الجمهورية الجزائرية الديمقراطية الشعبية

وزارة التعليم العالي والبحث العلمي

Université Djilali Bounaama Khemis Miliana
Faculté des Sciences Economiques, Commerciales et des Sciences de Gestion
Département des Sciences Financières et comptables

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كلية العلوم الاقتصادية والتجارية وعلوم التسيير
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Lectures in Financial Accounting (1)

A pedagogical publication addressed to first year students with a common core of economics, management and commercial sciences

Prepared by :
D. SEFFAHLOU RACHID
Lecturer "A" at the Faculty of Economic, Commercial and Management Sciences

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content list (Financial Accounting 1)

Introduction

Since Algeria's move towards openness by moving towards a free economy, it has sought, like other countries, to reform its accounting system and make it compatible with international accounting standards by implementing the financial accounting system in accordance with Law 07-11 of November 25, 2007, which includes the financial accounting system derived from the international accounting reference (IAS/IFRS), which entered into force on January 1, 2010, and came with a conceptual and financial accounting framework whose texts are derived from the texts of international accounting standards, allowing the storage of basic numerical data, their classification, evaluation and recording, and the presentation of financial statements that reflect an honest picture of the financial position and properties of the entity, its efficiency, and the position of its treasury at the end of the financial year, which has been studied in a standardized way.

Due to the lack of references in this scale, this publication came under the title **Lectures in the Financial Accounting Scale (1)** to fill the gap and help students understand the lessons and exercises of financial accounting (1) with questions for evaluation at the end of each chapter with the model answer to them, or solved exercises, as it was prepared based on the content provided. In the educational material guide (Syllabus), which included eight axes aimed at empowering the student with the basic basic knowledge of financial accounting that allows for deepening its sciences in subsequent educational years, the publication was designed in the following axes:

The first axis began with a general introduction to the science of accounting in terms of its origin, concept and types, then defining financial accounting, clarifying its objectives, scope of application, and presenting its assumptions and principles.

The second axis dealt with the basic concepts of financial accounting, such as flows, account, double entry, documents, and stages of the accounting cycle.

The third axis also included the accounting books that must be kept and the financial statements that must be prepared by the institution.

The fourth axis is about how to establish a company and how to establish an individual institution.

The fifth axis dealt with how some accounts of the first category are conducted, followed by the sixth axis, accounting for the value-added fee.

The seventh axis, accounting for intangible and intangible assets in terms of their possession, depreciation, loss of value, and abandonment.

Finally the eighth axis, accounting for inventories in terms of purchase, production, and sale.

First axis: General introduction to the science of accounting

Since the beginning of the third millennium, Algeria has begun to modify its accounting system to make it compatible with international accounting and financial reporting standards (IAS/IFRS), so that accounting in Algeria will be compatible with accounting in the most countries in the world, and this also encourages the attraction of foreign investment, which is why Law 07-11 was promulgated on November 25, 2007 containing the financial accounting system (SCF), or financial accounting, and before discussing its definition, objectives, scope, assumptions and principles, we first review the origins and concept of accounting and its types.

1- The origin and concept of accounting

Accounting emerged as a result of man's need to retain the impact of the operations he performs, and it has evolved over time due to the emergence of companies and the expansion of their activity.

Before approaching the world of accounting, we first try to define the place in which accounting applies, namely companies of all kinds.

1-1- Definition and classification of entities

We attempt below to give a definition and classification of accounting and explain its objectives

1-1-1- Entity definition

It is a set of material, human and financial means aimed at producing, under the best economic conditions, goods and services tending to meet the material needs of man.

1-1-2- Classification of entities

Entities are classified according to activity criterion, law criterion, or size criterion.

a) Classification according to activity criterion.

According to this criterion, entities can be classified into:

- Commercial entities;
- Industrial (or production) entities;
- service entities;
- Agricultural entities.

b) Classification according to the law criterion.

According to this criterion, entities can be classified into:

- Public entities ;
- Private entities (privately owned);
- Mixed institutions

c) Classification according to size criterion (capital and number of workers).

According to this criterion, organizations can be classified into:

- Large entities;
- Small entities;
-Medium entities.

1-1-3-Objectives of entities

Among the objectives of the entities we mention:

- **Profit generation**: which allows it to continue in activity and is also used to measure its health and strength;

- **Rationalization of production**: rational use of production factors and avoiding bankruptcy ;

- **Ensuring an acceptable level of wages for workers**: allowing them to cover their necessary needs and improve their livelihood;

- **Providing insurance for workers**: such as insurance against work accidents, health insurance and retirement;

- **Fulfilling community requirements**: covering their requests and providing them with reasonable prices;

- **Achieving research and development**: by developing means and methods of production and creating new products.

1-2- The genesis of accounting

The need for accounting appeared in the Middle Ages as a result of the emergence of commercial transactions and the use of money as a means of measuring the values of these transactions. Solo projects were the dominant format at that time. Accounting was a tool to serve project owners by recording the many financial transactions in the books due to the need of the project owner to have a record that counts all the operations that he cannot be aware of in his memory, which helps him in measuring the responsibilities of the people managing his money and in defining the relationship of the project with others who deal with him.

After the 18th century, the industrial revolution appeared, which led to the emergence of joint-stock companies that require enormous capital to invest, accounting became a means at the service of the administration by providing it with data that help it to define various policies related to the entity's activity and to supervise and control their implementation, and it also provides suppliers, customers and potential investors with important information that helps them make the right decisions.

1-3- accounting concept

Accounting is linguistically a source of the verb calculate (count), and it means controlling and auditing accounts. The concept of accounting can also be explained by the process of recording transactions and financial procedures carried out by the entity. The financial data used in accounting summarizes all financial transactions that took place in a specific period of time and shows the financial position of the institution, its properties and cash flows.

There are several definitions of accounting, including:
“**It is an information system concerned with the operations carried out by the various economic agents, which can be expressed in money**”.

Or “**It is one of the quantitative techniques for data processing, such as statistics, econometrics, and operations research, as some specialists call it business science**.”

Also, "**Accounting is not an end in itself, but rather an information system concerned with measuring, processing and then communicating**

financial information to the concerned parties to help them make rational decisions."

2- Types of accounting

There are 3 basic types of accounting:

2-1- National Accounting

It studies the real and financial flows between the various economic agents to obtain the gross national product (PNB), the gross domestic product (PIB),etc...

2-2- Public Accounting

It studies the real and financial flows at the level of the state, local authorities and all public bodies of a non-commercial and non-industrial administrative nature (revenues and expenditures);

2-3- Entity accounting It branches into:

- **Analytical accounting** (or cost accounting)
- **Estimated accounting**
- **General or financial accounting** (subject of this matter) is concerned with storing numerical baseline data, classifying, evaluating and recording them, and presenting financial statements that faithfully reflect the financial position, the entity's property, its efficiency and the status of its treasury at the end of the cycle or the end of the financial year.

3- Definition of financial accounting

To define financial accounting, we suffice with the definition contained in Article 03 of Law No. 07-11 of 11/25/2007, which includes the financial accounting system, issued in the Official Journal of the Republic of Algeria, No. 74 of 11/25/2007).

"Financial accounting is a system for organizing financial information that allows storing numerical base data, classifying, evaluating and recording them, and presenting statements that reflect a true picture of the financial position and property of the entity, its efficiency, and the status of its treasury at the end of the financial year."

From the previous definition, it can be said that financial accounting is a system in the entity to organize financial information in the following way:

- Collect all financial information related to the operations of the entity;
- Translating this information into numerical base data;

- Classify these data according to their nature;
- Evaluate these data according to the applicable accounting rules and methods;
- Recording that information in its appropriate accounts according to the chronology of its occurrence;
-Processing these accounts and extracting them in the form of lists or financial statements that reflect a true picture of the entity's financial position and show the true values of all the entity's property, its performance and the status of its treasury at the end of each year or accounting cycle.

4- Objectives and Fields of application of financial accounting

Financial accounting objectves and its scope of application are defined in Articles One and Two of the Financial Accounting System.

4-1- Financial accounting objectives

Financial accounting aims to:
- Calculation of various results;
-Knowing the extent of the entity's financial disclosure;
- Providing analytical accounting and estimated accounting with the necessary data;
- It represents an important basis for financial analysis;
- Providing the necessary financial information to its users to make decisions.

4-2-Fields of application of financial accounting

The financial accounting system stipulates that financial accounting must be applied in the following entities:
- Companies subject to commercial law;
- Cooperatives;
- Natural or moral persons producing commercial and non-commercial goods or services if they carry out economic activities based on repetitive operations;
- All natural or moral persons subject to this under a legal or regulatory text.

5- Assumptions and accounting principles

The accounting assumptions and principles contained in the Financial Accounting System are:
two basic hypotheses of financial accounting, two accounting conventions, four qualitative characteristics of financial information, and eleven accounting principles.

5-1- Basic hypotheses of financial accounting

The financial statements of the entities subject to the financial accounting system are adjusted on the basis of the following two hypotheses:

5-1-1- Commitment accounting (or Accruals)

The effects of commercial transactions and other events are accounted for on the basis of Commitment accounting when these transactions or events occur (and not when cash or its equivalent is paid or received). They are recorded in the accounting books and presented in the financial statements for the period in which they took place (or occurred).

5-1-2- Continuity of exploitation (or **Going Concern**)

The financial statements are prepared on the basis of continuity of exploitation, assuming that the entity continues its activities in an expected future, unless events or decisions occurred before the date of publication of the accounts, which may cause liquidation or cessation of activity in the near future.

And if the financial statements are not prepared on this basis, then doubts about the continuity of exploitation are clarified and justified, and the basis on which they are determined is specified in the appendix.

5-2- Accounting conventions

The financial statements are prepared on the basis of the following two conventions:

5-2-1- Entity unit conventions

The entity should be considered as if it were an independent accounting unit separate from its owners, where financial accounting is based on the principle of separation between the assets, liabilities, expenses and income of the entity, and the assets, liabilities, expenses and income of participants in its own capital or shareholders.

Entity financial statements should only take into account the transactions of the entity and not the transactions of its owners.

5-2-2- Monetary unit conventions

Each entity is obliged to respect the monetary unit conventions, where the Algerian dinar is the only unit of measurement for recording entity transactions, and it is also the unit of measurement for the information carried by the financial statements.

Only transactions and events that can be valued in cash are included in the accounts. However, it is possible to mention in the appendix to the financial statements information that cannot be quantified and that could have a financial impact.

5-3- Qualitative characteristics of financial information

The conceptual framework of financial accounting stipulates that information contained in financial statements must have the qualitative characteristics of relevance, reliability, comparability and understandability:

5-3-1-Relevance

It is the quality of information when it can influence the economic decisions of users by helping them to estimate past, present, or future events, or to confirm or correct their previous estimates.

5-3-2- Reliability

The quality of information when it is free from error or significant prejudice and which users can trust to provide a true picture of what it is supposed to provide or can reasonably be expected to provide.

5-3-3- Comparability

The quality of information when it is prepared and presented in light of respecting the continuity of methods and allows its user to make significant comparisons in time and between entities.

5-3-4- Understandability

The quality of information when it is easy to understand by any user who has reasonable knowledge of business, economic activities, and accounting and has the will to study the information in a sufficiently serious manner.

5-4-Accounting principles

The financial accounting system stipulates that the financial statements are prepared on the basis of 11 accounting principles, which are:

5-4-1- Relative importance principle

According to the this principle:

- Financial statements should highlight every material piece of information that could influence the judgment of its users about the entity;

- Amounts not considered may be combined with amounts for items of similar nature or function;
- The true picture of the financial statements must reflect the managers' knowledge of the reality and the relative importance of the recorded events;
- Accounting standards may not be applied to elements of little importance.

5-4-2- **Financial year independence principle**

The result of each financial year is independent of the financial year which precedes it and of the financial year which follows it and, to determine it, only the related events and transactions must be attributed to it.

5-4-3- **Events after the accounts closing date principle**

An event must be linked to the closed financial year if it is directly and likely related to an existing situation at the closing date of the financial year's accounts and is known between this date and the date of approval of the accounts for this financial year.

No adjustment shall be made if an event occurred after the closing date of the financial year and did not affect the situation of the assets or liabilities of the period prior to the approval of the accounts. And this event must be notified in the appendix to the financial statements if it is significant enough to influence the decisions of users of the financial statements.

5-4-4- **Prudence principle**

Accounting must comply with the principle of prudence, which leads to a reasonable estimate of the facts in the event of doubt, in order to avoid the risk of transferring existing doubts in the future which would increase whit debts the entity's assets or its results.

We must not overestimate the value of assets and income, nor underestimate the value of liabilities and expenses.

The application of this principle of prudence must not lead to the constitution of latent reserves or excessive provisions.

5-4-5- **Permanence of methods principle**

Consistency and comparability of accounting information during successive periods requires continuous application of rules and methods related to the evaluation of elements and presentation of information.

No exception to the principle of permanence of methods is justified except by a search for better information or a change in organization.

5-4-6- Historical cost principle

Assets, liabilities, income and expenses are recorded in the accounts and presented in the financial statements at their historical cost on the basis of their value on the date of their recognition without taking into account the effects of variations in price or changes in the purchasing power of money.

The elements of assets, liabilities, products and charges are recorded in accounting and presented in the financial statements at their historical cost on the basis of their value at the date of their inspection without taking into account the effects of price changes or the development of the purchasing power of the currency.

However, specific assets and liabilities such as biological assets or financial instruments are valued at fair value.

5-4-7- Opening balance sheet intangibility principle

The opening balance sheet for a financial year must be identical to the closing balance sheet for the previous financial year.

5-4-8- Economic reality over legal appearance primacy principle

Transactions are recorded in accounting and presented in financial statements according to their nature and their financial and economic reality without sticking only to their legal appearance.

5-4-9- Faithful image principle

The financial statements must, by their nature and their quality, and in compliance with accounting principles and rules, satisfy the objective of the faithful image by providing relevant information on the financial situation, performance and changes in the financial situation of the entity.

In the event that the application of an accounting rule proves to be unsuitable for giving a faithful image of the entity, the reasons must be mentioned in the appendix to the financial statements.

5-4-10- No compensation principle

No compensation may be made between an element of asset and an element of liability , nor between an element of expense and an element of income, unless such compensation takes place on legal or contractual bases or if these assets, liabilities, expenses and income were initially intended to be realized on a net basis.

5-4-11- Double entry principle

The accounting entries are drafted according to the so-called "double-entry principle" where each entry affects at least two accounts, one of which is a debtor and the other a creditor, respecting the chronological order in the recording of operations. The amount debited must equal the amount credited.

Evaluation questions with model answers

First: What is the entity?

1) State the definition of the entity
2) Mention the classification of entities according to the activity criterion
3) State the organization's goals

Second: What is accounting?

1) State the definition of accounting
2) Mention the types of accounting
3) State the objectives of accounting

Third: What is financial accounting?

1) Mention the definition of financial accounting according to the financial accounting system
2) Mention the two basic assumptions contained in the Algerian financial accounting system.
2) Mention the two accounting agreements contained in the Algerian financial accounting system.
3) Mention the qualitative characteristics of the financial information contained in the Algerian financial accounting system.
4) Mention all the accounting principles introduced by the financial accounting system
5) Explain the principle of double entry

Model answer to questions

First: What is the entity?

1)Entity definition:

An entity is a group of material, human and financial means aimed at producing, in the best economic conditions, goods and services aimed at meeting the material needs of humans.

2) Classification of entities according to activity criterion

According to the activity criterion, entities can be classified into:

- Commercial entities;
- Industrial (or production) entities;
- service entities;
- Agricultural entities.

3) Objectives of entities are:

- **Profit generation**: which allows it to continue in activity and is also used to measure its health and strength;
- **Rationalization of production**: rational use of production factors and avoiding bankruptcy ;
- **Ensuring an acceptable level of wages for workers**: allowing them to cover their necessary needs and improve their livelihood;
- **Providing insurance for workers**: such as insurance against work accidents, health insurance and retirement;
- **Fulfilling community requirements**: covering their requests and providing them with reasonable prices;
- **Achieving research and development**: by developing means and methods of production and creating new products.

Second: What is accounting?

1) The definition of accounting is:

“It is an information system concerned with the operations carried out by the various economic agents, which can be expressed in money”.

Or “**It is one of the quantitative techniques for data processing, such as statistics, econometrics, and operations research, as some specialists call it business science**.”

2) Mention the types of accounting

There are 3 basic types of accounting:

- National Accounting

- Public Accounting

- Entity accounting It branches into:
- Analytical accounting (or cost accounting)
- Estimated accounting
- General or financial accounting

3) State the objectives of accounting

Among the objectives of accounting we mention:

- Calculate various results;
- Knowing the extent of the development of the institution's financial assets
- Providing analytical accounting and discretionary accounting with the necessary data;
- It represents a basic rule for financial analysis;
- Providing the necessary financial information to its users to make decisions.

Third: What is financial accounting?

1) The definition of financial accounting according to the financial accounting system is: "*Financial accounting is a system for organizing financial information that allows storing numerical base data, classifying, evaluating and recording them, and presenting statements that reflect a true picture of the financial position and property of the entity, its efficiency, and the status of its treasury at the end of the financial year.*"

2) The two basic assumptions contained in the Algerian financial accounting system are:
- Commitment accounting (or Accruals)
- Continuity of exploitation (or **Going Concern**)

2) The two accounting agreements contained in the Algerian financial accounting system are:
- Entity unit conventions
- Monetary unit conventions

3) The qualitative characteristics of the financial information contained in the Algerian financial accounting system are:

-Relevance
- Reliability
- Comparability
- Understandability

4) Accounting principles introduced by the financial accounting system are:

1- Relative importance principle
2- Financial year independence
3- Events after the accounts closing date
4- Prudence
5- Permanence of methods
6- Historical cost
7- Opening balance sheet intangibility
8- Economic reality over legal appearance primacy principle
9- Faithful image principle
10- No compensation principle
11- Double entry principle

5) Explanation of the principle of double entry:

« *The accounting entries are drafted according to the so-called "double-entry principle" where each entry affects at least two accounts, one of which is a debtor and the other a creditor, respecting the chronological order in the recording of operations. The amount debited must equal the amount credited* »

Second axis: Basic concepts in Financial Accounting

In order to be able to determine the result of The entity's activity (profit or loss) and to present its financial position for a determined period called the accounting cycle, it must analyze and record all the transactions it has carried out in appropriate accounting books on the basis of the supporting documents, then it processes them according to the accounting rules and methods, to finally establish and present the financial statements indicating the financial situation of the entity, its performance and any change that has occurred in its financial situation.

To understand these concepts, we will discuss, below, the flows and their types, the account and the double entry, the accounting documents and the stages of the accounting cycle.

1-Flows and their types

The financial operations and economic events carried out by the entity result in economic flows which we define and analyze as follows:

1-1- Definition of economic flows

Economic flows are the movement of the values of goods, services and funds between the enterprise and economic agents, or within the enterprise itself.

Economic flows are divided into:

- Real flows (material flows): they can take the form of commodities such as goods, raw materials and products, and can also take the form of services such as transport, insurance, studies, etc.

- Financial flows (cash flows): These are movements of funds from liquid cash and checks, as well as the movement of debts and rights in the case of term payment operations.

1-2- Analysis of economic flows into sources and uses

In order to monitor its operations and determine the result of its activity, the entity must record in accounting the economic flows based on supporting documents such as invoices, receipt slips, delivery slips, bank checks, trade bills, etc...

For the correct accounting recording of the flows, it is required to decompose each flow into **a source** and **a use**, along with determining its value and date, as follows:

- **The source of the flow** is the point **of the departure of the flow** and the **source** will be « **creditor** »;

- **The use of the flow** is the point of arrival **of the flow** and **the use** will be « **debtor** ».

Example 1: On January 02, 2015, the entity obtained a loan of 1 000 000 DA from the credit institutions, and placed in the bank.

Date	The use	The source	The amount	supporting document
02/01/2015	bank	loan institutions	1 000 000	check number ...

Example 2: On January 08, 2015 the entity purchased a truck For 400,000 DA, by a bank check from the vehicle sales company

Date	The use	The source	The amount	supporting document
08/01/2015	a truck	bank	400 000	Purchase invoice number...

Example 3: On January 25, 2015 The entity purchased industrial equipment for 300,000 DA, on account.

Date	The use	The source	The amount	supporting document
15/01/2015	industrial equipment	Fixed asset suppliers	300 000	Purchase invoice number...

Example 4 : On January 25, 2015, an amount of 350,000 DA was withdrawn from the bank and placed in the cash box

Date	The use	The source	The amount	supporting document
25/01/2015	cash box	bank	350 000	check number ...

Example 5: on January 31, 2015, the entity paid DA 300,000 in cash to fixed assets suppliers.

Date	The use	The source	The amount	supporting document
31/01/2015	Fixed asset suppliers	cash box	300 000	Cash receipt or Box receipt

2-The Account and double entry

Each entity performs several various operations related to its operating activity such as the purchase and sale of goods, the purchase and sale of services, the payment of debts, the payment of expenses, the collection of receivables, etc... resulting in several flows that translate each operation it performs and so that the entity can know the result of its exploitative operations, it must record all these flows in precise accounts and according to the principle of double entry. In the following, we try to know: What is an account? And what is the principle of double entry?

2-1- The Account

After analyzing the economic flows in sources and uses, each source and each use must be recorded in the appropriate account, specified in the nomenclature of accounts of the financial accounting system. We try to give its definition, its form, how to register flows in it and how to determine its balance (how to extract account balance)

the entity must record all these flows

2-1-1- Account definition

The account is the smallest approved unit for arranging and recording accounting operations.

It is a table consisting of two sides:

- The left side, called the debit, and **the usage** is recorded in it (the arrival point of the flow)

-The right side, called the credit, and **the source** is recorded in it (the departure point of the flow).

2-1-2- Account form

The account takes one of the following two forms:

a) Complete form or regular form:

<table>
<tr><td colspan="8">Account number/Account name</td></tr>
<tr><td colspan="4">debit side</td><td colspan="4">credit side</td></tr>
<tr><td>date</td><td>Journal page</td><td>designation</td><td>The amount</td><td>date</td><td>Journal page</td><td>designation</td><td>The amount</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="3">total</td><td></td><td colspan="3">total</td></tr>
</table>

b) The abbreviated (or simplified) form of the account (or the letter T): it is most commonly used to facilitate the extraction of balances.

debit	Account number/Account name	credit

2-1-3- Recording flows in the account

Recording is done on the left side (**debit**) of the account when the account is « **a use** » (flow end point).
Recording is done on the right side (**credit**) of the account when the account is « **a source** » (flow start point).

2-1-4-Extracting the account balance

"Account Balance" is the remaining value in the account after it has changed during the relevant period.

The account balance is the difference between the sum of the debited amounts and the sum of the credited amounts

The balance is written on the side that has **the smallest sum** to achieve balance, but it is **attributed** to the side that has **the largest sum**,
so we say:
- **Debit balance** and write it on the **credit side** if the debit total is greater than the credit total;
Credit balance and write it on the **debit side** if the credit total is greater than the debit total
Zero balance if the debit total is equal to the credit total.

Example: the following operations took place via the cashbox account, we ask you to extract its balance, knowing that its initial balance was 50,000 DA.

1- Withdraw an amount of 150,000 from the bank and put it in the cashbox
2- Acquisition of returnable packaging in cash at 40,000
3- Acquisition of a computer 100,000 in cash
4- Sell goods for cash at 180,000
5- Pay the debts of suppliers 60,000 in cash,
6- Purchase of merchandise 100,000 in cash,
7- Sell merchandise 200,000 by bank check.

