Fundamentals of Accounting

Part 1

Purpose and the aim of the course

1. *Features and functions of the accounting system.*
2. *Basic principles of qualifying, classifying and valuing operating assets and investment assets.*
3. *Characteristics and principles of valuation of equity and liabilities.*
4. *The concept of preserving capital and the risk of a business.*
5. *Qualitative features and structure of the financial statements.*

- After completing the study and confirming the learning outcomes, one will understand the basic laws, regulations, and principles of business unit accounting, understand the scope and general structure of the balance sheet and profit and loss account, be able to classify assets and financing sources in the balance sheet, as well as the elements that form result finance, record simple balances and results of economic operations, see their impact on financial statement projects, and supplement and improve the knowledge and skills acquired in the accounting field.
- Able to utilize learned knowledge to solve decision-making problems in accounting.

Deatiled Schedule of the Course

- The aim of the course is to familiarize students with the principles of identifying and measuring the company's assets and capital in accounting and measuring the effects of operations, as well as presenting the qualitative features and structure of the financial statements.
  - 1. Basic financial categories and general principles of their measurement in accounting, 2. General principles of preparing separate financial statements,
  - 3. Accounting records of balance sheet operations,
  - 4. Accounting records of revenues and costs, profits and losses,
  - 5. Tax accounting records,
  - 6. Detailed principles of measurement, presentation and recording of typical categories of the accounting system,
  - 7. Prepayments and provisions,
  - 8. Deferred income tax assets and provisions,
  - 9. Principles of determining the financial result.

Other topics to be covered

- Introduction to accounting
- Definitive accounting treatment
- Financial and management accounting
- The legal basis of accounting
- Keeping the books of accounts
- Accounting documents
- Economic unit assets
- Sources of assets
- Balance sheet - content, features and structure
- Economic operations, their characteristics and division
- The impact of economic operations on the components of the balance sheet
- Accounting account

Accounting

- The accounting system has been formed over the centuries under the influence of socio-economic changes taking place in the development of humanity. A historical look at the development of accounting allows us to distinguish three components of this system:

accounting;

cost accounting;

financial reporting

- Accounting has a historical justification, derived from the forms of keeping records, when data were recorded in binding (tied) books, which was a sufficient basis for defining this form of records as accounting (bookkeeping), and people dealing with this record – as accountants (bookkeepers). Over the years, binding books gradually began to go out of use and were replaced first by loose account cards and registers, and nowadays by various types of statements (printouts), made using modern information technologies using computer technology.
- The cost and loss account collects and processes information about the revenues and costs of business activity and makes it possible to determine the financial result (profit or loss).
- Reporting is considered to be the final stage of data processing in the accounting system and is designed to present in a synthetic manner information on the property and financial position and performance of the entity in the form of financial statements; the presentation of this information can be addressed to various recipients – both internal and external

Balance sheet and subject method

- In **the field of creating various information sets**, accounting uses the balance sheet method. It consists in recognizing, grouping and presenting the assets of the enterprise and all economic events always bilaterally and equivalently, i.e. on the balance sheet.
- The **balance sheet method** is universal and has survived for centuries, regardless of changes in political and economic systems. On the basis of the balance sheet method, the principle of bilateral book entry was described, also referred to in the literature as the principle of double book entry.
- The subjective method consists in the fact that accounting is carried out separately for each economic entity (enterprise), separated in terms of organization and law. In the accounting system, economic information is captured, grouped and processed separately for each enterprise.
- ***For example, the classification of an enterprise's assets and the interpretation of economic events take place from the point of view of that enterprise.***

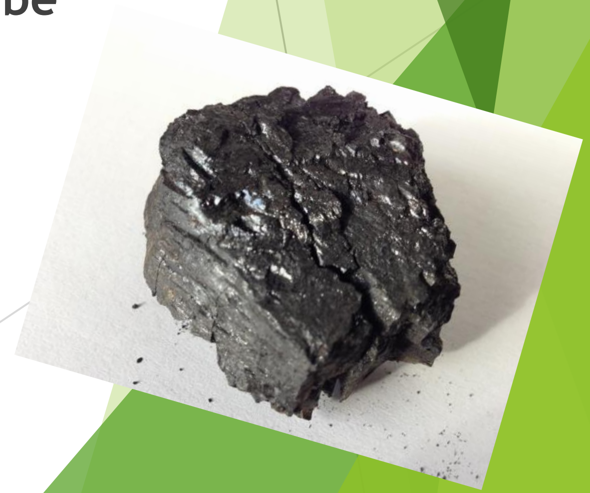
Example 1

Hard coal as an asset of an enterprise will be classified differently from the perspective of different enterprises:

in a hard coal mine, it will be included in the group of resources referred to as finished products (the effect of the mining process);

in the composition of fuel, acquired for the purpose of resale, will be classified in the group of resources referred to as goods (commodity);

in the thermal power plant, hard coal is used as a fuel, which is why it will be included in the group of resources referred to as materials.



Example 2

- **Alfa sells goods to Beta.** The transaction will be classified and interpreted differently from the point of view of Alpha and differently from the perspective of Beta.
- At Alfa, the transaction will be recognized as a transaction for the sale of goods, and from Beta's point of view, it will be interpreted as a transaction for the purchase of goods.
- The sale process (at Alfa) and the purchase process (at Beta) have different legal, financial and accounting effects on the accounting systems of these companies.

