


Accounting I

8TH CLASS OPERATING ACTIVITIES ACCOUNTS RECEIVABLE AND PAYABLE



Accounts receivable and Payable


- Trade accounts receivable
 - ✦ Clients
- Trade Accounts Payable
 - ✦ Suppliers
- Staff
- Public Entities
- Loans (Obtained)
- Other accounts receivable and Payable

 **Trade accounts Receivable - Clients**

•Rule: Value to receive;


•In some clients have financial troubles and may not pay the debt, the company should evaluate the possibility to receive all the money and if it is necessary to recognize a loss called impairment:

$$\text{Impairments} = \text{Book value in clients} - \text{Best estimate regarding the time and amount to receive}$$

 **Trade accounts Receivable - Clients**

Rules:

| | | |
|----------------------------------|-----------|------------|
| Invoices (issued) | DEBIT (+) | |
| Debit Notes (corrections +) | DEBIT (+) | |
| Payment from Clients | | CREDIT (-) |
| Credit Notes (corrections -) | | CREDIT (-) |
| Returns from clients | | CREDIT (-) |
| Doubtful debts | | CREDIT (-) |
| Cancelation of advanced payments | | CREDIT (-) |




Trade accounts payable -Suppliers

Registers the amounts due to pay from the acquisition of stocks (inventory).

It is divided into:


- *Suppliers c/c* ;
- *Suppliers t/r*;
- *Suppliers – invoices waiting for control*; and
- *Advanced payments to suppliers*



Trade accounts payable -Suppliers

- Rules:


| | |
|--|------------|
| ○ Received invoices | CREDIT (+) |
| ○ Debit Notes (corrections +) | CREDIT (+) |
| ○ Payment to suppliers | DEBIT (-) |
| ○ Credit Notes (corrections -) | DEBIT (-) |
| ○ Return of stocks to suppliers | DEBIT (-) |
| ○ Cancellation of advanced payments to suppliers | DEBIT (-) |



Staff


It includes all related to

- Salaries to pay
- Advanced payments to staff
- Other operations;
- Losses by impairments in rights from accounts receivable from staff




Staff


- 1st Step**
 - Processing of wages, salaries and other elements for the month
- 2nd Step**
 - Processing the social charges (employer's to pay) for the month;
- 3rd Step**
 - Payment to staff and other entities




Staff

| | Debit | Credit |
|--------------------------------------|---|--|
| Salaries to pay: | | |
| Gross Value | Staff Expenses - Salaries | |
| Retained Tax- Income Tax (IRS) | | State and Other Public Entities - Retained Income Tax |
| Retained Tax - Social Security (TSU) | | State and Other Public Entities - Social Security |
| Other discounts | | Other Accounts To Receive and To Pay - Other debtors and creditors |
| Net Value | | Staff - Salaries to Pay - Board/Staff |
| 1st Stage | | |
| Taxes paid by the employer (SS) | Staff Expenses - Taxes supported by The employer | State and Other Public Entities - Social Security |
| 2nd Stage | | |
| Payment | Staff - Salaries to pay - Board/Staff State and Other Public Entities - Retained Income Tax State and Other Public Entities - Social Security (employee and employer taxes) Other Accounts To Receive and To Pay - Other debtors and creditors | Banks/Checking Account - Bank X |
| 3rd Stage | | |






Accruals & Deferrals (Pre-paid) Of Revenues and Expenses



DESDE 1911

Accrual Basis

The **accrual basis** recognizes the impact of transactions in the financial statements for the time periods when revenues and expenses occur. Accountants record revenue as a company earns it, and they record expenses as the company incurs them.



