REPORT, AND JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS ANNUAL REPORT. THERE IS NO OCCUPANCY OF NON-OPERATING FUNDS BY THE CONTROLLING SHAREHOLDERS OF SINOPEC CORP. MR. YU BAOCAI, A DIRECTOR OF SINOPEC CORP., WAS ON LEAVE FOR BUSINESS REASONS AND COULD NOT ATTEND THE 21ST MEETING OF THE SEVENTH SESSION OF THE BOARD, MR. YU BAOCAI HAS AUTHORISED MR. LING YIQUN TO VOTE ON HIS BEHALF FOR THE RESOLUTIONS AT THIS BOARD MEETING. MR. ZHANG YUZHUO, CHAIRMAN OF THE BOARD, MR. MA YONGSHENG, PRESIDENT, MS. SHOU DONGHUA, CHIEF FINANCIAL OFFICER AND HEAD OF THE FINANCIAL DEPARTMENT OF SINOPEC CORP. WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT. THE AUDIT COMMITTEE OF SINOPEC CORP. HAS REVIEWED THE ANNUAL REPORT OF SINOPEC CORP. FOR THE YEAR ENDED 31 DECEMBER 2020.

THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 OF THE COMPANY PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (CASs) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) HAVE BEEN AUDITED BY PRICEWATERHOUSECOOPERS ZHONG TIAN LLP AND PRICEWATERHOUSECOOPERS RESPECTIVELY. BOTH FIRMS HAVE ISSUED STANDARD UNQUALIFIED AUDITOR'S REPORT.

AS APPROVED AT THE 21ST MEETING OF THE SEVENTH SESSION OF THE BOARD OF DIRECTORS OF SINOPEC CORP., THE BOARD PROPOSED A FINAL CASH DIVIDEND OF RMB 0.13 (TAX INCLUSIVE) PER SHARE FOR 2020, COMBINING WITH THE SPECIAL DIVIDEND OF RMB 0.07 (TAX INCLUSIVE) PER SHARE, THE TOTAL CASH DIVIDEND FOR 2020 WILL BE RMB 0.20 (TAX INCLUSIVE) PER SHARE. THE DIVIDEND PROPOSAL IS SUBJECT TO THE SHAREHOLDERS' APPROVAL AT THE ANNUAL GENERAL MEETING FOR THE YEAR 2020.

COMPANY PROFILE

Sinopec Corp. is one of the largest integrated energy and chemical companies in China. Its principal operations include the exploration and production, pipeline transportation and sale of petroleum and natural gas; the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre, and other chemical products; the import and export, including an import and export agency business, of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and research, development and application of technologies and information.

DEFINITIONS:

In this report, unless the context otherwise requires, the following terms shall have the meaning as set out below:
Sinopec Corp.: China Petroleum & Chemical Corporation
Company: Sinopec Corp. and its subsidiaries
China Petrochemical Corporation: The controlling shareholder of Sinopec Corp., China Petrochemical Corporation
Sinopec Group: China Petrochemical Corporation and its subsidiaries
NDRC: China National Development and Reform Commission
RMC: Oil and Natural Gas Reserves Management Committee of the Company
CSRC: China Securities Regulatory Commission
Hong Kong Stock Exchange: The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules: Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

CONVERSION:

For domestic production of crude oil, 1 tonne = 7.1 barrels
For overseas production of crude oil: 1 tonne = 7.20 barrels in 2020, 1 tonne = 7.21 barrels in 2019, 1 tonne = 7.21 barrels in 2018
For production of natural gas, 1 cubic meter = 35.31 cubic feet
Refinery throughput is converted at 1 tonne = 7.35 barrels