Solution:

The account in question is the cashbox account (C / 53: cashbox account)
The initial balance is 50,000 DA: operation (0)

debit	C/53 cashbox		credit
(2)	40 000	50 000	(0)
(3)	100 000	150 000	(1)
(5)	60 000	180 000	(4)
(6)	100 000	(80 000)Account balance creditor	
(Total)	380 000	380 000	(Total)

The sum of the debit side is 380,000 and the sum of the credit side is 300,000
The largest sum of operations is **380 000** placed in both sides.
The balance is the difference between the largest sum and the smallest sum i.e. 380 000 – 300 000 =80,000 is placed on the credit side to bring about balance, but is attributed to the debit side. Therefore, the balance of the fund account is: a debit balance of 80 000 DA.

Operation (7) is not recorded in the cashbox account because it does not affect this account.

2-2- The double entry principle

The principle of double entry stipulates that the accounting writings are edited according to the principle called "double entry": where each entry touches at least two accounts, one debit and the other credit, while respecting the chronological order in recording operations. The amount debited must be equal to the amount credited.

Example:

On 01/25/2015, an amount of 350,000 DZD was withdrawn from the bank and placed in the fund. It is required to analyze the flow into source and use and then register it according to the double-entry principle.

Solution :

Analysis of flow to source and to use:

Date	The use	The source	The amount	supporting document
01/25/2015	cash box	bank	350 000	check number ...

According to the principle of double entry: the accounting recording affects two accounts: the cashbox and the bank.

The use (cashbox) is recorded as a debtor and the source (the bank) is recorded as a credit as follows:

debit	Cashbox account	credit
350 000		

debit	Bank account	credit
		350 000

2-3-Nomenclature of account of the Algerian financial accounting system

It is a group of accounts grouped into categories called classes, numbered from 1 to 7 and divided into two categories:

- The financial position categorie, which consists of five classes and is called Balance sheet accounts (numbered from 1 to 5),

-Management accounts categorie, consisting of two classes numbered 6 and 7

Categories	Class
Balance sheet accounts	Class 1 – Capital Accounts
	Class 2 – Fixed Asset Accounts
	Class 3- Inventory and product in progress accounts
	Class 4 - Third party accounts
	Class 5 - Financial accounts
Management accounts	**Class 6 -** Expense accounts
	Class 7 - product account

Each class is divided into main accounts consisting of two numbers, where the first number on the left indicates the class, then a number from 0 to 9 is added to it on the right to distinguish the accounts that belong to the class.

Example:

Class 2: Fixed asset accounts

Main Account 20: Intangible Fixed Assets

Main Account 21: Tangible Fixed Assets

....

Main Account 29: Value losses on fixed assets.

Each main account is also divided into sub-accounts with three numbers, where the first two numbers on the left indicate the main account, then a number from 0 to 9 is added to it on the right to distinguish the accounts that belong to the main account.

Example:

Main Account 21: Tangible Fixed Assets is subdivided into

Subaccount 211: Lands

Subaccount 212: Land arrangement and configuration operations

Subaccount 213: Constructions

....

Subaccount 218: Other tangible fixed assets.

The sub-account, in turn, can be divided into partial-accounts with four numbers, where the first three numbers on the left indicate the sub-account, then a number from 0 to 9 is added to it on the right to distinguish the accounts that belong to the sub-account.

Example:

Subaccount 218: Other tangible fixed assets is subdivided into partial account

Partial account 2181: Automated Media

Partial account 2182: Transmission Equipment

....

Partial account 2186: Returnable packaging

3-Accounting documents

Every operation carried out by the institution is recorded in its appropriate account based on supporting documents called legal accounting documents, such as:

-Purchase invoice received from suppliers
-Sales invoice sent to customers
- Note entry to stores
- Receipt of the goods
- A memorandum of output from the stores
-Cash payment note
- trade bills
-bill of exchange
-trading effects

4- Stages of the accounting cycle

For the entity to be able to determine the result of its activity, whether profit or loss, and to present its financial position over a fixed period called the accounting cycle, it must analyze and record all the transactions it has carried out in appropriate accounting books and on the basis of supporting documents, then classify and process them according to the adopted accounting methods and principles, then present them In financial statements that faithfully show the financial position of the entity and its efficiency and all change in his financial situation in the considered accounting cycle.

The stages of the accounting cycle are:

- Carry over the balances of the beginning of the period from the closing budget of the previous session
- Recording accounting operations in the daily book
- Post each account from the journal to the ledger and account monitored
- Preparing trial balance before inventory
- Physical inventory
- Registration of settlement entries
- Preparing the trial balance after the inventory
- Determine the net result
- Preparing the financial statements (Statement of financial position, Statement of comprehensive income, Statement of cash flows, statement of changes in equity and the appendix)

Solved exercises

Exercise n°01

An entity carried out the following operations, resulting in flows. It requires analyzing each flow into a source and into a use, specifying its value and date, and then recording each operation in the accounts that touched it according to the principle of double entry.

On 03/03/2015, an amount of 300,000 DZD was withdrawn from the bank and placed in the fund.

On 03/05/2015, a computer was purchased for 100,000 DZD in cash.

On 03/25/2015, the entity received an amount of 350,000 DZD in cash from customers.

On 03/31/2015, the entity paid 300,000 DZD in cash to the fixed asset suppliers.

Exercise n°02

Here are operations that were carried out through the account of the fund or the bank, which are required to be registered in the account of the fund and the bank account and extract the balance of each account, noting that the initial balance of the fund account was 180,000 DZD and the bank account was: 220,000 DZD.

1- Withdraw an amount of 80,000 DZD from the fund and put it in the bank.
2- Selling goods for 300,000 DZD, and one-third of the amount was received in cash, half of the amount by check, and the rest on account.
3- Buying damaged envelopes for 60,000 DZD, paying half of the amount by check and the other half in cash.
4- Buying a production machine with a bank check for 100,000 DZD
5- Purchase of goods for 200,000 DZD. 60,000 DZD was paid in cash, and the rest by bank check.
6- Payment of suppliers’ debts in the amount of 90,000 DZD by bank check,

Exercise 03: (Home work - or research)

Using the Algerian financial accounting system’s code of accounts, find the names of the following accounts:

10		20	
101		204	
103		205	
105		207	
108		21	
109		211	
11		213	
12		215	
16		218	
164		2181	
168		2182	

34		2183	
35		2186	
351		280	
355		281	
358		290	
36		291	
37		30	
380		31	
381		32	
382		33	

4456		401	
44567		403	
4457		404	
486		408	
487		409	
512		411	
515		413	
517		418	
519		444	
53		4455	

61		60	
613		600	
615		601	
616		602	
617		603	
62		604	
621		605	
622		607	
624		608	
626		609	

72		70	
723		700	
724		701	
73		702	
731		703	
732		704	
75		705	
752		706	
763		708	
781		709	

Solutions

Exercise n°01

An entity carried out the following operations, resulting in flows. It requires analyzing each flow into a source and into a use, specifying its value and date, and then recording each operation in the accounts that touched it according to the principle of double entry.

On Marsh 03, 2015, an amount of 300,000 DA was withdrawn from the bank and placed in the cash box

Date	The use	The source	The amount	supporting document
03/03/2015	cash box	bank	300 000	check number ...

debit	Cashbox account	credit	debit	Bank account	credit
300 000					300 000

On 03/05/2015, a computer was purchased for 100,000 DZD in cash.

Date	The use	The source	The amount	supporting document
03/05/2015	computer	cash box	100 000	check number ...

debit	Computer account	credit	debit	Cash box account	credit
100 000					100 000

On 03/25/2015, the entity received an amount of 350,000 DZD in cash from customers.

Date	The use	The source	The amount	supporting document
03/25/2015	Cash box	customers	350 000	check number ...

debit	Cashbox account	credit	debit	Customers account	credit
350 000					350 000

On 03/31/2015, the entity paid 300,000 DZD in cash to the fixed asset suppliers

Date	The use	The source	The amount	supporting document
03/31/2015	Fixed asset	cash box	100 000	check number ...

debit	Fixed asset suppliers	credit	debit	Cash box account	credit
100 000					100 000

Solution:

The first account in question is the cashbox account (C/53: cashbox account)

The initial balance is 180,000 DA: operation (0)

debit	C/53 cashbox		credit
(0)	**180 000**	**80 000**	**(1)**
(2)	**100 000**	**30 000**	**(3)**
		60 000	**(5)**
		(110 000)Account balance debitor	
(Total)	**280 000**	**280 000**	**(Total)**

The second account is the bank account (C/512: bank account)

The initial balance is 220,000 DA: operation (0)

debit	C/53 cashbox		credit
(0)	**220 000**	**30 000**	**(3)**
(1)	**80 000**	**100 000**	**(4)**
(2)	**150 000**	**140 000**	**(5)**
		90 000	**(6)**
		(90 000)Account balance debitor	
(Total)	**450 000**	**450 000**	**(Total)**

Account names are in the Accounts Blog of The Financial Accounting Systeme.

Third axis: Accounting books and financial statements

The entity must analyze and record all the operations it has carried out in appropriate accounting books and based on supporting documents, then classify and treat them according to the adopted accounting rules and methods by respecting the accounting principles, then prepares and presents financial statements that fairly reflect the entity's financial position. In the following, we try to know what are the accounting books used by the entity? what are the financial statements that must be prepared and published by the entity? and how are the balance sheet, and the income statement prepared?

First : Accounting Books

There are a number of accounting books that entities keep to record and document all financial events and commercial transactions that they carry out. They are an essential part of the accounting system and aim to provide an accurate and comprehensive record of their financial activities.

Accounting books are an important tool for documentation, preparation of financial statements, financial analysis and facilitation of audits. It must be preserved and kept for a period of not less than 10 years.

Among these books, we mention the daily book (or Journal), the large book (Ledger), the entry and exit book for workers, the wages book, the paid holiday book, the inventory book, the trial balance..., our study is limited to the journal book, the ledger book, and the trial balance .

1- Daily Journal (or Journal)

The journal can branch into a number of auxiliary journals, depending on the needs of the organization.

We record in the journal the movements of the assets, liabilities, private funds, expenses and incomes of the entity. In the following, we discuss its definition, its form and the method of accounting registration in it

1-1- Journal definition

The journal is a book binding by law in which the operations carried out by the entity are recorded day by day and process by process according to the chronological order of their occurrence, without leaving blanks or changes of any kind and without transferring to the margin or filling between the lines, and It must also be numbered and initialed by the President of the Court of the Entity's seat

1-2- Journal form

The journal takes the following form:

		Date		
Debit account number	Credit account number	Debit account name Credit account name Explanation of the process (reference of the supporting document)	Debit account amount	Credit account amount

1-3- Accounting entry in the journal

Transactions are recorded in the journal based on supporting documents and according to the double entry principle, where each accounting entry touches at least two accounts, one debit (usage) and the other credit (source), while respecting the chronological sequence in recording transactions. The sum of the debit amounts must be equal to the sum of the credit amounts.

The accounting entry can be in the form of:

- **Simple entry**: when the accounting registration affects only two accounts (one debit and the other credit)
- **Compound entry**: when the accounting entry touches more than two accounts (two or more accounts on the debit side, or two or more accounts on the credit side, or both).

Example:

An entity has performed the following operations that it requests to be recorded in the journal.

- **On February 03, 2018**, the amount of 25,000 DA was withdrawn from the bank and placed in the cashier.

		02/03/2018		
53		Cashier	25000	
	512	Bank		25000
		(check number ...)		

- On February 08, 2018 the entity acquired a computer for 45 000 DA and information software for 32 000 DA in cash.

		02/08/2018		
204 2181	 53	information software computer Cashier (Purchase invoice number ...)	32000 45000	 77000

- **On February 15, 2018** :The entity acquired a production machine for 150,000 DA. Half of the amount was paid by check and the other half on account.

		02/15/2018		
215	 404 512	production machine Fixed asset suppliers Bank (Purchase invoice number ...)	150000	 75000 75000

- On February 19, 2018, the entity obtained a bank loan of 800,000 DA, placed in the bank.

		02/19/2018		
512	 164	Bank Loan from credit institutions (check number ...)	800000	 800000

- On February 22, 2018

The entity paid the phone expenses of 30,000 DA by bank check.

		02/22/2018		
626	 512	Postage and telecommunications expenses Bank (check number ...)	30000	 30000

- On February 25, 2018, the entity paid the debts of fixed asset suppliers, 45,000 DZD, by bank check.

		02/25/2018		
404	 512	Fixed asset suppliers Bank (check number ...)	25000	 25000

2- Big Book (General Ledger or Ledger)

The large ledger includes the sum of the transactions of the accounts during the relevant period;

The large book includes the sum of the account movements to extract their balances at the end of the relevant period, where a page is allocated for each account that was a party to a daily entry even once during the accounting cycle, and thus the entity can extract the balance of this account (in the manner that we saw previously).

3-Trial Balance

After the accounting recording in the journal of the transactions carried out by the entity, then posting them to the ledger and extracting their balances, it is necessary to ensure the validity of these records and that the amounts recorded on the debit side of the accounts are equivalent to those recorded on the credit side.

This parity is confirmed at the end of the accounting period by preparing a special table that includes the names of all the accounts that were used, indicating the sum of the debit party, the sum of the credit party, and the balance for each account. This table is called the "trial balance" or "balance book" and has the following form:

account number	account name	totals		balances	
		Debit	Credit	Debit	Credit

In order to ensure the correctness of the accounting operations through **the trial balance**, the sum of the two sides of the totals (the debit and the credit) must be equal and represent the sum of the two sides of the journal. Also, the sum of both sides of the balances column must be equal. (The trial balance is covered in detail in a case study)

Second : Financial statments

The Financial Accounting System stipulates that the entities that fall within the scope of application of Law 07-11 prepare and publish at least annually the financial statements represented in the balance sheet, income statement, statement of cash flows, statement of changes in equity. and the appendix.

4- The Balance sheet (or the financial position statment)

The Balance sheet is the most important of these statements, as it shows the financial position and property of the entity at a certain date. We will discuss in the following its definition, definition and classification of its elements, and the relationship between those elements.

4-1- Balance sheet definition

The Balance sheet is two separate tables, one for assets and one for liabilities, or it is a single table with two sides, the right side identifies the assets items (the organization's property or uses), and the left side identifies the liabilities items (own funds and debts or funds that were used to acquire the assets) on a certain date.

4-2- Definition and classification of Balance sheet components

In defining and classifying The Balance sheet elements, we depend on what was stated in the conceptual framework of financial accounting.

4-2-1- Definition of assets

Assets consist of resources controlled by the entity as a result of past events and intended to provide the entity with future economic benefits.

Control over assets is the ability to obtain future economic benefits provided by those assets.

4-2-2- Asset classification

The elements of the assets directed to serve the activity of the entity are **permanently non-current assets**, while the assets that do not have this capacity because of their destination or nature are **current assets.**

Current assets contain:

- The assets that the entity expects to be realized, sold or consumed within the framework of the normal exploitation cycle, which represents the period between the acquisition of raw materials or goods that enter into the exploitation process and their completion in the form of treasury liquidity;

- Assets that are acquired primarily for transactional purposes or for a short term and which the entity expects to realize within 12 months;
- Liquids or semi-liquids whose use is not subject to restrictions.

Non-current assets include:

- Assets intended for continuous use to cover the needs of the entity's activities, such as tangible fixations and intangible fixations;
- Assets that are acquired for the purpose of long-term employment or are not destined to be realized within the twelve months starting from the closing date, such as financial confirmations.

4-2-3-Definition of Liabilities

Liabilities consist of the entity's current obligations resulting from past events, whose expiration for the entity is represented in the exit of resources representing economic benefits.

4-2-4- Classification of Liabilities

Liabilities are classified into current liabilities when:

- It is expected to be settled during the normal exploitation cycle;
- Or, it must be paid within the twelve months following the closing date.

The remaining liabilities are classified as non-current liabilities¬

4-2-5- Definition of Capital

own capitals, own funds or financial capital represents the surplus of the entity's assets over its current and non-current liabilities.

4-2-6-Relationship between the various components of Balance sheet:

The basic relationship of The Balance sheet equilibrium is:

Total assets = total liabilities

The Other relationships are:

Total Assets = Non-current Assets + Current Assets

Total liabilities = own funds + non-current liabilities + current liabilities

Result (after Balance sheet change) = Total Assets - Total Liabilities

4-2-7-Balance sheet Form

Below is an example of a closing balance sheet with the account number and account name of each element

Assets (The uses)				Liabilities (Sources of funds)		
C.N	account name	The Amount		C.N	account name	The Amount
	Non-current Assets				own funds	
204	informatics software			101	Company's capital or Exploitation funds	
205	Trademarks			106	reserves	
211	lands			108	Exploiter account	
213	buildings			109	Uncalled committed capital	
215	Industrial equipment and tools			110	Result postponement	
2181	hardware equipment			120	result of the fiscal year	
2182	transportation equipment					
2183	office supplies				non-current liabilities	
2184	office equipments			164	Loan from credit institutions	
2186	returnable packaging			168	other loans	
	Current Assets					
30	merchandise stocks				current liabilities	
31	Raw materials and supplies			401	Inventory and services suppliers	
326	Packaging (damaged packaging)			403	Commercial bills to pay	
355	manufactured products			404	Fixed asset suppliers	
411	customers			4455	value added tax (VAT) to pay	
413	Receivable trade bills					
44567	value added tax (VAT) prepayment to be reported					
512	Bank					
53	Cashbox					
Total assets				total liabilities		

The closing balance sheet, at the end of the accounting cycle, contains the result of the fiscal year, whereas the opening balance sheet, at the beginning of the accounting cycle, does not contain the result of the fiscal year.

If the result of the fiscal year is a profit, it appears in the C/120 account
If it is a loss, it appears in the C/129 account

The account C/101 is called « Company's capital » for a company and called « Exploitation funds » for an individual commercial enterprise.

Example:

On 01/12/2015, Mr. Othman decided to establish an individual commercial enterprise, so he brought an amount of 1,200,000 DA. With half of the amount he bought a building standing on land, where the amount of the building was one-third (1/3) of the amount of land.

And he put 350,000 DA in the bank and the rest in the cashbox

He obtained **a long-term bank loan** of 700,000 DA, with which he bought a truck.

He also bought **on the account** a computer for 150,000 DA, goods for 200,000 DA, computer software for 50,000 DA, raw materials and supplies for 30,000 DA, returned packing for 100,000 DA, damaged packaging for 20,000 DA, and a production machine for 150,000 DA.

Required:

1) Find the amount and account number for each element of the mentioned balance sheet.

2) Preparing the opening balance sheet for merchant Othman.

3) During the month of December 2015, he performed the following operations:

- He sold all the goods in the warehouse with a profit margin of 30% and received the sale amount through the bank, and the goods were delivered within all the damaged covers;
- He pay all debts of stocks and services suppliers
- He pays all debts of inventory and services.

- Find the final budget at the end of December after changing the budget, showing the result (C / 12, the result of the fiscal year).

the solution:

1) The amount brought by the trader Othman to practice his commercial activity is the capital C/101«Exploitation funds » its amount is 1,200,000 DA.

Half of the amount is 600,000 DA used for buying a building and land where the amount of the building was one-third (1/3) of the amount of land.

We put : x = building amount so 3x = land amount

So we have: x + 3x = 600 000 so 4x = 600 000 this means x = 150 000 DA

And therefore **building amount = 150 000** and **land amount = 450 000 DA**

The amount that was placed in the bank is recorded in account C / 512 “current account banks”, the amount of which is 350 000 DA
The remaining amount is recorded in the account C /53 "Cashbox" in the amount of 250 000 DA.

The bank loan account is C/164 « Loan from credit institutions » for the amount of 700 000 DA.

The truck acquired with the loan is recorded in the account C/2182 « Transport equipment » for 700 000 DA.

Purchasing on account means purchase with deferred payment (at a later time agreed upon between the buyer and seller or supplier), as follows:

In the case of purchasing current assets such as inventories (goods, raw materials, damaged packaging, or other supplies), the amount of the debt is recorded in account 401 “ Inventory and services suppliers.”

In the case of purchasing non-current assets such as installations (informatics software, computers, returned packing), the amount of the debt is recorded in account 404 "Fixed assets suppliers".

Accordingly, the items(elements) that were purchased **on the account** and that represent stocks (inventories) are recorded as follows:

C/ 30 "Stocks of goods or merchandise" in the amount of 200,000 DA
C/ 31 "raw materials and supplies" for the amount of 30,000 DA
C/ 326 " damaged packaging " for the amount of 20,000 DA.
The sum of these amounts is recorded as a debt in C / 401 "Inventory and survices suppliers" in the amount of 250 000 DA.

The items acquired on the account that represent Fixed assets are recorded as follows:
H/ 204 "Informatics Software" for the amount 50,000 DA
H / 215 "Industrial Equipment and Tools" for the amount of 150,000 DA
H / 2181 "computer" for the amount of 150,000 DA
H / 2186 " returned packing " for the amount 100,000 DA.
The total of these amounts is recorded as a debt in C / 404 “ Fixed assets suppliers” in the amount of 450 000 DA.
2) The opening balance sheet for merchant Othman on 01/12/2015 is:

Assets (The uses)			Liabilities (Sources of funds)		
C.N	account name	The Amount	C.N	account name	The Amount
	Non-current Assets			own funds	
204	informatics software	50 000	101	Exploitation funds	1 200 000
211	lands	450 000			
213	buildings	150 000		non-current liabilities	
215	Industrial equipment and tools	150 000	164	Loan from credit institutions	700 000
2181	computer	150 000			
2182	transportation equipment(truck)	700 000			
2186	returnable packaging	100 000			
				current liabilities	
	Current Assets		401	Inventory and services suppliers	250 000
30	merchandise stocks	200 000			
31	Raw materials and supplies	30 000	404	Fixed asset suppliers	450 000
326	damaged packaging	20 000			
512	Bank	350 000			
53	Cashbox	250 000			
	Total assets	2 600 000		total liabilities	2 600 000

3) During the month of December, he performed the following operations:

- He sold all the goods in the stocks with a profit margin of 30% and received the sale amount through the bank, and the goods were delivered within all the damaged packaging; the sale price is 200,000 x 1.3 = 260,000 added to the amount in the bank, and accordingly: the bank account becomes = 350,000 + 260,000 = 610,000
From which the amount of the goods account becomes = 00, and the amount of the damaged covers account becomes = 00

All dues of Inventory and services suppliers(250 000) were paid through the cashbox in which there were (250,000).
This means that the amount of the inventory and service suppliers account becomes 00 DA and the cash account becomes 00 DA

Therefore, the total assets = 2 390 000 DA and the total liabilities = 2 350 000
Thus, a result appears (on the liabilities side) in account 120 with an amount = 2 390 000 – 2 350 000 = 40 000 (profit)

The final balance sheet for merchant Othman will be:

Assets (The uses)				Liabilities (Sources of funds)		
C.N	account name	Amount		C.N	account name	Amount
	Non-current Assets				own funds	
204	informatics software	50 000		101	Exploitation funds	1 200 000
211	lands	450 000		120	result of the fiscal year (December)	40 000
213	buildings	150 000				
215	Industrial equipment and tools	150 000				
2181	computer	150 000			non-current liabilities	
2182	transportation equipment(truck)	700 000		164	Loan from credit institutions	700 000
2186	returnable packaging	100 000				
	Current Assets					
31	Raw materials and supplies	30 000			current liabilities	
512	Bank	610 000		404	Fixed asset suppliers	450 000
	Total assets	2 600 000			total liabilities	2 600 000

5-The income statement

The income statement is the second list of the financial statements after the balance sheet that the entity prepares and publishes at the end of the fiscal year.

5-1- Income statement definition

The income statement is a two-column table showing how to determine the various results based on the balances of the main management accounts (The account 7 and the account 6), with two numbers.

