

## Capital accounts and long – term liabilities

Accounting class 4 is used for charging about capital transactions (owner's equity) and long – term liabilities.

Under accounting class for will be charged transactions connected with:

- common stocks and capital funds
- funds created from net profit
- economic result (both created in previous accounting periods and created in actual accounting period)
- reserves
- long – term liabilities (including long – term bank credits)

### Charging about ordinary capital (common stocks)

It is important to define several basic moments connected with ordinary capital necessary for correct charging.

1. Ordinary capital obligation – moment when stockholders or partners accept liability to invest new property into company (for example moment of issuing of stocks in case of plc.)
2. Payment of liabilities resulting from the ordinary capital obligation
3. Entry into trade register

**Example 1: Public limited company issued stocks in face value 10 000 000 CZK on May 25. The new stockholders accepted ordinary capital obligation in value 11 000 000 CZK. Their liabilities were paid on June 15, liability in value 5 000 000 CZK was paid by deposits invested on bank account and liability in value 6 000 000 CZK was paid by building invested into assets of plc. The change of common stocks was entered into trade register on September 9. Charge all transactions.**

Total amount of stocks' face values presents the change of common stocks (10 000 000 CZK). The difference between the ordinary capital obligation amount and total amount of face values is called issue premium (agio), which is charged as a special kind of capital funds (not as a part of common stocks change).

353 – Receivables from common stocks obligation		419 – Common stocks change	
		2a)	5 000 000
1)	11 000 000	2b)	6 000 000
		3)	10 000 000
			1a) 10 000 000

<b>412 – Issue premium</b>		<b>021 - Buildings</b>	
	1b) 1 000 000	2b) 6 000 000	
<b>221 – Bank accounts</b>		<b>411 – Common stocks</b>	
2a) 5 000 000			3) 10 000 000

**Transactions:**

1. Charging on May 25 – Ordinary capital obligation
2. Charging on June 15 – a) payment by deposits  
b) payment by building
3. Charging on September 9 – entry into trade register

**Charging about distribution of economic result created in previous accounting periods and about funds created from net profit**

The economic result created in previous accounting period is recharged on account 431 – Economic result for distribution (DS – loss, CS – profit) at the beginning of next accounting period (correlated account is Opening balance sheet account). During next accounting period the economic result must be recharged from account 431 on other accounts according to its real distribution (into funds, as common stocks increasing, as payment of loss created in previous accounting periods or as liabilities to copartners (stockholders) when it is used for distribution as dividends. Part of economic result can remain undistributed, but it must not remain on account 431.

**Example 2:** Company created profit in value 5 000 000 CZK in previous accounting period. During next accounting period 500 000 CZK from the profit was used for increasing of common stocks, 1 000 000 CZK was used for creation of statutory reserve fund, 300 000 CZK was used for payment of a loss created in previous accounting periods, 2 000 000 CZK were decided to be paid as dividends and the rest of profit remained undistributed for future use. Charge all transactions.

<b>701 – Opening b - s account</b>		<b>429 – Unpaid loss from prev. periods</b>	
OS 5 000 000	OS 300 000	OS 300 000	3) 300 000

<b>431 – Ec. result for distribution</b>		<b>419 – Common stocks changes</b>	
1)	500 000	OS	5 000 000
2)	1 000 000		1) 500 000
3)	300 000		
4)	2 000 000		
5)	1 200 000		
<b>423 – Statutory reserve funds</b>		<b>428 – Undistributed profit</b>	
		2)	1 000 000
			5) 1 200 000
<b>364 – Liabilities to employees resulting from profit distribution</b>			
		4)	2 000 000

**Transactions:**

1. Profit used for common stocks increasing
2. Profit used for statutory reserve fund creation
3. Profit used for payment of a loss created in previous periods
4. Profit used for dividends
5. Undistributed profit

**Charging about reserves**

Creation of reserves means charging about costs. Using of the reserve for its purpose is charged as decrease of costs (not as revenue).

**Example 3:** A company created a reserve in value 100 000 CZK in year 2005. In year 2006 the reserve was used for its purpose. Charge creation and usage of the reserve.

**Charging in year 2005:**

<b>552 – Creation and usage of reserves</b>		<b>451 - Reserves</b>	
1)	100 000	1)	100 000

**Charging in year 2006:**

**552 – Creation and usage of reserves****451 - Reserves**

		OS		100 000	
2)	100 000	2)	100 000		

**Transactions:**

1. Creation of reserves
2. Using of reserves

**Charging about other long – term liabilities**

Other long- term liabilities charged in this accounting class are especially long – term issued bonds, long – term bills of exchange for payment, long – term bank loans, and other liabilities with term of payment longer than 1 year.

**Example 4:** At the beginning of accounting period an enterprise had trade liability in value 100 000 CZK in its accounting evidence. This enterprise paid this liability by bill of exchange in face value 150 000 CZK with term of payment 2 years. Charge it.

<b>321 – Trade liabilities</b>				<b>478 – Long - term B/E for payment</b>	
1a)	100 000	OS	100 000	1)	150 000
<b>381 – Costs connected with future accounting periods</b>				<b>562 – Cost interests</b>	
1b)	25 000			1 c)	25 000

**Transaction:**

1. Trade liability paid by long – term bill of exchange, 1/2 of interest is connected with future accounting period