

Receivables and short-term liabilities

All receivables and short-term liabilities are charged on accounts from accounting class 3.

Receivable can be defined as a debt of the second person that will be paid on our account in the future (on bank account, or in cash)

Liability can be defined as our debt that will be paid from our account (bank account, cash).

The receivables charged in accounting class 3 can be divided into several groups, especially:

2. Due to term of payment:

- long – term receivables
- short – term receivables

2. Due to debtor:

- trade receivables
- receivables from employees
- receivables from financial agencies, social and health insurance companies
- receivables from business copartners, etc.

The similar criteria can be used for dividing of short-term liabilities.

Trade receivables

The trade receivables are charged especially on accounts under accounting group no. 31. These receivables result from common business activities of the company (sale, services providing, etc.). The trade receivables come into existence in the moment of issuing of the accounting document confirming the realization of the trade (invoice bill, bill of exchange, etc.) and expire in the moment of payment for this trade.

Example no. 1: A trade company (VAT payer) has sold own products (own costs 7 000 CZK) on 1.4.2005, the selling price has been 10 000 CZK, VAT 19 %, the accounting document has been invoice bill. The invoice bill has been paid on 1.5.2005 in cash. Charge all transactions.

311 – Trade receivables		343 - VAT	
1)	11 900	2)	11 900
		1b)	1 900

601 – Revenues from sale of products		211 - Cashbox	
1a)	10 000	2)	11 900
123 – Products at stock		613 – Changes in products stand	
3)	7 000	3)	7 000

Transactions:

1. Sale of products, subscriber's invoice bill issued
2. Cashing of invoice bill into cashbox
3. Decrease of sold products

After other 14 days after the payment the subscriber complains one half of bought products because of their bad quality. The company agrees with the complaint (reclamation) and gives money back to subscriber. Continue in charging.

601 – Revenues from sale of products		211 - Cashbox	
1a)	5 000	2)	5 950
325 – Other liabilities		343 - VAT	
2)	5 950	1b)	950
1)	5 950	613 – Changes of products	
123 – Products		3)	3 500
3)	3 500		

Transactions:

- 1) Complaint (accounting document is tax credit)
- 2) Money given back
- 3) Taking of complained products back at stock

Charge all transactions from subscriber's point of view.

132 – Goods at stock		343 - VAT	
1a)	10 000	3a)	5 000
321 – Trade liabilities		211 - Cashbox	
2)	11 900	1)	11 900
315 – Other receivables		4)	5 950
3)	5 950	2)	11 900

Transactions:

- 1) Purchase of goods
- 2) Payment for cash
- 3) Complaint
- 4) Money given back to cashbox

Charging about bills of exchange

Bills of exchange for cashing mean an asset of the enterprise. Bills of exchange for cashing are charged in situation, when the subscriber pays his debt (our receivable) by the bill of exchange.

Example no. 2: Similar to example no. 1, but the invoice bill has been paid by bill of exchange in value 15 000 CZK with the period of payment 6 months. After 6 months the bill of exchange will be paid on bank account.

311 – Trade receivables		343 - VAT	
1)	11 900	2a)	11 900
601 – Revenues from sale of products		312 – Bills of exchange for cashing	
	1a)	10 000	2)
		15 000	3)
		15 000	

662 – Revenue interests	221 – Bank account
2b) 3 100	3) 15 000

Transactions:

1. Sale of products, subscriber's invoice bill issued
2. The invoice bill paid by bill of exchange (the face value is usually higher than the receivable as a price for later money cashing)
3. Cashing of the bill of exchange

Subscriber's charging about B/E:

321 - Trade liabilities	322 – Bill of exchange for payment
1a) 11 900 OS 11 900	1) 15 000
562 – Cost interests	
1 b) 3 100	

Transaction:

1) Trade liability paid by bill of exchange

The owner of the bill of exchange used for cashing has three basic possibilities in using of this kind of asset. As first he can wait until the term of payment (example 2), as second he can use it for payment of some his liability (example 3), and as third he can discount it to bank (example 4).

Example 3: A company has a bill of exchange for cashing in value 200 000 CZK in accounting evidence. On the other hand this company has a trade liability in value 190 000 CZK. This liability was paid by the bill of exchange. Charge all transactions.