DESDE 1911

Accrual Basis

- **Accrue** means to accumulate a receivable (asset) or payable (liability) during a given period even though no explicit transaction occurs
 - Accrual of unrecorded expenses
 - Accrual of unrecorded revenues



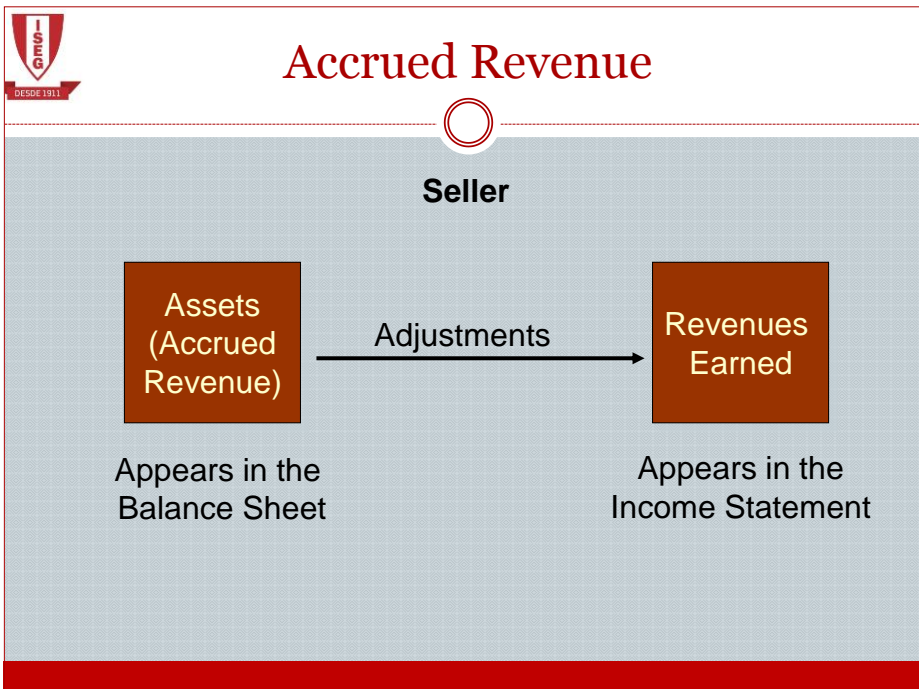
Accrual of Unrecorded Expenses and Revenues

- Some liabilities (and expenses) grow moment to moment with the passage of time. Examples include: Wages, Interest, Income taxes, Rents.
- Adjustments are made to bring each accrued expense (and corresponding liability) account up to date at the end of the period before preparation of the financial statements
- Adjustments are necessary to accurately match the expense to the period
- Similar examples can be given for revenues with a symmetric booking (accrued revenues)



