

The essence, subject and fundamental principles of accounting

Danuta Kozłowska-Makóś, Ph.D.

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AGENDA

1. Features of contemporary enterprises
2. Information asymmetry
3. Agency theory
4. Accounting as an element of corporate's information system
5. Subject of accounting
6. Functions of accounting
7. Principles of accounting
8. National and international accounting regulations
9. Decision areas of modern enterprises
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11. Balance sheet

1. Features of contemporary enterprises

- value-oriented (highlighting the value category in the structure of the objectives of the action);
- operating in conditions of risk and uncertainty;
- the need to adapt to changing environmental conditions;
- consideration of conflicts of interest of various market participants and asymmetry of information.

2. Information asymmetry

Information asymmetry may concern:

- hidden action, so-called the temptation of abuse (**moral hazard**),
- hidden knowledge, so-called **negative selection**.

3. Agency theory

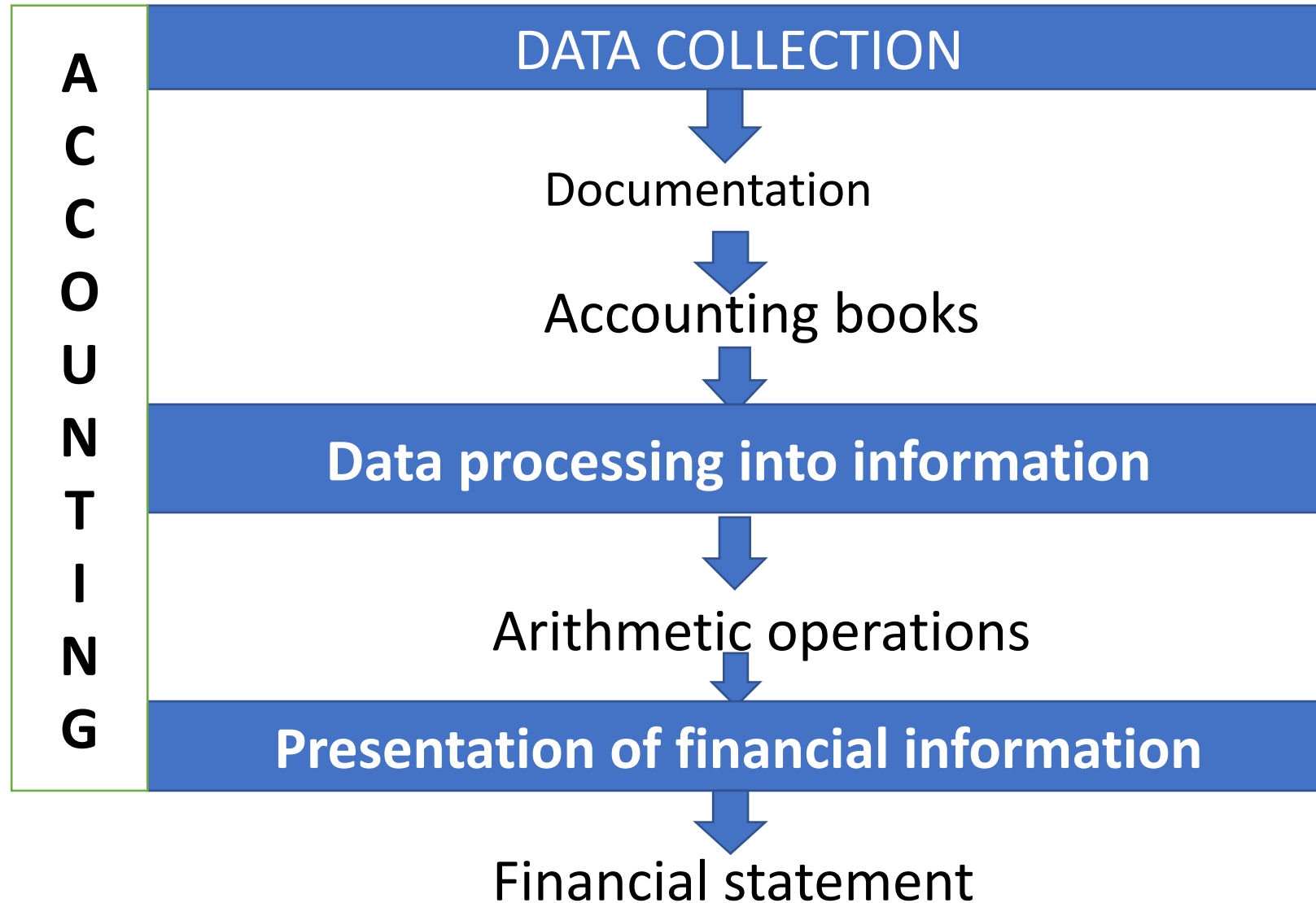
Shareholders	Managers
They have capital, but they do not have time, knowledge and financial experience in its effective use	They have the financial knowledge, skills and experience in this area
They entrust managers with their capital and delegate the right to manage and dispose of such capital in accordance with the owners' interests.	They manage shareholder's capital
Information asymmetry is expressed in the limited ability of shareholders to verify financial statements prepared by managers	Information asymmetry is expressed in the advantage of managers in accessing financial information
They have small shareholding in a large number of companies, risk diversification is conducive to making more risky investments	The managerial staff engages all their time and skills in one enterprise, hence: <ul style="list-style-type: none">- unwillingness to take too risky investments (risk aversion),- propensity to retain profit in the company, create reserves and reduce dividend payments