Regulations

- Financial accounting is regulated by specific legal norms, which – depending on the legal system – may take the form of laws, regulations or generally accepted standards prepared and adopted by professional professional organizations.
- The use of legal regulations in accounting leads to reliable collection and presentation of information and to its comparability.

- The basic legal act regulating the accounting system in most countries is the Accounting Act.
- It applies to all entities (enterprises, institutions, banks, insurers and others) that are obliged to apply it in practice. The Act regulates individual areas of accounting, including:
  - ***general provisions clarifying the basic obligations, concepts and principles of accounting;***
  - ***rules for documentation and bookkeeping;***
  - ***valuation of assets and liabilities and determination of profit or loss;***
  - ***financial reporting;***
  - ***auditing, making available and publishing financial statements;***
  - ***protection of accounting data;***
  - ***criminal liability of the head of the unit for accounting.***

Fundamentals of Accounting

Part 2

ASSETS

An enterprise controls assets of a reasonably determined value that are obtained as a result of past events that will result in economic benefits being inflowed into the enterprise in the future.
If the asset does not meet any of the above criteria, it cannot be included in the balance sheet.

Controllability is economic control, there is no requirement for ownership of resources

Reliable value – Assets must be quantified in a reliable manner.

Past events – acquisition, production, receipt

Future economic benefits – assets must be transferable directly or contribute to revenue or directly increase equity

LIABILITIES

These are sources of financing the assets of an enterprise.

Liabilities are to be exchanged according to maturity and divided into equity (own fund) and liabilities and provisions for liabilities. Equity is also defined as net assets, i.e. "assets of an entity less liabilities, corresponding in value to equity".

The accounting defines liabilities as "the obligation arising from past events to perform benefits of a reliably determined value that will result in the use of the entity's existing or future assets".

ASSETS

Wealth from the point of view of liquidity (i.e. the freedom to exchange for more liquid resources) and which it fulfils in economic processes.

Fixed-term assets with low financial liquidity, usually burdened with high risk, difficult to convert into money, its scope should only be necessary for the purpose of performing economic tasks

Current assets - short-term, with increasing liquidity, used directly to generate profit, characterized by rapid turnover

LIABILITIES

Sources of financing of property resources may come from internal sources (their owners are the entities themselves) or from external sources, entrusted, borrowed, etc.

Equity - contributed by shareholders, from retained sources (distributed profit) or temporary sources - profit of the financial year

Foreign capital - is primarily trade credit (current liabilities), long-term liabilities, loans, loans, etc.

Accounting functions

The development of the information function has led to a close link between accounting and management.

This was reflected in the separation of the financial and management accounting department.

The specificity of tax settlements and the need to anticipate tax burdens led to the separation of tax accounting. It is to inform about the current obligations of the entity towards the tax office, deferred taxes and possible burdens resulting from planned projects.

Accounting can therefore be presented as a system consisting of three information segments

Accounting system

Accounting Financial	*Accounting Tax*	*Accounting Management*

Economic activity involves the obligation to keep records of economic events

- An economic event is a broader concept than an economic operation.
- Economic events are all facts about economic activity.
- Every economic operation is an economic event, but not every economic event is an economic operation.

The consequence of an economic event are certain economic operations, e.g. signing a contract with an employee is an economic event that in the future will trigger an economic operation in the form of payment of remuneration

Economic event

- **An economic event which:**
  - It is expressed in value,
  - Affects the state of assets and liabilities,
  - Causes changes in the value of the financial result
  - IS AN ECONOMIC OPERATION
    - Examples?

Tax books and accounting books

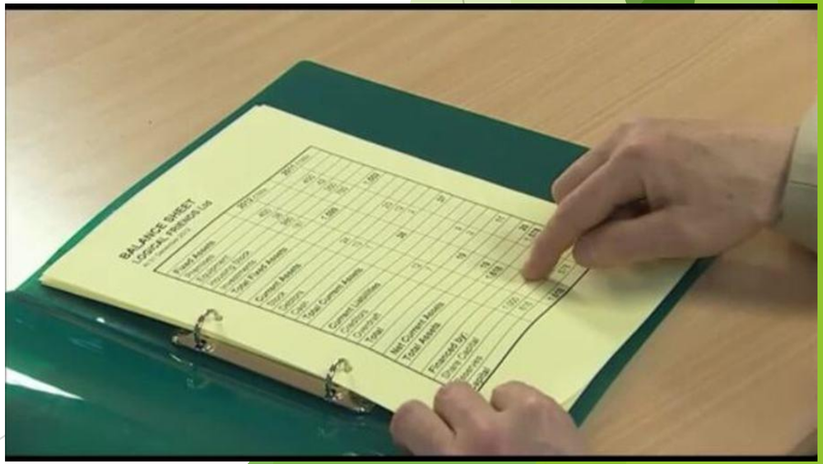
The collection of taxpayers is a much broader set than the set of entities obliged to keep accounting records. Taxpayers can be divided according to the criteria set out below

TAXPAYERS

- Obliged to keep accounting books
- Taxpayers obliged to keep a book of revenues and expenses
- Taxpayers obliged to keep other records
- Taxpayers exempt from the obligation to keep books or records

Books

- Every entrepreneur is obliged to record the business operations of his company. However, how they will be registered depends largely on the legal form of the business and the annual revenue generated. Taxpayers may conduct business using simplified or full accounting.