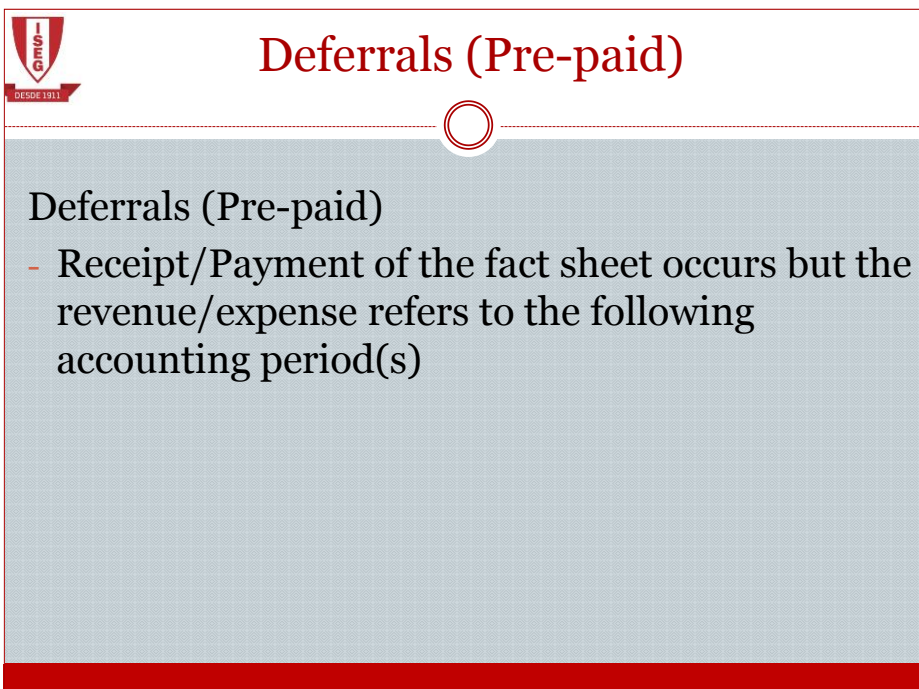
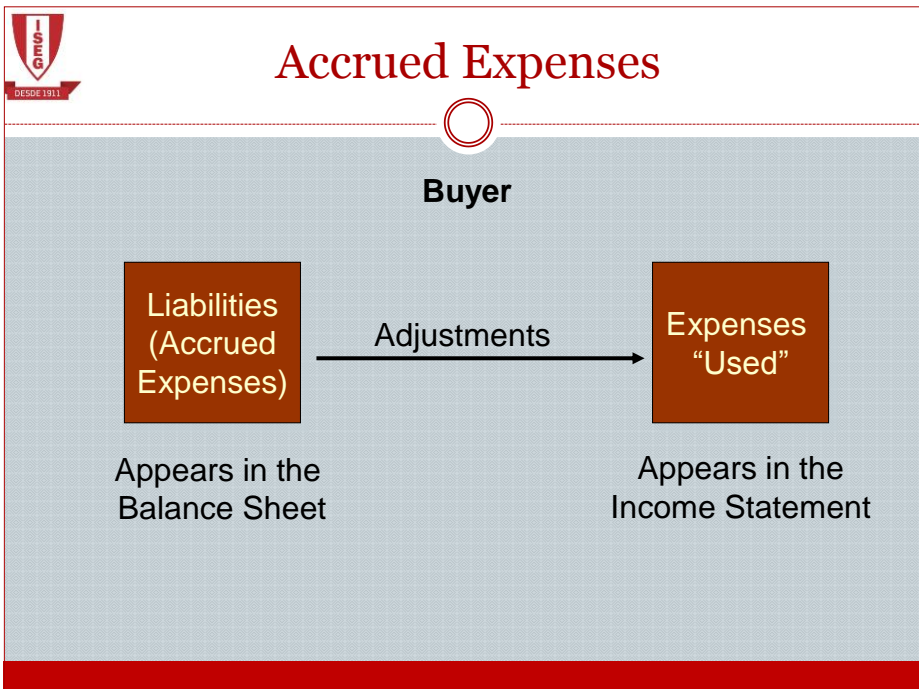
Accrued Revenue

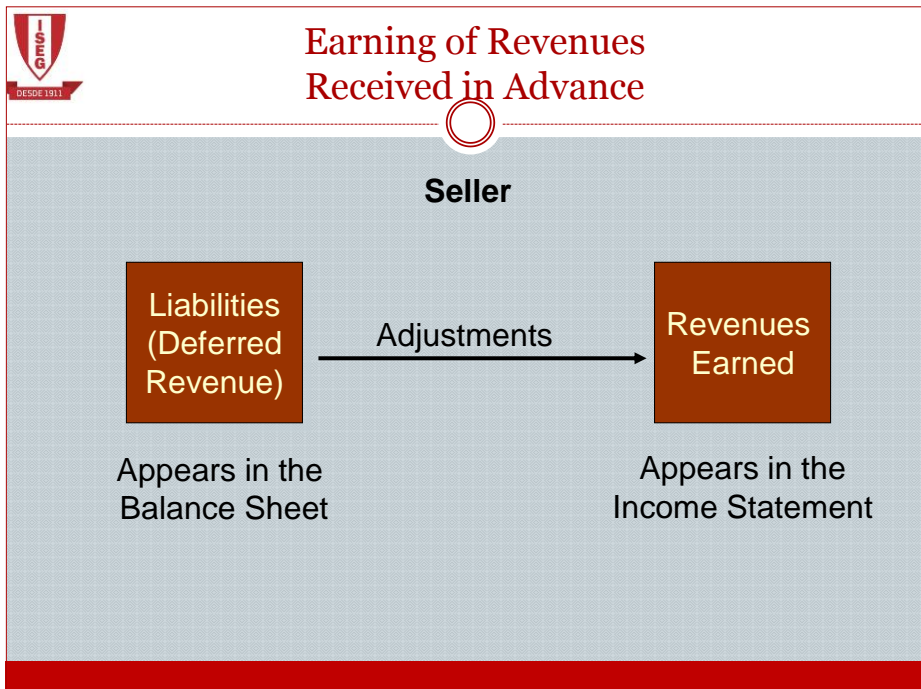
- The revenue is recognized (earned) when the owner makes the adjusting entry (a) at time t
- The asset Accrued Revenue is increased (debited), the stockholders' equity account Revenue – Rent is increased (credited)
- Failure to record the adjusting entry understates revenues and assets