4. Accounting as an element of corporate's information system

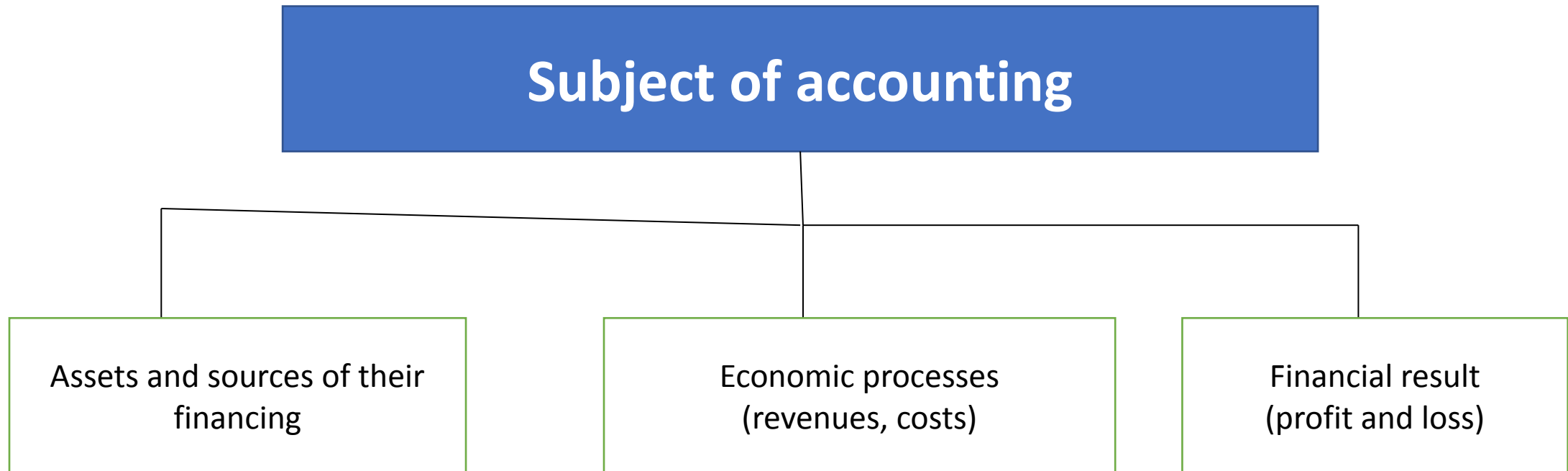
Accounting is the main element of a company's overall business information system.

There are three stages of processing economic data in the accounting system.