312 – Bills of exchange for cashing	321 – Trade liabilities
OS 200 000	1) 200 000
1a) 190 000	OS 190 000

562 – Cost interests	
1b)	10 000

Transaction:

1) Payment of trade liability by bill of exchange

Example 4: A company has a bill of exchange for cashing with term of maturity 6 months in accounting evidence. The value is 100 000 CZK. Because the company needs money after 3 months, the bill of exchange was discounted by bank, the discount rate is 10 %. After next 3 months a) bank announced repayment of the bill of exchange by debtor, b) the bill of exchange will not be repaid by debtor and the bill of exchange will be given back to company.

Variant a)

312 – Bills of exchange for cashing		313 – Receivables from discount. B/E	
OS	100 000	1)	100 000
221 – Bank account		232 – Discount credits	
2a)	90 000	3)	100 000
562 – Cost interests			
2b)	10 000	2)	100 000

Transactions:

- 4) Bill of exchange discounted to bank
- 5) The bank accepted the B/E and provided discount credit
- 6) The bank announced the repayment of the B/E by the debtor (it is not necessary to repay the discount credit in this case)

Variant b)

312 – Bills of exchange for cashing				313 – Receivables from discount. B/E	
OS	100 000				
3)	100 000	1)	100 000	1)	100 000
				3)	100 000
221 – Bank account				232 – Discount credits	
2a)	90 000	4)	100 000	4)	100 000
				2)	100 000
562 - Cost interests					
2a)	90 000				

Transactions:

- 1) Bill of exchange discounted to bank
- 2) The bank accepted the B/E and provided discount credit
- 3) The debtor did not pay the B/E and the bank returned it back
- 4) Repayment of discount credit from bank account

Charging about wages and other liabilities to employees

The gross wages are charged as an operating cost of enterprise. The gross wage is not the only one cost connected with employees. The enterprise is obligated to pay other items (health and social insurance paid by employer for employees). Also the paid insurance is charged as operating costs. This paid insurance is calculated from the base equal to the gross wage. The rate for health insurance paid by employer for employee is 9 % from gross wage, the rate for social insurance is 25 % from gross wage. Other part of health and social insurance is directly docked from the gross wage (this part of insurance is not recorded as a cost, because it reduces the gross wage of the employee (net wage)). The rates for health insurance docked from gross wage is 4,5 % and for social insurance it is 6,5 %. As other obligatorily docked item from the gross wage is income tax (so called pay-roll tax). The calculation of income tax is more complicated and depends on many conditions (all these conditions should be explained in other course explaining the tax problems). The basic amount for calculation of income tax is the difference between the gross wage and the docked health and social insurance. This amount is next reduced by other non – taxable amounts resulting form law of income taxes. After the obligatory gross

wage reduction some other reduction can be made (for example docks of savings, etc.).

Example 5: The gross wage of employee is 10 000 CZK, this employee saves 500 CZK from his wage as time deposit. The income tax docked from the gross wage will be 1 000 CZK. Calculate other obligatory docks, and charge all transactions, when the net wage will be paid from bank account.

Calculation of health insurance paid by employer for employee:

$$0,09 \times 10\,000 = 900 \text{ CZK}$$

Calculation of social insurance paid by employer for employee:

$$0,25 \times 10\,000 = 2\,500 \text{ CZK}$$

Calculation of health insurance docked from gross wage:

$$0,045 \times 10\,000 = 450 \text{ CZK}$$

Calculation of social insurance docked from gross wage:

$$0,065 \times 10\,000 = 650 \text{ CZK}$$

Calculation of net wage:

Gross wage – health insurance docked from gross wage – social insurance docked from gross wage – income tax docked from income tax – other docks = 10 000 – 450 – 650 – 1 000 – 500 = 7 400 CZK.

521 – Wage costs		331 – Liabilities to employees			
		4)	450	1)	10 000
1)	10 000	5)	650		
		6)	1 000		
		7)	500		
		8)	7 400		
524 – Health and social insurance by employer for employees		336 – Liabilities to health and social agencies			
2)	900			2)	900
3)	2 500			3)	2 500
				4)	450
				5)	650
342 – Liabilities to tax agencies		379 – Other liabilities			
		6)	1 000	7)	500

221 – Bank account

8)	7 400

Transactions:

1. Gross wage
2. Health insurance paid by employer for employees
3. Social insurance paid by employer for employees
4. Health insurance docked from gross wage
5. Social insurance docked from gross wage
6. Income tax docked from gross wage
7. Savings docked from gross wage
8. Net wage paid from bank account

Charging about VAT in case of advance payments

Law no. 235/2004 of value added tax established a new obligation to declare value added tax in the moment of payment foregoing taxable fulfillment (so called advance payments).

