

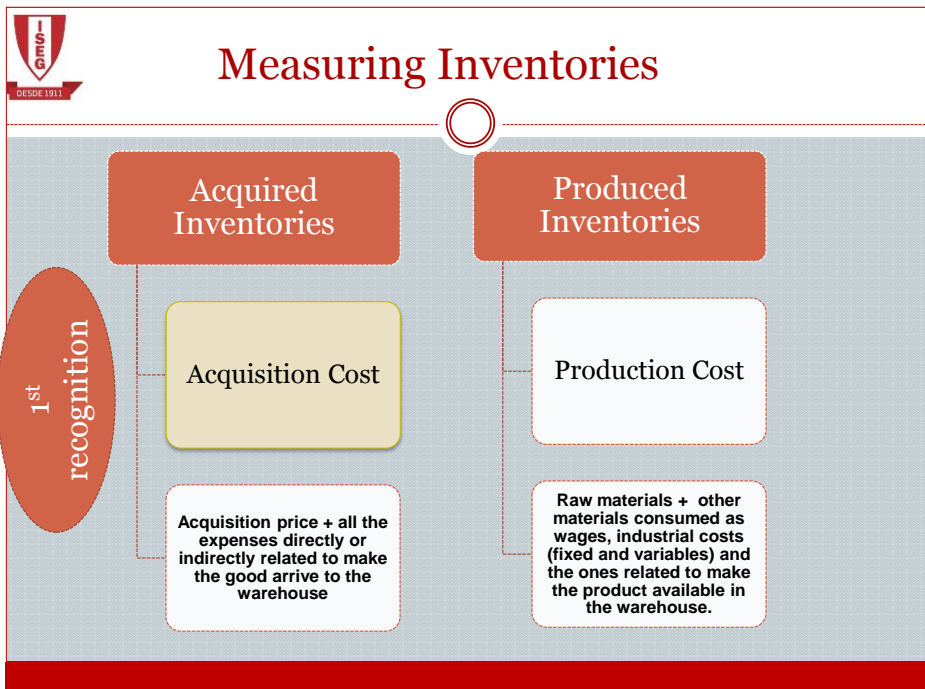
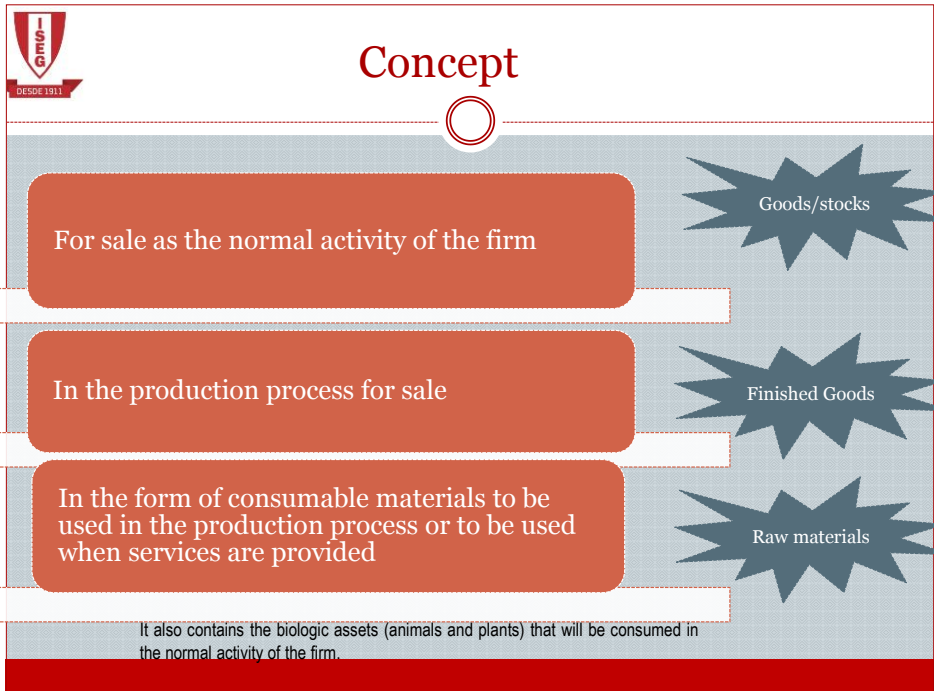
# Accounting I


Degrees in Management and Economics

# Accounting I

**OPERATING ACTIVITIES**

**INVENTORIES**




 **Measuring Inventories** – after initial recognition

The lowest of

Cost (acquisition/ production)	Net Realizable value
-----------------------------------	-------------------------

Estimated selling price- Estimated cost to finish production  
- Cost to sale products.

 **INVENTORIES**


**Inventory Valuation Methods**

The acquisition price of inventories is not always the same;

It varies with time (prices are not stable and are depending on the law of demand and supply)

When there is inflation the prices rise.


Because of these reasons, there is the need to adopt some **criteria** to value the stocks in the firm that are sold and the ones that are on the warehouse at the end of the year.



## Inventories

○


<b>Specific Identification</b>	<ul style="list-style-type: none"> <li>• Inventories measured by its real price or effective price</li> </ul>
<b>FIFO</b>	<ul style="list-style-type: none"> <li>• Inventories measured by the oldest prices. In the warehouse the inventories that remain are valued by the most recent prices</li> </ul>
<b>Weighted average</b>	<ul style="list-style-type: none"> <li>• Inventories measured at a unit cost that result from the weighted average price of all the inventories in the warehouse</li> </ul>




## Specific Identification

○


- The **specific identification method** concentrates on physically linking the particular items sold with the cost of goods sold that is reported
- This method is relatively easy to use for expensive low-volume merchandise
- The use of bar codes and scanning equipment makes specific identification economically feasible for many companies




## FIFO




- **FIFO** assigns the cost of the earliest acquired units to cost of goods sold
- The costs of the newer units is assigned to the units in ending inventory
- FIFO provides inventory valuations that closely approximate the actual market value of the inventory at the balance sheet date
- In periods of rising prices, FIFO leads to higher net income



## Weighted Average



- The **weighted-average method** computes a unit cost by dividing the total acquisition cost of all items available for sale by the number of units available for sale
- The weighted-average method produces gross profit somewhere between that obtained under FIFO and LIFO




## Perpetual and Periodic Inventory Systems

There are two main systems for keeping inventory records:

- Perpetual system
- Periodic system

The **perpetual inventory system** keeps a continuous record of inventories and cost of goods sold

The **periodic inventory system** computes cost of goods sold and an updated inventory balance only at the end of the accounting period




## Inventory systems

### Perpetual inventory system

- Register all entrances of stocks
- So, at any time the firm knows
  - The quantity of products/stock in the warehouse;
  - The value of those stocks; and
  - The Margin after each sale.


