Accounting (Basics) - Lecture 10

ACCOUNTING CONCERNING LONG-TERM BORROWED CAPITAL AND RESERVES (PROVISIONS). OBLIGATION EMISSION AND LONG-TERM BANK CREDITS.

Content

- Accounting concerning long-term borrowed capital and reserves (provisions).
- Obligation emission and long-term bank credits.

Long-term borrowed capital

- This category of long-term borrowed capital includes two large groups:

- Reserves (provisions)
- Long-term liabilities (long-term bank loans and other long-term liabilities)

Long-term borrowed capital

- A criterion of how borrowed capital shall be divided is the **one-year time interval**.
- What is kept as long-term liabilities in the books are those with a maturity period over one year as of emergence.

Long-term borrowed capital

- As the accounting is to be closed and these liabilities posted in the balance sheet, attention must be paid to the fact that time is running and there always comes the moment when the liability is to be paid in less than one year.
- If the balance sheet shall give a true and correct view of the state of such a liability, the liability must be posted in this period as a short-term liability.

Reserves (provisions)

- If a business expects a future one-time large expense that can have a negative impact on profit, then such business shall build up reserve (provision) for such an expense throughout several accounting periods in advance.
- Reserves (provisions) belong to long-term borrowed capital (they represent external sources of corporate assets) to be used for covering specific expense items and risks related to business activities.

Long-term liabilities

- Long-term liabilities are divided into:
  - long-term bank loans,
  - other long-term liabilities,
  - deferred tax (both the liability and receivable are accounted in this group)

Long-term bank loans

- These loans differ from short-term bank loans in the maturity period.
- These loans are accounted as **Long-term bank loans** and a maturity period exceeding one year must have been agreed for these loans.
- Here, also long-term liabilities towards the bank from a discounted loan are accounted.
- Analytical accounts are maintained based on the loans used.

Other long-term liabilities

- These liabilities are mature in more than one year and stem from business and capital operations.

Other long-term liabilities

- They are accounted as **Long-term liabilities** and defined as the following categories for separate accounts:
  - **Long-term liabilities – controlling and controlled person**: expresses mutual relations between controlled and controlling persons. In the majority of cases these are long-term loans.
  - **Long-term liabilities – significant influence**: expresses mutual relations among entities under significant influence and applying this influence (mostly loans).

Other long-term liabilities

- They are accounted as **Long-term liabilities** and defined as the following categories for separate accounts:
  - **Issued bonds** – long-term bonds, accounted correlatively with the emergence of the receivable in a similar way as short-term due securities
  - **Liabilities from rental** stemming from a business renting premises
  - **Long-term advances received** from clients prior to meeting an obligation

Other long-term liabilities

- They are accounted as **Long-term liabilities** and defined as the following categories for separate accounts:
  - **Long-term notes payable** – here own notes and notes received from third parties with a maturity over one year are accounted and interest deferred, if any
  - **Other long-term liabilities** – these liabilities cannot be classified into above categories. Investments into the company from a silent partner are accounted here, for example.

Deferred tax

- **Deferred tax liability and receivable** does not cover the relation to the revenue office, but is used for tracking deferred tax amounts stemming from temporary differences between the tax and accounting views of the income tax calculation.

Deferred tax

- A deferred tax liability emerges whenever the tax duty calculated in accordance with tax aspects is lower than the duty determined under accounting rules, is debited from account **Income tax on ordinary income – deferred** and credit to account **Deferred tax liability**.
- If, on the contrary, the calculation results in a deferred tax liability, it is accounted in same accounts, but on opposite sides.