Fundamentals of Accounting

Part 3

Simplified accounting

- The entrepreneur only has to - as a rule - conduct:

  records of fixed assets,

  equipment records,

  vehicle mileage records (for PIT or VAT purposes),

  VAT register of sales and purchases - in the case of active VAT taxpayers,

  revenue and expense ledger.

Full accounting

- Bookkeeping based on **full books**.
- It results in an increase in obligations in relation to the recording of the company's business operations.
- The entrepreneur will be obliged to recognize all business operations, i.e. to keep the so-called accounting books, which include:
- ***general ledger,***
- ***supporting books,***
- ***statements of turnover and balances of general ledger accounts and balances of auxiliary ledger accounts,***
- ***list of assets and liabilities (inventory)***
- In addition, the entrepreneur will also be obliged to prepare financial statements, which include: balance sheet, profit and loss account, introductory information to the report, as well as additional information and explanations.

Functions of accounting and tax books

Accounting book functions → Correct recording of business operations, recording changes in assets and sources of their origin, as well as enabling the correct determination of the financial result of the entity.

Functions of tax books → Recording of economic events in a way that allows for the correct determination of tax liability

The Accounting Act is not included in the group of tax acts. It is only under tax regulations that accounting books gain the value of tax records. This is manifested m.in the principle that if the accounting records are kept in a reliable and non-defective manner, the tax liability cannot be determined on the basis of other evidence.

Accounting policy in the entity

An entity should have documentation describing its accounting policies, in particular those relating to

1) determining the financial year and its reporting periods;
2) methods for the valuation of assets and liabilities and for determining profit or loss;
3) the manner of keeping the accounts, including at least:
the company chart of accounts, establishing the list of general ledger accounts, the adopted rules for the classification of events, the rules for maintaining auxiliary ledger accounts and their connection with general ledger accounts,
a list of accounting books, and when keeping accounting books using a computer - a list of data sets forming accounting books on COMPUTER data carriers with the determination of their structure, mutual connections and their functions in the organization of the entire accounting books and in data processing processes,
a description of the data processing system, and when keeping accounting books using a computer
4) a system for the protection of data and their files, including accounting evidence, accounting books and other documents constituting the basis for entries made in them.

Accounting books

Diary/Journal

The journal contains a chronological account of events that occurred during a given reporting period. Records must be numbered sequentially and sums of records (turnover) counted continuously. The manner in which the journal entries are made should make it possible to link them unequivocally to verified and validated accounting evidence.

When keeping accounting books using a computer, the accounting entry should be automatically assigned the number of the item under which it was entered in the journal, as well as data allowing to determine the person responsible for the content of the record.

Accounting books

General ledger accounts

General ledger accounts contain records of events on a systematic basis.
General ledger accounts are subject to the inclusion of previously or simultaneously recorded events in accordance with the double-entry principle. Entries in a specific general ledger account are made in chronological order.

Subledger accounts

Secondary ledger accounts contain entries that detail and supplement the records of general ledger accounts.
They are conducted in a systematic way as a separate system of books, files (sets of accounts), computer data sets, agreed with balances and entries on general ledger accounts

Accounting books

List of assets and liabilities

The list of assets and liabilities (inventory), confirmed by their inventory, is drawn up by entities that have not previously kept accounting books in the manner specified by law. In other entities, the role of inventory is performed by the statement of turnover and balances of general ledger accounts and statements of balances of auxiliary book accounts prepared as at the date of closing the accounting books.

Breakdown of turnover and general ledger balances

Prepared on the basis of general ledger entries at the end of each reporting period, at least at the end of the month, it shall contain:
(1) symbols or account names;
2) account balances as at the date of opening of the accounting books, turnover for the reporting period and cumulatively since the beginning of the financial year and balances at the end of the reporting period;
3) the sum of balances as at the date of opening of the accounting books, turnover for the reporting period and cumulatively since the beginning of the financial year and balances at the end of the reporting period.

Fundamentals of Accounting

Part 4

Bookkeeping rules

Reliability

Reliability means that the books present the actual state

Currently

All accounting evidence qualified for posting in a given month was completely and correctly entered into them, the continuity of records and the error-free operation of the calculation procedures used were ensured.

Checkable

They allow to determine the correctness of the records made in them, states (balances) and the operation of the applied calculation procedures

Up-to-Date

The information derived therefrom enables the entity to prepare financial and other statements, statements, including tax returns, and financial settlements within the time limits applicable to the entity.

The basic activity in keeping accounting books are accounting records.

The condition for making an entry is to have an accounting proof

The accounting proof shall contain at least:
1. determination of the type of proof and its identification number;
2) identification of the parties (names, addresses) carrying out the economic operation;
3. a description of the operation and its value, if possible, also specified in natural units;
4. the date of the operation and, where the evidence was taken on a different date, the date on which the evidence was taken;
5) the signature of the issuer of the proof and the person from whom the assets were issued or accepted;
6) confirmation of verification and qualification of evidence for inclusion in the accounting books by indicating the month and the method of recognition of evidence in the accounting books (decree), signature of the person responsible for these indications.