Required system for Large and Medium Companies applying SNC. Only small companies can use the periodic inventory system.



## Inventory systems

### Periodic inventory system


- We do not use the inventories accounts at each entry and exit of inventories.
- The physical count of the inventories and its valuation needs to be done periodically in order to obtain the results of sales.



## Inventory systems

### Periodic inventory system

- Inventories (Merchandise/Raw materials) is not used after the acquisition or sale of products
- The firms only knows:
  - The quantity of stock in the warehouse.
  - The value of acquisitions and beginning of the year inventory
- The physical counting of stock and respectively valuation is essential to calculate the Cost of good sold in the end of the year




## Periodic Inventory System

○

Under the periodic system, the calculation of cost of goods sold is delayed until there is a physical count:

COGS = Beginning of the year Inventories  
 + Acquisitions of inventories  
 – End of the year inventories  
 +/- Reclassification/Regularization of inventories



## Inventory systems

○

### Perpetual inventory system

Acquisitions  
Inventories

Trade Accounts Payable/Banks/Cash

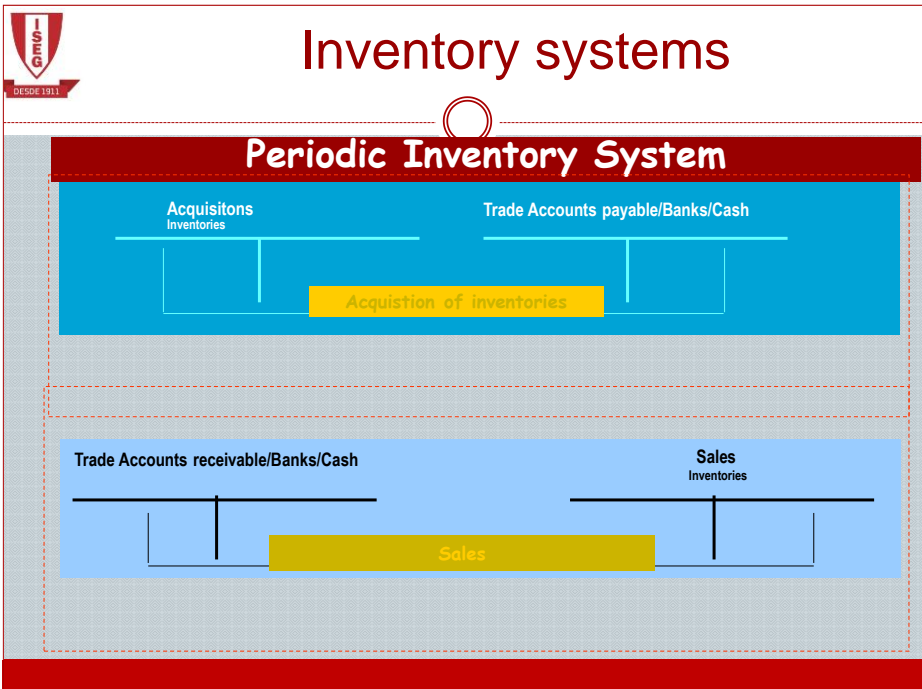
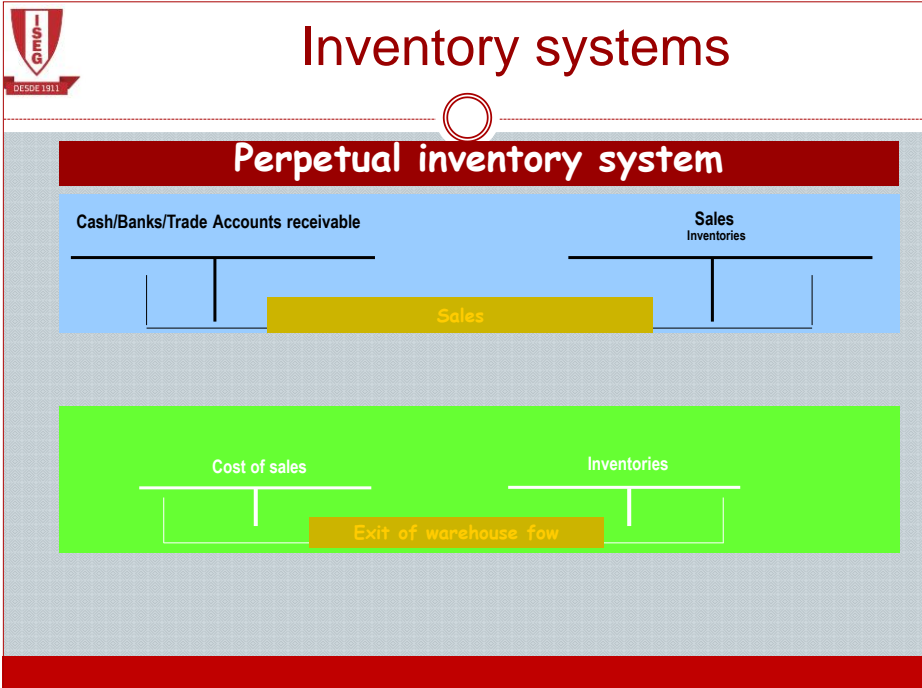
Purchases

Inventories

Acquisitions  
Inventories

Entry in the warehouse flow






# Accounting I

OPERATING ACTIVITIES


INVENTORIES

VAT




## Key formulas


$$\text{Net acquisition} = \text{Gross acquisition} - \text{Returns to suppliers} - \text{Obtained (commercial) discounts}$$

 **Key formulas**

$$\text{Net Sales} = \text{Gross Sales} - \text{Returns from clients} - \text{(commercial) discounts offered}$$


 **Key formulas**

$$\text{Cost of Sales} = \text{Initial Inventory} + \text{Net Acquisitions} - \text{Final Inventories} - \text{Inventories regularizations}$$