5-2- Various results identified in the income statement

The various results identified in the income statement are:

- fiscal year production;
- the added value of exploitation;
- gross operating surplus;
- operational result;
- financial result;
- ordinary result before tax
- the net result of ordinary activities;
- Extraordinary Result;
- The net result of the fiscal year.

consumed purchases

5-3- How to calculate different results

designation	Amounts
Sales and ancillary products Stored or destocked production immobilised production exploitation subsidies	C/70 C/72 C/73 C/74
fiscal year production (1) =	**C70 +C72 +C73 +C74**
consumed purchases External services and other consumption	C/60 C/61 + C/62
consumption for the fiscal year (2) =	**C/60 + C/61 + C/62**
the added value of exploitation (3) =	**(1) - (2)**
personnel expenses or staff costs taxes, fees, and similar payments	C/63 C/64
Gross operating surplus (4) =	**(3) - C/63 - C/64**
Other operational products other operating expenses depreciation allocations, provisions and impairment losses reversal of impairment losses and provisions	C/75 C/65 C/68 C/78
operational result (5) =	**(4) + C/75 – C/65 – C/68 + C/78**
financial products financial expenses	C/76 C/66
financial result (6) =	**C/76 - C/66**
ordinary result before tax (7) =	**(5) + (6)**
Taxes to be paid for normal results	**C/695 and C/698**
Deferred taxes (changes) for normal results	**C/692 and C/693**
Total products of ordinary activities	**(1) + C/75 + C/78 + C/76**
total expenses of ordinary activities	**(2) + C/63 + C/64 + C/65 +C66 + C/68**
the net result of ordinary activities (8) =	**(7) – [C/695 + C/698 + C/692 + C/693]**
Extraordinary items - products	**C/77**
Extraordinary items - expenses	**C/67**
Extraordinary Result (9) =	**C/77 – C/ 67**
The net result of the fiscal year 10 =	**(8) + (9)**

5-4- preparation of the income statement

Here are the balances of the accounts for expenses and revenues for the "Furniture Today" company as of 31/12/2015.

account number	account name	debit balance	Credit balance
60	consumer purchases	1 200 000	
61	external services	56 000	
62	Other external services	92 000	
63	personnel expenses	300 000	
64	taxes, fees, and similar payments	42 000	
65	other operating expenses	8 000	
66	financial expenses	12 000	
68	depreciation allocations, provisions and impairment losses	40 000	
70	Sales and ancillary products		1 900 000
72	Stored or destocked production	8 000	
73	immobilised production		30 000
74	exploitation subsidies		70 000
75	Other operational products		4 000
76	financial products		8 000

The required task is to prepare the income statement, with the knowledge that the profit tax rate is 25%.

the income statement will be :

designation	Amounts
Sales and ancillary products Stored or destocked production immobilised production exploitation subsidies	1 900 000 - 8 000 30 000 70 000
fiscal year production (1) =	**1 992 000**
consumed purchases External services and other consumption	1 200 000 148 000
consumption for the fiscal year (2) =	**1 348 000**
the added value of exploitation (3) =	**644 000**
personnel expenses or staff costs taxes, fees, and similar payments	300 000 42 000
Gross operating surplus (4) =	**302 000**
Other operational products other operating expenses depreciation allocations, provisions and impairment losses reversal of impairment losses and provisions	4 000 8 000 40 000 /
operational result (5) =	**258 000**
financial products financial expenses	8 000 12 000
financial result (6) =	**- 4 000**
ordinary result before tax (7) =	254 000
Taxes to be paid for normal results	**63 500**
Deferred taxes (changes) for normal results	/
Total products of ordinary activities	**2 004 000**
total expenses of ordinary activities	**1 813 500**
the net result of ordinary activities (8) =	**190 500**
Extraordinary items - products	/
Extraordinary items - expenses	/
Extraordinary Result (9) =	0
The net result of the fiscal year 10 =	**190 500**

Solved exercises

Exercise n°01

An entity has performed the following operations that it requests to be recorded in the journal.

On January 02, 2011, the entity obtained a bank loan of 1,000,000 DZD. A quarter of it was placed in the fund and the rest in the bank

On January 05, 2011, the entity bought a building standing on land for 400 000 DZD by bank check, where the amount of the building was one-third (1/3) of the amount of land.

On January 09, 2011, the entity acquired a computer for 60 000 DA and information software for 40 000 DA in cash.

On January 14, 2011:The entity acquired a returnable packaging for 80,000 DZD. on account.

On January 20, 2011, The entity paid the electricity and gas bill with 90,000 DZD in cash.

On January 23, 2011, The entity withdrew an amount of 200,000 DZD from the bank and placed it in the fund.

On January 26, 2011, the entity paid the debts of fixed asset suppliers in cash.

On January 30, 2011, The entity paid the phone expenses of 30,000 DZD in cash.

On January 31, 2011, The entity paid the rental expenses of 70,000 DZD in cash

2) Find the fund account balance on 01/31/2011. Note that his initial balance was nil.

Exercise n°02

On 01/02/2011, the items(elements) of balance sheet for an entity were:

Inventory and services suppliers :40 000 DZD, customers:220 000 DZD, bank loan: 100 000 DZD, returnable packaging:80 000 DZD, merchandises: 30 000 DZD, Bank:120 000 DZD, transportation equipment: 700 000 DZD, Raw materials and supplies: 100 000 DZD, office equipment: 70 000 DZD, Cash box: 60 000 DZD, damaged packaging: 20 000 DZD, Fixed asset suppliers: 60 000 DZD, computer: 20 000 DZD, information software: 10 000 DZD, lands: 500 000 DZD, building: 200 000 DZD, Industrial equipment: 100 000 DZD, and the **Company's capital** ?

Required:

1) Preparing the opening balance sheet, indicating company’s capital, current items, non-current items, and the number of each account.

2)During the month of January 2011, the entity received the entire amount from customers, paid all its debts, bought goods with the rest, and transferred the cash box amount to the bank.

- Find the balance sheet on 01/31/2011. - Did the organization achieve results?

Exercise n°03

On 12/01/2017, Mr. Othman decided to establish an individual commercial enterprise, so he brought an amount of 1,600,000 DA. With half of the amount he bought a building standing on land, where the amount of the building was estimated at a quarter of the amount of the land. And he put 600,000 DA in the bank and the rest in the cashbox

He obtained **a long-term bank loan** of 400,000 DA, with which he bought a truck. He also bought **on the account** a computer for 120,000 DA, goods for 200,000 DA, computer software for 100,000 DA, and damaged packaging for 30,000 DA.

Required:

1) Find the unknown amounts and completing the opening balance sheet on 12/01/2017.

2) During the month of December 2017, He sold in cash all the goods in the warehouse with a profit margin of 40% and pay the suppliers in cash all their dues.

- Find the final balance sheet at the end of December, showing the result (Account 12, the result of the fiscal year).

Exercise 04

1) The income statement is considered the second list of the financial statements after the balance sheet that the entity prepares at the end of the fiscal year, based on the balances of the main management accounts (A/6 and A/7 with two numbers), to determine the various results.

- Mention those results.

2) The following table represents the income statement that requires completion.

designation	Amounts
Sales and ancillary products Stored or destocked production immobilised production exploitation subsidies	C/70 C/72 C/73 C/74
fiscal year production (1) =	…………………………….
consumed purchases External services and other consumption	C/60 C/61 + C/62
consumption for the fiscal year (2) =	……………………………..
the added value of exploitation (3) =	……………….
personnel expenses or staff costs taxes, fees, and similar payments	C/63 C/64
Gross operating surplus (4) =	……………………..
Other operational products other operating expenses depreciation allocations, provisions and impairment losses reversal of impairment losses and provisions	C/75 C/65 C/68 C/78
operational result (5) =	……………………………..
financial products financial expenses	C/76 C/66
financial result (6) =	…………………
ordinary result before tax (7) =	…………………
Taxes to be paid for normal results	**C/695 and C/698**
Deferred taxes (changes) for normal results	**C/692 and C/693**
Total products of ordinary activities	…………………………..
total expenses of ordinary activities	…………………………..
the net result of ordinary activities (8) =	…………………………..
Extraordinary items - products	**C/77**
Extraordinary items - expenses	**C/67**
Extraordinary Result (9) =	…………
The net result of the fiscal year 10 =	…………

Exercise 05

Here are the balances of the accounts for expenses and revenues for the "Furniture Today" company as of 31/12/2015.

account number	account name	debit balance	Credit balance
60	consumer purchases	1 200 000	
61	external services	56 000	
62	Other external services	92 000	
63	personnel expenses	300 000	
64	taxes, fees, and similar payments	42 000	
65	other operating expenses	8 000	
66	financial expenses	12 000	
68	depreciation allocations, provisions and impairment losses	40 000	
70	Sales and ancillary products		1 900 000
72	Stored or destocked production	8 000	
73	immobilised production		30 000
74	exploitation subsidies		70 000
75	Other operational products		4 000
76	financial products		8 000

The required task is to prepare the income statement, with the knowledge that the profit tax rate is 25%.

solutions

Solution of the first exercise

On January 02, 2011, the entity obtained a bank loan of 1,000,000 DZD. A quarter of it was placed in the fund and the rest in the bank

		01/02/2011		
512 53	 164	Bank Cash box Loan from credit institutions	750 000 250 000	 1000 000
		(check number ...)		

On January 05, 2011, the entity bought a building standing on land for 400 000 DZD, where the amount of the building was one-third (1/3) of the amount of land.

		01/05/2011		
211 213	 512	land building bank	300 000 100 000	 400 000
		(check number ...)		

On January 09, 2011, the entity acquired a computer for 60 000 DA and information software for 40 000 DA in cash.

01/09/2011

204 2181	 53	information software computer Cashier (Purchase invoice number ...)	60 000 40 000	 100 000

On January 14, 2011:The entity acquired a returnable packaging for 80,000 DZD. on account.

01/14/2011

2186	 404	returnable packaging Fixed asset suppliers (Purchase invoice number ...)	80 000	 80 000

On January 20, 2011, The entity paid the electricity and gas bill with 90,000 DZD in cash.

01/20/2011

607	 53	Non-stocked purchases of materials and supplies Cashier (electricity and gas invoice number…)	90 000	 90 000

01/26/2011

On January 26, 2011, the entity paid the debts of fixed asset suppliers in cash.

404	 53	Fixed asset sup[illegible] Cash box (cash voucher n°...)	80 000	 80 000

01/30/2011

On January 30, 2011, The entity paid the phone expenses of 30,000 DZD in cash.

626	 512	Postage and telecommunications expenses Bank (check number ...)	30000	 30000

On January 31, 2011, The entity paid the rental expenses of 70,000 DZD in cash

613	 53	rental expenses Cash box (rental invoice number ...)	80 000	 80 000

2) fund (or cash box) account balance on 01/31/2011

debit		C/53 cashbox	credit
(0)	000000	100 000	(01/09/2011)
(01/02/2011)	250 000	90 000	(01/20/2011)
(01/23/2011)	200 000	80 000	(01/26/2011)
		30 000	(01/30/2011)
		70 000	(01/31/2011)
		Account balance debitor (80 000)	
(Total)	450 000	450 000	(Total)

Solution of the second exercise

On 01/02/2011, the items(elements) of balance sheet for an entity were:

Inventory and services suppliers :40 000 DZD, customers:220 000 DZD, bank loan: 100 000 DZD, returnable packaging:80 000 DZD, merchandises: 30 000 DZD, Bank:120 000 DZD, transportation equipment: 700 000 DZD, Raw materials and supplies: 100 000 DZD, office equipment: 70 000 DZD, Cash box: 60 000 DZD, damaged packaging: 20 000 DZD, Fixed asset suppliers: 60 000 DZD, computer: 20 000 DZD, information software: 10 000 DZD, lands: 500 000 DZD, building: 200 000 DZD, Industrial equipment: 100 000 DZD, and the **Company's capital** ?

1) the opening balance sheet will be:

Assets (The uses)			Liabilities (Sources of funds)		
C.N	account name	The Amount	C.N	account name	The Amount
	Non-current Assets			own funds	
204	informatics software	10 000	101	Company's capital	2 030 000
211	lands	500 000			
213	buildings	200 000		non-current liabilities	
215	Industrial equipment and tools	100 000	164	Loan from credit institutions	100 000
2181	hardware equipment(computer)	20 000			
2182	transportation equipment	700 000			
2183	office equipments	70 000		current liabilities	
2186	returnable packaging	80 000	401	Inventory and services suppliers	40 000
	Current Assets				
30	Merchandise stocks	30 000	404	Fixed asset suppliers	60 000
31	Raw materials and supplies	100 000			
326	Damaged packaging	20 000			
411	Customers	220 000			
512	Bank	100 000			
53	Cashbox	60 000			
	Total assets	2 230 000		total liabilities	2 230 000

2)During the month of January 2011:
The entity received the entire amount from customers = 220 000
Paid all its debts: 220 000 – (100 000 + 40 000 + 60 000)=20 000
Bought goods with the rest: 20 000 So Goods amount will be= 50 000
Transferred the cash box amount to the bank So Bank amount =160 000

The balance sheet on 01/31/2011 will be:

Assets (The uses)			Liabilities (Sources of funds)		
C.N	account name	The Amount	C.N	account name	The Amount
	Non-current Assets			own funds	
204	informatics software	10 000	101	Company's capital	2 030 000
211	lands	500 000			
213	buildings	200 000		non-current liabilities	
215	Industrial equipment and tools	100 000			
2181	hardware equipment(computer)	20 000		current liabilities	
2182	transportation equipment	700 000			
2183	office equipments	70 000			
2186	returnable packaging	80 000			
	Current Assets				
30	Merchandise stocks	50 000			
31	Raw materials and supplies	100 000			
326	Damaged packaging	20 000			
512	Bank	160 000			
Total assets		2030 000	total liabilities		2 030 000

- Did the entity don't achieve any results.

Solution of the third exercise

On 12/01/2017, Mr. Othman decided to establish an individual commercial enterprise, so he brought an amount of 1,600,000 DA. With half of the amount he bought a building standing on land, where the amount of the building was estimated at a quarter of the amount of the land. And he put 600,000 DA in the bank and the rest in the cashbox

He obtained **a long-term bank loan** of 400,000 DA, with which he bought a truck. He also bought **on the account** a computer for 120,000 DA, goods for 200,000 DA, computer software for 100,000 DA, and damaged packaging for 30,000 DA.

Required:

1) Find the unknown amounts and completing the opening balance sheet on 12/01/2017.

1) The amount brought by the trader Othman to practice his commercial activity is the capital A/101«Exploitation funds » its amount is 1,600,000 DA.

Half of the amount is 800,000 DA used for buying a building and land where the amount of the building was quarter (1/4) of the amount of land.
We put : x = building amount so 4x = land amount
So we have: x + 4x = 800 000 so 5x = 800 000 this means x = 160 000 DA
And therefore **building amount = 160 000** and **land amount = 640 000 DA**

The amount that was placed in the bank is recorded in account A/ 512 "current account banks", the amount of which is 600 000 DA
The remaining amount is recorded in the account A/53 "Cashbox" in the amount of 200 000 DA.

The bank loan account is A/164 « Loan from credit institutions » for the amount of 400 000 DA.

The truck acquired with the loan is recorded in the account A/2182 « Transport equipment » for 400 000 DA.

Purchasing on account means purchase with deferred payment.
In the case of purchasing **current assets,** the amount of the debt is recorded in account 401 " Inventory and services suppliers."

In the case of purchasing **non-current** assets, the amount of the debt is recorded in account 404 "Fixed assets suppliers".

Accordingly, the items(elements) that were purchased **on the account** and that represent stocks (inventories) are recorded as follows:

A/ 30 "Stocks of goods or merchandise" in the amount of 200,000 DA
A/ 326 " damaged packaging " for the amount of 30,000 DA.

The sum of these amounts is recorded as a debt in A / 401 "Inventory and services suppliers" in the amount of 230 000 DA.

The items acquired on the account that represent Fixed assets are recorded as follows:
A/ 204 "Informatics Software" for the amount 100,000 DA
A / 2181 "computer" for the amount of 120,000 DA
The total of these amounts is recorded as a debt in A / 404 " Fixed assets suppliers" in the amount of 220 000 DA.

2) The opening balance sheet for merchant Othman on 01/12/2015 is:

Assets (The uses)			Liabilities (Sources of funds)		
C.N	account name	The Amount	C.N	account name	The Amount
	Non-current Assets			own funds	
204	informatics software	100 000	101	Exploitation funds	1 600 000
211	lands	640 000			
213	buildings	160 000		non-current liabilities	
2181	computer	120 000	164	Loan from credit institutions	400 000
2182	transportation equipment(truck)	400 000			
	Current Assets				
30	merchandise stocks	200 000		current liabilities	
326	damaged packaging	30 000	401	Inventory and services suppliers	230 000
512	Bank	600 000	404	Fixed asset suppliers	220 000
53	Cashbox	200 000			
	Total assets	2 450 000		total liabilities	2 250 000

2) During the month of December 2017, he sold all the goods in the stocks with a profit margin of 40% and received the sale amount through the cash box. the sale price is 200,000 x 1.4 = 280,000 added to the amount in the cash box, which becomes = 200,000 + 280,000 = 480,000

All dues of the suppliers(230 000 + 220 000) were paid through the cashbox which becomes = 480 000 – 450 000 = 30 000.

Therefore, the total assets = 2 080 000 DA and the total liabilities = 2 000 000

Thus, a result appears (on the liabilities side) in account 120 with an amount = 2 080 000 – 2 000 000 = 80 000 (profit)

The final balance sheet for merchant Othman will be:

Assets (The uses)			Liabilities (Sources of funds)		
C.N	account name	The Amount	C.N	account name	The Amount
	Non-current Assets			own funds	
204	informatics software	100 000	101	Exploitation funds	1 600 000
211	lands	640 000	120	result of the fiscal year	**80 000**
213	buildings	160 000		non-current liabilities	
2181	computer	120 000	164	Loan from credit institutions	400 000
2182	transportation equipment(truck)	400 000			
	Current Assets				
326	damaged packaging	30 000		current liabilities	
512	Bank	600 000			
53	Cashbox	30 000			
	Total assets	2 080 000		total liabilities	2 080 000

Solution of the fourth exercise

1) The income statement determine the following various results

Fiscal year production — **The added value of exploitation**
Gross operating surplus — **Operational result**
Financial result — **Ordinary result before tax**
The net result of ordinary activities — **Extraordinary Result**
The net result of the fiscal year

2) The various results are calculated as follows:

designation	Amounts
Sales and ancillary products Stored or destocked production immobilised production exploitation subsidies	C/70 C/72 C/73 C/74
fiscal year production (1) =	**C70 +C72 +C73 +C74**
consumed purchases External services and other consumption	C/60 C/61 + C/62
consumption for the fiscal year (2) =	**C/60 + C/61 + C/62**
the added value of exploitation (3) =	**(1) - (2)**
personnel expenses or staff costs taxes, fees, and similar payments	C/63 C/64
Gross operating surplus (4) =	**(3) - C/63 - C/64**
Other operational products other operating expenses depreciation allocations, provisions and impairment losses reversal of impairment losses and provisions	C/75 C/65 C/68 C/78
operational result (5) =	**(4) + C/75 – C/65 – C/68 + C/78**
financial products financial expenses	C/76 C/66
financial result (6) =	**C/76 - C/66**
ordinary result before tax (7) =	**(5) + (6)**
Taxes to be paid for normal results	**C/695 and C/698**
Deferred taxes (changes) for normal results	**C/692 and C/693**
Total products of ordinary activities	**(1) + C/75 + C/78 + C/76**
total expenses of ordinary activities	**(2) + C/63 + C/64 + C/65 +C66 + C/68**
the net result of ordinary activities (8) =	**(7) – [C/695 + C/698 + C/692 + C/693]**
Extraordinary items - products	**C/77**
Extraordinary items - expenses	**C/67**
Extraordinary Result (9) =	**C/77 – C/ 67**
The net result of the fiscal year 10 =	**(8) + (9)**

Solution of the fifth exercise

2) The income statement will be :

designation	Amounts
Sales and ancillary products Stored or destocked production immobilised production exploitation subsidies	1 900 000 - 8 000 30 000 70 000
fiscal year production (1) =	**1 992 000**
consumed purchases External services and other consumption	1 200 000 148 000
consumption for the fiscal year (2) =	**1 348 000**
the added value of exploitation (3) =	**644 000**
personnel expenses or staff costs taxes, fees, and similar payments	300 000 42 000
Gross operating surplus (4) =	**302 000**
Other operational products other operating expenses depreciation allocations, provisions and impairment losses reversal of impairment losses and provisions	4 000 8 000 40 000 /
operational result (5) =	**258 000**
financial products financial expenses	8 000 12 000
financial result (6) =	**- 4 000**
ordinary result before tax (7) =	254 000
Taxes to be paid for normal results	**63 500**
Deferred taxes (changes) for normal results	/
Total products of ordinary activities	**2 004 000**
total expenses of ordinary activities	**1 813 500**
the net result of ordinary activities (8) =	**190 500**
Extraordinary items - products	/
Extraordinary items - expenses	/
Extraordinary Result (9) =	0
The net result of the fiscal year 10 =	**190 500**

END

Fourth axis: Accounting creation companies

A commercial activity can be conducted individually, where the individual business owner is called "trader", and it can also be conducted collectively or in partnership between two or more individuals, where each person involved in the project is called a "partner" in a company, as defined by Algerian commercial law, including individuals companies such as the solidarity company, capital companies such as the joint stock company and mixed companies such as the limited liability company. In the following, we address the accounting records related to the establishment of a company and the process of a partner's withdrawal from it, as well as the accounting records related to the establishment of an individual enterprise and knowing how the account of the exploiter works.

1- Incorporation of a company: promise and release of contribution

Our study is limited to the accounting records related to the establishment of partnership companies or « the solidarity company ».

The capital of this company is account 101 and is called “the company’s capital” and represents the nominal value of the company’s shares.

The accounting registration for the incorporation of the partnership goes through two stages:

- the stage of promising contributions (or agreeing to form a company);

-And the stage of implementing the promise (or paying (providing) the promised contributions)

➢ Promise of Contributions (or Agreement to Form the Company):

This stage involves recording the commitments made by the partners regarding their contributions to the company. These commitments can be in the form of cash, assets, or services.

This is done by making account 456 “Partners: Operations on Capital” debit to the value of the promised contributions in kind or in cash, in return for making account 101 “Capital of the Company” a credit with the same value representing the capital agreed upon in the Basic Law or the subscribed value, as shown in the following entry :

		Date		
456		Partners: Operations on Capital	xxxxxx	
	101	Capital of the Company		xxxxxx
		(Promise of contributions)		

Note: In order to obtain details and facilitate follow-up of accounts, account 456 can be divided into sub-accounts for each partner, and account 101 can be divided into sub-accounts for each partner's contributions to the capital as shown in the following entry: (the case of three partners Ahmed, Ali and Fatima for example), and The previous entry becomes:

		Date		
4561		Partner Ahmed: Operations on Capital	xx	
4561		Partner Ali: Operations on Capital	xx	
4563		Partner Fatima: Operations on Capital	xx	
	1011	The company's capital: the contributions of partner Ahmed		xx
	1012	The company's capital: the contributions of partner Ali		xx
	1013	The company's capital: the contributions of partner Fatima		xx
		(Promise of contributions)		

➢ Execution of the Promise (or Provision of Promised Contributions):

In this stage, the partners fulfill their commitments by making the actual payment of the contributions promised during the formation of the company.

This can include transferring cash, transferring ownership of assets, or providing the agreed-upon services.