Accounting evidence

Due to the issuing entity and the purpose of the proof

- **External** received from contractors
- **External own -** transferred to contractors
- **Internal -** concerning operations within the unit

Evidence to be taken by the entity itself

- **Bulk -** total collections of documents
- **Corrective -** correcting previous operations
- **Substitute -** when the entity has not received external foreign proof on time, the head of the unit may decide to issue a replacement proof documenting the business operation
- **Settlements -** subscriptions are made according to new criteria

Features of accounting evidence

- Accounting evidence should be reliable, consistent with the actual course of the business operation they document, complete, and free from accounting errors. It is unacceptable to carry out erasures and alterations in accounting evidence.
- The accounting proof of foreign currencies should include a conversion of their value into national currency at the exchange rate in force on the day of the economic operation.
- Errors in internal evidence may be corrected by deleting the erroneous content or amount, while maintaining the legibility of deleted expressions or numbers, entering the correct content and the date of correction and signing the person authorized to do so.

The company chart of accounts creates a structured list of names and numerical symbols of accounts used in the enterprise to record the total economic resources held and their sources of financing, any changes therein and the results of their activities. It is supplemented by a commentary explaining the content and interconnections of the accounting accounts adopted in the entity By law, the obligation to prepare a chart of accounts for a given enterprise rests with the head of the entity.

The chart of accounts shall include:

- Catalog of general ledger accounts (list of synthetic accounts)
- Adopted rules for the classification of economic events
- Rules for maintaining secondary ledger accounts and their association with general ledger accounts

Features of the company chart of accounts

The chart of accounts must make it possible to prepare:
sound financial statements,
statistical financial statements established by the President of the Central Statistical Office,
tax returns and returns

Rules for drawing up the company's chart of accounts

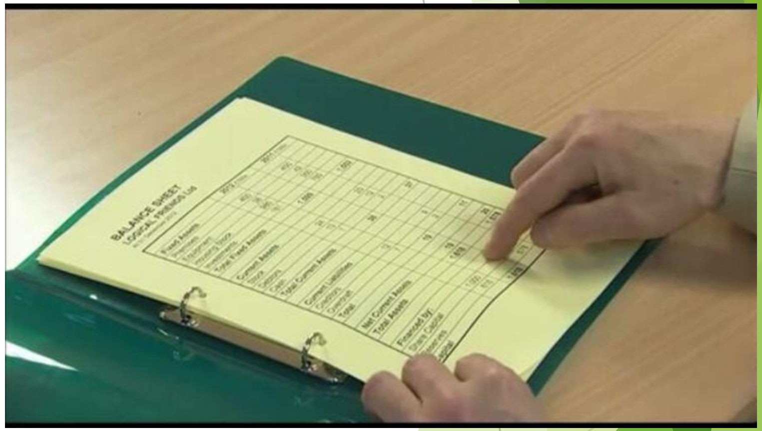
It is not obligatory. The provisions of the balance sheet law allow entities to prepare their own charts of accounts.
It is determined and modernized by the head of the unit. As a result, it can:
adopt a model chart of accounts as binding in his company,
make the necessary changes to the model plan, taking into account the specificities of the unit and the information needs of the management, or develop your own company chart of accounts.

Definition of accounting

- *Accounting is a system of measuring and describing business activity.*
- *Purpose*:
- *Provision of financial information on the activities of the enterprise*
- *Accounting system:*
- *The concept of accounting is very broad and covers a wide range of issues.*
- *Accounting is a comprehensive, structured system that makes it possible to measure, record, group and present economic phenomena (economic operations) for the purpose of managing an enterprise in accordance with the actual state of a given economic entity.*

Accounting functions

- **Control function**
- Allows for ongoing control of economic operations and changes in assets
- **Reporting and analytical function**
- It consists in preparing numerical summaries (reports) submitted to offices to entities, offices of state statistics, published by capital companies for the needs of shareholders, shareholders, contractors, etc.
- **Evidentiary function**
- It enables the presentation of documents, accounting books and financial statements at the request of courts, law enforcement agencies, offices and tax inspections as reliable evidence in court and tax proceedings.



Principle	What?
The principle of the true image	*An entity shall apply overarching accounting policies and detailed principles for the measurement and measurement of components* *Failure to comply with this principle would call into question the accounting credibility of the entity, and thus would call into question the probative value of the report and its usefulness for information.*

Principle	What?
Accrual principle	*The effects of the event are recognized regardless of the date of payment as well as the method of documentation, which only needs to be reliably estimated.*

Principle	What?
Principle of proportionality of costs and revenues	*In order to determine the financial result of a given financial year, the income and expenses shaping that result should be used.*

Principle	What?
The principle of prudent valuation	*It consists in taking into account all changes that have a negative impact on the financial result, which, assuming its probable, irreversible distribution between shareholders, should be determined in the most prudent proportions Should not be overstated and costs and liabilities should not be underestimated.* *Practical implementation is m.in write-downs and provisions. Impairment losses apply to all assets, with the exception of cash accumulated.*

Principle	What?
Principle of continuity	*The entity's accounting policies should be applied on a continuous basis to ensure comparability between the elements of the balance sheet and profit or loss*