Example 6: A company VAS sells goods in value 100 000 CZK. 2 months before the sale the company received advance payment in value 50 000 CZK. In the moment of sale the invoice bill is going to be issued. VAT rate is 19 %. Define all transactions to be charged, calculate VAT and record all transactions on accounts.

Calculation of VAT from advance payment: Amount 50 000 CZK is considered as amount including VAT.

The VAT will be calculated with the help of coefficient: $19 / 119 = 0,1597$ (rounded on four decimal places).

$VAT = 0,1597 \times 50\ 000\ CZK = 7\ 985\ CZK.$

Amount without value added tax is $50\ 000 - 7\ 985 = 42\ 015\ CZK$

VAT calculated on the invoice bill: The tax base will be the difference between the value of goods (100 000) and amount calculated from advance payment as amount without VAT (42 015 CZK)

$VAT = (100\ 000 - 42\ 015) \times 0,19 = 11\ 017,50\ CZK$

221 – Bank account		324 – Received advance payments		
1)	50 000	2)	7 985	
5)	69 002,50	4)	42 015	1) 50 000

343 – VAT		311 – Trade receivables	
2)	7 985	4)	42 015
3b)	11 017,50	3)	111 017,50
		5)	69 002,50
604 – Revenues from sale of goods			
3a)	100 000		

Transactions:

1. Advance payment received on bank account
2. VAT from advance payment charged (the calculation was done from value of advance payment including VAT)
3. Invoice bill for sale of goods issued (VAT calculated from the difference between value of goods and value without VAT calculated from the total amount of advance payment)
4. Advance payment (in value without VAT) charged as decrease of the receivable resulting from invoice bill
5. The rest of the receivable paid on bank account

Example 7: Charge the previous example as subscriber.

221 – Bank account		153 – Provided advance payments on goods	
1)	50 000	1)	50 000
5)	69 002,50	2)	7 985
		4)	42 015
343 – VAT		321 – Trade liabilities	
2)	7 985	4)	42 015
3b)	11 017,50	5)	69 002,50
		3)	111 017,50
131 – Acquisition of goods			
3a)	100 000		

Transactions:

1. Advance payment paid from bank account
2. VAT from advance payment charged
3. Supplier's invoice bill received and charged (VAT calculated from the difference between 100 000 – 42 015)
4. Advance payment (in value without VAT) charged as decrease of trade liability resulting from invoice bill
5. The rest of the liability paid from bank account

Charging about advance payments on trade travels

Example 8: An employee of company SDF is going to make a business travel. Two days before the travel he received advance payment (in cash) in value 2 000 CZK. After the travel he calculated total amount of the costs connected with the travel in value 3 000 CZK. Charge all transactions.

211 - Cashbox		335 – Receivables for employees			
	1)	2 000			
	4)	1 000	1)	2 000	3) 2 000
512 – Costs on business travels		333 – Other liabilities to employees			
			3)	2 000	2) 3000
2)	3000		4)	1 000	

Transactions:

- 1) Advance payment to employee paid from cashbox
- 2) Real costs spent on travel charged
- 3) Advance payment charged as a decrease of liabilities to employee
- 4) The rest of liability paid from cashbox

Charging about taxes in corporations

Taxes can be divided into two basic groups in the Czech Republic:

- direct taxes (income tax, real estate tax, real estates grant tax, gift tax, inheritance tax, road tax)
- indirect taxes (value-added tax, consumption tax)

The liabilities (or receivables) resulting from taxes are charged on accounts under accounting group 34 - Clearing of dotations and taxes. Clearing of direct taxes is charged as an operating cost on accounts from accounting groups 54 – Other operating costs (all direct taxes except income tax) and

59 – Income taxes and transitive accounts. Advance payments of direct taxes charged before the clearing are charged as a receivable on accounts from accounting group 34.

Example 9: The corporation paid an advance payment on income tax in value 50 000 CZK. The real tax obligation calculated at the end of accounting period was 100 000 CZK. On clearing of other direct taxes the corporation calculated the tax obligation resulting from real estate tax, road tax and gift tax in values 10 000 CZK, 8 000 CZK and 5 000 CZK. All taxes were paid from bank account after the clearing. Charge all transactions.

