Accounting (Basics) - Lecture 6

FINANCIAL ACCOUNTS, THEIR STRUCTURE AND IMPORTANCE, CASH, CASH IN TRANSIT, BANK ACCOUNTS

Content

- Financial accounts, their structure and importance
- Cash
- Cash in transit
- Bank accounts

Financial accounts

- Short-term financial assets are assets in which an entity intends to own it, trade it and use it for one year or less than one year.
- It is characterized by high liquidity and immediate tradability.
- Financial accounts capture both financial assets (assets) and financial resources (short-term finance loans and assistances).

Financial accounts

- Short-term financial assets include:
  - Cash - includes cash, ie. money, checks, vouchers and valuables (postage stamps, highway stickers, stamps, phone cards, etc.)
  - Bank accounts - contain bank accounts (current account, foreign currency account, deposit account with a notice period of up to 1 year, etc.).
  - Short-term securities and shares and short-term financial assets – include securities, debt securities and own shares.

.

Financial accounts

- Short-term financial assets include:
  - Transfers between financial accounts include cash in transit, which is intended to cover the time discrepancy between the moment of movement of the funds from bank account to cash box or from current account to loan account etc.
  - Provisions for short-term financial assets. Adjustments are expressed in the temporary impairment of assets.

Financial accounts

- Short-term loans and financial assistance include:
  - Short-term bank loans are loans granted over a period of time up to 1 year, eg. bridging loans, discount bills, and so on.
  - Short-term financial assistance received from others entities than banks and which are under an obligation to do so.

Recording cash transactions

- Cash transactions are those where payment is made or received immediately (i.e. when cash is exchanged at the point of sale/purchase).
- Sales and purchases made by cheque, however, are classed as cash transactions as well.
- The main reason for this is that traditionally such transactions would be processed using a cash register or cash till.
- The cheques and the cash in till would be counted at the end of the day and then transferred to the bank account.

Recording cash transactions

- Credit transactions, on the other hand, where goods are sold and purchased and paid for at a later date are more commonly paid using electronic payments, methods (i.e. they are paid online) and are commonly referred to as bank transactions.
- When cash is received (i.e. receipt of an asset) the entry in the cash ledger is a debit.
- When cash is paid out (i.e. a reduction in an asset) the entry in the cash ledger is a credit.

Recording cash transations

- Illustration
  - Show the following transactions in ledger accounts (Cash, Rent, Purchases, Sales)
  - 1) The company pays 80 for rent by cheque
  - 2) Company sells goods for 230 cash which it banks
  - 3) Company then purchases 70 of goods for resale using cash
  - 4) Company sells more goods for cash, receiving 3 400

Recording cash transactions

- 1) rental expenses 80
  - Debit rent 80, credit cash 80
- 2) selling of goods 230
  - Debit cash 230, credit sales revenue 230
- 3) purchase of goods 70
  - Debit purchases 70, credit cash 70
- 4) selling of more goods 3 400
  - Debit cash 3 400, credit sales revenue 3 400

Recording cash transactions

Cash

(2) 230	(1) 80
(4) 3 400	(3) 70

Sales (Revenue)

	(2) 230
	(4) 3 400

Rent (Expense)

(1) 80	

Purchases

(3) 70	

Evaluating of short-term financial assets and liabilities

- The funds, valuables and liabilities are valued at nominal values.
- Purchased securities are valued at acquisition price, including acquisition-related costs, such as fees and commissions to brokers, advisers and stock exchanges.
- In the event of loss, they are valued using the weighted arithmetic mean of the purchase price or the FIFO method.
- These valuation techniques can be used within the same type of securities, the same issuers etc..

Evaluating of short-term financial assets and liabilities

- At the balance sheet date, securities are priced at fair value (except securities held to maturity).
- The fair value is intended to express the current market valuation of the security.
- Therefore, either the market price quoted on the stock exchange (or other regulated market) or a valuation determined by a qualified estimate.

Valuables

- This account accounts for the state and movement of the valuables prior to their release.
- Valuables are postage stamps, government stamps, phone cards, fuel cards, meal vouchers, prepaid tickets for public transport, etc.
- Valuables entrusted to workers for use for predetermined purposes are recognized as a receivable for employees.

Bank accounts

- Entities use the following types of accounts:
  - Current Account - An entity has funds in its account to finance its own activities.
  - Overdraft Account - Allows the business to make payments even when they are not in the account funds, providing a short-term (overdraft) loan on the basis of credit agreements with the bank.
  - Deposit account – it is used for deposit of temporarily free funds as term deposit for a certain period of time.
  - Foreign exchange account - is intended to store cash in foreign currencies, the accounting entity is obliged to keep it also converted into Czech crowns (in the Czech Republic).

Bank accounts

- The entity is informed about the state and movement of the funds in the account from bank statement.
- The bank forwards the interest, the financial return that is charged for the deposited funds on account Financial revenue.
- For individual operations, the bank charges the fees, which serve to cover the costs associated with the operations concerned.
- These costs are charged on Financial costs.