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

	Notes	At 31 December 2020 RMB million	At 31 December 2019 RMB million
Assets			
Current assets			
Cash at bank and on hand	5	184,412	128,052
Financial assets held for trading		1	3,319
Derivative financial assets	6	12,528	837
Accounts receivable	7	35,587	54,375
Receivables financing	8	8,735	8,661
Prepayments	9	4,862	5,063
Other receivables	10	33,602	24,190
Inventories	11	151,895	194,142
Other current assets		23,773	28,671
Total current assets		**455,395**	**447,310**
Non-current assets			
Long-term equity investments	12	188,342	152,204
Other equity instrument investments		1,525	1,521
Fixed assets	13	589,285	625,706
Construction in progress	14	124,765	173,872
Right-of-use assets	15	189,583	198,051
Intangible assets	16	114,066	109,039
Goodwill	17	8,620	8,697
Long-term deferred expenses	18	9,535	8,935
Deferred tax assets	19	25,054	17,616
Other non-current assets	20	27,635	17,335
Total non-current assets		**1,278,410**	**1,312,976**
Total assets		**1,733,805**	**1,760,286**
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	22	20,756	31,196
Derivative financial liabilities	6	4,826	2,729
Bills payable	23	10,394	11,834
Accounts payable	24	151,262	188,189
Contract liabilities	25	126,160	126,833
Employee benefits payable	26	7,081	4,807
Taxes payable	27	76,843	69,524
Other payables	28	84,600	75,376
Non-current liabilities due within one year	29	22,493	69,490
Other current liabilities	30	17,775	–
Total current liabilities		**522,190**	**579,978**
Non-current liabilities			
Long-term loans	31	45,459	39,677
Debentures payable	32	38,356	19,157
Lease liabilities	33	172,306	177,674
Provisions	34	45,552	43,163
Deferred tax liabilities	19	8,124	6,809
Other non-current liabilities	35	17,942	15,454
Total non-current liabilities		**327,739**	**301,934**
Total liabilities		**849,929**	**881,912**
Shareholders' equity			
Share capital	36	121,071	121,071
Capital reserve	37	122,558	122,864
Other comprehensive income	38	1,038	(321)
Specific reserve		1,941	1,741
Surplus reserves	39	209,280	207,423
Retained earnings		286,575	287,187
Total equity attributable to shareholders of the Company		**742,463**	**739,965**
Minority interests		**141,413**	**138,409**
Total shareholders' equity		**883,876**	**878,374**
Total liabilities and shareholders' equity		**1,733,805**	**1,760,286**

These financial statements have been approved for issue by the board of directors on 26 March 2021.

Zhang Yuzhuo
Chairman
(Legal representative)

Ma Yongsheng
President

Shou Donghua
Chief Financial Officer

The accompanying notes form part of these financial statements.

BALANCE SHEET

As at 31 December 2020

	Notes	At 31 December 2020 RMB million	At 31 December 2019 RMB million
Assets			
Current assets			
Cash at bank and on hand		99,188	54,072
Derivative financial assets		7,776	940
Accounts receivable	7	21,763	21,544
Receivables financing		707	207
Prepayments	9	2,626	2,665
Other receivables	10	37,938	78,872
Inventories		39,034	49,116
Other current assets		14,048	25,149
Total current assets		**223,080**	**232,565**
Non-current assets			
Long-term equity investments	12	343,356	304,687
Other equity instrument investments		428	395
Fixed assets	13	283,695	291,547
Construction in progress	14	59,880	60,493
Right-of-use assets	15	108,737	112,832
Intangible assets		8,779	8,809
Long-term deferred expenses		2,499	2,630
Deferred tax assets		12,661	7,315
Other non-current assets		26,828	2,490
Total non-current assets		**846,863**	**791,198**
Total assets		**1,069,943**	**1,023,763**
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans		20,669	19,919
Derivative financial liabilities		362	157
Bills payable		6,061	4,766
Accounts payable		65,779	75,352
Contract liabilities		5,840	5,112
Employee benefits payable		1,673	1,214
Taxes payable		43,500	43,025
Other payables		188,568	118,064
Non-current liabilities due within one year		12,026	59,596
Other current liabilities		439	–
Total current liabilities		**344,917**	**327,205**
Non-current liabilities			
Long-term loans		30,413	12,680
Debentures payable		26,977	7,000
Lease liabilities		105,691	107,783
Provisions		36,089	34,514
Other non-current liabilities		3,581	4,471
Total non-current liabilities		**202,751**	**166,448**
Total liabilities		**547,668**	**493,653**
Shareholders' equity			
Share capital		121,071	121,071
Capital reserve		68,976	68,841
Other comprehensive income		5,910	1,181
Specific reserve		1,189	949
Surplus reserves		209,280	207,423
Retained earnings		115,849	130,645
Total shareholders' equity		**522,275**	**530,110**
Total liabilities and shareholders' equity		**1,069,943**	**1,023,763**

These financial statements have been approved for issue by the board of directors on 26 March 2021.