## Key formulas


**Gross Result from sales** = Net Sales - Cost of sales



## Key formulas

**Sales Price** = Aquisition cost + Margin


↓  
% On top of sales price  
or  
% on top pf acquisiton price



# VAT

○

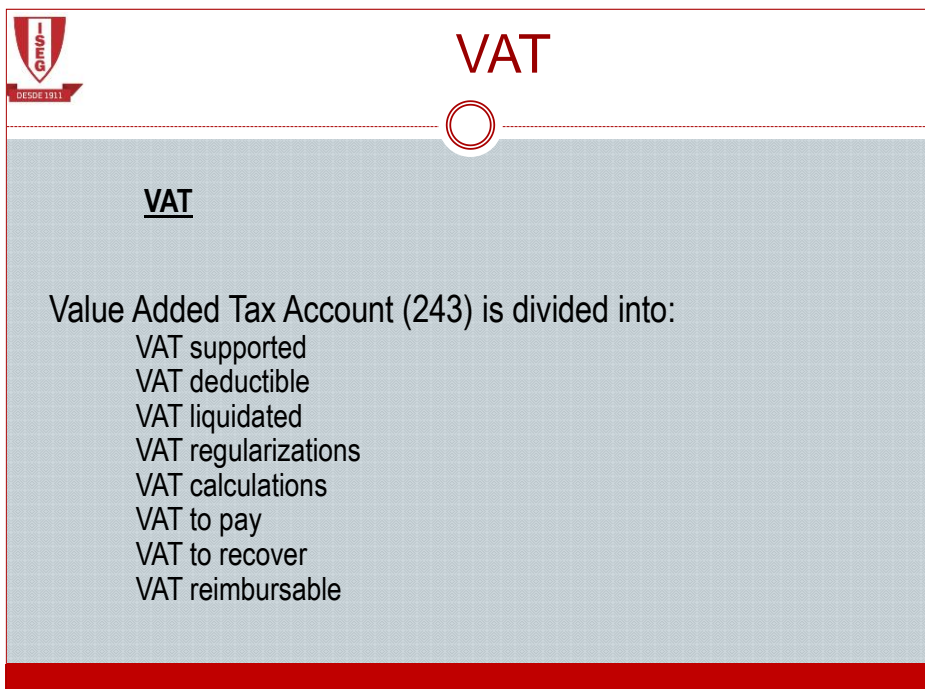
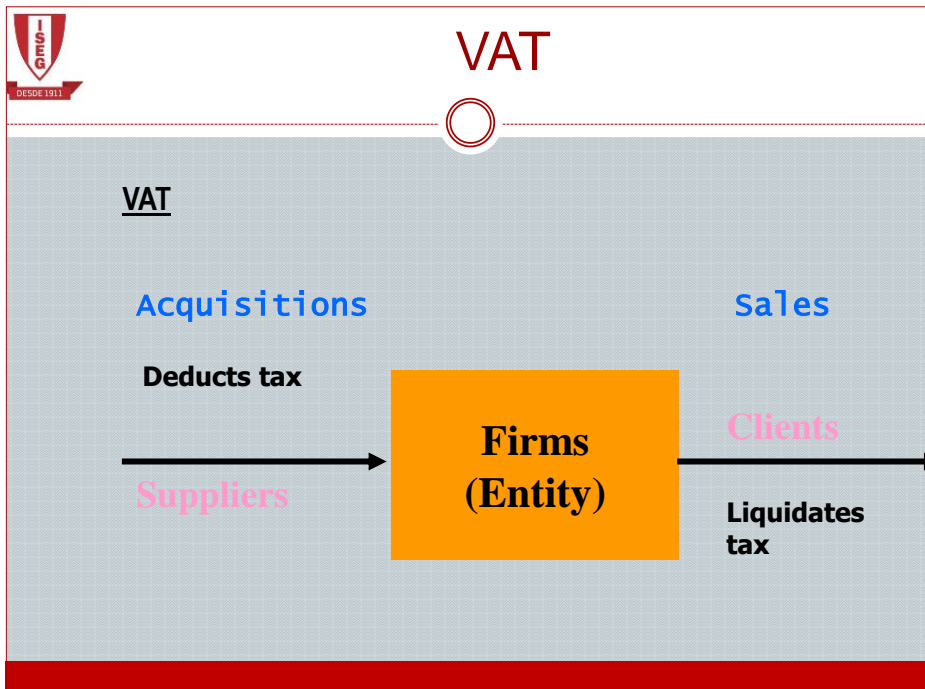
# VAT = Value added Tax




# VAT

○

- Indirect Tax, focused on consumption
- It is applied in all stages of the economic cycle
- Company acts as tax collector





## Determining VAT

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### How to determine VAT?


VAT liquidated	-	VAT deductible	±	VAT regularizations	=	VAT calculated
<ul style="list-style-type: none"> <li>• Sales of inventories;</li> <li>• Services provided;</li> <li>• Cash Advance from Customers;</li> <li>• Internal consumption and free transactions.</li> </ul>		<ul style="list-style-type: none"> <li>• Purchase of inventories;</li> <li>• Purchase of fixed tangible assets;</li> <li>• Acquisition of External services;</li> <li>• Cash Advances to suppliers.</li> </ul>		<ul style="list-style-type: none"> <li>• Errors;</li> <li>• Returns and discounts;</li> <li>• Annulment of cash advance received;</li> <li>• Annulment of cash advance paid;</li> <li>• Bad debt;</li> <li>• Thefts, accidents, etc.</li> <li>• Others.</li> </ul>		<div style="display: flex; justify-content: space-around; margin-top: 20px;"> <div style="border: 1px solid white; padding: 5px; text-align: center;">VAT to recover</div> <div style="border: 1px solid white; padding: 5px; text-align: center;">VAT To pay</div> </div>

# Accounting I

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**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

○

1<sup>st</sup> Step


- Processing of wages, salaries and other elements for the month

2<sup>nd</sup> Step

- Processing the social charges (employer's to pay) for the month;

3<sup>rd</sup> Step

- Payment to staff and other entities



# Staff



## Salaries to pay:

	Debit	Credit
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
Taxes paid by the employer (SS)	Staff Expenses - Taxes supported by The employer	State and Other Public Entities - Social Security
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