Principle	What?
Materiality principle	*It also gives the individual authority to make some simplifications. For example, one-off write-off of costs of purchase of fixed assets that are insignificant from the point of view of the entity, or including purchase costs directly in the costs of selling these goods or not determining the production is incomplete if its value is low.*

Principle	What?
Going concern principle	*The valuation of assets and liabilities and the determination of profit or loss are carried out at historical cost and the balance sheet date is the 'normal business day'.*

Principle	Purpose	What?
The principle of superiority of content over form	*It is a development of the principle of the true image. Business operations should be shown in the accounts and in the financial statements in accordance with their economic content.*	*Some operations are shown even if it does not fully coincide with their formal expression.*
Principle of implementation	*Profits arise only at the time of sale or activities with equal sales.*	*Therefore, we do not overestimate "upwards" stocks, about which we even have some information about the increase in their market price.*

Bookkeeping technique

- The accounts, taking into account the technique of their keeping, should be:
- **permanently marked** with the name (full or abbreviated) of the entity to which they relate (each tied book, each loose account card, even if they are in the form of a computer printout or statement displayed on a computer monitor screen), the name of the type of ledger concerned and the name of the processing program;
- **clearly indicated as** to the financial year, reporting period and date of preparation;
- **stored carefully in** a fixed order.

Keeping books using a computer

- When keeping accounts using a computer, automatic control of the continuity of records, transfers of turnover or balances should be ensured. Computer printouts of accounting books should consist of automatically numbered pages, with the first and last marked, and be added up on subsequent pages continuously during the financial year.
- The accounts must be printed no later than the end of the financial year. The transfer of the content of the accounts to an IT data carrier ensuring the durability of the record of information for a period not shorter than that required for the storage of accounting books is considered equivalent to printing.

- The unit (company) is subject to detailed rules for the conduct of:
- *Journal*
- *General ledger accounts*
- *auxiliary ledger accounts (including the determination of the method of keeping the books),*
- *periodic summaries,*
- *statements of assets and liabilities (inventory),*
- *the policy of drawing up and storing accounting evidence,*
- *a policy for correcting accounting errors.*

Journal

- The journal contains a chronological account of events that occurred during a given reporting period. Irrespective of the technique of bookkeeping, the journal should make it possible to reconcile its turnover with the turnover of the statement of turnover and balances of the general ledger accounts. What's more, the entries in the log must be numbered sequentially, and the sums of entries (turnover) counted continuously. The manner in which the journal entries are made should make it possible to link them unequivocally to verified and validated accounting evidence.
- It should be noted that, when keeping accounting books using a computer, the book entry should be automatically assigned the number of the item under which it was entered into the journal, as well as data allowing to determine the person responsible for the content of the record.

General ledger accounts

- General ledger accounts contain records of events on a systematic basis. General ledger accounts are subject to the inclusion of previously or simultaneously recorded events in accordance with the double-entry principle. What's more, entries in a specific general ledger account are made in chronological order.

Subledger accounts

- Secondary ledger accounts contain entries that detail and supplement the records of general ledger accounts. They are conducted in a systematic approach as a separate system of books, files (sets of accounts), computer data sets, agreed with balances and entries on general ledger accounts. It should be noted that natural units may be used in auxiliary ledger accounts during the reporting period, alongside or instead of monetary units.
- At the end of the reporting period, a statement of entries made in the auxiliary book accounts in natural units should then be drawn up and their value determined.

Subledger accounts

- Maintaining subledger accounts is especially required for:
- fixed assets, including fixed assets under construction, intangible assets and depreciation or depreciation write-offs made on them;
- settlements with counterparties;
- settlements with employees, and in particular as a personal record of employees' remuneration ensuring obtaining information from the entire period of employment;
- sales operations (sequentially numbered own invoices and other evidence, with the detail necessary for tax purposes);
- purchase operations (foreign invoices and other evidence, with the detail necessary for the valuation of the assets and for tax purposes);
- costs and assets that are relevant to the entity;
- cash operations in the case of cash register operations.

Listings

- On the basis of the entries in the general ledger accounts, at the end of each reporting period, at least at the end of the month, a statement of turnover and balances is drawn up, containing:
- **symbols or account names;**
- **account balances** at the date of opening of the accounts, turnover for the reporting period and cumulatively since the beginning of the financial year and balances at the end of the reporting period;
- **the sum of balances** at the date of opening of the accounting books, turnover for the reporting period and cumulatively since the beginning of the financial year and balances at the end of the reporting period.