Accrued Expenses

- The expense is recognized (use of the warehouse) when the owner makes the adjusting entry (a) at time 0
- The liabilities Accrued Expenses is increased (credited), the stockholders' equity account Expenses – Rent is increased (debited)
- Failure to record the adjusting entry understates expenses and liabilities

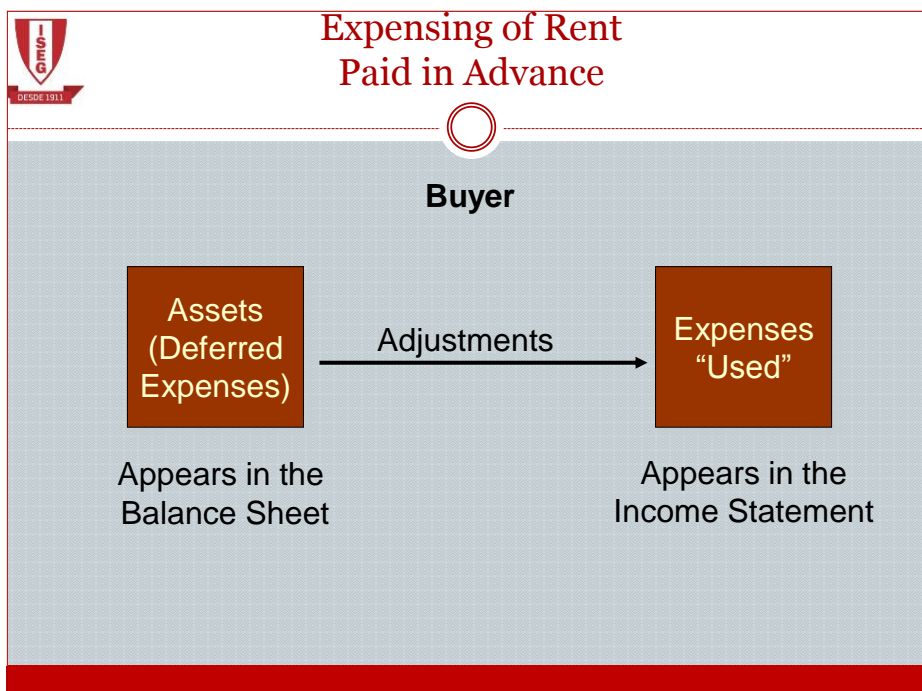





-  **Earning of Revenues Received in Advance**
- The revenue is recognized (earned) only when the owner makes the adjusting entries in transaction (b)
 - The liability Deferred Revenue (pre-paid) is decreased (debited), the stockholders' equity account Revenue – Rent is increased (credited)
 - Failure to record the adjusting entry overstates liabilities and understates revenues


 **Expensing of Rent Paid in Advance**

- The expense is recognized only when the adjusting entry is made
- The asset Deferred Expense (pre-paid) is decreased (credited), while the stockholders' equity account Expense – Rent is increased (debited)
- Failure to record the adjusting entry overstates assets and understates expenses

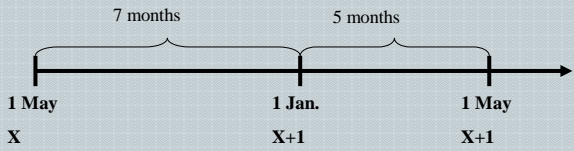




Examples




Annual payment of car insurance, referent to the period of May of year X to May of year X+1, 360 €;




| | | |
|---|---|--|
| Pre-paid Expenses Insurance <hr style="width: 80%; margin: 0 auto;"/> 150 | External Services Insurance <hr style="width: 80%; margin: 0 auto;"/> 210 | Banks <hr style="width: 80%; margin: 0 auto;"/> 360 |
|---|---|--|