1st Stage

2nd Stage

3rd Stage




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




## 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.




## 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



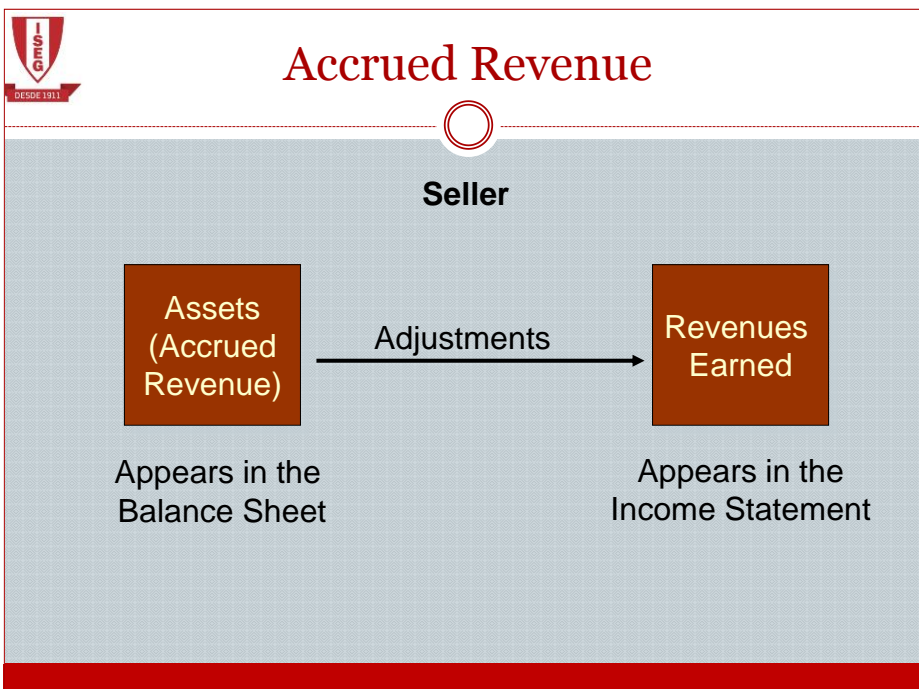
## Accrual of Unrecorded Expenses and Revenues


- 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)



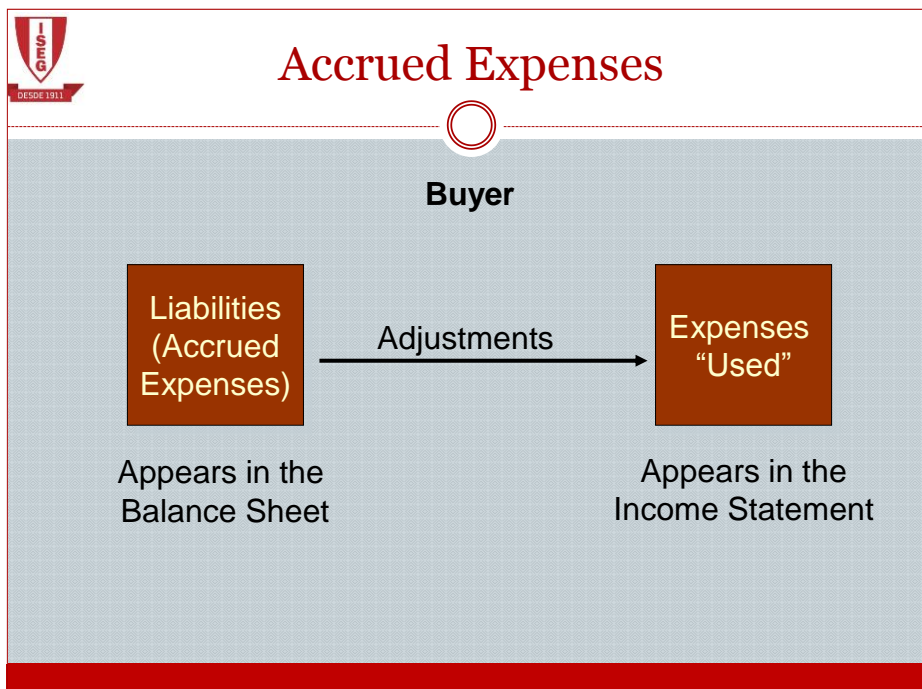
## Accrued Revenue


- The revenue is recognized (earned) when the owner makes the adjusting entry (a) at time 0
- 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






## Deferrals (Pre-paid)


Deferrals (Pre-paid)

- Receipt/Payment of the fact sheet occurs but the revenue/expense refers to the following accounting period(s)