Unit Manager

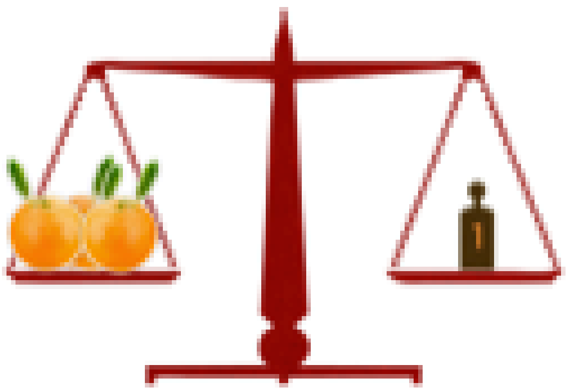
- The head of the entity, taking into account the nature and value of individual groups of tangible current assets held by the entity, decides to use one of the following methods of keeping auxiliary book accounts for these groups of assets:
- *quantitative and value records, in which for each component the turnover and stocks in natural and monetary units are recorded;*
- *quantitative records of turnover and stocks kept for individual components or homogeneous groups of them only in natural units. The value of the inventory shall be valued at least at the end of the reporting period for which income tax settlements are made with the budget on the basis of actual data;*
- *records of turnover and stocks of goods and packaging kept for retail outlets or storage places, the subject of which are only revenues, expenditures and stocks of the entire stock;*
- *write-off the value of materials and goods at the date of their purchase or finished products at the time of their manufacture, combined with the determination of the condition of these assets and its measurement, and the adjustment of costs by the value of this state, no later than at the balance sheet date.*

The head of the unit, in particular:

- is responsible for the performance of accounting duties specified by the Act, including supervision,
- is obliged to inform the tax authorities about the place of storage of books, ensures the availability of these books for the purposes of possible control proceedings,
- is obliged, in the case of some entities, to prepare together with the annual financial statements also a report on the activities of the entity (in the case of capital companies, limited joint-stock partnerships, mutual insurance companies, mutual reinsurance companies, cooperatives, state-owned enterprises),
- ensures that the annual financial statements are prepared no later than within 3 months from the balance sheet date and presents them to the competent authorities, in accordance with the applicable law, statutes or agreements,
- signs the annual financial statements (as well as financial statements prepared at another balance sheet date),
- the manager of the parent company signs the consolidated financial statements,
- concludes an agreement with an entity authorized to audit financial statements for the audit or review of financial statements,
- submits to the relevant court register the annual financial statements, the opinion of the statutory auditor, if it was subject to audit, a copy of the resolution or decision of the approving body on the approval of the annual financial statements and the distribution of profit or coverage of loss, and in some cases – also the management report – within 15 days from the date of approval of the annual financial statements,
- fulfils other information obligations specified in the Accounting Act.

Inventory

- The list of assets and liabilities (inventory), confirmed by their inventory, is drawn up by entities that have not previously kept accounting books in the manner specified by law. In other entities, the role of inventory is performed by the statement of turnover and balances of general ledger accounts and statements of balances of auxiliary book accounts prepared as at the date of closing the accounting books.



Accounting evidence

- The basis for entries in the accounting books are accounting evidence confirming the execution of an economic operation. The accounting evidence shall consist of:
- **external foreign - received from contractors;**
- **external own - transferred in the original to contractors;**
- **internal - concerning operations inside the unit.**

The Accounting Act also allows accounting evidence prepared by an entity:

aggregate - used to make joint records of the set of source evidence, which must be individually listed in the aggregated evidence;

correcting previous records;

substitute - issued until external foreign source evidence is received;

settlement - including already made entries according to new classification criteria.

- In the event of a justified inability to obtain external source evidence, the head of the unit may allow the business operation to be documented by means of accounting substitute evidence drawn up by the persons carrying out those operations. However, this may not apply to economic operations involving purchases subject to **value added tax**.

Entries in the books

- In addition, the accounting evidence should be reliable, i.e. consistent with the actual course of the economic operation they document, complete and free from accounting errors. It is unacceptable to carry out erasures and alterations in accounting evidence.
- Entries in the accounts are made in a permanent manner, without leaving spaces allowing for subsequent additions or changes. When keeping accounts using a computer, appropriate procedures and measures must be applied to protect against destruction, modification or concealment of the record.

Entries in the books

- The accounting entry should contain at least:
- **the date on which the economic operation was carried out;**
- **the type and identification number of the accounting evidence on which the entry is based and its date, if different from the date of the operation;**
- **intelligible text, abbreviation or code for the description of the operation, except that written explanations of the content of the abbreviations or codes must be provided;**
- **the amount and date of enrolment;**
- **identification of the accounts to which it relates.**

- The accounting books should be kept reliably, flawlessly, verifiably and on an ongoing basis. Accounts shall be considered reliable if the entries made in them reflect the actual state. Accounting books shall be deemed to be kept without error if all accounting evidence qualified for entry in the accounts in a given month has been completely and correctly entered continuity of entries and the error-free operation of the c procedures used have been ensured.
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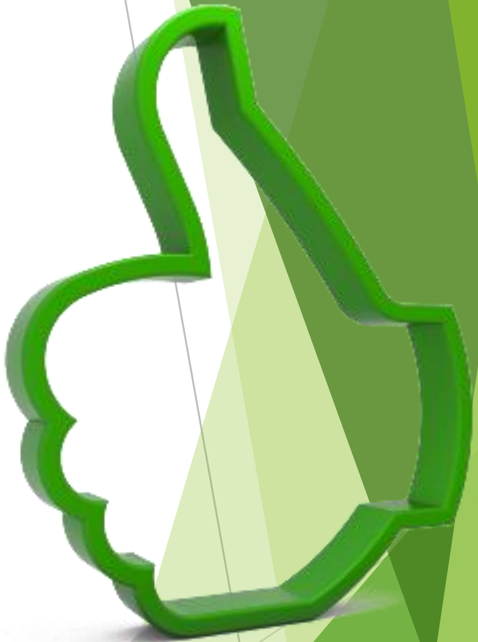
- Accounts shall be considered verifiable if they make it possible to ascertain the correctness of the entries made in them, the stocks (balances) and the operation of the calculation procedures used, and in particular:
- **documenting records allows** for the identification of evidence and how it is recorded in accounting books at all stages of data processing;
- **the records are arranged chronologically and systematically** according to classification criteria that enable the entity to prepare financial and other statements, statements, including tax returns, and financial settlements;
- **in the case of keeping accounts using a computer**, control of the completeness of the accounting system files and data processing parameters shall be ensured;
- **access to data sets shall be ensured which allow**, whatever technique used, clear and understandable information on the content of the entries made in the accounts to be obtained at any time and for any reporting period.