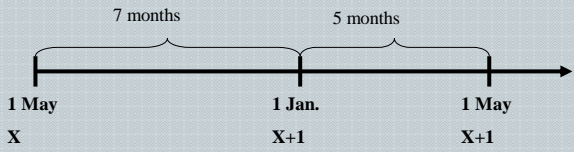
$$\text{Value} = \frac{360 \text{ €}}{12 \text{ months}} = 30 \text{ € per month}$$



Examples




Annual payment of car insurance, referent to the period of May of year X to May of year X+1, 360 €;




| | | |
|---|---|--|
| Pre-paid Expenses Insurance <hr style="width: 80%; margin: 0 auto;"/> 150 | External Services Insurance <hr style="width: 80%; margin: 0 auto;"/> 150 | |
|---|---|--|

$$\text{Value} = \frac{360 \text{ €}}{12 \text{ months}} = 30 \text{ € per month}$$

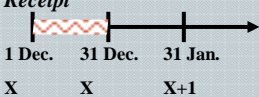


Examples

Receipt of December shop Rent, 500 €




Receipt



1 Dec. 31 Dec. 31 Jan.
X X X+1


| | |
|-----------------------|--|
| Pre-received Revenues | |
| Rent | |
| 500 | |

| | |
|-------|-----|
| Banks | |
| | 500 |

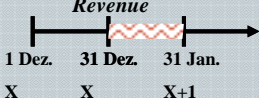


Examples

Receipt of December shop Rent, 500 €




Revenue



1 Dez. 31 Dez. 31 Jan.
X X X+1


| | |
|-----------------------|--|
| Pre-received Revenues | |
| Rent | |
| 500 | |

| | |
|----------------|-----|
| Other revenues | |
| | 500 |



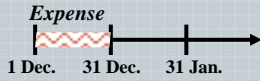
Examples

Estimative of December electricity bill for year X, 100 €.



X

Expense




1 Dec. 31 Dec. 31 Jan.

X X X+1


| | |
|---|-----|
| Other accounts receivable and payable Creditors for accrued expenses | 100 |
|---|-----|

| | |
|----------------------------------|-----|
| External Services Electricity | 100 |
|----------------------------------|-----|



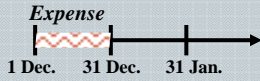
Examples

Estimative of December electricity bill for year X, 100 €.



X+1

Expense




1 Dec. 31 Dec. 31 Jan.


X X X+1

| | |
|---|-----|
| Other accounts receivable and payable Creditors for accrued expenses | 100 |
|---|-----|

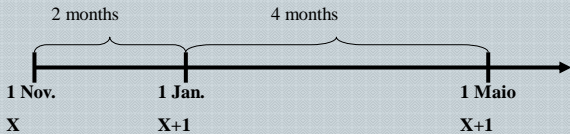
| | |
|-------|-----|
| Banks | 100 |
|-------|-----|




Examples




Interests from term deposit, 60 €, from the period of November of year X to April of year X+1.



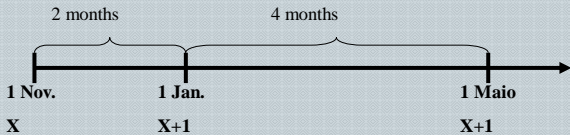
| | | |
|--|--|---|
| Financial Revenues Obtained interests | | Other accounts receivable and payable Debtirs for accrued revenues |
| 20 | | 20 |
| Value = $\frac{60 \text{ €}}{6 \text{ months}}$ = 10 € per month | | |



Examples



Interests from term deposit, 60 €, from the period of November of year X to April of year X+1.



| | | |
|---|-------|---|
| Financial Revenues Obtained interests | Banks | Other accounts receivable and payable Debtirs for accrued revenues |
| 40 | 60 | 20 |
| Value = $\frac{60 \text{ €}}{6 \text{ month}}$ = 10 € per month | | |