## Earning of Revenues Received in Advance

**Seller**



```
graph LR; A[Liabilities (Deferred Revenue)] -- Adjustments --> B[Revenues Earned]
```

Appears in the Balance Sheet

Appears in the Income Statement





## Earning of Revenues Received in Advance



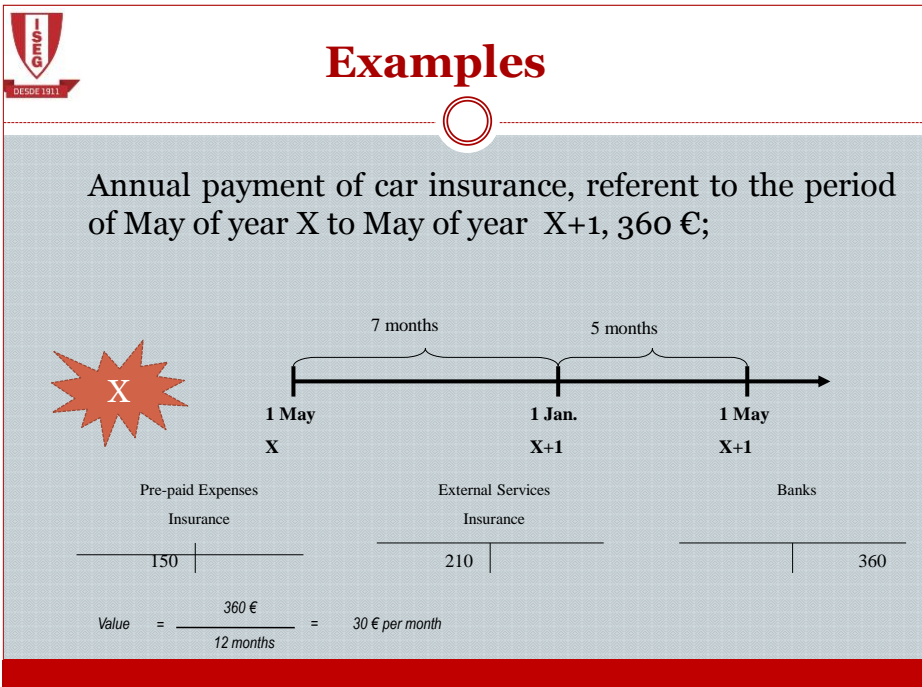
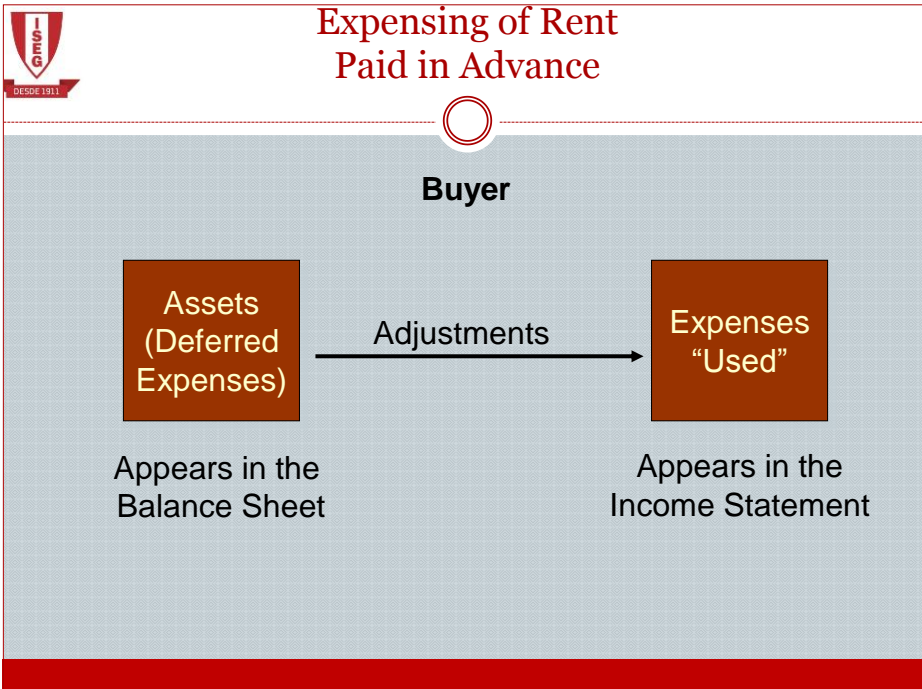
- The revenue is recognized (earned) only when the owner makes the adjusting entries in transaction (b)
- The liability Deferred Revenue (pre-paid) is decreased (debited), the stockholders' equity account Revenue – Rent is increased (credited)
- Failure to record the adjusting entry overstates liabilities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




## Expensing of Rent Paid in Advance


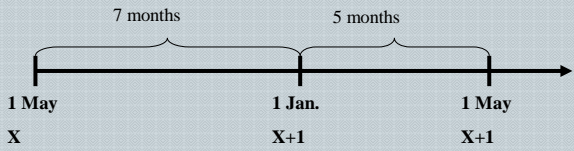


- The expense is recognized only when the adjusting entry is made
- The asset Deferred Expense (pre-paid) is decreased (credited), while the stockholders' equity account Expense – Rent is increased (debited)
- Failure to record the adjusting entry overstates assets and understates expenses




 **Examples**

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


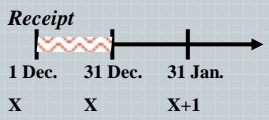
 

Pre-paid Expenses		External Services	
Insurance		Insurance	
	150	150	


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

 **Examples**

Receipt of December shop Rent, 500 €


Pre-received Revenues		Banks	
Rent			
	500	500	



## Examples

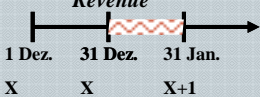
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### Receipt of December shop Rent, 500 €



**X+1**


*Revenue*



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

Pre-received Revenues	
Rent	
500	


Other revenues	
	500



## Examples

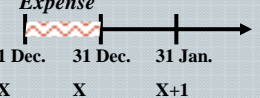
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### Estimative of December electricity bill for year X, 100 €.



**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

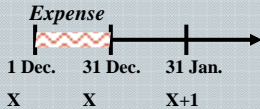
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Estimative of December electricity bill for year X, 100 €.



X+1


*Expense*



1 Dec. X    31 Dec. X    31 Jan. X+1

Other accounts receivable and payable Creditors for accrued expenses	
100	


	Banks
	100



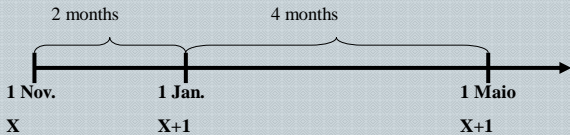
## Examples

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



X



1 Nov. X    1 Jan. X+1    1 Maio X+1

Financial Revenues Obtained interests	
20	

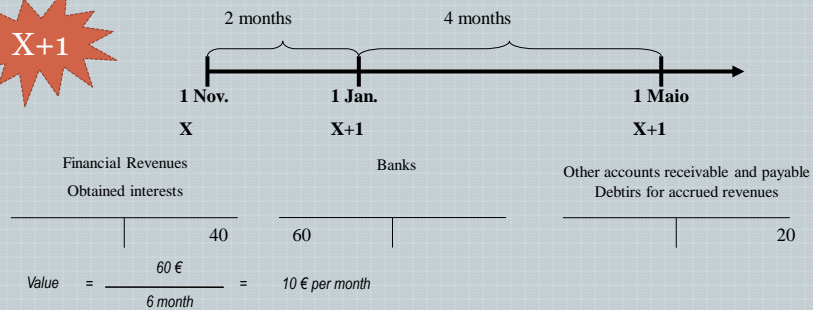
	Other accounts receivable and payable Debtors for accrued revenues
	20

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.




## Accounting I

INVESTMENT ACTIVITIES  
FIXED TANGIBLE ASSETS  
INTANGIBLE ASSETS



## INVESTMENTS



Assets controlled by the company that are not aimed to be sold or transformed during the operating cycle of the entity. These assets can be owned by the company or used through a lease.