This is done by debiting one or all of the accounts of the assets provided (A/2, A/3, A/4 or A/5) in exchange for making account 456 credit with the values of the assets provided, as shown in the following entry :

		Date		
2		Fixed asset accounts	xx	
3		Inventory accounts	xx	
4		Third party accounts	x	
5		financial accounts	x	
	456	Partners: Operations on Capital		xxxxxx
		(Provision of Promised Contributions)		

Example: Two partners, Hussein and Omar, agreed on 01/02/2005 to establish a partnership company, provided that the capital of partner Hussein is 250,000 DA, and the capital of partner Omar is 200,000 DA.
And payment is made as follows:
Partner Hussein paid half of his capital into the cashbox on the date of the contract, and presented an industrial machine worth 50,000 DA and goods worth 60,000 DA, provided that he pays the rest in the company's bank on 06/15/2005;
Partner Omar pays half of his capital in the company's bank on the date of the contract, and presents a truck with 70,000 DA, provided that he pays the rest in cash on 01/05/2005.

Required:
1- Make the daily entries necessary to prove the formation of the company
2- Preparing the opening **balance sheet** of the company after its formation.

Solution ;
The company's capital is 450 000 DA
the contributions of partner Hussein is : 250 000 DA
the contributions of partner Omar is : 200 000 DA

So that The Promise of Contributions entry is :

		02/01/2005		
4561 4562	 1011 1012	Partner Hussein: Operations on Capital Partner Omar: Operations on Capital company's capital: contributions of partner Hussein company's capital: contributions of partner Omar **(Promise of contributions)**	250000 200000	 250000 200000

And the Execution of the Promise entry shall be:

		02/01/2005		
215 30 53	 4561	Industrial equipment and tools merchandise stocks Cashbox Partner Hussein: Operations on Capital **(Provision of Promised Contributions of Hussein)**	50000 60000 125000	 135000
		02/01/2005		
2182 512	 4562	transportation equipment (truck) Bank Partner Omar: Operations on Capital **(Provision of Promised Contributions of Omar)**	70000 100000	 170000

2) The opening balance sheet of the Partnership Company on 02/01/2005

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	The Amount	A.N	account name	The Amount
	Non-current Assets			own funds	
215	Industrial equipment and tools	50000	1011	company's capital: the contributions of Hussein	250000
2181	transportation equipment	70000	1012	company's capital: the contributions of Omar	200000
	Current Assets				
30	merchandise stocks	60000			
4561	Partner Hussein: O. on Capital	15000		non-current liabilities	
4562	Partner Omar: O. on Capital	30000			
512	Bank	100000		current liabilities	
53	Cashbox	125000			
	Total assets	450000		total liabilities	450000

2- Separation (withdrawal or exit) of a partner from the company

The separation or death of a partner results in the dissolution of the company, but it often stipulates in the company's contract that the company will not be dissolved and will continue in activity despite the separation or death of the partner.

In this case, **the closing balance sheet** must be prepared on the date of separation and the rights of the separated or deceased partner on the date of separation or death should be determined as follows:

- Determining his share in **the profits or losses** of the company from the beginning of the year until the date of separation ;
- Determine his share in **the net assets** shown in the budget.

–In addition to the partner's current account.

And the accounting registration of the withdrawing partneris as follows:

		Separation date		
101		Company capital (contributions of the withdrawing partner)	X	
105		Revaluation difference (share of the withdrawing partner)	X	
106		Reserves(share of the withdrawing partner)	X	
110		capital postponement (share of the withdrawing partner)	X	
120		result (profit) (share of the withdrawing partner)	X	
455		Partner current account (if it is creditor)	X	
	119	capital postponement (share of the withdrawing partner)		X
	129	result (losses) (share of the withdrawing partner)		X
	455	Partner current account (if it is bebtor)		X
	512	Bank		X
		(Closing all accounts of the withdrawing partner)		

Example: Fatima, Bilal and Jalal are joint partners and share profits and losses equally. The balance sheet of their company on 07/31/2006 was as follows:

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	The Amount	A.N	account name	The Amount
	Non-current Assets			Own funds	
215	Industrial equipment and tools	230000	1011	C.c. Fatima contributions	100000
			1012	C.c. Bilal contributions	100000
	Current Assets		1013	C.c. Jalal contributions	100000
30	Merchandise stocks	600000	105	Revaluation difference	30000
411	Customers	160000	106	Reserves	360000
413	Receivable trade bills	100000	110	Capital postponement	180000
4553	Jalal current account	285000	120	Result (profit)	30000
512	Bank	15000		Current liabilities	
53	Cashbox	80000	401	Inventory and services suppliers	570000
	Total assets	1470000		Total liabilities	1470000

The partners agreed that Jalal would separate from the company on 07/31/2006 and compensate all his rights in the company with a bank check.

Required:

1- Determining all the rights of partner Jalal in the company

2- Registration of separation.

3-Preparing the company's balance sheet on 08/01/2006.

Solution

1- Determination of all the rights of the separated partner (Jalal)

The partners share the profits equally, thus, Jalal's partner's **share is 1/3**

As for his current account (A/4553) it appeared **debit.**

Elements	A/101	A/105	A/106	A/110	A/120	(A/4553)	the total
Total amount	300000	30000	360000	180000	30000	/	/
Share of partner Jalal (1/3)	100000	10000	120000	60000	10000	(285000)	15000

2- Registration of separation

		07/31/2006		
101		Company capital (contributions of partner Jalal)	100000	
105		Revaluation difference (share of partner Jalal)	30000	
106		Reserves(share of partner Jalal)	120000	
110		capital postponement (of partner Jalal)	60000	
120		result (profit) (share of partner Jalal)	10000	
	455	Partner current account		285000
	512	Bank		15000
		(Closing all accounts of partner Jalal)		

3- The company's balance sheet on 08/01/2006

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	The Amount	A.N	account name	The Amount
	Non-current Assets			Own funds	
215	Industrial equipment and tools	230000	1011	C.c. Fatima contributions	100000
			1012	C.c. Bilal contributions	100000
	Current Assets		105	Revaluation difference	20000
30	Merchandise stocks	600000	106	Reserves	240000
411	Customers	160000	110	Capital postponement	120000
413	Receivable trade bills	100000	120	Result (profit)	20000
53	Cashbox	80000		Current liabilities	
			401	Inventory and services suppliers	570000
Total assets		1170000	Total liabilities		1170000

3- Incorporation of the individual private enterprise

To practice a commercial activity on an individual basis, the owner of the establishment must allocate funds for this commercial activity, called “exploitation funds” and recorded in account 101, which constitutes the capital of the individual private enterprise.

The accounting registration of the process of establishing an individual private enterprise goes through one stage (unlike the establishment of a company), where it records on the debit side all the assets brought by the trader to practice the commercial activity such as Fixed asset (A/2), Inventory or stocks (A/3) third parties accounts (A/4), and Financial accounts (A/5) against recording on the credit side the amount of those assets in account 101 “exploitation funds” as shown in the following entry:

		Date		
2		Fixed asset accounts	x	
3		Inventory accounts	x	
4		Third party accounts	x	
5		financial accounts	x	
	101	Exploitation funds		xxxx
		(Incorporation of the individual private enterprise)		

Example1

On 01/12/2017, Mr. Othman decided to establish an individual private enterprise, so he allocated an amount of 1,600,000 DA. He bought, with half the amount, a building built on land, where the amount of the building was estimated to be a quarter of the amount of the land. He put 600,000 DA in the bank and the rest in the cashbox.

Required

1) The registration of the establishment of the individual private enterprise
2) The opening balance sheet for merchant Othman on 01/12/2017.

Solution

The amount brought by the trader Othman to practice his commercial activity is the capital A/101«Exploitation funds » its amount is 1,600,000 DA.

Half of the amount is 800,000 DA used for buying a building and land where the amount of the building was a quarter (1/4) of the amount of land.

We put : x = building amount so 4x = land amount

So we have: x + 4x = 800 000 so 5x = 800 000 this means x = 160 000 DA

And therefore **building amount = 160 000**

and **land amount = 4 x 160 000 DA = 640 000 DA**

The amount that was placed in the bank is recorded in account A / 512 "current account banks", the amount of which is 600 000 DA

The remaining amount is 200 000 DA recorded in account A/53"Cashbox"

1) Registration of the establishment of Othmane enterprise

		12/01/2017		
211		lands	640000	
213		buildings	160000	
512		Bank	600000	
53		Cashbox	200000	
	101	Exploitation funds		1600000
		(Incorporation of the individual private enterprise)		

2) The opening balance sheet of the Partnership Company on 02/01/2005

Assets (The uses)				Liabilities (Sources of funds)		
A.N	account name	Amount		A.N	account name	Amount
	Non-current Assets				own funds	
211	lands	640000		101	Exploitation funds	1600000
213	buildings	160000			non-current liabilities	
	Current Assets					
512	Bank	600000			current liabilities	
53	Cashbox	200000				
	Total assets	1600000			total liabilities	1600000

If the exploitation funds are not sufficient when carrying out the activity to acquire fixed assets or purchase stocks, the trader can resort to borrowing and obtain a loan from the loan institutions that he records on the credit side of account 164 “loan from credit institutions ” and matches it on the debit side of the asset in which he was used.

He may also acquire Fixed asset on the account or purchase inventories on the account that are recorded with the assets on the debit side of the relevant Fixed asset or inventory account in exchange for crediting the 404 “Fixed asset suppliers” or “Inventory and services Suppliers” account with the amount of the relevant asset.

So, The accounting registration of the establishment of the individual private enterprise shell be:

		Date		
2		Fixed asset accounts	xx	
3		Inventory accounts	xx	
4		Third party accounts	x	
5		financial accounts	x	
	101	Exploitation funds		xxxxxx
	164	Loan from credit institutions		
	401	Inventory and services suppliers		
	404	Fixed asset suppliers		
		(Incorporation of the individual private enterprise)		

Example 2: (Continuing with Example 1) We suppose that the merchant Othman obtains a long-term bank loan with which he buys a truck for 400,000 DA. He also buys on the account a computer for 120,000 DA, merchandise for 200,000 DA, damaged packaging for 30,000 DA, and computer software. 100 000 DA.

Solution(Continuing with Example 1)

the **current assets** that were purchased **on the account** are recorded as follows:

A/ 30 "Stocks of merchandise" in the amount of 200,000 DA

A/ 326 " damaged packaging " for the amount of 20,000 DA.

The sum of these amounts is recorded as a debt in A / 401 "Inventory and services suppliers" in the amount of 220 000 DA.

The **fixed assets** acquired **on the account** that represent Fixed assets are recorded as follows:

C/ 204 "Informatics Software" for the amount 100,000 DA

C / 2181 "computer" for the amount of 150,000 DA
The total of these amounts is recorded as a debt in A / 404 " Fixed assets suppliers" in the amount of 250 000 DA.

1)Registration of the establishment of Othmane enterprise

		12/01/2017		
204		informatics software	100000	
211		lands	640000	
213		buildings	160000	
2181		hardware equipment (computer)	150000	
2182		transportation equipment truck)	400000	
30		merchandise stocks	200000	
326		damaged packaging	20000	
512		Bank	600000	
53		Cashbox	200000	
	101	Exploitation funds		1600000
	164	Loan from credit institutions		400000
	401	Inventory and services suppliers		220000
	404	Fixed asset suppliers		250000
		(Incorporation of the individual private enterprise)		

2) The opening balance sheet of the Partnership Company on 02/01/2005

Assets (The uses)			**Liabilities (Sources of funds)**		
A.N	account name	Amount	A.N	account name	Amount
	Non-current Assets			own funds	
204	informatics software	640000	101	Exploitation funds	1600000
211	lands	160000			
213	buildings			non-current liabilities	
2181	computer	600000	164	Loan from credit institutions	
2182	truck	200000			
	Current Assets				
30	merchandise stocks	200000		current liabilities	
326	damaged packaging	20000	401	Inventory and services suppliers	
512	Bank	600000			
53	Cashbox	200000	404	Fixed asset suppliers	
Total assets		1600000	total liabilities		1600000

4- Exploiter account (A/108)

In accordance with the Entity Unit convention that requires the establishment's property must be separated from the property of the establishment owner, this account is created to record all payments and withdrawals made by the sole proprietor (merchant) to or from his establishment.

this account is called: " **Exploiter account »** **and his number is 108.**

4-1- Fonctioning of exploiter account during the accounting cycle :

- This account is **debited** when a trader withdraws or use an asset for his own needs as shown in the following entry:

		Date		
108		Exploiter account	xxxx	
	30	Inventory accounts		x
	411	Third party accounts		x
	512	financial accounts		x
	53	cashbox		x
		(withdrawing or using an asset for his own needs)		

- This account is **credited** when the trader provides a financial asset to his establishment or pays off a debt on it from his own account as shown in the following entry:

		Date		
401		Inventory and services suppliers	xxxx	
404		Fixed asset suppliers financial accounts		x
512		Bank		x
53		cashbox		x
6x		expenses or burdens		x
	108	Exploiter account		
		(providing a financial asset to his establishment or paying off a debt on it from his own account)		

4-1- Fonctioning of exploiter account at the end of the accounting cycle :

At the end of the year, the balance of this account (whether debit or credit) is transferred to account 101 "exploitation funds" in order to balance it as shown in the following entry:

- If the balance of the account 108 "the exploiter's account" is **debit**, the capital is **deducted**, and the registration is as follows:

		31/12/20..		
101		Exploitation funds	xx	
	108	Exploiter account		xx
		(balance of Exploiter account)		

➤ If the balance of the account 108 "exploiter's account" is a **credit**, the capital is **increased**, and the registration is as follows:

		31/12/20..		
108		Exploiter account	xx	
	101	Exploitation funds		xx
		(balance of Exploiter account)		

Example: The amount of exploitation funds for the merchant Ahmed on 01/12/2017 was: 1,600,000 DA

1) **Record the following transactions in the journal of the trader Ahmed:**

On 02/12/2017 he bought **on account** a computer for 150 000 DA and computer software for 50 000 DA.

On 06/12/2017: It became clear to the trader Ahmed that the capital was too high, so he reduced it by 400,000 DA through the bank.

On 10/12/2017: He bought industrial equipment for his company with his **own money** for 50 000 DA

On 12/15/2017: He paid **his private car insurance** from the cashbox of his establishment, at 25,000 DA.

On 12/18/2017: He paid the insurance of his shop (commercial establishment) from the cashbox at 70 000 DA

On 12/23/2017: He paid The fixed assets suppliers their dues with his **own money** .

On 12/31/2017: He took the amount of 100,000 DA for his **personal needs** from the bank.

2) **Find the balance of the exploiter's account on 12/31/2017, and transfer it to the account 101 « Exploitation funds » .**

3)**Find then the balance of the account 101 on on 12/31/2017.**

1)The accounting registration of transactions in the journal are :

		12/02/2017		
204 2181	 404	informatics software hardware equipment (computer) Fixed asset suppliers (Purchase invoice no ...)	50000 150000	 200000
		12/06/2017		
101	 512	Exploitation funds Bank (Capital reduction by check no ...)	400000	 400000
		12/10/2017		
215	 108	Industrial equipment and tools Exploiter account (Purchase invoice no ...)	50000	 50000
		12/15/2017		
108	 53	Exploiter account cashbox (Cashbox receipt no ...)	25000	 25000
		12/18/2017		
616	 53	Insurance premiums cashbox (Cashbox receipt no ...)	25000	 25000
		12/23/2017		
404	 108	Fixed asset suppliers Exploiter account (Purchase invoice no ...)	200000	 200000
		12/31/2017		
108	 512	Exploiter account cashbox (Cashbox receipt no ...)	100000	 100000

2) Balance of the exploiter's account (A/108) on 12/31/2017

debit	A/108 « the exploiter's account »		credit
(2)	**25 000**	**50 000**	**(1)**
(4)	**100 000**	**200 000**	**(3)**
Account balance creditor (125 000)			
(Total)	**250 000**	**250 000**	**(Total)**

Since the balance of the account 108 “exploiter’s account” is a **credit** the account 101 “exploitation funds” is affected by the decrease, as follows:

		31/12/20..		
108		Exploiter account	125000	
	101	Exploitation funds		125000
		(balance of Exploiter account)		

3) Balance of the exploitation funds account (A/101) on 12/31/2017

debit	A/101 « the exploitation funds account »		credit
(2)	**400 000**	**1 600 000**	**(1)**
Account balance creditor (1 325 000)		**125 000**	**(3)**
(Total)	**1 725 000**	**1 725 000**	**(Total)**

Solved exercises

Exercise 01

Three partners, Hussein, Omar and Fatima agreed on 01/02/2005 to establish a partnership company, provided that the capital of partner Hussein is 250,000 DA, the capital of partner Omar is 200,000 DA and the capital of partner Fatima is 350,000 DA.

And payment is made as follows:

Partner Hussein paid half of his capital into the cashbox on the date of the contract, and presented an industrial machine worth 50,000 DA and goods worth 60,000 DA, provided that he pays the rest in the company's bank on 06/15/2005;

Partner Omar pays half of his capital in the company's bank on the date of the contract, and presents a truck with 70,000 DA, provided that he pays the rest in cash on 01/05/2005;

Partner Fatima presented on the date of the contract, goods worth 40,000 DA, transportation equipment with 130,000 DA, put 75,000 DA in the cash box and the rest in the company's bank.

Required:

1- Make the daily entries necessary to prove the formation of the company

2- Preparing the opening **balance sheet** of the company after its formation.

Solution ;

The company's capital is 800 000 DA

The contributions of partner Hussein is : 250 000 DA

The contributions of partner Omar is : 200 000 DA

The contributions of partner Omar is : 350 000 DA

So that The Promise of Contributions entry is :

		02/01/2005		
4561		Partner Hussein: Operations on Capital	250000	
4562		Partner Omar: Operations on Capital	200000	
4563		Partner Fatima: Operations on Capital	350000	
	1011	company's capital: contributions of partner Hussein		250000
	1012	company's capital: contributions of partner Omar		200000
	1013	company's capital: contributions of partner Fatima		350000
		(Promise of contributions)		

And the Execution of the Promise entry shall be:

		02/01/2005		
215 30 53	 4561	Industrial equipment and tools merchandise stocks Cashbox Partner Hussein: Operations on Capital **(Provision of Promised Contributions of Hussein)**	50000 60000 125000	 135000
		02/01/2005		
2182 512	 4562	transportation equipment (truck) Bank Partner Omar: Operations on Capital **(Provision of Promised Contributions of Omar)**	70000 100000	 170000
		02/01/2005		
215 30 512 53	 4563	transportation equipment merchandise stocks Bank Cashbox Partner Fatima: Operations on Capital **(Provision of Promised Contributions of Fatima)**	130000 40000 105000 75000	 350000

2) The opening balance sheet of the Partnership Company on 02/01/2005

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	The Amount	A.N	account name	The Amount
 215 2181 30 4561 4562 512 53	Non-current Assets Industrial equipment and tools transportation equipment Current Assets merchandise stocks Partner Hussein: O. on Capital Partner Omar: O. on Capital Bank Cashbox	 50000 200000 100000 15000 30000 205000 200000	 1011 1012 1013	own funds company's capital: the contributions of Hussein company's capital: the contributions of Omar company's capital: the contributions of Fatima non-current liabilities current liabilities	 250000 200000 350000
Total assets		800000	total liabilities		800000

Exercise 02

Fatima, Bilal and Jalal are joint partners and share profits and losses equally. The balance sheet of their company on 07/31/2006 was as follows:

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	Amount	A.N	account name	Amount
	Non-current Assets			Own funds	
215	Industrial equipment and tools	360000	1011	C.c. Fatima contributions	200000
			1012	C.c. Bilal contributions	200000
	Current Assets		1013	C.c. Jalal contributions	200000
30	Merchandise stocks	700000	105	Revaluation difference	30000
411	Customers	260000	106	Reserves	360000
4553	Jalal current account	285000	110	Capital postponement	180000
512	Bank	115000	120	Result (profit)	30000
53	Cashbox	80000		Current liabilities	
			401	Inventory suppliers	600000
	Total assets	1800000		Total liabilities	1800000

The partners agreed that Jalal would separate from the company on 07/31/2006 and compensate all his rights in the company with a bank check.

Required:

1- Determining all the rights of partner Jalal in the company

2- Registration of separation.

3-Preparing the company's balance sheet on 08/01/2006.

Solution

1- Determination of all the rights of the separated partner (Jalal)

The partners share the profits equally, thus, Jalal's partner's **share is 1/3**

As for his current account (A/4553) it appeared **debit.**

Elements	A/101	A/105	A/106	A/110	A/120	(A/4553)	the total
Total amount	600000	30000	360000	180000	30000	/	/
Share of partner Jalal (1/3)	200000	10000	120000	60000	10000	(285000)	115000

2- Registration of separation

		07/31/2006		
101		Company capital (contributions of partner Jalal)	200000	
105		Revaluation difference (share of partner Jalal)	10000	
106		Reserves(share of partner Jalal)	120000	
110		capital postponement (of partner Jalal)	60000	
120		result (profit) (share of partner Jalal)	10000	
	455	Partner current account		285000
	512	Bank		115000
		(Closing all accounts of partner Jalal)		

3- The company's balance sheet on 08/01/2006

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	Amount	A.N	account name	Amount
	Non-current Assets			Own funds	
215	Industrial equipment and tools	360000	1011	C.c. Fatima contributions	200000
			1012	C.c. Bilal contributions	200000
	Current Assets		105	Revaluation difference	20000
30	Merchandise stocks	700000	106	Reserves	240000
411	Customers	260000	110	Capital postponement	120000
53	Cashbox	80000	120	Result (profit)	20000
				Current liabilities	
			401	Inventory suppliers	600000
Total assets		1400000	Total liabilities		1400000

Exercise 03

On 12/01/2017, Mr. Othman decided to establish an individual commercial enterprise, so he brought an amount of 1,600,000 DA. With half of the amount he bought a building standing on land, where the amount of the building was estimated at a quarter of the amount of the land. And he put 600,000 DA in the bank and the rest in the cashbox

He obtained **a long-term bank loan** of 400,000 DA, with which he bought a truck. He also bought **on the account** an industrial equipment for 100,000 DA, goods for 70,000 DA, damaged packaging for 30,000 DA, returnable packaging for 60,000 DA and computer software for 40,000 DA.

Required

1) The registration of the establishment of the individual private enterprise
2) The opening balance sheet for merchant Othman on 01/12/2017.

Solution

1) We put : x = building amount so 4x = land amount

So we have: x + 4x = 800 000 so 5x = 800 000 this means x = 160 000 DA

And therefore **building amount = 160 000** and **land amount = 640 000 DA**

the **current assets** that were purchased **on the account** are recorded as follows:

A/ 30 "Stocks of merchandise" in the amount of 70,000 DA

A/ 326 " damaged packaging " for the amount of 30,000 DA.

The sum of these amounts is recorded as a debt in A / 401 "Inventory and services suppliers" in the amount of 100 000 DA.

The **fixed assets** acquired **on the account** that represent Fixed assets are recorded as follows:

A/ 204 "Informatics Software" for the amount 40,000 DA

A / 215 " industrial equipment " for the amount of 100,000 DA

A/2186 “returnable packaging” for the amount of 60,000DA

The total of these amounts is recorded as a debt in A / 404 “ Fixed assets suppliers” in the amount of 200 000 DA.