REPORTING

- The basis of analytical activities is information.
- In general, sources of information can be summarized in two groups:
- *internal materials,*
- *external materials.*
- Interior materials can be divided into:
- *record,*
- *non-record.*

Recording materials

- Primary documentation – constituting the basis for records in recording devices (all documents related to business activity).
- Secondary documentation – including pre-processed data.
- Records – made in analytical and synthetic recording devices.
- Enterprise reporting – statements, settlements, notes, controls, reports.

Non-record materials

- Material and financial plans – business plans, calculations, cost estimates.
- Results of previous analyses.
- Control/audit materials.
- Reports and minutes, e.g. from meetings of the supervisory board or the management board.
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Enterprise reporting

- In-kind reporting
- It presents both numerical data and those expressed in physical units. Examples:
- List of fixed assets,
- Depreciation tables,
- Data on the use of working time,
- Sales forecasts,
- Information about the status and movement of inventory.
- Financial reporting

Financial reporting

- It includes information on the management of resources, streams and factors in the enterprise.
-
- It is characterized by:
- Significance,
- Verifiability,
- Reliability
- Measurability,
- Reality,
- Cognitive value,
- The economic value of information.
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Financial reporting

- Subject to standardization. It is therefore drawn up in accordance with generally applicable rules and standards.
- A financial statement is a document that shows the financial consequences of transactions and other events by grouping them into
consistent with their economic characteristics.
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Classification of reports and reports

- Individual reports,
- Consolidated accounts.

Financial statements

- Financial statements, as the basic source of data for financial analysis, may be of a separate or consolidated nature.
- Consolidated financial statements consist of capital groups which, in addition to their own financial data as a parent undertaking, also contain data of subordinate, co-subsidiary and associate entities at each level of management.
- In this way, the capital group presents itself as a single economic entity. From a legal point of view, subordinated entities are not obliged to prepare ifrs reports, but as a rule, parent entities in a capital group impose this obligation on subordinate entities.

Financial statements

- **According to the law, which keep accounting books, the financial statements include:**
- *Balance sheet*
- *Income Statement,*
- *Additional information – introduction to the financial statements and additional information and explanations.*
- **In addition, the audited entities shall draw up:**
- Statement of changes in equity, which is a set of operations that increase and decrease the capital of owners.
- Cash flow statement.

Financial statements of the entity

The financial statements are the most important report of an enterprise.
They are drawn up at the end of each financial year of the enterprise or in another - provided for by law - for the purpose of closing the accounts.
This document has a strictly defined form.
It should be performed in a reliable and comparable manner so that its addressee can efficiently read all the necessary information.

Scope of the report

The financial statements shall consist of:
1) balance sheet;
(2)the profit and loss account;
(3)notes, including an introduction to the financial statements and additional information and explanations.

Features of the financial statements

The report shall be distinguished by:

Credibility (reliability),
Intelligibility for users,
Completeness
Comparability,
Verifiability,
Punctuality,
Business continuity.

Recipients of financial statements

- Investors
- creditors using reports when making decisions on granting a loan, bank loan or sale with a deferred payment date,
- government agencies and local governments, using reports when assessing the compliance of the company's activities with applicable legal regulations,
- competition using reports when assessing strengths, weaknesses and the company's competitive strategy,
- a manager using reports in decisions related to the management of the company.

BALANCE SHEET

- The balance sheet is the basic financial statements of the enterprise, which present the state of assets and sources of their financing at a given moment. It is, in a sense, a "photograph" of the company, presenting its static image.
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Consolidated balance sheet

AS AT 31 DECEMBER 2014

	NOTE	2014 US$M	2013 US$M
Assets			
Cash and cash equivalents	9	**852**	1,238
Investments	10	**27,716**	29,368
Derivative financial instruments		**20**	33
Trade and other receivables	11	**4,748**	5,119
Current tax assets		**5**	16
Deferred insurance costs	12	**2,031**	2,221
Reinsurance and other recoveries on outstanding claims	19	**3,464**	3,461
Other assets		**15**	11
Assets held for sale	13	**1,096**	50
Defined benefit plan surpluses	21	**44**	39
Property, plant and equipment	14	**362**	408
Deferred tax assets	15	**787**	801
Investment properties		**15**	13
Investment in associates		**14**	13
Intangible assets	16	**3,831**	4,480
Total assets		**45,000**	47,271
Liabilities			
Derivative financial instruments		**73**	20
Trade and other payables	17	**1,228**	1,614
Current tax liabilities		**192**	219
Liabilities held for sale	13	**671**	–
Unearned premium	18	**7,366**	8,184
Outstanding claims	19	**20,412**	21,669
Provisions	20	**95**	114
Defined benefit plan deficits	21	**117**	80
Deferred tax liabilities	15	**183**	397
Borrowings	22	**3,581**	4,571
Total liabilities		**33,918**	36,868
Net assets		**11,082**	10,403
Equity			
Share capital	23(A)	**9,391**	9,195
Reserves	23(B)	**(1,405)**	(1,470)
Retained profits		**3,044**	2,631
Shareholders' funds		**11,030**	10,356
Non-controlling interests		**52**	47
Total equity		**11,082**	10,403