## Investments



- Fixed Tangible Assets
- Intangible Assets
- Property Investments
- Investments in financial instruments
- Non currents assets for sale



## Fixed Tangible Assets

- Long-lived assets are divided into tangible and intangible categories
- **Tangible assets** are physical items that you can see and touch
- Used to support the activity of the firm
  - Land
  - Natural resources
  - Buildings
  - Equipment
- It does **not include** financial investments




## Fixed Tangible Assets Measurement and Recognition

Acquisition Cost

Directly costs attributable to bringing the asset to the location and desired condition

Initial estimation of dismantling and removing costs






## Fixed Tangible Assets Measurement and Recognition

Cost Model

- Acquisition cost -  
Accumulated depreciation –  
accumulated impairments

Revaluation Model

- Fair value (the changes are recognized in Owners Equity)



## Fixed Tangible Assets – 1<sup>st</sup> recognition

- The acquisition cost of long-lived assets is the cash-equivalent purchase price
  - Includes incidental costs to complete the purchase, transport the asset, and prepare it for use
- The acquisition cost of land includes
  - The purchase price
  - The cost of land surveys
  - Legal fees
  - Title fees and transfer taxes
  - Demolition costs of old structures



## Acquisition Cost of Tangible Assets

- Under historical-cost accounting, companies report land in the balance sheet at its original cost
- The acquisition cost of buildings, plant, and equipment includes all costs of acquisition and preparation for use
  - Sales tax
  - Transportation
  - Installation
  - Repair cost prior to use



## Intangible Assets

- **Intangible assets** are not physical in nature, consisting of contractual or legal rights or economic benefits
  - Patents
  - Trademarks
  - Copyrights
- Land is reported at its historical cost in the financial records and is not depreciated




## Examples of Intangible Assets

- **Patents** are grants by the federal government to the inventor of a product or process, bestowing the exclusive right to produce and sell a given product , or use a process for up to 20 years
- **Copyrights** are exclusive rights to reproduce and sell a book, musical composition, film, or similar creative item for the life of the creator plus 70 years
- **Trademarks** are distinctive identifications of a manufactured product or a service, taking the form of a name, sign, slogan, logo, or emblem




## Examples of Intangible Assets

- **Franchises and licenses** are legal contracts that grant the buyer the right to sell a product or service in accordance with specified conditions
- A **leasehold** is the right to use a fixed asset for a specified period of time beyond one year
- **Leasehold improvements** occur when a lessee spends money to improve leased property
  - Improvements become a part of the leased property
  - Leasehold improvements are classified as fixed assets



## Non-current Assets

- Long-lived assets wear out or become obsolete
- The costs of these assets are allocated over their useful life
  - **Depreciation** is the allocation of the cost of buildings, machinery, and equipment
  - **Amortization** is the allocation of the cost of intangible assets
  - **(Depletion** is the allocation of the cost of natural resources) – Not used in Portugal!!




## Intangible Assets Measurement and Recognition

Purchase price

Directly costs attributable to bringing the asset to the location and desired condition



## Intangible Assets Measurement and Recognition


Cost Model

- Acquisition cost -
- Accumulated amortizations (if the useful life is limited)-
- accumulated impairments

Revaluation Model

- Fair value (the changes are recognized in Owners Equity)

Only if there is na active market



## Contrasting Long-lived Asset Expenditures with Expenses

- All purchases of goods or services are called **expenditures**
- Companies **capitalize** expenditures for assets that benefit more than the current accounting year
- The purchase price is added to an asset account rather than expensing it immediately
- The cost of repairs and parts are charged to expense rather than to an asset account
- Decisions about whether to expense or capitalize expenditures require judgment
- This is an area that management may inappropriately influence to increase reported net income

# Accounting I

INVESTMENT ACTIVITIES  
DEPRECIATIONS AND  
AMORTIZATIONS  
FINANCIAL INVESTMENTS  
FINANCIAL INSTRUMENTS



## DEPRECIATIONS AND AMORTIZATIONS

Depreciation/Amortization of an asset – tangible or intangible – is the recognition of its depreciation due to the use of the asset



## DEPRECIATIONS AND AMORTIZATIONS



The depreciation value can be calculated as a function of:

- The estimated time of its useful life; or
- The activity/usage planned for the asset (measured in total units that it is planned that the asset produces during all of its useful life – kms, hours of usage or other any variable).

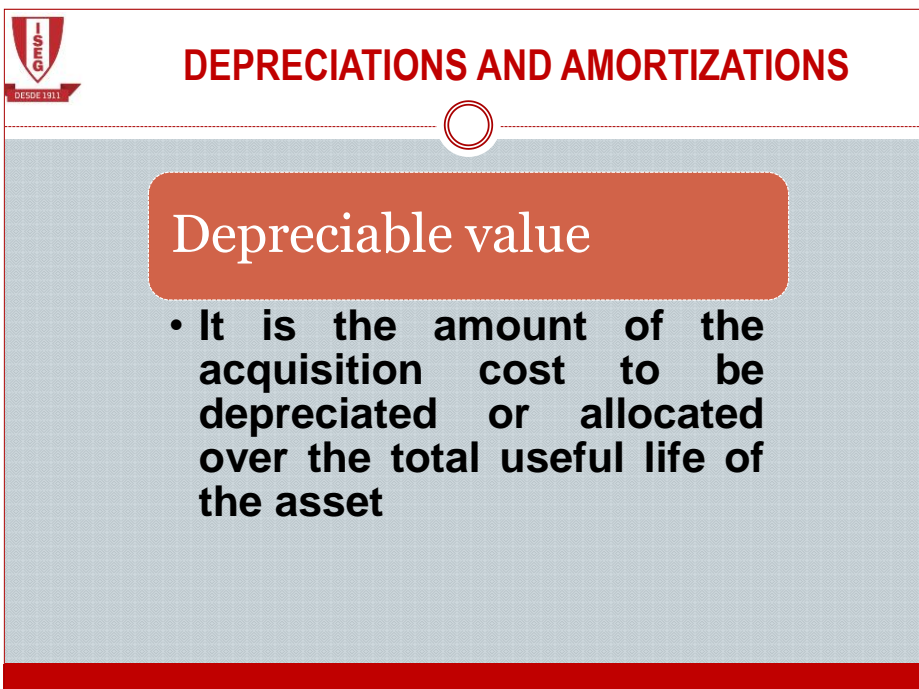
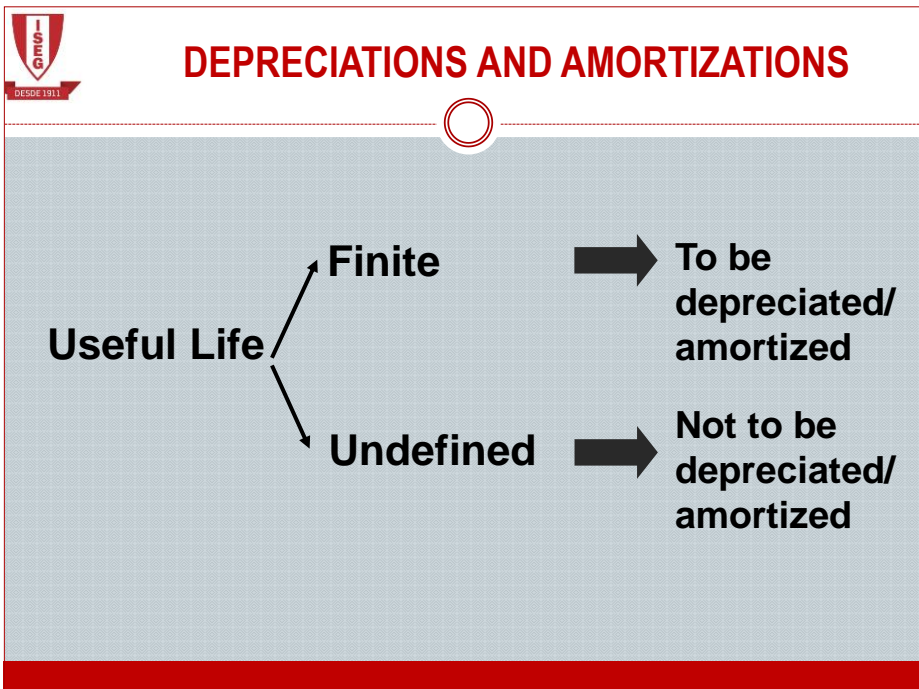