341 – Income tax clearing		221 – Bank account			
		OS	XXX	1)	50 000
1)	50 000			6)	50 000
6)	50 000			7)	10 000
				8)	8 000
				9)	5 000
591 – Income tax - common activity		345 – Other taxes and fees clearing			
		7)	10 000	3)	10 000
2)	100 000	8)	8 000	4)	8 000
		9)	5 000	5)	5 000
532 – Real estate tax		531 – Road tax			
3)	10 000	4)	8 000		
538 – Other taxes and fees					
5)	5 000				

Transactions:

- 1) Advance payment on income tax paid from bank account**
- 2) Clearing of income tax obligation (notice: the structure of profit and loss statement (income statement) requires to charge separately income tax from common activity and income tax from extraordinary activity (usually account no. 593 – Income tax – extraordinary activity))**

- 3) Clearing of real estate tax obligation (account 345 – Other taxes and fees clearing is usually used for charging about liabilities and receivables connected with road tax, real estate tax, real estate grant tax, gift tax, inheritance tax, consumption tax and fees and is usually divided into several analytical accounts in according to concrete taxes and fees paid by enterprise, for example analytical account 345.1 – Other taxes and fees clearing – road tax, 345.2 - Other taxes and fees clearing – real estate tax, etc.)
- 4) Clearing of road tax obligation
- 5) Clearing of gift tax obligation
- 6) The difference between income tax obligation and income tax advance payment paid from bank account
- 7) Real estate tax paid from bank account
- 8) Road tax paid from bank account
- 9) Gift tax paid from bank account

Indirect taxes does not mean a cost for enterprise. Charging about value-added tax was explained before, charging about consumption tax is very similar.

Remember: Consumption tax creates usually a part of VAT tax base!

Example no. 10: A brewery (VAT payer, consumption tax payer) sells a beer to local shops, the selling price is 10 000 CZK, consumption tax was calculated in amount 2 000 CZK. VAT rate is 19 %. Calculate VAT and charge the sale, accounting document is invoice bill.

VAT calculation = (10 000 + 2 000) x 0,19 = 2 280 CZK

311 – Trade receivables		601 – Revenues from sale of products	
1)	14 280	1a)	10 000
343 – VAT		345 – Other taxes and fees clearing	
	1b) 2 280	1c) 2 000	

Transaction:

- 1) Invoice bill issued for sale of products (account no. 345 usually in analytical evidence in according to kinds of taxes and fees, account 343 usually in analytical evidence in according to tax rates (5 %, 19 %))

Charging about costs, revenues, expenses and incomes connected with future accounting periods

The basic principle of financial accounting is a fact that costs, revenues, expenses and income are charged in the accounting period they are timely related to. In other case it is necessary to charge about these items in accruing principle.

Costs connected with future accounting periods – expenses in actual period timely related to future accounting periods (example - paid subscription)

Revenues connected with future accounting periods – incomes in actual period timely related to future accounting periods (example – cashed subscription)

Expenses connected with future accounting periods – costs in actual period, expense timely related to future accounting periods (example – consumed energy, payment in following period)

Incomes connected with future accounting periods – revenues in actual period, income timely related to future accounting periods

Example no. 11: A company paid subscription for economic magazine for year 2006 in December 2005, payment in cash – 20 000 CZK, in December 2005 the company cashed a payment for services that were going to be realized in year 2006 (for cash) – 10 000 CZK, in December 2005 the energy was consumed, the payment was going to be realized in year 2006 – 5 000 CZK and in December 2005 the services for clients were realized, cashing in year 2006 – 3 000 CZK. Charge all transactions.

381 – Costs connected with future accounting periods

1)	20 000
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211 - Cashbox

2)	10 000	1)	20 000
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384 – Revenues connected with future accounting periods

2)	10 000
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502 – Consumed energy

3)	5 000
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**383 – Expenses connected with
future accounting periods**

3)	5 000

602 – Revenues from sale of services

4)	3 000

**385 – Incomes connected with
future accounting periods**

4)	3 000

Transactions:

- 1) Subscription paid for magazines
- 2) Subscription cashed for services
- 3) Consumption of energy (payment in following year)
- 4) Revenues from services (cashing in following year)