The consolidated balance sheet should be read in conjunction with the accompanying notes.

Oriole Company			
Balance Sheet			
December 31 2022			
Assets			
Current assets			
Cash		$ 10,419	
Account receivable		11,088	
Prepaid insurance		2,816	
Total current assets			$ 24,323
Property, Plant and Equipment			
Land		53,856	
Building	$ 93,104		
Less: Accumulated depreciation-building	40,128	52,976	
Equipment	72,512		
Less: Accumulated depreciation-equipment	16,474	56,038	162,870
Total assets			**187,193**
Liabilities and Stock holder's Equity			
Current liabilities			
Account payable		8,360	
Notes payable		11,968	
Interest payable		3,168	
Total current liabilities			23,496
Long-term liabilities			
Notes payable			70,400
Total liabilities			93,896
Stock holder's equity			
Common stock		52,800	
Retained earnings		40,497	
Total stock holder's equity			93,297
Total liabilities and stock holder's equity			**187,193**

Account Description	Debit	Credit
Customer sales on account $400,000.		
Accounts Receivable	400,000	
Sales Revenue		400,000
Received payments from customers in cash $380,000.		
Cash	380,000	
Accounts Receivable		380,000
Purchased merchandise on credit $220,000.		
Inventory	220,000	
Accounts Payable		220,000
Paid cash to vendors $230,000.		
Accounts Payable	230,000	
Cash		230,000
Costs related to merchandise sold $170,000.		
Cost of Goods Sold	170,000	
Inventory		170,000
Operating expenses were paid in cash $80,000		
Operating expenses	80,000	
Cash		80,000
Interest paid on the note in cash $10,000.		
Interest payable	2,310	
Interest expense 46200 x 10%	4,620	
Prepaid Interest	3,070	
Cash		10,000
Depreciation expense	20,000	
Accumulated Depreciation		20,000

BALANCE SHEET

- Therefore, it should meet the formal requirements, i.e. include:
- identification of the entity drawing up the balance sheet,
- indication of the balance sheet moment,
- specification of the intended items, groups and their values,
- signatures of persons responsible for the fair and correct preparation of the balance sheet,
- the date on which the balance sheet was drawn up.

BALANCE SHEET

- The above-mentioned Act imposes on business entities keeping accounting books the obligation to prepare a balance sheet at a specific date, the so-called balance sheet date, which may be:
- the day which ends the financial year (31 December),
- the date on which the activity ceases in connection with the sale of the company, the termination of liquidation or bankruptcy proceedings,
- the day preceding the change of legal form, putting the entity in liquidation or bankruptcy,
- another date on which the entity is obliged to draw up a balance sheet and other financial statements (e.g. joint-stock companies listed on the stock exchange are obliged to present quarterly reports).

BALANCE SHEET

- The layout of the balance sheet shall be governed by the relevant provisions. Assets and liabilities are included in a specific order and combined into groups with similar economic content. The construction of the balance sheet in Poland has changed several times. Currently, a system similar to balance sheet layouts in the European Union countries is used.
- The order of assets is ranked according to increasing liquidity, that is, according to the possibility (ease) of converting them into cash. At the beginning of the assets, fixed assets are given, which are less liquid than current assets. On the liabilities side, the individual components are ordered according to the degree of urgency of their return to creditors and owners (repayment dates).

Profit and Loss Statement

- Profit and loss (P&L) statement refers to a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a quarter or fiscal year. These records provide information about a company’s ability or inability to generate profit by increasing revenue, reducing costs, or both.
- P&L statements are often presented on a cash or accrual basis. Company managers and investors use P&L statements to analyze the financ
a company.

Profit and Loss Statement

- The P&L statement is one of three financial statements that every public company issues on a quarterly and annual basis, along with the balance sheet and the cash flow statement. It is often the most popular and common financial statement in a business plan, as it shows how much profit or loss was generated by a business.

- P&L statements are also referred to as a(n):

Statement of profit and loss

Statement of operations

Statement of financial results or income

Earnings statement

Expense statement

Income statement

Profit and Loss Statement

- The income statement shall compare the revenues from the various activities and the related costs. When drawing up the profit and loss account, it is necessary to be guided by the principle of proportionality.
- When the difference between revenues and costs is calculated, we get an accurate picture of the current financial result of a given business entity. This can be a gross profit or loss. The obtained gross result still needs to be modified with mandatory charges, such as income tax. Then we obtain the full net financial result of a given company within a specified period
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