Transfers between financial accounts

- Cash in transit account serves to cover the time gap between movement of money and issuing appropriate accounting documents.
- Cash in transit is used when the transfer from cash desk to bank account takes place or vice versa.
- Cash in transit account is also used for transfers between two bank accounts or at providing a bank loan and paying its installments.

Transfers between financial accounts

- If the cashier **withdraws money in the bank**, the bank issues an **expense** cash slip, not an **account statement.**
- The cashier of the entity issues a **cash receipt** when receiving the cash and until the Current account statement is received posts in the account **“Cash in transit”** instead of the bank account.

Transfers between financial accounts

- The **Cash in transit** account is also used when a transfer occurs between two bank accounts or when a bank credit and its instalments are provided

Short-Term Securities and Shares and Acquired Short-Term Financial Assets

- Short-term securities include **securities for trading, debt securities, debt securities** with a maturity within one year held to maturity, the company’s **own shares and bonds and other feasible** securities (not tradable on the public market).

Equity securities held for trading

- These securities include **shares** which are **tradable** on the public market **(stock exchange).**
- **The profit is** the **difference** in their **prices** over a short period, not more than one year.
- Their **acquisition** is posted firstly in the **calculation account,** where the **acquisition price** is created (purchase price and costs of acquisition, e.g. fees for exchange brokers).

Equity securities held for trading

- Securities at acquisition price are transferred to the respective account.
- Sales of securities are accounted in two transactions:
  - **a decrement** in securities where the balance of securities on the respective account is decreased, correlatively as a financial cost
  - **origination of a receivable** (or receipt of financial funds) and, at the same time, financial revenue

Example

- *The entity purchased shares at 200 for trading through an invoice, paid commission to the brokers from the bank account; after three months sold the shares at the price of 300.*

Example

Transaction	Text	Amount	Debit	Credit
1.	*Invoice (received) from the broker for purchasing shares*	*200*	*Acquisition of short-term financial assets*	*Other payables*
2.	*Current account statement - paid commission to the broker*	*10*	*Acquisition of short-term financial assets*	*Cash in bank*
3.	*Internal accounting document – transfer of the shares at the acquisition price into evidence*	*210*	*Equity securities held for trading*	*Acquisition of short-term financial assets*
4.	*Current account statement - Payment of received invoice for purchased shares*	*200*	*Other payables*	*Cash in bank*
5.	*Issued invoice for the sale of the shares*	*300*	*Other receivables*	*Revenues from sale of securities and shares*
6.	*Internal accounting document – decrement of shares at the acquisition price*	*210*	*Securities and shares sold*	*Equity securities held for trading*
7.	*CAS (Current account statement) - Payment of invoice for shares sold*	*300*	*Cash in bank*	*Other receivables*

Own shares and equity (own ownership) interests

- This account is used to account for the entity’s **own shares** which the entity issued and which the entity may withdraw for a particular time.
- This happens if, for example, the joint-stock company withdraws shares from shareholders to exchange them for shares with another nominal (face) value or wants to decrease the registered capital, etc.

Bonds held for trading

- This account is used to account for **debt securities for trading** (these securities are used when the issuer acquired financial funds through securities).
- If they are tradable on the public market, the accounting is the same as for Equity securities.

Own bonds

- The account **Own bonds** is used to account for withdrawn not sold bonds of the entity; purchased non-transferable registered bonds before the expiry of the maturity period if the issuer undertook to re-purchase them; repurchased employee bonds in the case of cancelled employees' labour relations.

Bond securities maturing within one year held to maturity

- Securities held **to maturity** are securities that have a firmly stated maturity and the entity wants to hold them to maturity.
- The revenue is either **interest** stated by a **fixed revenue rate** (‘coupon piece’ of securities) or is equal to the **nominal value decreased by the lower rate of issue** (‘discounted piece’ of securities).

Short-Term Bank Credits

- Short-term bank credits are classified as follows:

- **Predefined credits,** i.e. credits for purchasing real estate, machines, equipment, etc.
- **Discount credits,** provided by the bank for owners of bills
- **Guarantee credits,** when the bank guarantees to pay a commitment to a third party for its client
- **Lombard credits,** provided on the pledge of a movable item.

Short-term bank credits

- The source material for accounting for credit accounts is **credit account statements**.
- There are two kinds of credits:
  - **common** – the bank provides financial funds for an entity, they are accounted for through a correlative record to the debit of the bank account.
  - **predefined** - the bank does not provide the entity with financial funds in its bank account, but pays the invoice of the supplier directly from the bank account.

Example

- *If a short-term bank credit is provided, the entity posts the following transactions:*

Example

Transaction	Text	Amount	Debit	Credit
1.	*Credit account statement – short-term bank credit provided*	*200*	*Cash in transit*	*Short-term bank loans*
2.	*Current account statement – crediting the credit on the account*	*200*	*Cash in bank*	*Cash in transit*
3.	*Credit account statement – paying suppliers*	*100*	*Trade payables*	*Short-term bank credits*
4.	*Current account statement – paying interest for the credit*	*10*	*Interest*	*Bank accounts*
5.	*Credit account statement – credit instalment*	*50*	*Short-term bank credits*	*Cash in transit*
6.	*Current account statement – credit instalment*	*50*	*Cash in transit*	*Cash in bank*