Stages of processing economic data in the accounting system



5. Subject of accounting



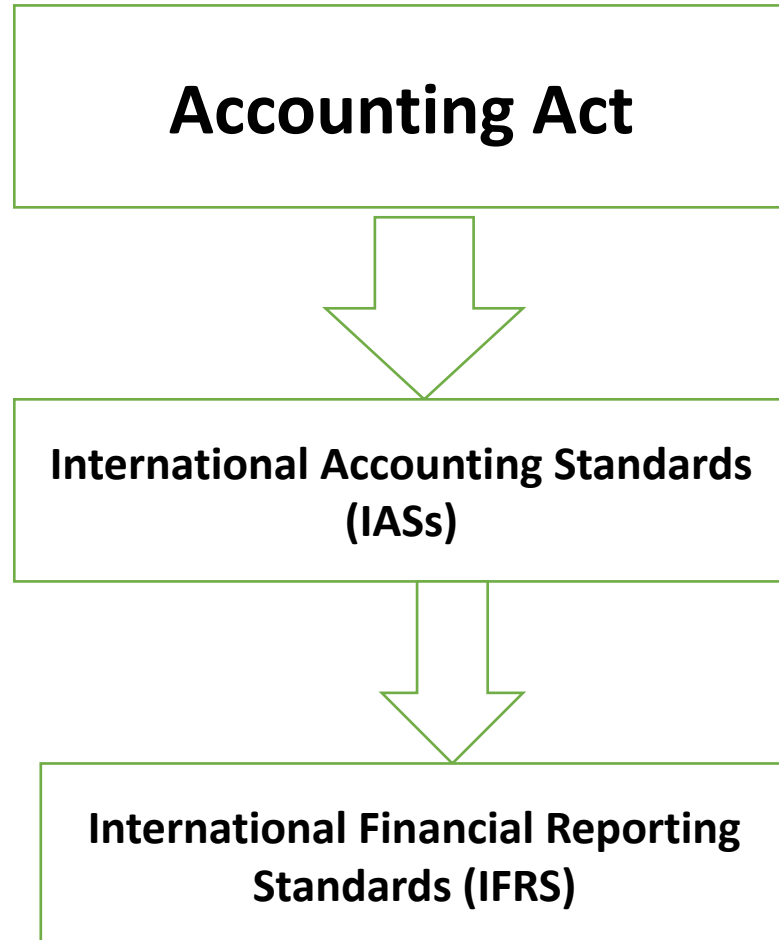
6. Functions of accounting

- information
- control
- reporting
- analytical-interpretative
- statistical function

7. Principles of accounting

- **memorial** - consists in including in the period of all economic transactions at the time of their occurrence, and not at the time of payment;
- **going concern** - the financial reports are prepared on the basis that the business will continue in operation;
- **true and fair view** - the financial situation and financial result of the entity should be presented as truthfully and faithfully as possible;
- **consistency** – the application of accounting standards and principles should be consistent from one year to the next;
- **matching** - revenues and expenses should be recognised in the accounting period in which the economic event took place rather than its consummation as a cash transaction;
- **conservatism** - when a degree of subjective interpretation is required, financial statements should consistently reflect the less optimistic case. In particular, do not over-anticipate revenues or under-anticipate expenses;
- **materiality** - allows you to violate another accounting principle if the amount is so small that the reader of the financial statements will not be misled;
- **substance over form** - a fair presentation of financial statements should portray underlying financial reality and not legal convention or superficiality.

8. National and international accounting regulations



9. Decision areas of modern enterprises

- **operational decisions** - decisions regarding the basic activity of the company; these are decisions about the level of costs and financial liquidity;
- **investment decisions** - decisions that result in shaping the assets needed to run a business. The result of these decisions are so-called material investments and financial investments. These investments, like all assets, require capital. Investment decisions concern the use of capital;
- **financial decisions** - refer to obtaining sources of financing for these assets. These are decisions about raising capital.

10. What is a company ?

A company can be as a collection:

- funds (capital) collected from various types of sources,
- assets financed by these capital.