1)Registration of the establishment of Othmane enterprise

		12/01/2017		
204		informatics software	40000	
211		lands	640000	
213		buildings	160000	
215		industrial equipment	100000	
2186		returnable packaging	60000	
30		merchandise stocks	200000	
326		damaged packaging	20000	
512		Bank	600000	
53		Cashbox	200000	
	101	Exploitation funds		1600000
	164	Loan from credit institutions		400000
	401	Inventory and services suppliers		100000
	404	Fixed asset suppliers		200000
		(Incorporation of the individual private enterprise)		

2) The opening balance sheet of the Partnership Company on 12/01/2017

Assets (The uses)			**Liabilities (Sources of funds)**		
A.N	account name	Amount	A.N	account name	Amount
	Non-current Assets			own funds	
204	informatics software	100000	101	Exploitation funds	1600000
211	lands	640000			
213	buildings	160000		non-current liabilities	
2181	industrial equipment	100000	164	Loan from credit institutions	400000
2186	returnable packaging	60000			
	Current Assets				
30	merchandise stocks	70000		current liabilities	
326	damaged packaging	30000	401	Inventory and services suppliers	100000
512	Bank	600000			200000
53	Cashbox	200000	404	Fixed asset suppliers	
Total assets		2300000	total liabilities		2300000

Exercise 04

On 12/01/2017, Mr. Othman decided to establish an individual commercial enterprise, so he brought an amount of 1,800,000 DA. With half of the amount he bought a building standing on land, where the amount of the building was one-third (1/3) of the amount of land.

And he put 500,000 DA in the bank and the rest in the cashbox

On 02/12/2017 he bought **on account** a computer for 150 000 DA and computer software for 50 000 DA.

On 06/12/2017: It became clear to the trader Ahmed that the capital was too high, so he reduced it by 400,000 DA through the bank.

On 10/12/2017: He bought industrial equipment for his company with his **own money** for 50 000 DA

On 12/15/2017: He paid **his private car insurance** from the cashbox of his establishment, at 25,000 DA.

On 12/18/2017: He paid the insurance of his shop (commercial establishment) from the cashbox at 70 000 DA

On 12/23/2017: He paid The fixed assets suppliers their dues with his **own money** .

On 12/31/2017: He took the amount of 100,000 DA for his **personal needs** from the bank.

Required

1) The registration of the establishment **of Othmane enterprise.** Then record the operations he carried out during the month of December

2) **Find the balance of the exploiter's account on 12/31/2017, and transfer it to the account 101 « Exploitation funds » .**

3)**Find then the balance of the account 101 on on 12/31/2017.**

The amount brought by the trader Othman to practice his commercial activity is the capital A/101«Exploitation funds » its amount is 1,800,000 DA.

Half of the amount is 900,000 DA used for buying a building and land where the amount of the building was one third (1/3) of the amount of land.

We put : x = building amount so 3x = land amount

So we have: x + 3x = 900 000 so 4x = 900 000 this means x = 225 000 DA

And therefore **building amount = 225 000**

and **land amount = 3 x 225 000 DA = 675 000 DA**

The amount that was placed in the bank is recorded in account A / 512 “current account banks”, the amount of which is 500 000 DA
The remaining amount is 400 000 DA recorded in account A/53"Cashbox"

1) Registration of the establishment of Othmane enterprise

		12/01/2017		
211 213 512 53	101	lands buildings Bank Cashbox Exploitation funds **(Incorporation of the individual private enterprise)**	675000 225000 500000 400000	9000000
		12/02/2017		
204 2181	404	informatics software hardware equipment (computer) Fixed asset suppliers (Purchase invoice no ...)	50000 150000	200000
		12/06/2017		
101	512	Exploitation funds Bank (Capital reduction by check no ...)	400000	400000
		12/10/2017		
215	108	Industrial equipment and tools Exploiter account (Purchase invoice no ...)	50000	50000
		12/15/2017		
108	53	Exploiter account cashbox (Cashbox receipt no ...)	25000	25000
		12/18/2017		
616	53	Insurance premiums cashbox (Cashbox receipt no ...)	25000	25000
		12/23/2017		
404	108	Fixed asset suppliers Exploiter account (Purchase invoice no ...)	200000	200000
		12/31/2017		
108	512	Exploiter account cashbox (Cashbox receipt no ...)	100000	100000

2) Balance of the exploiter's account (A/108) on 12/31/2017

debit		A/108 « the exploiter's account »	credit
(2)	25 000	50 000	(1)
(4)	100 000	200 000	(3)
Account balance creditor (125 000)			
(Total)	250 000	250 000	(Total)

Since the balance of the account 108 "exploiter's account" is a **credit** the account 101 "exploitation funds" is affected by the decrease, as follows:

		31/12/20..		
108		Exploiter account	125000	
	101	Exploitation funds		125000
		(balance of Exploiter account)		

3) Balance of the exploitation funds account (A/101) on 12/31/2017

debit		A/101 « the exploitation funds account »	credit
(2)	400 000	1 600 000	(1)
Account balance creditor (1 325 000)		125 000	(3)
(Total)	1 725 000	1 725 000	(Total)

Fifth axis: Studying some accounts of the first class

The accounts of the first class are represented by the capital accounts, and they serve as long-term sources of financing of the establishment such as equity and long-term debts. We limit our study to account 12 "the result of the exercise", account 11 "the retained earnings" and account 106 "the reserves".

1- Result of the year account (the account 12)

Account 12 is recorded as the balance of products accounts and expenses accounts for the fiscal year when settling accounts 7 and accounts 6.

The balance of A/12 is credit and represents profit (or surplus) if the products are in an amount that exceeds the expenses (here we use A/120).

		31/12/N		
7.		products accounts	xxx	
	6.	expenses accounts		xx
	120	result of the fiscal year (profit)		x
		(End of year works: products are more than expenses)		

The A/12 balance is debit and represents a loss (or deficit) if the expenses are in an amount that exceeds the products (here we use A/129).

		31/12/N		
7.		products accounts	xx	
129		result of the fiscal year (loss)	x	
	6.	expenses accounts		xxx
		(End of year works: expenses are more than products)		

In commercial companies: Account 12 (profit or loss) shall be liquidated according to the decision issued by the competent authorities (the ordinary general meeting of shareholders or partners).

- **In the case of a profit**, part of it is usually distributed to the partners, part is allocated for the formation of reserves, and another part may postpone the decision to allocate it to a later final decision, according to the following restriction:

		Date		
120		result of the fiscal year (profit)	xxx	
	106	Reserves		x
	457	Partners: payable shares		x
	110	Result postponement		x
		(Minutes of the ordinary general meeting of shareholders or partners)		

- **In the event that the result is a loss**, the decision to allocate it is usually postponed to a later final decision, according to the following constraint:

		Date		
119		result of the fiscal year (loss)	xxx	
	110	Result postponement		xxx
		(Minutes of the ordinary general meeting of shareholders or partners)		

In the individual establishments: Account 12 is transferred to account 101 “exploitation funds” on the first day of the opening of the fiscal year following the year of its completion. (The capital is increased if it is a profit and the capital is decreased if it is a loss) as following:

- **In the case of a profit**, Exploitation funds increase according to the following entry:

		01/01/N+1		
120		result of the fiscal year (profit)	xxx	
	101	Exploitation funds		xxx
		(transfer of result (profit) into capital)		

- **In the case of a loss**, Exploitation funds increase according to the following entry:

		01/01/N+1		
101		Exploitation funds	xxx	
	129	result of the fiscal year (loss)		xxx
		(transfer of result (loss) into capital)		

2- Carry forward account (the account 11)

Part of the result, whether profit or loss, which the general assembly of partners postponed the decision to allocate to a later final decision, is recorded in account 11" postponement" .

This account is divided into the following sub-accounts:

A/110: " postponement of Profit"

A/119: "postponement of Loss"

- **In the case of a profit :**

Part of the profit result, which the general assembly of partners postponed the decision to allocate to a later final decision, is recorded on the creditor side of account 110" profit postponement" according to the following entry:

		Date		
120		result of the fiscal year (profit)	xxx	
	110	Profit postponement		xxx
		(Minutes of the ordinary general meeting of partners)		

- **In the case of a loss :**

Part of the loss result, which the general assembly of partners postponed the decision to allocate to a later final decision, is recorded on the debtor side of account 119" loss postponement" according to the following entry:

		Date		
119		Loss postponement	xxx	
	129	result of the fiscal year (Loss)		xxx
		(Minutes of the ordinary general meeting of partners)		

3- Reserves account (the account 106)

The reserves are part of the profit permanently allocated to the entity unless otherwise decided by the competent authorities. It is divided into:

- Legal reservations (determined by Algerian commercial law)
- Optional reservations (decided by the General Assembly).
- Regulated reserves (determined by the statute of the company).

when forming reserves, the entry shall be:

		Date		
120		result of the fiscal year (profit)	xxx	
	106	Reserves		xxx
		(Minutes of the ordinary general meeting of partners)		

When using reserves (incorporating them into the capital or distributing them), the entry shall be:

		Date		
106		Reserves	xxx	
	101	company's capital		xxx
	457	Partners: payable shares		
		(Minutes of the ordinary general meeting of partners)		

Solved exercises

Exercise 01

On April 1, 2007, a joint venture company was formed between Abdel Rahman, Abdel Hamid and Laila, with a capital of 800,000 DZD. The share of the director, Abdel Rahman, was 100,000 DZD, Laila's share was 400,000 DZD, and the rest was Abdel Hamid's share.
The company's basic law stipulates the distribution of profits as follows:
At the end of 2007, the company achieved a net profit of 300,000 DZD, and the partners decided to distribute the profit as follows:

- A reward for the managing partner of 10% of the result
- Creating reserves in the amount of 10,000 DZD
- Distributing 120,000 DZD to the partners according to their contributions to the capital.
- Postponing the allocation of the remainder until a later final decision.

Required:

1- Calculating each partner's share of the result.
2- Recording in the journal the profit distribution process
3- At the end of the year 2008, the company achieved a net result (loss) of 20,000 DZD. The partners decided to postpone its allocation until a later final decision, requesting that this be recorded in the journal. Then find the balance of Account /11
4- At the end of the year 2009, the company achieved a net profit of 100,000 DZD, and the partners decided to distribute the profit as follows:

- A reward for the managing partner of 10% of the result
- Distribute the remainder, after adding the reserves and the transferred amounts again, to the partners according to their contributions to the capital

- Record The dividend distribution for the year 2009.

Exercise 02

Fatima, Bilal and Jalal are joint partners and share profits and losses equally. The balance sheet on 12/31/2016 was as follows:

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	Amount	A.N	account name	Amount
	Non-current Assets			Own funds	
215	Industrial equipment	360000	1011	Capital c. Fatima contributions	200000
			1012	Capital c. Bilal contributions	200000
	Current Assets		1013	Capital c. Jalal contributions	200000
30	Merchandise stocks	700000	106	Reserves	200000
411	Customers	260000	110	Capital postponement	110000
4553	Jalal current account	50000	120	Result (profit)	100000
512	Bank	350000		Current liabilities	
53	Cashbox	80000	401	Inventory and services suppliers	700000
			4551	Fatima current account	90000
	Total assets	1800000		Total liabilities	1800000

The partners decided to distribute the profits to the partners, using half of the reserves and all the transferred amounts again, as follows:

• A bonus for managing partner Jalal of 10% of the result

• Distribute the remainder after adding half of the reserves and all transferred amounts back to the partners.

Required:

1- Calculating each partner's share of the distributed profits

2- Recording in the journal the profit distribution process

3- Prepare the balance sheet after this distribution.

Solution of the first exercise

1)Calculating each partner's share of the distributed profits

designation	Rahman	Laila	Abdel Hamid
reward for the managing partner 30000 Reserves 10000 Distributed amount 120000 The rest is for Postponing 140000	30000 …× 1/8= 15000	 …× 4/8= 60000	 …× 3/8= 45000
The Total	45000	60000	45000

2)Accounting recording of the dividend distribution process for 2007

		12/31/2007		
120		result of the fiscal year (profit)	300 000	
	106	Reserves		10 000
	110	Result postponement		140 000
	4551	Partner Abdel Rahman current account		45 000
	4552	Partner Abdel Rahman current account		60 000
	4553	Partner Abdel Rahman current account		45 000
		(Minutes of the ordinary general meeting of shareholders or partners)		

Registration in the journal for the process of postponing the allocation of results for the year 2008.

		12/31/2008		
119	129	Loss postponement (2008) result of the fiscal year (Loss 2008) (Minutes of the ordinary general meeting of partners)	20 000	20 000

The balance of Account 11 becomes a credit of 120,000 DZD

4) Accounting registration of the dividend distribution process for 2009

		12/31/2009		
120 106 110	 4551 4552 4553	result of the fiscal year (profit) Reserves Result postponement Partner Abdel Rahman current account Partner Abdel Rahman current account Partner Abdel Rahman current account (Minutes of allocation of profits for the 2009 session in accordance with the decisions of the Ordinary General Assembly dated....)	100 000 120 000 10 000	 37 500 110 000 82 500

Solution of the second exercise

1) Each partner's share of the distributed profits

designation	Partner Fatima	Partner Bilal	Partner Jalal
reward for the managing partner 10000 Distributed amount 120000	 …× 1/3= 100000	 …× 1/3= 100000	10000 …× 1/3= 100000
The Total	100000	100000	110000

2)Accounting registration of the dividend distribution process for 2009

		12/31/2009		
120 106 110	 4551 4552 4553	result of the fiscal year (profit) Reserves Result postponement Partner Fatima current account Partner Bilal current account Partner Jalal current account (Minutes of allocation of profits for the 2009 session in accordance with the decisions of the Ordinary General Assembly dated....)	100 000 100 000 110 000	 100 000 100 000 110 000

3)The balance sheet on 12/31/2016 after the distribution of profit

Assets (The uses)				Liabilities (Sources of funds)		
A.N	account name	Amount		A.N	account name	Amount
	Non-current Assets				Own funds	
215	Industrial equipment	360000		1011	Capital c. Fatima contributions	200000
				1012	Capital c. Bilal contributions	200000
	Current Assets			1013	Capital c. Jalal contributions	200000
30	Merchandise stocks	700000		106	Reserves	100000
411	Customers	260000			Current liabilities	
512	Bank	350000		401	Inventory and services suppliers	700000
53	Cashbox	80000		4551	Fatima current account	190000
				4552	Jalal current account	100000
				4553	Jalal current account	60000
Total assets		1750000		Total liabilities		1750000

Sixth axis: Value-added Tax Accounting

During each month, when the entity performs any purchase of goods, raw materials or services, it pays the purchase price and also pays an additional amount called the "value-added tax related to purchases", and when it performs any sale of goods or products or providing services, it obtains the sale price or the service price and also gets an additional amount called the "value-added tax related to sales". At the end of the month, the entity adds up all VAT amounts collected on sales, subtracts the total VAT amounts paid on purchases, and pays the remaining amount to the tax authority.

In the following, we discuss the definition of this Tax, the scope of its application, the conditions for its deductibility, and how it is calculated and recorded in accounting.

1- Definition and scope of application

In the following, we discuss the definition of the value-added tax, its current percentages, burden, and scope of application.

1-1- Value added tax Definition

The value-added tax (VAT) is an indirect tax imposed on operations of an industrial, commercial and service nature, except in cases stipulated by law.

1-2- Value added tax rates

The value-added tax has known several rates since its establishment in Algeria under Law No. 36-90 of December 31, 1990, which includes the Finance Law of 1991, and entered into practice on April 1, 1992.

The last amendment to the ratios came in the Finance Law of 2017, which defined them as follows:

The normal rate: 19% for all commercial, industrial and service operations.

Reduced rate: 09% for some operations specified by law with the aim of encouraging their production or for consumer protection.

1-3- Value-added tax burden

Economic entities, whether they are production, commercial or service, do not bear the burden of VAT, but it is borne by the last consumer (non-trader) because the entities are considered intermediaries only. Every month, they collect the value-added tax amounts related to sales and pay them to the tax authority after deducting from them the total amounts of the value-added tax related to purchases.

1-4- value added tax scope

VAT applies to all sales and service transactions, with the exception of transactions exempted by law.

The subject transactions are:

-sales of movables;
-real estate operations;
-service delivery operations;
- Self-delivery operations. (The owner of the establishment sells himself a specific product, so he becomes the last consumer.)
- Sales of goods and products carried out by persons affiliated with the real regime (producers, importers, wholesalers, large areas...)
-Real estate-related operations (construction and sale of real estate, buying and selling real estate, zoning and selling land...);
-Service provision operations (transport, rent, banks, insurance, liberal professions, medical clinics, private schools, etc.);
- Self-delivery operations (The owner of the establishment sells a specific merchandise or product to himself, therefore he becomes the final consumer.)

Exemptions:

- sales carried out by farmers;
- Sales transactions carried out by retail traders affiliated to the single flat-rate tax system
-Exemption of some essential commodities(bread, semolina, milk, medicine, ...).

2- Value-added tax deductibility (or value added tax deducting conditions)

The tax law set a number of conditions that must be respected in order for the value-added tax on purchases to be refundable. Among these conditions, we find:

- The right of refund is only authorized to persons subject to the value-added tax of the real system;
- Return is not acceptable unless the goods, products, services or purchased items are used in operations that are actually subject to the value-added tax. In the event that the goods disappear or the transaction is not subject to tax, the deducted tax must be repaid;
- The value-added tax must appear on the purchase invoices or customs documents in case of import or any other document;

- Send to the Tax Authority the monthly declaration (G50) for each month before the 20th of the following month;
- A list of refunded fees and necessary information about suppliers must be attached to the G50 monthly declaration;
- The value-added tax related to bills paid in cash cannot be refunded when the amount of all taxs exceeds 100,000 DZD, that is, in order for the VAT related to these bills to be acceptable for refund, the bills must be paid by another means of payment other than the cashier;
- As for the installations, the value-added tax related to them cannot be refunded unless these installations were acquired in a new or renewed condition with a guarantee, and they were kept within the organization's assets for a period of not less than 5 years. (In the event of waiving the installation before 5 years, the tax on the value-added previously recovered must be returned to the tax authority in proportion to the number of remaining years).

3- Value-added tax amount Calculating

The value-added Tax is calculated on the net financial amount appearing in the invoice (the amount excluding tax (E.T))

If the VAT rate is 19%, and amount including tax (IT) Then :

$VAT = ET \times 0.19$ or $VAT = \frac{0.19 \times IT}{1.19}$ or $VAT = IT - ET$

$IT = ET \times 1.19$ or $IT = VAT \times 1.19 \div 0.19$ or $IT = ET + VAT$

$ET = \frac{VAT}{0.19}$ or $ET = \frac{IT}{1.19}$ or $ET = IT - VAT$

Examples

1) If the net purchase price excluding Tax is: 200,000 DZD, then:

VAT = 200000 × 0.19 = 38000 , IT = 200000+ 38000 = 238000

2) If the amount including Tax is: 357,000 DZD, then:

VAT = 357000 × 0.19 ÷ 1.19 = 57000 , ET = 357000 ÷ 1.19=300000

3) If the amount of TVA is 76,000 DZD, then:

ET = 76000 ÷ 0.19 = 400000 , IT = 76000+400000= 476000 DZD

4-Value-added tax accounting registration(or VAT accounying entry)

The tax shown on the purchase invoice is recorded as a debit in account 4456 “deductible value-added tax”, as for the tax shown on the sale invoice, its recorded as a credit in account 4457 “collected value-added tax”. When they are settled at the end of each month, they result in either a value-added tax payable to the Tax Authority and recorded as a credit in account 4455, or a value-added tax prepayment to postpone to the following month and recorded as a debit in account 44567, as follows:

,

4-1- Accounting entry of deductible value added tax

When the entity obtains an invoice for the acquisition of a fixed asset, the purchase of goods (or raw materials), or the obtainment of a service, the amount of value-added tax shown on the invoice is recorded as a debit in the account of 4456 “deductible v.a.t”, as follows:

➢ **Acquisition of a fixed asset :**

		Date		
20 or 21 4456		fixed asset deductible v.a.t	xx x	
	404 or 512 or 53	Fixed asset suppliers, bank or cashbox **(fixed asset acquisition Invoice no...)**		xxx

➢ **Merchandise purchase or Raw materials and supplies purchase**

		Date		
380 or 381 4456		Stocked merchandises or Raw materials and supplies stored deductible v.a.t	xx xx x	
	401 or 512 or 53	Stock suppliers, bank or cashbox **(Merchandise purchase Invoice no...)**		xxx

➢ **Purchase of consumables or services**

		Date		
60 or 61 or 62 4456		Consumed purchases or external services deductible v.a.t	xx xx x	
	401 or 512 or 53	Stock suppliers, bank or cashbox **(Purchase invoice for consumables or services no)**		xxx

4-2- Accounting entry of collected value added tax

When the entity prepares and delivers an invoice for the sale of goods or products or the provision of a service, the amount of the value-added fee shown on the invoice is recorded as a creditor in the account 4457 “collected v.a.t.” as follows:

➢ **sell goods**

		Date		
411 or 512 or 53		Customers or bank or cashbox	xxx	
	4457	Collected v.a.t		x
	700	sale of goods		xx
		(goods sales invoice no..)		

➢ **sell finished products**

		Date		
411 or 512 or 53		Customers or bank or cashbox	xxx	
	4457	Collected v.a.t		x
	701	Sell finished products		xx
		(finished products sales invoice no..)		

➢ **providing services**

		Date		
411 or 512 or 53		Customers or bank or cashbox	xxx	
	4457	Collected v.a.t		x
	706	Providing other services		xx
		(Providing other servicesinvoice no..)		

4-3-Settlement of the value-added tax at the end of each month

At the end of each month, the entity sends the monthly declaration document (G50) to settle its tax status with the Tax Authority, by offsetting the total amounts of the value-added tax collected and recorded in account 4457 and the total amounts of the **deductible** value-added tax registered in account 4456. Here we distinguish three cases:

➢ **The first case:**If the sum of the amounts recorded in A/4457 is greater than the sum of the amounts recorded in A/4456, the difference will be recorded in A/4455 “value-added tax payable” and will be paid to the Tax Authority before the 20th of the following month.

The accounting recording of the settlement is as follows :

		30/m/y		
4457		Collected v.a.t	xxx	
	4455	value-added tax payable		x
	4456	deductible value-added tax		xx
		(Settlement of the value-added tax of month...)		

When paying the tax before the 20th of the following month, the accounting entry is as follows:

		befor 20/m/y		
4455		value-added tax payable	x	
	512 or 53	Bank or Cashbox		x
		(monthly declaration document (G50) for the month...)		

- **The second case:** If the sum of the amounts recorded in A/4456 is greater than the sum of the amounts recorded in A/4457, the difference will be recorded in A/44567 " value-added tax prepayment " to postpone its deduction to the next month.

The accounting recording of the settlement is as follows :

		30/m/y		
4457		Collected v.a.t	xx	
44567		value-added tax prepayment	x	
	4456	deductible value-added tax		xxx
		(Settlement of the value-added tax of month...)		

- **The third case**: If the sum of the amounts recorded in A/4456 is equal to the sum of the amounts recorded in A/4457, in this case there is no value-added tax for payment and no value-added tax to postpone.

The accounting recording of the settlement is as follows :

		30/m/year		
4457		Collected v.a.t	xx	
	4456	deductible value-added tax	x	
		(Settlement of the value-added tax of month...)		xxx

Solved Exercise

During the month of March 2018, the entity carried out the following operations, noting that the value-added tax rate is 19%.

On March 02/2018: A production machine was purchased by bank check for 238,000 DA, tax included.

On March 15/2018: goods were purchased by bank check for 250,000 DA, excluding tax.

On March 26/2018: Goods were sold by bank check and the amount of VAT shown in the invoice was 95,000 DA

Required:

1)Record transactions in the journal.

2) Settlement of the value-added tax at the end of March

3) Accounting registration for the payment of value-added tax due to the Tax Authority.

Solution :

1)Record transactions in the journal.