## DEPRECIATIONS AND AMORTIZATIONS




### Useful Life

- of an asset is the shorter of the physical life of the asset (before it wears out) or the economic life of the asset (before it becomes obsolete).








## DEPRECIATIONS AND AMORTIZATIONS

### Residual value

- is the amount a company expects to receive from sale or disposal of a long-lived asset at the end of its useful life.




## DEPRECIATIONS AND AMORTIZATIONS

### Book value


- Value that appears in the balance sheet (after deducting the depreciations/amortizations and impairments)

$$\text{Acquisition cost} - \text{accumulated depreciation/amortization} - \text{accumulated impairments}$$



## DEPRECIATIONS AND AMORTIZATIONS

- **Straight-line depreciation**
  - Spreads the depreciable value evenly over the useful life of an asset
  - Is by far the most popular method for financial reporting purposes
- **Depreciation Based on Units**
  - When physical wear and tear determines the useful life of the asset, depreciation may be based on units of service or units of production instead of units of time (years)



## DEPRECIATIONS AND AMORTIZATIONS

### *Straight Line Method*

- The A depreciation/amortization is calculated as follows:

$$Q_t = \frac{V_o - R}{n} = \frac{A}{n}$$

$V_o$  – Acquisition value  
 $R$  – Residual value  
 $A$  – Value to depreciate/amortize:  $A = V_o - R$   
 $Q_t$  – Depreciation/Amortization at period  $t$   
 $n$  – Number of years of useful life



## Depreciation and Cash Flow

- Depreciation
  - Does not generate cash
  - Allocates the original cost of an asset to the periods of use
  - Is a deductible noncash expense for income tax purposes
- Higher tax depreciation results in lower taxable income and lower taxes, keeping more cash in the business



## Expenditures After Acquisition

- Repairs and maintenance are treated as expenses of the current period
  - **Repairs** include the costs of breakdowns, accidents, or damage
  - **Maintenance** includes the routine costs of oiling, polishing, painting, and adjusting
- Improvements are capitalized as assets
  - **Improvements** are expenditures that increase the future benefits provided by a fixed asset



## Gains and Losses on Sales of Tangible Assets


- When a tangible asset is sold, a gain or loss occurs when there is a difference between the cash received and the net book value of the asset
  - Cash received > book value = gain
  - Cash received < book value = loss
- The disposal requires the removal of the asset's book value, which appears to two accounts:
  - Equipment
  - Accumulated Depreciation



## Impairment of Tangible Assets

- An asset is considered to be **impaired** when it ceases to have economic value as large as the book value
- Impairment of assets held for use:
  - Step 1: Recoverability test—if undiscounted expected cash flow < book value, impairment exists
  - Step 2: Impairment loss = book value – fair value
- The entry to record the impairment loss is:


Loss on impairment	xxx
Accumulated impairments	xxx



## Financial Investments

Includes all financial assets that are not measured at the fair value and are not part of Class 1.


- Measurement criteria: cost or amortized cost method;
- Parts in other companies should be measured by the equity method (patrimonial equivalence method) if participation is equal or above 20%
- Joint venture can be measured by the equity method or proportional consolidation



## Financial Investments

It is divided into:

- *Investments in branches*
- *investments in associates*
- *investments in joint ventures*
- *investments in other firms*
- *other financial investments*
- *accumulated impairments*



## Financial Investments


○

Fair value

Changes in fair value

*Increases in fair value*

*Decreases on fair value*



## Financial Investments

○

Rules – Equity Method

– Acquisition cost	DEBIT(+)
– % of Calculated Net Income	DEBIT(+)
– % of Other variations in OE	DEBIT(+)
– % of losses coverage	DEBIT(+)
– % of calculated loss	CREDIT (-)
– % of negative variations in OE	CREDIT (-)
– % of distributed profits	CREDIT (-)

# Accounting I

## FINANCING ACTIVITIES OBTAINED FINANCING EQUITY



## Financing Activities

Firms can be financed through:

- Debt → Liability (financing)
- Equity Instruments → Equity



## Debt



a) Obligation that comes from a contract to:

- (i) pay money or other financial instrument to another entity; or
- (ii) trade financial assets or liabilities with another entity in terms that are unfavorable to the entity; or

b) Contract that can be liquidated with equity instruments (e.g. stocks) from the company and that has the characteristics of financing liabilities.



## Equity Instrument



- Any contract that gives a residual claim in the assets of a company after liquidating all the liabilities.





## Loans obtained



**This account does not include purchases, or any other operational transaction, on credit (Accounts Payables) nor taxes due (State and Other Public Entities).**

The origin of the loan can come from:

- Banks and other financial institutions;
- Financial market (bonds);
- Shareholders;
- Participated companies – associate companies, joint ventures;
- Others.



## CAPITAL



- Increases of capital should only be recognized when and only when the owners have contributed with the assets to realize their part in the company. The assets should be measured at fair value
- Capital issued but not realized should not be recognized in the balance sheet. Only after realized, can capital be recognized in the balance sheet.
- All the expenditures supported to increase capital should be directly deducted to equity.