Zhang Yuzhuo
Chairman
(Legal representative)

Ma Yongsheng
President

Shou Donghua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Notes	2020 RMB million	2019 RMB million
Operating income	40	**2,105,984**	**2,959,799**
Less: Operating costs	40	1,688,398	2,479,356
Taxes and surcharges	41	234,947	244,517
Selling and distribution expenses		64,438	63,586
General and administrative expenses		66,291	63,038
Research and development expenses	44	10,086	9,450
Financial expenses	42	9,506	10,048
Exploration expenses, including dry holes	45	9,716	10,510
Add: Other income	46	7,513	5,995
Investment income	47	47,486	12,628
Losses from changes in fair value	48	(1,253)	(3,511)
Credit impairment losses		(2,066)	(1,264)
Impairment losses	49	(26,018)	(1,779)
Asset disposal losses		2,067	(1,229)
Operating profit		**50,331**	**90,134**
Add: Non-operating income	50	2,370	2,601
Less: Non-operating expenses	51	4,732	2,624
Profit before taxation		**47,969**	**90,111**
Less: Income tax expense	52	6,219	17,939
Net profit		**41,750**	**72,172**
Including: net profit of acquiree before business combination under common control		**119**	**50**
Classification by going concern:			
Continuous operating net profit		41,750	72,172
Termination of net profit		–	–
Classification by ownership:			
Equity shareholders of the Company		32,924	57,619
Minority interests		8,826	14,553
Basic earnings per share	64	**0.272**	**0.476**
Diluted earnings per share	64	**0.272**	**0.476**
Other comprehensive income	38		
Items that may not be reclassified subsequently to profit or loss			
Changes in fair value of other equity instrument investments		(22)	(31)
Items that may be reclassified subsequently to profit or loss			
Other comprehensive income that can be converted into profit or loss under the equity method		(2,441)	(810)
Fair value hedges		162	–
Cash flow hedges		7,073	4,941
Foreign currency translation differences		(4,457)	1,480
Total other comprehensive income		**315**	**5,580**
Total comprehensive income		**42,065**	**77,752**
Attributable to:			
Equity shareholders of the Company		34,318	63,034
Minority interests		7,747	14,718

These financial statements have been approved for issue by the board of directors on 26 March 2021.

Zhang Yuzhuo
Chairman
(Legal representative)

Ma Yongsheng
President

Shou Donghua
Chief Financial Officer

The accompanying notes form part of these financial statements.

Financial Statements (PRC)

INCOME STATEMENT
For the year ended 31 December 2020

	Notes	2020 RMB million	2019 RMB million
Operating income	40	**770,321**	**1,021,272**
Less: Operating costs	40	584,315	799,566
Taxes and surcharges		148,350	161,820
Selling and distribution expenses		3,256	3,420
General and administrative expenses		29,868	28,302
Research and development expenses		9,098	8,597
Financial expenses		8,749	7,628
Exploration expenses, including dry holes		8,297	9,417
Add: Other income		4,922	3,497
Investment income	47	43,356	28,062
Gains/(losses) from changes in fair value		350	(278)
Credit impairment losses		71	132
Impairment losses		(16,374)	(534)
Asset disposal gains		261	6,407
Operating profit		**10,974**	**39,808**
Add: Non-operating income		900	665
Less: Non-operating expenses		1,319	1,135
Profit before taxation		**10,555**	**39,338**
Less: Income tax (credit)/expense		(8,017)	1,886
Net profit		**18,572**	**37,452**
Classification by going concern:			
Continuous operating net profit		18,572	37,452
Termination of net profit		–	–
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Other comprehensive income that can be converted into profit or loss under the equity method		(182)	201
Cash flow hedges		4,948	1,384
Total other comprehensive income		**4,766**	**1,585**
Total comprehensive income		**23,338**	**39,037**

These financial statements have been approved for issue by the board of directors on 26 March 2021.