On March 02/2018: Acquisition of a production machine by bank check for 238,000 DA, tax included. this means:

production machine price = 238000 ÷ 1.19 = 200 000 AD

VAT = 200 000 × 0.19 = 38 000 AD

Accounting registration is:

		March/02/2018		
215 4456	 512	production machine deductible v.a.t bank **(fixed asset acquisition Invoice no...)**	200000 **38000**	 238000

On March 15/2018: purchase of goods by bank check for 250,000 DA, excluding tax. this means:

purchase price of merchandise = 250 000 AD

VAT = 250 000 × 0.19 = 47 500 AD

total amount including tax = 250000 + 47 500 = 297 500 AD

Accounting registration is:

		March/15/2018		
380 4456	 512	Stocked merchandises deductible v.a.t bank **(Merchandise purchase Invoice no...)**	250000 **47500**	 297500

On March 26/2018: Goods were sold by bank check and the amount of VAT shown in the invoice was 95,000 DA. this means:
merchandise selling price = 95 000 ÷ 0.19 = 500 000 AD
VAT = 95 000 AD
total amount including tax = 500 000 + 95 000 = 595 000 DZD

Accounting registration is:

		March/26/2018		
512		bank	595000	
	4457	Collected v.a.t	**95000**	
	700	sale of merchandise		595000
		(merchandise sale invoice no..)		

2)Value Added Tax settlement for the month of March

the sum of the amounts recorded in A/4457 is 95 000 DZD
the sum of the amounts recorded in A/4456 is : 38000+47500=85500 DZD
the difference (95000-85500=5000) will be recorded in A/4455 “value-added tax payable”

Accounting registration is:

		March/31/2018		
4457		Collected v.a.t	95000	
	4455	value-added tax payable		5000
	4456	deductible value-added tax		85500
		(Settlement of the value-added tax of March)		

3) Accounting registration for the payment of value-added tax due to the Tax Authority is :

		befor 20/march/2018		
4455		value-added tax payable	5000	
	512	Bank or Cashbox		5000
		(monthly declaration document (G50) for march 2018)		

Seven axis: Accounting for Tangible and Intangible fixed assets

Intangible and tangible fixed assets are non-current assets that the entity acquires or produces internally in order to use them to serve and sustainably cover its activity and not with the aim of reselling them. In this axis, we approach the process of acquiring fixed assets, starting with their definition, classification and accounting for their possession, whether by purchase or production, then moving on to accounting for their depreciation and their losses in value (or impairment), and finally we deal with their cession and their allocation to stock.

1-Acquisition of tangible and intangible fixed assets

The financial accounting system allocated account 20 for intangible fixed assets and account 21 for tangible fixed assets.

These accounts are divided into partial or secondary accounts, which are summarized in the following table:

Category	Main account	Partial or secondary accounts
intangible fixed assets	account 20	203 Fixables development expenses 204 informatics software and similar 205 concessions and similar rights, patents, licenses and trademarks 207 acquisition difference (good will) 208 other intangible fixed assets 237 Intangible fixed assets in progress 238 Advances and accounts paid for requesting fixed assets 280 intangible fixed assets depreciation 290 intangible fixed assets impairment (loss of value)
tangible fixed assets	account 21	211: Lands 212: Land arrangement and preparation operations 213: Buildings 215: Technical installations, industrial equipment and tools 218: Other tangible fixed assets, and it is divided into sub-accounts: 2181: Informatics equipment 2182: Transport equipment 2183: Office equipment 2184: office furniture 232: tangible fixed assets in progress 238 Advances and accounts paid for requesting fixed assets 281 tangible fixed assets depreciation 291 tangible fixed assets impairment (loss of value)

All these accounts are debit by nature, i.e. increase in the debit side and decrease in the credit side, except for account 280, account 290, account 281 and account 291 (increase in the credit side and decrease in the debit side).

1-1-Intangibles fixed assets

1-1-1- Intangibles fixed assets definition

An intangible fixed asset is an identifiable, non-monetary and immaterial, controlled and used by the entity in its ordinary activities (commercial, production and service). It consists of the intangible assets mentioned in the table above.

1-1-2- Accounting treatment of intangible fixed assets

- When the intangible fixed asset is acquired directly from the fixed asset suppliers, the registration is as follows:

		Date		
20 4456	 404	intangible fixed asset deductible v.a.t Fixed asset suppliers **(fixed asset acquisition Invoice no...)**	xx x	 xxx

- When the intangible fixed asset is produced within the entity, the accounting registration goes through two staps:

The first stap: recording the expenses incurred for the production of the intangible asset, according to their nature, in the accounts 6:

		Date		
6xx 4456	 3 or 4 or 5	Expenses incurred for the production of intangible fixed asset deductible v.a.t Inventories / third party accounts / financial accounts (Recording the expenses according to their nature in A/6)	xx x	 xxx

The second step: when the production of the intangible asset is completed, it is introduced into the assets by the total expenses incurred:

		Date		
20x	 4457 731	Intangible fixed assets produced Collected v.a.t. Capitalized production of intangible assets (capitalizing expenses+ Self-delivery)	xx x	 xxx

Examples: An entity carried out the following operations (excluding tax), that must be recorded in the journal, noting that v.a.t. rate is 19%.

- Acquisition of computer software on account for 38 000 DZD. 2 000 DZD was paid in cash for the expenses necessary for the operation of the program and 10,000 DA in cash for the expenses of training the users of this program.

		Date		
204 4456 622	 404 53	computer software deductible v.a.t Remuneration of intermediaries and fees Fixed asset suppliers Cashbox (Purchase invoice no…+ cashbox receipt no…)	40000 9500 10000	 45220 14280

- The entity's engineers developed a computer program to manage the inventory. This required employees' wages of 90,000 DZD, paid by check, and 10,000 DZD consumable raw materials.

The first stap: recording the expenses according to their nature :

		Date		
631 601	 31 512	staff remuneration Raw materials Raw materials and supplies Bank (Recording the expenses according to their nature)	90000 **10000**	 10000 90000

The second step: intoduction of the computer program into the assets :

		Date		
204	 4457 731	computer program Collected v.a.t. Capitalized production of intangible assets (capitalizing expenses+ Self-delivery)	119000 **19000**	 100000

- Buying a commercial store for 500,000 dinars with a check that includes the following: a building with a value of 150,000 dinars, land with a value of 220,000 dinars, industrial equipment with a value of 70,000 dinars, and the rest represents the acquisition gap (or good-will).

		Date		
207		acquisition gap (or good-will).	60000	
211		lands	220000	
213		building	150000	
215		industrial equipment	70000	
	512	Bank		500000
		(Commercial shop acquisition contract + check no)		

Goodwill or acquisition difference represents the difference between the amount paid and the net amount of the items obtained from the acquisition.

1-2-Tangibles fixed assets

1-2-1- Tangibles fixed assets definition

A tangible fixed asset is a tangible asset held by the entity for production, provision of services, leasing and use for administrative purposes, which is assumed to last for more than one fiscal year. It consists of the tangible assets mentioned in the table above.

1-2-2- Accounting treatment of tangible fixed assets

1-2-2-1- Purchase cost, production cost

Fixed assets are included in the entity's assets at acquisition cost (if purchased), or at production cost (if produced within the entity).

The purchase cost is equal to the purchase price outside tax minus the discounts, plus all necessary operating expenses (all expenses are added to it until the installation becomes operational).

Cost of production is equal to the sum of production costs.

1-2-2-2- Principles of grouping or separating fixed assets

In assembling or separating fixed assets, the following principles shall be observed:

- Items with a weak value (less than 30,000 DZD) can be considered as if they were completely consumed in the fiscal year in which they were used, and therefore they are not recorded in their respective accounts in the form of fixed assets, but are recorded in account **605" Purchases of equipment and supplies".**

- Components of an asset are treated as separate items if they have different useful lives or provide economic benefits to the entity at different rates.

- Lands and buildings constitute distinct assets and are treated separately even if they were acquired together because buildings are depreciable assets while lands are non-depreciable assets.

1-2-2-3- Accounting registration of fixed assets received as contributions

- **When forming an individual** private enterprise, the accounting registration is as follows:

		Date		
21x		tangible asset received	x	
	101	Exploitation funds		x
		(Allocate a tangible fixed asset to establish a private enterprise)		

- **When forming a company**, the accounting registration (to implement the promise) is as follows

		Date		
21x		tangible fixed asset promised	x	
	456	Partners: Operations on Capital		x
		(Execution of the Promise) or (Provision the tangible fixed asset Promised)		

1-2-2-4-Accounting entry of fixed assets acquired through purchase

- When a tangible fixed asset is acquired **directly** from fixed asset suppliers, the registration is as follows:

		Date		
21x		tangible fixed asset aquired	xx	
4456		deductible v.a.t	**x**	
	404	Fixed asset suppliers		xxx
		(fixed asset acquisition Invoice no...)		

- When a tangible fixed asset is acquired **by sending** a fixed asset purchase **request** to the supplier:

the registration goes through two stages:

The first stage: **register the request sent** with a check or cash as an advance:

		Date		
238		Advances and accounts paid for requesting fixed assets	x	
	512 or 53	Bank or Cashbox		x
		(check no… or cashbox receipt no...)		

The second stage: when the required fixed asset is received, the supplier remains in credit of the remaining amount and the following is recorded:

		Date		
21		tangible fixed asset aquired	xx	
4456		deductible v.a.t	**x**	
	238	Advances and accounts paid for requesting fixed assets		x
	404	Fixed asset suppliers		xx
		(fixed asset acquisition Invoice no...)		

1-2-2-5-Accounting entry of fixed assets produced within the entity

- When the tangible fixed asset is **produced** within the entity, the accounting registration goes through two staps:

The first stap: **recording the expenses** incurred for the production of the intangible fixed asset, according to their nature, in the accounts 6:

		Date		
6xx		Expenses incurred for the production of intangible fixed asset	xx	
4456		deductible v.a.t	**x**	
	3 or 4 or 5	Inventories / third party accounts / financial accounts		xxx
		(Recording the expenses according to their nature in A/6)		

The second step: when the production of the tangible asset is completed, it is **introduced into the assets** by the total expenses incurred:

		Date		
21x		tangible fixed assets produced	xxx	
	4457	Collected v.a.t.		x
	732	Capitalized production of tangible assets		xx
		(capitalizing expenses+ Self-delivery)		

Examples: An entity carried out the following operations(excluding tax), that must be recorded in the journal, noting that v.a.t. rate is 19%.

- Acquisition of an advanced production machine on account of 240 000 DZD. A cash of 20,000 DZD was paid for transporting it, and a cash of 40,000 DZD was paid as necessary expenses for its operation, and also a check of 50,000 DZD was paid as the fees of an external engineer who trained the workers on the proper use of the machine.

		Date		
215		Industrial equipment and tools(240000+60000)	300000	
4456		deductible v.a.t	66500	
622		Remuneration of intermediaries and fees	50000	
	404	Fixed asset suppliers (240000 × 1.19)		285600
	512	Bank (50000 × 1.19)		59500
	53	Cashbox (20000 + 40000) × 1.19		71400
		(Purchase invoice no…+ cashbox receipt no…)		

- The entity's workers built an administrative building for the entity's needs. This required workers' wages of 900,000 DZD, paid by check, and raw materials 1,500,000 DZD.

Accounting registration goes through two steps:

The first step: recording the expenses according to their nature :

		Date		
631		staff remuneration	900000	
601		Raw materials	1500000	
	31	Raw materials and supplies		1500000
	512	Bank		900000
		(Recording the expenses according to their nature)		

The second step: intoduction of the computer program into the assets :

		Date		
213		Building	2856000	
	4457	Collected v.a.t.		456000
	732	Capitalized production of tangible assets		2400000
		(capitalizing expenses+ Self-delivery)		

- A request for acquiring a truck was sent to the suppliers of fixed assets, with a check of 50,000 DZD as an advance. After a month, the truck and the invoice were obtained, noting that the amount of the truck was 500,000 DZD.

Accounting registration goes through two steps:

The first staps: **register the order sent** with a check as an advance:

		Date		
238		Advances paid for requesting the truck	50000	
	512	Bank		50000
		(check no…)		

The second staps: After one month:

		Date		
2182		transportation equipment (Truck)	500000	
4456		deductible v.a.t	95000	
	238	Advances paid for requesting the truck		50000
	404	Fixed asset suppliers		545000
		(fixed asset acquisition Invoice no...)		

2- Depreciation and impairment of tangible and intangible fixed assets

Entities acquire tangible and intangible fixed assets in order to use them for industrial and commercial purposes for a period exceeding one fiscal year. However, these fixations do not remain in their productive state, but rather lose them over time or due to technological obsolescence. Therefore, at the end of each year, it is required to calculate the value lost by the asset, which is called the annual depreciation, and subtract it from the original value of the asset to determine its net accounting value that appears in the balance sheet, and if this value is greater than the real (or market) value of the asset, it must be reduced by the difference between the two values, and this difference is called the loss of value or (impairment of asset). In the following, we discuss the concept and accounting treatment of both depreciation and impairment for tangible and intangible fixed assets.

2-1- Depreciation of tangible and intangible fixed assets

In application of the principle of linking income to expenses, the value of tangible or intangible fixed asset is distributed over a determined period of time called the period of use or period of its use, and this distribution is called "amortization", or "depreciation", that is, the part of the fixed asset cost which is deducted from the results in exchange for its use in the activity of the entity even in the absence of profits and in each financial year and from the beginning of its operation.

2-1-1-Definition of depreciation

The Algerian financial accounting system has defined amortization as the consumption of economic benefits linked to a tangible or intangible asset, and is accounted for as an expense.

From this definition, it can be said that depreciation is the decrease in the value of tangible and intangible assets resulting from their use or obsolescence. This decrease is recorded at the end of the financial year in the depreciation expense account to renew these fixed assets after the end of their useful life with new fixed assets.

2-1-2-Depreciation methods

The financial accounting system stipulates four methods for calculating depreciation, which are:

– **Linear depreciation method**: a fixed charge over the useful life of the asset

– **Declining Depreciation Method**: A decreasing charge on the useful life of the asset

– **Incremental depreciation method**: An increased charge on the useful life of the asset

– **Units of production method**: a charge based on the expected use or production of the asset

According to the program scheduled for the first year, the study of depreciation methods is limited to linear depreciation only.

Linear depreciation method

This is the most commonly used method, known as the equal charges method, and to achieve the depreciation schedule we use the following rules:

- **The depreciable amount** is equal to the **acquisition cost** of the fixed asset less its **residual value**.

-**The residual value** is the net amount of the fixed asset at the end of its useful life (period of use), and it is usually non-existent.

- **Linear depreciation rate t** : If **n** is the benefit period, then the linear depreciation rate is : $t = \frac{100}{n}$

- **Annual amortization A**: If **V_0** is the depreciable amount then :

$$A = \frac{V_0}{n} \quad \text{or} \quad A = V_0 \times \frac{t}{100}$$

– **The accumulated depreciation** is equal to the **sum** of the depreciation applied to a fixed asset at the end of the cycle concerned. or $A_{cc} = V_0 \times \frac{t}{100} \times \frac{m}{12}$

- **Net accounting value (NAV)** is equal to the depreciable amount **minus** accumulated depreciation.

Example:

On 14/03/2012, a truck was acquired at a cost of 600,000 DZD its useful life is 05 years, and it has no residual value.

Required prepare the truck depreciation table according to the linear depreciation method and record the depreciation for the year 2012.

the solution

The depreciable amount is: 600 000 DZD.

Depreciation rate: $t = \frac{100}{5} = 20\ \%$

Depreciation installment for the year 2012 (10 months) :

$$A = 600000 \times 20\% \times \frac{10}{12} = 100000 \quad \text{or} \quad A = \frac{600000}{5} \times \frac{10}{12} = 100000$$

Depreciation installment for a full year (from 2013 to 2016):

$$A = 600000 \times 20\% = 120000 \quad \text{or} \quad A = \frac{600000}{5} = 120000$$

Depreciation installment for the year 2017 (two months only):

$$A = 600000 \times 20\% \times \frac{2}{12} = 20000 \quad \text{or} \quad A = \frac{600000}{5} \times \frac{2}{12} = 20000$$

Therefore, the amortization table for the truck is as follows:

the years	Depreciable amount	Annual amortization A	Accumulated depreciation	net accounting value (NAV)
2012 (10 months)	600 000	100 000	100 000	500 000
2013	600 000	120 000	220 000	380 000
2014	600 000	120 000	340 000	260 000
2015	600 000	120 000	460 000	140 000
2016	600 000	120 000	580 000	20 000
2017 (02 months)	600 000	20 000	600 000	0

Accounting recording of the depreciation installment for the year 2012

		31/12/2012		
681	2818	allocations to depreciation, and losses in value Truck depreciation (Truck depreciation installment related to the year 2012)	100000	100000

note:

If the acquisition of the fixed asset takes place between the first day and the fifteenth day, the entire month is counted when calculating the depreciation charge.

If the acquisition of the asset takes place after the fifteenth day, this month is not counted in the depreciation charge.

2-2- Impairment of tangible and intangible fixed assets

According to the evaluation rules developed by the financial accounting system, the entities must ensure, at the date of each inventory, and for each fixed asset (depreciable or non-depreciable), if there is any indication that the fixed asset in question has significantly lost its value, and to be sure of this, an impairment test must be done in order to determine the existence and the amount of the loss in value.

2-2-1- Impairment definition

Impairment or **Loss of value** is the amount in excess of the **net accounting value** of its **recoverable amount**.

2-2-2- Impairment estimate

At the inventory date, the entity estimates and examines whether there is any indication that an asset has lost its value, and if such an indication exists, the entity must estimate the recoverable amount of this asset, and the loss of value of the asset is determined by the difference between its net accounting value and its recoverable value. This means :

Loss of value = Net Accounting Value (NAV) - Recoverable Value (RV)

According to the program, and for simplification, in the first year, the **recoverable value** of any fixed asset is considered as its **net selling price**.

The net selling price of an asset is the amount obtainable from the sale of that asset during a transaction under normal conditions between knowledgeable and consenting parties, less exit costs;

Net Selling Price (NSP) = Selling Price (SP) - Exit Costs

In the event that there is an indication of a loss of value, the existence of this loss is confirmed by comparing **the recoverable value** with **the net accounting value**, according to the following two cases:

The first case: there is a loss of value if it is

Net Accounting Value (NAV) > Net Selling Price (NSP)

The second case: There is no loss of value if:

Net Accounting Value (NAV) < Net Selling Price (NSP)

2-2-3- Impairment accounting registration

When a loss in value is proven for a fixed asset, account 29xx Losses in value of the fixed asset concerned is credited with the amount of this loss, by debiting account 681 allocations to depreciation, provisions and losses in value of the same amount

		31/12/Year		
681		allocations to depreciation, provisions and losses in value	xx	
	29xx	Impairment of the fixed asset concerned		xx
		(Impairment recording for the asset concerned)		

The following sub-accounts can be used:

290 Loss of value on intangible fixed assets.
291 Loss of value on tangible fixed assets.

Example 2: (continued with the first example)

Suppose that on 12/13/2014 there was an indication that the truck had lost its value, so its selling price was estimated at 230,000 DZD, while the exit costs were estimated at 22,000 DZD.

Required:

1) Calculate the loss of value of the truck.

2) The accounting recording of the loss of the value of the truck.

the solution:

1) Calculate the loss of value of the truck

On 12/31/2013 and after calculating the depreciation for the truck, we have:

- The net accounting value of the truck: 260,000 DZD (from the amortization table)

Net Selling Price (NSP) = Selling Price (SP) - Exit Costs.

- Net selling price = 230,000 - 22,000 = 208,000 DZD.

Since the net accounting value **is greater** than the net selling price

260,000 > 208,000

It means that: **there is a loss of value** for the truck:

Loss of value = 260,000 - 208,000 = 52,000 DZD

2)Accounting recording of the loss of the value of the truck

		31/12/2013		
681		allocations to depreciation, and losses in value	52000	
	29182	Impairment of the truck		52000
		(Impairment recording for the truck)		

2-2-4-Impact of the loss of value on the depreciation plan

When a loss of value of a fixed asset is proven, this affects the depreciation plan for this fixed asset so that it must be adjusted for the remaining period, by calculating new depreciation allowances for the remaining based on the depreciable amount after the loss of the recorded value.

Example 3: (Continued with the first and second examples)

After recording the loss of value that was calculated in the second example.

Required:

Preparing the modified depreciation plan for the truck.

the solution:

The depreciation table before recording the loss of value was:

the years	Depreciable amount	Annual amortization A	Accumulated depreciation	net accounting value (NAV)
2012 (10 months)	600 000	100 000	100 000	500 000
2013	600 000	120 000	220 000	380 000
2014	600 000	120 000	340 000	**260 000**
2015	600 000	120 000	460 000	140 000
2016	600 000	120 000	580 000	20 000
2017 (02 months)	600 000	20 000	600 000	0

The depreciation table after recording the loss of value becomes as follows:

the years	Depreciable amount	Annual amortization	Accumulated depreciation	loss of value	net accounting value (NAV)
2012 (10 months)	600 000	100 000	100 000		500 000
2013	600 000	120 000	220 000		380 000
2014	600 000	120 000	340 000	**52000**	**208 000**
2015	208 000	96 000	436 000		112 000
2016	208 000	96 000	532 000		16 000
2017 (02 months)	208 000	16 000	**548 000**		**0**

3- Cession of tangible and intangible fixed assets

The cession process of fixed assets is an exceptional operation in the life of the entity, and means selling the fixed asset and taking it out of the entity's assets. It ends either with a surplus value or minus value.

3-1- Cession of non-depreciable fixed assets

Upon cession of non-depreciable fixed assets, his account shall be closed immediately. We distinguish two cases:

The first case: Selling price is greater than the value of the fixed asset

In this case, the cession process results in a surplus value recorded as revenue in the account 752 « The surplus value over the exit of non-financial fixed assets » and its equal to the difference between the selling price and the fixed asset value. This is done with the following accounting entry :

		Date		
462 or 512		receivables on sale of fixed assets Bank	xx xx	
	20 or21 752	The fixed asset concerned The surplus value over the exit of non-financial fixed assets		x x
		(cession of fixed assets with surplus-value)		

The second case: Value of the fixed asset is greater than the selling price

In this case, the cession process results in a minus value recorded as a cost in the account 652 « The minus value over the exit of non-financial fixed assets » and its equal to the difference between the fixed asset value and the selling price. This is done with the following accounting entry :

		Date		
462 or 512 652	 20 or21	receivables on sale of fixed assets or Bank The minus value over the exit of non-financial fixed assets The fixed asset concerned (recording of the exit of non-financial fixed assets)	x x	 xx

Example: On 03/25/2012, The entity ceded a land for an amount of 3,400,000 DZD. The value of the land is 3,000,000 DZD. The operation was carried out on the account

The solution :

Since the selling price is greater than the value of the land, the difference between them represents a surplus value, and the accounting recording of the cession is as follows:

		03 / 25 / 2012		
462	 211 752	receivables on sale of fixed assets (Land) Lands The surplus value over the exit of non-financial fixed assets (land) (cession of land with surplus-value)	3400000	 3000000 **400000**

3-2- Cession of depreciable fixed assets

Before recording the cession process, we must recording the additional depreciation related to the year of cession.