## CAPITAL

When capital is divided in stocks it's important to distinguish 3 different concepts for each stock:

- **Nominal value:** amount written in the stock (Capital/n. of stocks).
- **Book value:** equity value of the stock  
Equity/ n. of stocks
- **Market Value:** value for which each stock can be sold/purchased. This value can be found in the capital market for publicly traded companies.

## Accounting I

END OF THE YEAR OPERATIONS




## END of the YEAR OPERATIONS

○

It is the end of the accounting cycle.

Accountants book:

- Regularizations – Examples: Depreciation and Amortization Expenses, Accruals and Deferrals, Impairments,...
- Net Income - During the year the firm used accounts of expenses and revenues. When the year is ended it is necessary to determinate the result of the period in order to evaluate the economic performance. To do so, we compare the revenues and expenses incurred.




## END of the YEAR OPERATIONS

○

Classes 6, 7 e 8:

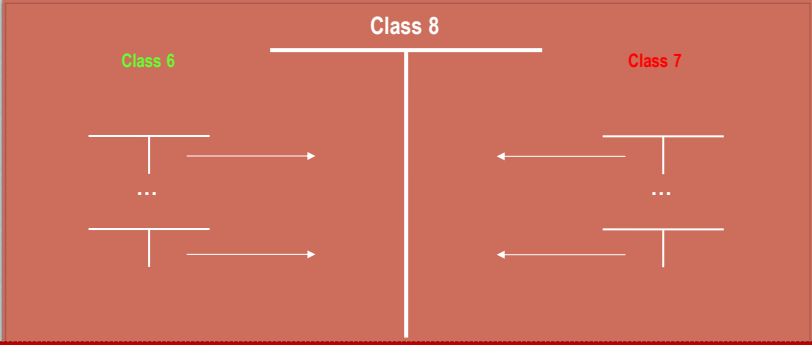
Class 6	Class 7	Class 8
GOGS	Sales	Net Income of the period
External Services Expenses	Services	Interim dividends
Staff Expenses	Variation of production inventories	
Depreciation and Amortization Expenses	Works for the entity	
Impairment Losses	Production subsidies	
Fair value Losses	Reverses	
Provisions of the period	Fair value gains	
Other expenses and losses	Other revenue and gains	
Financing expenses and losses	Interests, dividends and similar revenues	




## END of the YEAR OPERATIONS

How is it done?

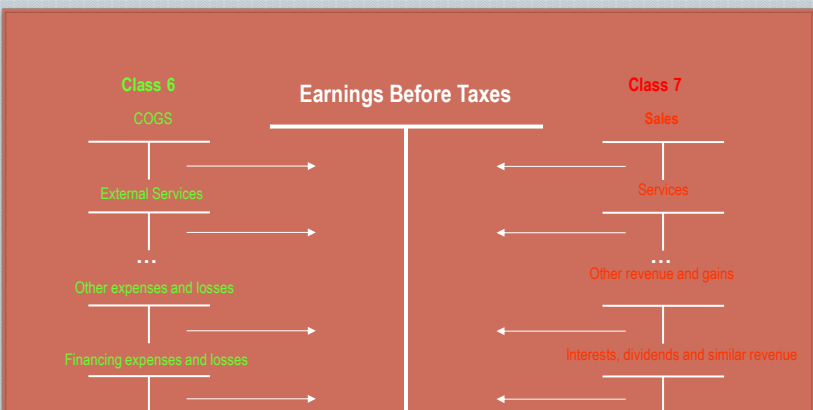
**The accounts from class 6 and 7 are transferred to class 8:**




The diagram illustrates the transfer of accounts from Class 6 and Class 7 to Class 8. Class 6 accounts (COGS, External Services, etc.) have arrows pointing to the left side of the Class 8 T-account. Class 7 accounts (Sales, Services, etc.) have arrows pointing to the right side of the Class 8 T-account.



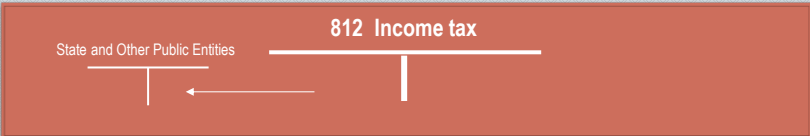
## END of the YEAR OPERATIONS



The diagram illustrates the transfer of specific accounts from Class 6 and Class 7 to Class 8. Class 6 accounts (COGS, External Services, Other expenses and losses, Financing expenses and losses) have arrows pointing to the left side of the Class 8 T-account. Class 7 accounts (Sales, Services, Other revenue and gains, Interests, dividends and similar revenue) have arrows pointing to the right side of the Class 8 T-account. The central T-account is labeled "Earnings Before Taxes".




## END of the YEAR OPERATIONS



812 Income tax

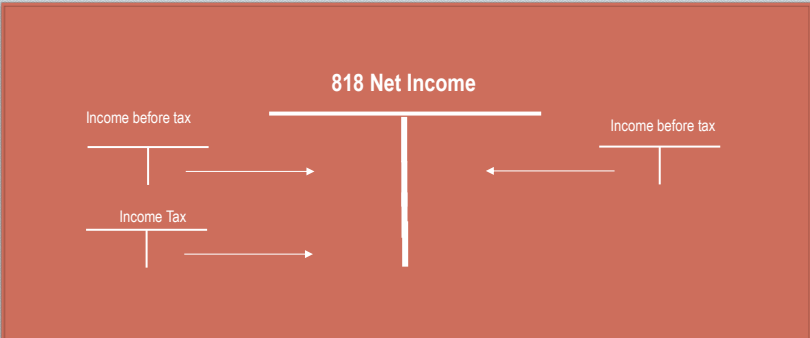
State and Other Public Entities

**The Income Tax account is written in debit for the estimated value of the tax (tax rate \* income for tax purposes), while State and Other Public Entities-Income Tax is credited (Liabilities account).**



## END of the YEAR OPERATIONS

**Finally, the account Net Income (#818) received all the balances from the previous accounts:**



818 Net Income

Income before tax

Income before tax

Income Tax



## END of the YEAR OPERATIONS



- The balances of the accounts of classes 6 and 7 are determined and then transferred to class 8 - Income.
- Therefore, the balances of 6 and 7 are, after this, zero!!
- The balances of the accounts of these classes will appear on the income statement