Zhang Yuzhuo
Chairman
(Legal representative)

Ma Yongsheng
President

Shou Donghua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Notes	2020 RMB million	2019 RMB million
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		2,297,159	3,171,968
Refund of taxes and levies		2,985	2,053
Other cash received relating to operating activities		212,828	98,464
Sub-total of cash inflows		**2,512,972**	**3,272,485**
Cash paid for goods and services		(1,754,016)	(2,591,739)
Cash paid to and for employees		(83,772)	(84,283)
Payments of taxes and levies		(282,162)	(318,091)
Other cash paid relating to operating activities		(225,504)	(124,753)
Sub-total of cash outflows		**(2,345,454)**	**(3,118,866)**
Net cash flow from operating activities	54(a)	**167,518**	**153,619**
Cash flows from investing activities:			
Cash received from disposal of investments		11,651	35,996
Cash received from returns on investments		11,510	10,272
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,656	709
Net cash received from disposal of subsidiaries and other business entities	54(d)	49,869	–
Other cash received relating to investing activities		58,669	97,804
Sub-total of cash inflows		**134,355**	**144,781**
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(131,189)	(141,554)
Cash paid for acquisition of investments		(12,740)	(16,334)
Net cash paid for the acquisition of subsidiaries and other business entities		(340)	(1,031)
Other cash paid relating to investing activities		(92,289)	(106,913)
Sub-total of cash outflows		**(236,558)**	**(265,832)**
Net cash flow from investing activities		**(102,203)**	**(121,051)**
Cash flows from financing activities:			
Cash received from capital contributions		4,219	3,919
Including: Cash received from minority shareholders' capital contributions to subsidiaries		4,219	3,919
Cash received from borrowings		558,680	602,467
Other cash received relating to financing activities		514	320
Sub-total of cash inflows		**563,413**	**606,706**
Cash repayments of borrowings		(540,015)	(614,108)
Cash paid for dividends, profits distribution or interest		(43,144)	(59,615)
Including: Subsidiaries' cash payments for distribution of dividends or profits to minority shareholders		(4,157)	(7,357)
Other cash paid relating to financing activities	54(e)	(17,209)	(17,187)
Sub-total of cash outflows		**(600,368)**	**(690,910)**
Net cash flow from financing activities		**(36,955)**	**(84,204)**
Effects of changes in foreign exchange rate		**(1,239)**	**147**
Net increase/(decrease) in cash and cash equivalents	54(b)	**27,121**	**(51,489)**

These financial statements have been approved for issue by the board of directors on 26 March 2021.

Zhang Yuzhuo
Chairman
(Legal representative)

Ma Yongsheng
President

Shou Donghua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Notes	2020 RMB million	2019 RMB million
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		862,093	1,162,870
Refund of taxes and levies		2,796	1,769
Other cash received relating to operating activities		9,407	6,239
Sub-total of cash inflows		**874,296**	**1,170,878**
Cash paid for goods and services		(606,295)	(842,996)
Cash paid to and for employees		(44,139)	(45,524)
Payments of taxes and levies		(164,635)	(209,863)
Other cash paid relating to operating activities		(19,239)	(18,719)
Sub-total of cash outflows		**(834,308)**	**(1,117,102)**
Net cash flow from operating activities		**39,988**	**53,776**
Cash flows from investing activities:			
Cash received from disposal of investments		12,157	23,584
Cash received from returns on investments		18,805	31,385
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		6,579	690
Other cash received relating to investing activities		78,751	42,037
Sub-total of cash inflows		**116,292**	**97,696**
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(59,216)	(64,100)
Cash paid for acquisition of investments		(41,066)	(16,884)
Other cash paid relating to investing activities		(66,408)	(53,138)
Sub-total of cash outflows		**(166,690)**	**(134,122)**
Net cash flow from investing activities		**(50,398)**	**(36,426)**
Cash flows from financing activities:			
Cash received from borrowings		195,770	109,579
Other cash received relating to financing activities		70,516	91,865
Sub-total of cash inflows		**266,286**	**201,444**
Cash repayments of borrowings		(199,727)	(106,920)
Cash paid for dividends or interest		(36,973)	(50,230)
Other cash paid relating to financing activities		(7,074)	(104,780)
Sub-total of cash outflows		**(243,774)**	**(261,930)**
Net cash flow from financing activities		**22,512**	**(60,486)**
Effects of changes in foreign exchange rate		**(5)**	**–**
Net increase/(decrease) in cash and cash equivalents		**12,097**	**(43,136)**

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Shou Donghua
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The accompanying notes form part of these financial statements.

Educational publication

Учебное издание

Pashchenko Tatiana V.

Basic Accounting

Textbook

Пащенко Татьяна Васильевна

Теория бухгалтерского учета

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