		Date of cession		
681	 2818	allocations to depreciation, and losses in value depreciation of the fixed asset concerned (additional amortization from 1/1/N until the date of sale)	xx	xx

When disposing of a fixed asset, the related depreciation account (account 28x), as well as the related impairment account (account 29x) (if any) must be transferred to the relevant fixed asset account (Account 20 or Account 21)

The transfer of the depreciation account and the value loss account to the concerned fixed asset account constitutes a decrease in the value of the fixation so that the surplus or minus of the value to be recognized in the results account can be determined. **We distinguish two cases**:

The first case: the selling price + (A/28x + A/29x) is greater than the original value of the fixed asset (A/20 or A/21)

There is a surplus value (A / 752) = sale price + (A / 28x + A / 29x) - the original value of the installation (A/20 or A/ 21) and the accounting recording of the cession is as follows:

		Date of cession		
462 or 512 28xx 29xx	 20 or 21 752	receivables on sale of fixed assets or Bank depreciation of the fixed asset concerned Impairment of the fixed asset concerned the fixed asset concerned The surplus value over the exit of non-financial fixed assets **(cession of fixed assets with surplus-value)**	x x x	 xx x

The second case: the original value of the fixed asset (A/20 or A/21) is greater than the selling price + (A/28x + A/29x)

There is a minus value (A/652) = the original value of the fixed asset (A/20 or A/21) - sale price + (A/28x + A/29x) and the accounting recording of the cession is as follows:

		Date of cession		
462 or 512 28xx 29xx 652	 20 or 21	receivables on sale of fixed assets or Bank depreciation of the fixed asset concerned Impairment of the fixed asset concerned The minus value over the exit of non-financial fixed assets the fixed asset concerned **(cession of fixed assets with minus-value)**	x x x x	 x

Example:

An entity acquired an industrial machine on 01/01/2008 for an amount of 2,000,000 DZD, noting that the entity applies the linear depreciation method on its fixed assets at a rate of 20%.

On 01/07/2011, the entity sold this industrial machine, and we assume 2cases:

The first case: the selling price was 7200,000 DZD, and the transaction was done on the account.

The second case: the selling price was 500,000 DZD, and the process was done by bank check.

Required

1- Record the cession process of the machine in the first case, and indicate its result.

2- Record the cession process of the machine in the second case, and indicate its result.

The solution :

Before recording the cession process, we must recording the additional depreciation related to the year of cession (2011 : 06 months)

$$A_{2011} = 2000000 \times 20\% \times \frac{6}{12} = 200000$$

		07/01/2011		
681	2815	allocations to depreciation, and losses in value depreciation of the industrial machine (additional amortization 06 months)	200000	200000

Accumulated depreciation $D_{Accumulate\ d} = 2000000 \times 20\% \times 3.5 = 1400000$

There is no loss of value

The first case: the selling price was 720,000 DZD, and the transaction was done on the account.

There is a surplus value = sale price + (A / 28x) - the original value

The surplus value = 720000 + 1400000 – 2000000 = 120000 and the accounting recording of the cession is as follows:

		07/01/2011		
462 2815	 215 752	receivables on sale of fixed assets depreciation of the industrial machine industrial machine The surplus value over the exit of non-financial fixed assets (Disposal of an industrial machine with surplus-value)	720000 1400000	 2000000 120000

Note: The respective industrial machine account (Account 215) and its depreciation account (Account 2815) will be closed.

The secondt case: the selling price was 500,000 DZD, and the transaction was done by bank check.

There is a minus value = the original value – (sale price + (A / 28x))

The minus value = 2000000 – (500000 + 1400000) = 100000 and the accounting recording of the cession is as follows:

		07/01/2011		
512 2815 652	 215	Bank depreciation of the industrial machine The surplus value over the exit of non-financial fixed assets industrial machine (Disposal of an industrial machine with minus-value)	500000 1400000	 100000 2000000

Note: The respective industrial machine account (Account 215) and its depreciation account (Account 2815) will be closed.

3-3-scrapping tangible fixed assets

When a tangible fixed asset is not usable and the entity does not expect any future economic benefits from it or from its exit, it can be scrapped and transferred into stocks to be used as spare parts for other fixed assets or sold, and the accounting recording of this operation is as follows:

		Date		
28x 29x 36	 21x	depreciation of the industrial machine Impairment of the fixed asset concerned **Inventories from fixed assets** the fixed asset concerned (Disposal of an industrial machine with minus-value)	x x x	 xxx

Solved Exercises

Exercise 01

1°) An entity carried out the following transactions, requesting them to be recorded in the journal, noting that the value-added tax is 19%.

1) On 03/02/2010, an information program was purchased on the account for 48,000 DZD (excluding tax). 12,000 DZD were paid in cash as expenses necessary to run the program (excluding tax), and 23,800 DZD were paid in cash (including tax) as fees for an external engineer who trained the users for this program.

2) On 03/05/2010, IT software to manage inventory was completed within the entity. This required the following: consumable materials 15,000 DZD, wages of engineers external to the organization 45,000 DZD (excluding tax), paid by bank check.

3)On 03/10/2010, the entity obtained a license to exploit a trademark for a period of 5 years from one of the major industrial institutions with a value of 238,000 DZD (including tax) on the account.

4)On 03/15/2010, land was acquired next to the entity for 750,000 DZD (not subject to tax), and the fees of the notary who completed the contract were paid for 59,500 DZD (including tax).(All by bank check)

5)On 04/01/2010, the entity submitted an advance to the supplier worth 50,000 DZD in cash in order to obtain an advanced production machine worth 540,000 DZD (excluding tax).

A month later, it obtained the machine and put it into production. It paid in cash the transportation expenses of 40,000 DZD (exclusive of tax). Its installation expenses are 20,000 DZD (excluding tax) and the expenses of training workers to work on it are 23,800 DZD (including tax).

On 05/04/2010, the rest of the amount was paid by bank check.

6)On 05/05/2010, small equipment and supplies were purchased in cash for 34,510 DZD (tax included).

7)On 05/10/2010, the entity completed an administrative building with its own means, requiring raw materials of 600,000 DZD and workers' wages of 50,000 DZD, paid by check

2°) Complete a linear depreciation table for the machine (its useful life is 5 years, it has no residual value), then record the depreciation for the years 2010 and 2011.

3°) We assume that on 12/31/2012 its net accounting value was 280,000 DZD, while its selling price was 240,000 DZD, while its exit costs were estimated at 30,000 DZD. - Calculate and record the loss of value of the machine and adjust its depreciation schedule.

Exercise 02

The entity acquired a truck on account on 01/02/2015 and it was entered into activity on 04/14/2015. Its useful life was estimated at 5 years and it had no residual value and was depreciated using the fixed linear depreciation method.

Required:

1°) Complete the depreciation table below, noting that the **total accumulated depreciation** at the end of 2017 was **330,000** DZD.

the years	Depreciable amount	Annual amortization A	Accumulated depreciation	net accounting value (NAV)
2015 (09 months)				
2016				
2017			**330 000**	
2018				
2019				
2020 (03 months)				

2°) We assume that on 12/31/2017 its selling price reached 200,000 DZD, while its exit costs were estimated if it was sold: 20 000 DZD.
- Calculate and record the loss of value of the truck and adjust its depreciation schedule.

3°) We assume that the truck was surrendered on 01/07/2018 according to the following two cases:
- The first case: The waiver amount is 165,000 DZD on the account.
- The second case: The waiver amount is 110,000 DZD by check.
Record the waiver process in each case, indicating the result of the waiver.

Solution of the first exercise:

1) On 03/02/2010, an information program was purchased on the account for 48,000 DZD (excluding tax). 12,000 DZD were paid in cash as expenses necessary to run the program (excluding tax), and 23,800 DZD were paid in cash (including tax) as fees for an external engineer who trained the users for this program.

		03/02/2010		
204 4456 622	 404 53	computer software deductible v.a.t Remuneration of intermediaries and fees Fixed asset suppliers Cashbox (Purchase invoice no…+ cashbox receipt no…)	60000 15200 20000	 57120 38080

2) On 03/05/2010, IT software to manage inventory was completed within the entity. This required the following: consumable materials 15,000 DZD, wages of engineers external to the organization 45,000 DZD (excluding tax), paid by bank check.

		03/05/2010		
601 621 4456	 31 512	Raw materials Employees external to the entity deductible v.a.t Raw materials and supplies Bank (Recording the expenses according to their nature)	15 000 45 000 8 550	 15 000 53 550
		//		
204	 731	computer program Capitalized production of intangible assets (capitalizing expenses+ Self-delivery)	60000	 60000

3)On 03/10/2010, the entity obtained a license to exploit a trademark for a period of 5 years from one of the major industrial institutions with a value of 238,000 DZD (including tax) on the account.

		03/10/2010		
205 4456	 404	concessions and similar rights, licenses and trademarks deductible v.a.t Fixed asset suppliers (Purchase invoice no…+ cashbox receipt no…)	200000 23000	 238000

4)On 03/15/2010, land was acquired next to the entity for 750,000 DZD (not subject to tax), and the fees of the notary who completed the contract were paid for 59,500 DZD (including tax). (All by bank check).

		03/15/2010		
211		Land	750 000	
4456		deductible v.a.t	9 500	
622		Remuneration of intermediaries and fees	50 000	
	512	Bank		809 500
		(Purchase invoice no…+ check n°…)		

Another treatment for this process:

		03/15/2010		
211		Land	800 000	
4456		deductible v.a.t	9 500	
	512	Bank		809 500
		(Purchase invoice no…+ check n° …)		

5)On 04/01/2010, the entity submitted an advance to the supplier worth 50,000 DZD **in cash** in order to obtain an advanced production machine worth 540,000 DZD (excluding tax).

		04/01/2010		
238		Advances paid for requesting a production machine	50000	
	53	Cash box		50000
		(purchase order n°…)		

A month later, it obtained the machine and put it into production. It paid in cash the transportation expenses of 40,000 DZD (exclusive of tax). Its installation expenses are 20,000 DZD (excluding tax) and the expenses of training workers to work on it are 23,800 DZD (including tax).

		05/01/2010		
215		Industrial equipment and tools	600000	
622		Remuneration of intermediaries and fees	20000	
4456		deductible v.a.t	117800	
	238	Advances paid for requesting the truck		50000
	404	Fixed asset suppliers		592600
	53	Cash box		95200
		(fixed asset acquisition Invoice no...)		

On 05/15/2010, the rest of the amount was paid by bank check.

		05/04/2010		
404		Fixed asset suppliers	592600	
	512	Bank		592600
		(check n° …)		

6)On 05/05/2010, small equipment and supplies were purchased in cash for 34,510 DZD (tax included).

		05/05/2010		
605 4456	 53	Purchases of equipment and supplies deductible v.a.t Cash box **(Purchase invoice n° …)**	29000 5510	 34510

7)On 05/10/2010, the entity completed an administrative building with its own means, requiring raw materials of 600,000 DZD and workers' wages of 50,000 DZD, paid by check.

		05/10/2010		
631 601	 31 512	staff remuneration Raw materials Raw materials and supplies Bank (Recording the expenses according to their nature)	50000 600000	 600000 50000
		Date		
213	 732	Building Capitalized production of tangible assets (capitalizing expenses+ Self-delivery)	650000	 650000

2°) Linear depreciation table for the machine (its useful life is 5 years, it has no residual value).

the years	Depreciable amount	Annual amortization A	Accumulated depreciation	net accounting value (NAV)
2010 (08 months)	600 000	80 000	80 000	520 000
2011	600 000	120 000	200 000	400 000
2012	600 000	120 000	320 000	**280 000**
2013	600 000	120 000	440 000	160 000
2014	600 000	120 000	560 000	40 000
2015 (04 months)	600 000	40 000	600 000	0

Depreciation record for the years 2010 and 2011.

		12/31/2010		
681	 2815	allocations to depreciation, for the machine (Industrial equipment depreciation installment related to the year 2010)	80000	 800000

		12/31/2011		
681	 2815	allocations to depreciation, for the machine (Industrial equipment depreciation installment related to the year 2011)	100000	100000

3°) We assume that on 12/31/2012 its net accounting value was 280,000 DZD, while its selling price was 240,000 DZD, while its exit costs were

estimated at 30,000 DZD. - Calculate and record the loss of value of the machine and adjust its depreciation schedule.
Net Selling Price (NSP) = Selling Price (SP) - Exit Costs.
- Net selling price = 240,000 - 30,000 = 210,000 DZD.
Since the net accounting value **is greater** than the net selling price

280,000 > 210,000

It means that: **there is a loss of value** for the machine:

Loss of value = 280,000 - 210,000 = 70,000 DZD

Accounting recording of the loss of the value of the machine.

		31/12/2013		
681	2915	allocations to depreciation, and losses in value Impairment of the machine (Impairment recording for the machine)	70000	70000

The depreciation table after recording the loss of value becomes as follows:

the years	Depreciable amount	Annual amortization A	Accumulated depreciation		net accounting value (NAV)
2010 (08 months)	600 000	80 000	80 000		520 000
2011	600 000	120 000	200 000		400 000
2012	600 000	120 000	320 000	**70000**	**210 000**
2013	**210 000**	90 000	410 000		160 000
2014	**210 000**	90 000	500 000		40 000
2015 (04 months)	**210 000**	30 000	**530 000**		0
Sum			**600 000**		

Solution of the second exercise:
The entity acquired a truck on account on 01/02/2015 and it was entered into activity on 04/14/2015. Its useful life was estimated at 5 years and it had no residual value and was depreciated using the fixed linear depreciation method.
Required:
1°) Complete the depreciation table below, noting that the **total accumulated depreciation** at the end of 2017 was **330,000** DZD.(33 months)

We know that: $A_{cc} = V_0 \times \frac{t}{100} \times \frac{m}{12}$ So

$$V_0 = A_{cc} \times \frac{12 \times 100}{t \times m} = 330000 \times \frac{1200}{20 \times 33} = 600000$$

the years	Depreciable amount	Annual amortization A	Accumulated depreciation	net accounting value (NAV)
2015 (09 months)	600 000	90 000	90 000	510 000
2016	600 000	120 000	210 000	390 000
2017	600 000	120 000	330 000	270 000
2018	600 000	120 000	450 000	150 000
2019	600 000	120 000	570 000	30 000
2020 (03 months)	600 000	30 000	600 000	0

2°) We assume that on 12/31/2017 its selling price reached 200,000 DZD, while its exit costs were estimated if it was sold: 20 000 DZD.
- Calculate and record the loss of value of the truck and adjust its depreciation schedule.

Net Selling Price (NSP) = Selling Price (SP) - Exit Costs.
- Net selling price = 200,000 - 20,000 = 180,000 DZD.
Since the net accounting value **is greater** than the net selling price
270,000 > 180,000
It means that: **there is a loss of value** for the truck:
Loss of value = 270,000 - 180,000 = 90,000 DZD

Accounting recording of the loss of the value of the truck.

		31/12/2017		
681	29182	allocations to depreciation, and losses in value Impairment of the truck (Impairment recording for the machine)	90000	90000

The depreciation table after recording the loss of value becomes as follows:

the years	Depreciable amount	Annual amortization A	Accumulated depreciation		net accounting value (NAV)
2015 (09 months)	600 000	90 000	90 000		510 000
2016	600 000	120 000	210 000		390 000
2017	600 000	120 000	330 000	**90000**	**180 000**
2018	**180 000**	80 000	410 000		160 000
2019	**180 000**	80 000	490 000		40 000
2020 (03 months)	**180 000**	20 000	**510 000**		0
Sum			**600 000**		

Annual amortization = 180 000 ÷ (12 + 12 + 3) = 80 000
Amortization for 03 months = 80 000 × 3/12 = 20 000.

3-1) We assume that the truck was sold on 01/07/2018 according to the
- The first case: The waiver amount is 165,000 DZD on the account.

Before recording the cession process, we must recording the additional depreciation related to the year of cession (2018 : 06 months)

$$A_{2018} = 80000 \times \frac{6}{12} = 40000$$

07/01/2011

681		allocations to depreciation, and losses in value	40000	
	28182	depreciation of the truck		40000
		(additional amortization 06 months)		

Accumulated depreciation $D_{Accumulate\ d} = 330000 + 40000 = 370000$

The loss of value = 90 000

Surplus value = sale price + (A / 28x) + (A / 29x) - the original value

The surplus value = 165000 + 370000+90000 – 600000 = 25 000 and the accounting recording of the cession is as follows:

07/01/2011

462		receivables on sale of fixed assets	165000	
28182		depreciation of the truck	370000	
29182		Impairment (or loss of value) of the truck	90000	
	2182	transportation equipment (truck)		600000
	752	The surplus value over the exit of non-financial fixed assets		25000
		(Disposal of an industrial machine with surplus-value)		

3-1) We assume that the truck was sold on 01/07/2018 according to the

The second case: The waiver amount is 110,000 DZD by check.

There is a minus value = the original value - sale price - (A / 28x) - (A / 29x)

The minus value = 600000 – 110000-370000-90000 = 30000 and the accounting recording of the cession is as follows:

07/01/2011

512		Bank	500000	
28182		depreciation of the industrial machine	1400000	
29182				
652		The surplus value over the exit of non-financial fixed assets		100000
	2182	transportation equipment (truck)		2000000
		(Disposal of an industrial machine with minus-value)		

Eighth axis: Inventory accounting

In this axis, we try to define and classify the stocks and their inventory methods, then we treat the accounting of the stocks in terms of purchasing process, production process and sales process, according to the permanent inventory method, then according to the final inventory method.

1-Definition of stocks and its types

Inventories are current assets that are purchased or produced for the purpose of selling them during the exploitation cycle.

Inventories are divided into:

- goods, raw materials, supplies and other provisions that have been purchased;
- all products that have been produced in the entity;
- inventories derived from fixed assets;
- and inventories abroad.

2-Accounting classification of inventories

Inventories can be classified into:

- Goods (Account 30), which are the goods that the entity buys and resells as they are, without making any changes to them.
- Raw materials and supplies (Account 31), which are the materials and supplies purchased in order to transform them, and which are included in the composition of processed or manufactured products.
- Other supplies (Account 32), which are materials and things that contribute to processing, manufacturing, or exploitation without being included in the composition of processed or manufactured products. It branches into:

    Consumables materials (Account 321) such as cleaning materials...

    Consumable supplies (Account 322) such as office supplies...

    Packaging or Damaged packaging (Account 326) such as plastic bags...

- Goods under production (Account 33)
- Services under production (Account 34)
- Inventory of products (Account 35), it is divided into:

    Intermediate Products (Account 351)

    Manufactured Products (Account 355)

    Remaining products (Account 358) (waste and waste)

- Inventories derived from fixed assets (Account 36)

- Stocks Abroad (Account 37)
- Stored Purchases (Account 38), it is divided into:
    Stored Goods (A 380)
    Stored Raw materials and supplies (A 381)
    Stored Other Supplies (A 382)

3-Methods for evaluating and inventorying the stocks

3-1-Evaluation of stocks (or inventories)

Inventories are evaluated, upon entry into or exit from warehouses, at **purchase cost** if purchased and at production cost if produced, as:

Purchase cost = purchase price outside the tax after deducting various discounts + all expenses attached to the purchase process.
Expenses attached to the purchase process are transportation, freight, unloading, insurance and various non-refundable taxs.

Production cost = The sum of all production costs

3-2-Stocks inventory methods

We distinguish two types of stocks inventory methods, one of which entities can follow:

- permanent (continuous) inventory system: According to this system, the entity records the movement of inventory (entry or exit) daily and after each operation using an inventory card for each type of inventory;

-The final (periodic) inventory system: According to this system, the institution does not record the movement of inventory (entry or exit) daily, but waits until the end of the accounting cycle to record the movement of inventory.

4- Accounting for the purchase process according to the permanent inventory method

The purchasing process is part of the current operations carried out by entities, whether commercial, industrial or service. It is represented in the purchase of goods, the purchase of raw materials and supplies, and the purchase of other supplies. Entities may also purchase studies and services, purchase equipment and supplies that are not considered fixed assets, and purchase non-stocked materials and supplies. we try, in the following, to clarify the accounting entry for each of the purchases mentioned above

.

4-1-Accounting registration for purchasing goods (or merchandises)

The business entity purchases the goods and resells them as they are without any change to them. The accounting treatment of the purchase process goes through two stages if the purchase is in cash or check, and in three stages if the purchase is on account, namely:

- **First stage: Receiving goods purchase invoice**: it expresses the transfer of ownership of the goods from the supplier to the buyer: this is done by recording:

		Date		
380 4456	 401	Stocked merchandises deductible v.a.t Stocks and sevices suppliers, **(Merchandise purchase Invoice no...)**	xx **x**	 xxx

- **Second stage : Receiving goods** or entering them into the warehouses (or storing them): this is done by recording:

		Date		
30	 380	merchandise stocks Stocked merchandises **(Merchandise receipt no...)**	xx	 xx

- **Third stage : Stock suppliers payment**. this is done by recording:

		Date		
401	 512 or 53	Stocks and sevices suppliers, Bank or cashbox **(Check no... or cashbox receipt no…)**	xx	 xx

4-2-Accounting registration for purchasing raw materials and supplies

The production entity purchases raw materials and supplies in order to convert them into products, and the accounting treatment of the purchase of raw materials and supplies goes through two stages if the purchase is in cash or check, and in three stages if the purchase is on account, namely:

- **First stage: Receiving** raw materials **purchase invoice**: it expresses the transfer of ownership of the raw materials and supplies from the supplier to the buyer: this is done by recording:

		Date		
381 4456	 401	Stocked raw materials and supplies deductible v.a.t Stocks and sevices suppliers, **(Raw materials and supplies purchase Invoice no...)**	xx x	 xxx

- **Second stage : Receiving raw materials and supplies** or entering them into the warehouses (or storing them): this is done by recording:

		Date		
31	 381	raw materials and supplies Stocked raw materials and supplies **(Raw materials and supplies receipt no...)**	xx	 xx

- **Third stage : Stock suppliers payment**. this is done by recording:

		Date		
401	 512 or 53	Stocks and sevices suppliers, Bank or cashbox **(Check no... or cashbox receipt no…)**	xx	 xx

4-3-Accounting registration for purchasing other supplies

The commercial, production or service entities purchases other supplies represented in the materials and things that contribute to the exploitation process or the production process (consumables or packaging, for example).

The accounting treatment for the purchase of other supplies goes through two stages if the purchase is in cash or check, and in three stages if the purchase is on account, namely:

- **First stage: Receiving Other Supplies purchase invoice**: it expresses the transfer of ownership of the Other Supplies from the supplier to the buyer: this is done by recording:

		Date		
382 4456	 401	Stocked Other Supplies deductible v.a.t Stocks and sevices suppliers, **(Other supplies purchase Invoice no...)**	xx x	 xxx

- **Second stage : Receiving Other Supplies** or entering them into the warehouses (or storing them): this is done by recording:

		Date		
32		Other supplies	xx	
	382	Stocked Other supplies		xx
		(Other Supplies receipt no...)		

- **Third stage : Stock suppliers payment**. this is done by recording:

		Date		
401		Stock suppliers,	xx	
	512 or 53	Bank or cashbox		xx
		(Check no... or cashbox receipt no…)		

Example1: During the month of April 2018, an entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.

On 04/02/2018: Goods purchased for 300 000 DZD on account arrived on the same day.

On 04/03/2018: Bought damaged packaging for 40 000 DA in cash, arrived on the same day

On 04/15/2018: purchase on account of raw materials for 119,000 DZD, including tax, arrived the next day

On 04/30/2018: All dues of inventory suppliers for the month of April 2018 have been paid, by bank check.

The solution

		04/02/2018		
380		Stocked merchandises	300 000	
4456		deductible v.a.t	**57 000**	
	401	Stocks and sevices suppliers,		357 000
		(Merchandise purchase Invoice no...)		
		//		
30		merchandise stocks	300 000	
	380	Stocked merchandises		300 000
		(Merchandise receipt no...)		
		04/03/2018		
382		Stocked Other Supplies	40 000	
4456		deductible v.a.t	**7 600**	
	53	Cashbox		47 600
		(Other supplies purchase Invoice no...)		