11. Balance sheet

A	FIXED ASSETS
I	Intangible assets
1	R&D expenses
2	Goodwill
3	Other intangible assets
4	Advances for intangible assets
II	Tangible fixed assets
1	Tangible fixed assets in use
A	land (including right to perpetual usufruct)
B	buildings, premises, civil and water engineering structures
C	technical equipment and machines
D	vehicles
E	other tangible fixed assets
2	Tangible fixed assets under construction
3	Advances for tangible fixed assets under construction
III	Long-term receivables
1	From related parties
2	From other entities
IV	Long-term investments
1	Real property
2	Intangible assets
3	Long-term financial assets
A	in related parties
B	in other entities
4	Other long-term investments
V	Long-term prepayments
1	Deferred tax assets
2	Other prepayments
B	CURRENT ASSETS
I	Inventory
1	Materials
2	Semi-finished products and work in progress
3	Finished products
4	Goods
5	Advances for deliveries
II	Short-term receivables
1	Receivables from related parties
A	Trade receivables
B	Other
2	Receivables from other entities
A	trade receivables
B	Benefits
C	Other
D	Claimed at court
III	Short-term investments
1	Short-term financial assets
A	in related parties
B	in other entities
C	cash and other pecuniary assets
2	Other short-term investments
IV	Short-term prepayments
	TOTAL ASSETS

A	EQUITY
I	Share capital
II	Called up share capital (negative value)
III	Own shares (negative value)
IV	Supplementary capital
V	Revaluation reserve
VI	Other reserve capitals
VII	Previous years' profit (loss)
VII	Net profit (loss)
IX	Write-off on net profit during the financial year (negative value)
B	LIABILITIES AND PROVISIONS FOR LIABILITIES
I	Provisions for liabilities
1	Provision for deferred income tax
2	Provision for retirement and similar benefits
3	Other provisions
II	Long-term liabilities
1	To related parties
2	To other entities
A	credits and loans
B	arising from issuance of debt securities
C	other financial liabilities
D	Other
III	Short-term liabilities
1	To related parties
A	trade liabilities
B	Other
2	To other entities
A	credits and loans
B	arising from issuance of debt securities
C	other financial liabilities
D	trade liabilities
E	received advances for deliveries
F	bill-of-exchange liabilities
G	tax, customs, insurance and other liabilities
H	payroll liabilities
I	Other
3	Special funds
IV	Accruals
1	Negative goodwill
2	Other accruals
	TOTAL LIABILITIES AND EQUITY

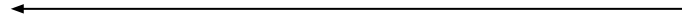
SIMPLIFIED BALANCE SHEET

A	FIXED ASSETS	A	EQUITY
I.	Intangible assets	I.	Share capital
II.	Tangible fixed assets	II.	Supplementary
III.	Long-term receivables	III.	Net profit (loss)
IV.	Long-term investments		
B	CURRENT ASSETS	B	LIABILITES
I.	Inventory	I.	Long-term liabilities
II.	Short-term receivables	II.	Short-term liabilities
III.	Short-term investments		

increasing liquidity

increasing level of maturity

A. FIXED ASSETS

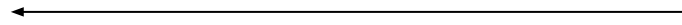


economic life of more than one

I. Intangible assets

A. FIXED ASSETS

I. Intangible assets



patents, licenses, trademark,
know-how, goodwill

A. FIXED ASSETS

I. Intangible assets

II. Tangible fixed assets



land, buildings, premises, vehicles, technical equipment and machines

A. FIXED ASSETS

I. Intangible assets

II. Tangible fixed assets

III. Long-term receivables

III. Long-term investment

B. CURRENT ASSETS

capital used in trade



A. FIXED ASSETS

I. Intangible assets

II. Tangible fixed assets

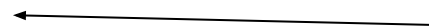
III. Long-term receivables

III. Long-term investment

B. CURRENT ASSETS

I. Inventory

II. Short-term receivables



result of credit policy

A. FIXED ASSETS

I. Intangible assets

II. Tangible fixed assets

III. Long-term receivables

III. Long-term investment

B. CURRENT ASSETS

I. Inventory

II. Short-term receivables

III. Short-term investment



result of cash management (cash and other money market assets)