		//		
32	382	Other supplies Stocked Other supplies **(Other Supplies receipt no...)**	40 000	40 000
		04/15/2018		
381 4456	401	Stocked raw materials and supplies deductible v.a.t Stocks and sevices suppliers, **(Raw materials and supplies purchase Invoice)**	100 000 **19 000**	119 000
		04/16/2018		
31	381	raw materials and supplies Stocked raw materials and supplies **(Raw materials and supplies receipt no...)**	100 000	100 000
		04/30/2018		
401	512	Stocks and sevices suppliers, Bank or cashbox **(Check no... …)**	476 000	476 000

4-4-Accounting registration of purchases studies and services performed

These are the studies and services provided by third parties for the benefit of the entity, which are included in the cost of manufactured works or products. **they are recorded directly** in its consumed purchases account, as follows:

		Date		
604 4456	401	purchases of studies and services deductible v.a.t Stocks and sevices suppliers, **(purchase invoice of studies and provision of services no...)**	xx x	xx

4-5-Accounting record of purchases of materials, equipments, and works

When purchasing materials or equipments of low value (less than 30,000 DZD), they are not included in the fixed assets, but are considered as if they were completely consumed in the fiscal year in which they were used, and accordingly, they are recorded directly in account 605" Purchases of materials, equipments, and works" as follows:

		Date		
605 4456	401	purchases of materials, equipments, and works deductible v.a.t Stocks and sevices suppliers, **(purchase invoice of studies and provision of services no...)**	xx x	xx

4-6-Accounting recording of non-stocked purchases of materials and supplies

These are non-stored purchases, such as water, electricity, gas, etc., or materials and supplies that are not stored by the entity and are consumed directly, and for this reason they are recorded directly in their consumed purchases account, as follows:

Date

607 4456	 401	**non-stocked purchases of materials and supplies** deductible v.a.t Stocks and sevices suppliers, **(purchase invoice of studies and provision of services no...)**	xx x	 xx

5- Accounting for the production process according to the permanent inventory method

The production process goes through two main stages:

- **First stage**: taking out the raw materials and supplies from warehouses and bringing them into the workshops for manufacturing or conversion, this is done by recording:

Date

601	 31	Raw materials Raw materials and supplies **(stock exit receipt no...)**	xx	 xx

Note : : If Other supplies are taking out with raw materials and supplies from warehouses and entering into the workshops for manufacturing or conversion, their accounting recording is as follows

Date

601 602	 31 32	Raw materials Other supplies Raw materials and supplies Other supplies (pakaging for exemple Account 326) **(stock exit receipt no...)**	xx xx	 xx xx

- **Second stage**: After a period of time, various products are taking out from the workshops and entering into the product stores waiting to be sold. These are recorded at their production cost as follows:

		Date		
351 355 358	 724	Intermediate Products Manufactured Products Remaining products Product stock variations **(stock entry receipt no...)**	x x x	 xxx

Example2: 1°) During the month of June 2018, an entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.

On 06/02/2018: Purchase on account raw materials 200,000 and packaging 30,000, all arrived on the same day.

On 06/08/2018: Taking out half of the raw materials and a third of the (previous) packaging from the warehouses and bringing them into the workshops for manufacturing.

On 06/15/2018 Obtained from manufacturing: finished products 100,000, intermediate products 40,000 and remaining products 20,000

On 06/20/2018: Suppliers depts have been paid by bank check.

The solution

		06/02/2018		
381 382 4456	 401	Stocked raw materials and supplies Stocked Other supplies deductible v.a.t Stocks and sevices suppliers, **(purchase Invoice no...)**	200 000 30 000 **43 700**	 273 700
		//		
31 326	 381 382	Raw materials and supplies Packaging (or damaged pakaging) Stocked raw materials and supplies Stocked Other supplies **(stock entry receipt no...)**	300 000	 300 000
		06/08/2018		
601 602	 31 326	Raw materials Other supplies Raw materials and supplies Packaging (or damaged pakaging) **(stock exit receipt no...)**	150 000 10 000	 150 000 10 000
		06/15/2018		
351 355 358	 724	Intermediate Products Manufactured Products Remaining products Product stock variations **(stock entry receipt no...)**	40 000 100 000 20 000	 160 000

		06/20/2018		
401		Stocks and sevices suppliers,	273 700	
	512	Bank or cashbox		273 700
		(Check no... …)		

6- Accounting for the seles process according to the permanent inventory method

The sale process is one of the current operations carried out by entities, whether commercial, industrial or service. It is represented in the sale of goods, the sale of various products, and the sell of works. The entities may also sell studies and provide other services such as transportation and rent. we try, in the following to clarify the accounting entry for each of the sales mentioned above.

6-1-Accounting registration for selling goods (or merchandises)

The business entity sells the goods witch has purchased without any change to them. The accounting treatment of the sale process goes through two stages if the sale is in cash or check, and in three stages if the sale is on account, namely:

Delivering the sales invoice for the goods

- **First stage: Delivring the sell invoice for the goods**: it expresses the transfer of ownership of the goods from the suppliers to the customers, this is done at the selling price and is recorded as follows:

		Date		
411		Customers	xxx	
	4457	collected v.a.t		x
	700	salled goods,		xx
		(Merchandise sale Invoice no...)		

- **Second stage : Delivring The goods to the customers** after taking out them from the warehouses. This is done at the purchase cost and is recorded as follows:

		Date		
600		Purchase of salled goods,	xx	
	30	merchandise stocks		xx
		(Merchandise receipt no...)		

Note : : If Packaging (or damaged pakaging) are consomed while delivring goods to the customers , the accounting recording will be as follows :

		Date		
600 602	 30 326	Raw materials Other supplies Raw materials and supplies Packaging (or damaged packaging) **(stock exit receipt no...)**	xx xx	 xx xx

➢ **Third stage : Collecting sell amounts from customers**. this is done by recording:

		Date		
512 or 53	 411	Bank or cashbox Customers **(Check no... or cashbox receipt no…)**	xx	 xx

Example 3:

1°)During the month of July 2018, an entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.

On 07/04/2018: Goods purchased for 100,000 DZD were sold on account with a profit margin of 25%, delivered on the same day.

On 07/20/2018: Goods were sold for 260,000 DZD on account, bearing in mind that these goods were sold with a profit margin of 30% on the purchase price, and the goods were delivered the next day with damaged packaging consumption of 20,000 DZD.

On 07/29/2018: the sales amount for the month of April 2018 was collected from customers by bank check

2°) Find the result achieved from these operations for the month of July 2018.

		07/04/2018		
411	 4457 700	Customers collected v.a.t sales of merchandise **(Merchandise sale Invoice no...)**	148 750	 23 750 125 000
		//		
600	 30	Purchase of sold merchandise merchandise stocks **(Merchandise receipt no...)**	100 000	 100 000

		07/02/2018		
411		Customers	309 400	
	4457	collected v.a.t		49 400
	700	sales of merchandise		260 000
		(Merchandise sale Invoice no...)		
		//		
600		Purchase of sold merchandise	200 000	
602		Other supplies	20 000	
	30	Raw materials and supplies		200 000
	326	Packaging (or damaged packaging)		20 000
		(stock exit receipt no...)		
		07/29/2018		
512		Bank	458 150	
	411	Customers		458 150
		(Check no... or cashbox receipt no…)		

Result = revenue - costs

Result =(All credit amounts recorded in account 7 or 6) - (All debit amounts recorded in account 6 or 7)

Result = (125 000 + 260 000) - (100 000 + 200 000 + 20 000) = 65 000

6-2-Accounting registration for selling various products

The production entity sells the various products it has produced. The accounting treatment of the sale process goes through two stages (preparation and delivery of the invoice and then delivery of the products) in addition to the stage of collecting the sales amounts from customers if the sale was made on account.

First stage: Editing and delivering the invoice to the customer, which expresses the transfer of ownership of the products from the supplier to the customer. This is done at the selling price and is recorded as follows:

		Date		
411		Customers	xxxx	
	4457	collected v.a.t		x
	701	sale of finished products		x
	702	sale of intermediate products		x
	703	sale of residual products		x
		(The various products sale invoice no...)		

- **Second stage : Delivring The various products to the customers** after taking out them from the warehouses. This is done at the product cost and is recorded as follows:

		Date		
724		Product stock variations	xxx	
	351	Intermediate Products		x
	355	Manufactured Products		x
	358	Remaining products		x
		(stock exit receipt no...)		

- **Third stage : Collecting sell amounts from customers** if the sale was made on account. This is done by recording:

		Date		
512 or 53		Bank or cashbox	xxxx	
	411	Customers		xxxx
		(Check no... or cashbox receipt no…)		

Example 4: (Continued with Example 2)

On 06/22/2018: All products obtained from the manufacturing process were sold on account with profit margins of 40%, 25% and 15%, respectively, and delivered on the same day to the customer.

On 06/30/2018: The sales amount was received in cash from the customer.

Solution :

		06/22/2018		
411		Customers	253 470	
	4457	collected v.a.t		40 470
	701	sale of Manufactured products (100000 × 1.4)		140 000
	702	sale of intermediate products (40000 × 1.25)		50 000
	703	sale of residual products (20000 × 1.15)		23 000
		(The various products sale invoice no...)		
		//		
724		Product stock variations	160 000	
	351	Intermediate Products		40 000
	355	Manufactured Products		100 000
	358	Remaining products		20 000
		(stock exit receipt no...)		
		06/30/2018		
53		cashbox	253 470	
	411	Customers		253 470
		(Cashbox receipt no…)		

6-3-Other operations for sale in service entities (sale of works, studies and performance of services)

The service entity whose main activity is to provide services to others in the form of:

- Public works .... and are recorded in account A/704 “sales of works”
- Engineering studies....... and are recorded in account A/705 "Studies Sales"
- Provision of other services such as rent or transportation ..... and are recorded in account 706 "Provision of other services".

➢ **When selling works** (preparing a building, for example..), the accounting registration is as follows:

		Date		
411		Customers	xxx	
	4457	collected v.a.t		x
	704	sales of works		xx
		(sales of works Invoice no...)		

➢ **When selling studies** (engineering studies, for example..), the accounting registration is as follows:

		Date		
411		Customers	xxx	
	4457	collected v.a.t		x
	705	Studies sales		xx
		(Studies sales Invoice no...)		

➢ **When providing services** (transportation or rent, for example..), the accounting registration is as follows:

		Date		
411		Customers	xxx	
	4457	collected v.a.t		x
	706	Provision of other services		xx
		(Services Invoice no...)		

7-Inventory accounting according to the final inventory method

7-1-Inventory accounting according to the final inventory method in a commercial entity

The principle of the method: It is represented in evaluating the final inventory at the end of the accounting period, after doing the inventory outside accounting (physical inventory). As for during the period, the various inventory accounts (A30, A32) do not record any movement in them, and the only registration that is done during the period is the registration of purchase invoices of goods and purchase invoices of other supplies.

7-1-1- Accounting registration during the period

Upon receipt of any purchase invoice, the following shall be recorded:

		During the year		
38x 4456	 401	Stocked merchandises or Stocked other supplies deductible v.a.t Stocks and sevices suppliers, **(purchase Invoice no...)**	xx **x**	 xxx

7-1-2- Accounting registration at the end of the period

At the end of the accounting period and after conducting an inventory outside accounting, the following three stages are recorded:

- The stage of canceling the balances of the beginning of the period related to the existing stocks (Account 30 or account 32), by recording:

		12/31/N		
603x	 3x	Inventory changes merchandise stocks or Other supplies **(Cancellation of beginning stock balances)**	S_1	 S_1

- The stage of recording stocks at the end of the period obtained after conducting the inventory outside accounting, by recording:

		12/31/N		
3x	 603x	merchandise stocks or Other supplies Inventory changes **(Recording physical inventory stocks outside accounting)**	S_2	 S_2

- **Account balance stage 38 Stored purchases** This is done with the next entry :

		12/31/N		
603x	 38x	Inventory changes Stocked merchandises or Stocked other supplies **(Balance 38 Account: Stored purchases)**	xx	 xx

Example 01

A commercial entity applying the final inventory method. During the year 2018, it purchased goods for 2,955,000 DA outside tax and other supplies for 30,000 DA outside tax.(v.a.t rate 19 %)

At the end of the year, after doing the inventory outside the accounting, you get the following information:

Statement	goods	Other supplies
Beginning stock	496 000	15 850
Ending stock (after inventory outside accounting)	1 090 000	10 988

Required:

1)The accounting registration that the entity must make during and then at the end of 2018. (v.a.t rate 19 %)

2) find this year's consumption of goods and other supplies.

Solution

1)The accounting registration during and then at the end of 2018:

		During 2018		
380 382 4456	 401	Stocked merchandises Stocked other supplies deductible v.a.t Stocks and sevices suppliers, **(purchase Invoices...)**	2955000 30000 **567150**	 3552150
		12/31/2018		
6030 6032	 30 32	Inventory changes of goods Inventory changes of other supplies merchandise stocks Other supplies **(Cancellation of beginning stock balances)**	496000 15850	 496000 15850
		12/31/2018		
30 32	 6030 6032	merchandise stocks Other supplies Inventory changes of goods Inventory changes of other supplies **(physical inventory stocks outside accounting)**	1090000 10988	 1090000 10988
		12/31/2018		
6030 6032	 380 382	Inventory changes Stocked merchandises Stocked merchandises Stocked other supplies **(Balance 380 account and 382 account)**	2955000 30000	 2955000 30000

2) consumption of goods and other supplies of the year 2018

Debit A/6030	Credit
496000	10900000
2955000	2361000 d.a
3451000	3451000

Debit A/6032	Credit
15850	10988
30000	34862 d.a
45850	45850

consumption of goods = 2361000   consumption of other supplies = 34862

7-2-Inventory accounting according to the final inventory method in a productive enterprise

The principle of the method: It is represented in evaluating the final inventory at the end of the accounting period, after carrying out the inventory outside accounting(physical inventory). As for during the period, the various inventory accounts (A31, A32, A35...) do not record any movement in them, and the only registration that is done during the period is the registration of purchase invoices of raw materials and supplies and purchase invoices of other supplies.

7-2-1- Accounting registration during the period

Upon receipt of any purchase invoice, the following shall be recorded:

During the year

38x 4456	 401	Stocked raw materials and supplies or Stocked other supplies deductible v.a.t Stocks and sevices suppliers, **(purchase Invoice no...)**	xx x	 xxx

7-2-2- Accounting registration at the end of the period

At the end of the accounting period and after conducting an inventory outside accounting, the following **three stages** are recorded:

- The stage of canceling the balances of the beginning of the period related to the existing stocks (Account 31 or account 32) by recording:

12/31/N

603x	 3x	Inventory changes raw materials and supplies or Other supplies **(Cancellation of beginning stock balances)**	S_1	 S_1

- The stage of recording stocks at the end of the period obtained after conducting the inventory outside accounting, by recording:

		12/31/N		
3x		raw materials and supplies or Other supplies	S_2	
	603x	Inventory changes		S_2
		(Recording physical inventory stocks outside accounting)		

- **Account balance stage 38 Stored purchases** This is done with the next entry :

		12/31/N		
603x		Inventory changes	xx	
	38x	Stocked raw materials and supplies or Stocked other supplies		xx
		(Balance 38 Account: Stored purchases)		

7-2-3- Accounting registration of manufactured products

At the end of the period and after conducting the inventory outside accounting, the following stages should be followed

- The stage of canceling the balances of the beginning of the period related to the existing stocks (Account (35) by recording:

		12/31/N		
724		Stock changes of products	S_1	
	35	stocks de produits		S_1
		(Cancellation of beginning stock balances)		

- The stage of recording stocks at the end of the period obtained after conducting the inventory outside accounting, by recording:

		12/31/N		
35		stocks de produits	S_2	
	724	Stock changes of products		S_2
		(Recording physical inventory stocks outside accounting)		

Example 2

A production entity provided you with the following information related to inventories during the year 2019

Statement	raw materials	Other supplies	products
Beginning stock	950 000	196 000	1 385 000
Ending stock (after inventory outside accounting)	263 000	127 000	1 156 000
period purchases	1 500 000	388 000	/

Required:

1)The accounting registration that the entity must make during and then at the end of 2019. (v.a.t rate 19 %)

2) find this year's consumption of raw materiels and other supplies.

Solution

1)The accounting registration during and then at the end of 2019:

		During 2019		
381 382 4456	 401	Stocked raw materials and supplies Stocked other supplies deductible v.a.t Stocks and sevices suppliers, **(purchase Invoices...)**	1500000 388000 658720	 2246720
		12/31/2019		
6031 6032	 31 32	Inventory changes of raw materiels Inventory changes of other supplies raw materials and supplies Other supplies **(Cancellation of beginning stock balances)**	950000 196000	 950000 196000
		12/31/2019		
31 32	 6031 6032	raw materials and supplies Other supplies Inventory changes of raw materiels Inventory changes of other supplies **(physical inventory stocks outside accounting)**	263000 127000	 263000 127000
		12/31/2019		
6031 6032	 381 382	Inventory changes of raw materiels Stocked merchandises Stocked merchandises Stocked other supplies **(Balance 380 account and 382 account)**	1500000 388000	 1500000 388000
		12/31/2019		
724	 35	Stock changes of products stocks de produits **(Cancellation of beginning stock balances)**	1385000	 1385000
		12/31/2019		
35	 724	stocks de produits Stock changes of products **(Recording physical inventory stocks outside accounting)**	1156000	 1156000

2) consumption of raw materiels and other supplies of the year 2019

Debit A/6031	Credit
950000	263000
1500000	2187000 d.a
2450000	2450000

Debit A/6032	Credit
196000	127000
388000	457000 d.a
584000	584000

consumption of raw materiels = 2187000 DZD

consumption of other supplies = 457000 DZD.

Solved Exercises: Inventory Accounting

Exercise 01

1°) During the month of April 2018, a commercial entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.

On 04/02/2018: Goods purchased for 300 000 DZD on account arrived on the same day.

On 04/03/2018: Bought damaged packaging for 40 000 DA in cash, arrived on the same day

On 04/30/2018: All dues of inventory suppliers for the month of April 2018 have been paid, by bank check.

On 05/08/2018: Goods purchased for 100,000 DZD were sold on account with a profit margin of 25%, delivered on the same day.

On 05/20/2018: Goods were sold for 260,000 DZD on account, bearing in mind that these goods were sold with a profit margin of 30% on the purchase price, and the goods were delivered the next day with damaged packaging consumption of 20,000 DZD.

On 05/29/2018: the sales amount for the month of April 2018 was collected from customers by bank check

2°) Find the result achieved from these operations for the month of July 2018.

Exercise 02

During the month of June 2018, a production entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.

On 06/02/2018: Purchase on account raw materials 200,000 and packaging 30,000, all arrived on the same day.

On 06/08/2018: Taking out half of the raw materials and a third of the (previous) packaging from the warehouses and bringing them into the workshops for manufacturing.
On 06/15/2018 Obtained from manufacturing: finished products 100,000, intermediate products 40,000 and remaining products 20,000
On 06/20/2018: Suppliers depts have been paid by bank check.
On 06/22/2018: All products obtained from the manufacturing process were sold on account with profit margins of 40%, 25% and 15%, respectively, and delivered on the same day to the customer.
On 06/30/2018: The sales amount was received in cash from the customer.

The solution

solution of exercise 01

1°) During the month of April 2018, a commercial entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.
On 04/02/2018: Goods purchased for 300 000 DZD on account arrived on the same day.
On 04/03/2018: Bought damaged packaging for 40 000 DA in cash, arrived on the same day
On 04/30/2018: All dues of inventory suppliers for the month of April 2018 have been paid, by bank check.
On 05/08/2018: Goods purchased for 100,000 DZD were sold on account with a profit margin of 25%, delivered on the same day.
On 05/20/2018: Goods were sold for 260,000 DZD on account, bearing in mind that these goods were sold with a profit margin of 30% on the purchase price, and the goods were delivered the next day with damaged packaging consumption of 20,000 DZD.
On 05/29/2018: the sales amount for the month of April 2018 was collected from customers by bank check.

04/02/2018

380 4456	 401	Stocked merchandises deductible v.a.t Stocks and sevices suppliers, **(Merchandise purchase Invoice no...)**	300 000 **57 000**	 357 000

		//		
30	380	merchandise stocks Stocked merchandises **(Merchandise receipt no...)**	300 000	300 000
		04/03/2018		
382 4456	53	Stocked Other Supplies deductible v.a.t Cashbox **(Other supplies purchase Invoice no...)**	40 000 **7 600**	47 600
		//		
32	382	Other supplies Stocked Other supplies **(Other Supplies receipt no...)**	40 000	40 000
		04/30/2018		
401	512	Stocks and sevices suppliers, Bank or cashbox **(Check no... …)**	357 000	357 000
		05/08/2018		
411	4457 700	Customers collected v.a.t salled goods, **(Merchandise sale Invoice no...)**	148 750	23 750 125 000
		//		
600	30	Purchase of sold merchandise merchandise stocks **(Merchandise receipt no...)**	100 000	100 000
		05/20/2018		
411	4457 700	Customers collected v.a.t sale of merchandise **(Merchandise sale Invoice no...)**	309 400	49 400 260 000
		//		
600 602	30 326	Purchase of sold merchandise Other supplies merchandise stocks Packaging (or damaged packaging) **(stock exit receipt no...)**	200 000 20 000	200 000 20 000
		05/29/2018		
512	411	Bank Customers **(Check no... or cashbox receipt no…)**	458 150	458 150

2°) The result achieved from these operations for the month of July 2018.

Result = revenue - costs

Result =(All credit amounts recorded in account 7 or 6) - (All debit amounts recorded in account 6 or 7)

Result = (125 000 + 260 000) - (100 000 + 200 000 + 20 000) = 65 000

solution of exercise 02

During the month of June 2018, a production entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.

On 06/02/2018: Purchase on account raw materials 200,000 and packaging 30,000, all arrived on the same day.

On 06/08/2018: Taking out half of the raw materials and a third of the (previous) packaging from the warehouses and bringing them into the workshops for manufacturing.

On 06/15/2018 Obtained from manufacturing: finished products 100,000, intermediate products 40,000 and remaining products 20,000

On 06/20/2018: Suppliers depts have been paid by bank check.

On 06/22/2018: All products obtained from the manufacturing process were sold on account with profit margins of 40%, 25% and 15%, respectively, and delivered on the same day to the customer.

On 06/30/2018: The sales amount was received in cash from the customer.

		06/02/2018		
381 382 4456	 401	Stocked raw materials and supplies Stocked Other supplies deductible v.a.t Stocks and sevices suppliers, **(purchase Invoice no...)**	200 000 30 000 **43 700**	 273 700
		//		
31 326	 381 382	Raw materials and supplies Packaging (or damaged pakaging) Stocked raw materials and supplies Stocked Other supplies **(stock entry receipt no...)**	300 000	 300 000
		06/08/2018		
601 602	 31 326	Raw materials Other supplies Raw materials and supplies Packaging (or damaged pakaging) **(stock exit receipt no...)**	150 000 10 000	 150 000 10 000

		06/15/2018		
351 355 358	724	Intermediate Products Manufactured Products Remaining products Product stock variations **(stock entry receipt no...)**	40 000 100 000 20 000	160 000
		06/20/2018		
401	512	Stocks and sevices suppliers, Bank or cashbox **(Check no... …)**	273 700	273 700
		06/22/2018		
411	4457 701 702 703	Customers collected v.a.t sale of Manufactured products (100000 × 1.4) sale of intermediate products (40000 × 1.25) sale of residual products (20000 × 1.15) **(The various products sale invoice no...)**	253 470	40 470 140 000 50 000 23 000
		//		
724	351 355 358	Product stock variations Intermediate Products Manufactured Products Remaining products **(stock exit receipt no...)**	160 000	40 000 100 000 20 000
		06/30/2018		
53	411	cashbox Customers **(Cashbox receipt no…)**	253 470	253 470

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