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SIMON KUZNETS KHARKIV NATIONAL UNIVERSITY OF ECONOMICS

ACCOUNTING AND REPORTING

Guidelines for independent training

for Bachelor's (first) degree students
of speciality 292 "International Economic Relations"

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S. Kuznets KhNUE
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The tasks are given with a view to testing the knowledge and acquiring skills in practical work with special literature, mastering and deepening the experience in solving problems on the academic discipline.

For students mastering the Bachelor's degree educational programme "International Business".

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Introduction

Reporting is the final stage of the accounting process at the enterprise and is made on the basis of financial accounting information data in order to meet the needs of internal and external users for making managerial decisions. Accounting serves as a tool for identifying, measuring and communicating economic information to help the information users make informed judgments and decisions.

Financial reporting is a process of preparation and submission of the financial statements that contain information about the financial position, results of operations, cash flows and equity of the enterprise during the reporting period.

Therefore, it is impossible to overestimate the value of complete and reliable information about the financial state and performance of the enterprise in the process of solving current and future economic problems.

Based on the accounting data as a system of continuous and documentary business processes, an orderly generalization of information about the state of property and obligations of the enterprise, the reporting shows and makes it possible to evaluate the performance, predict the areas of raising the efficiency and promotes the development and making necessary management decisions.

The academic discipline "Accounting and Reporting" is a professional compulsory discipline, which is taught in accordance with the curriculum for Bachelor's degree managers.

The purpose of the tasks is to deepen the knowledge of the methodological fundamentals of organizing and conducting the accounting, acquire the ability to keep records of complex business transactions. These tasks cover classification of assets, stockholders' equities and liabilities, balance sheet preparation, keeping records of business transactions with assets, liabilities and stockholders' equity, recognition of income and expenses, as well as evaluation of the financial results of enterprises.

These guidelines for practical training conform to the syllabus of the academic discipline "Accounting and Reporting". While performing the tasks for practical training one should keep in mind that these tasks are based on conventional data and have no direct connection with the actual facts of economic activity of specific companies; any match with real entities is random.

Module 1. The fundamentals of accounting

Theme 1. Accounting, its essence and principles of organization

Accounting information about specific entities helps satisfy the needs of all these interested parties. The diversity of interested parties leads to a logical division in the discipline of accounting: financial accounting and managerial accounting.

Financial accounting is targeted toward a broad base of external users, none of whom control the actual preparation of reports or have access to underlying details. Their ability to understand and have confidence in reports is directly dependent upon standardization of the principles and practices that are used to prepare the reports.

Managerial accounting information is intended to serve the specific needs of management. Business managers are in charge of business planning, controlling, and decision making. As such, they may require specialized reports, budgets, product costing data, and other details that are generally not reported on an external basis. Further, management may dictate the parameters under which such information is to be accumulated and presented. For instance, the National Standards of Accounting in Ukraine (NSAU) may require that certain product development costs be deducted in computing income; on the other hand, management may see these costs as a long-term investment and stipulate that internal decision making be based upon income numbers that exclude such costs. This is their prerogative. Hopefully, internal reporting is being done logically and rationally, but there is no need to follow any particular set of mandatory guidelines.

Both financial accounting and managerial accounting depend upon a strong information system to reliably collect and summarize business transaction data.

Task 1.1

Fill in the gaps with the appropriate words.

1. The accounting information specifically prepared to aid managers is called … information.

2. … is the process to ensure that employees perform properly.

3. The highest level management accountant is called the …

4. Financial accounting has a … structure.

5. … accounting provides data both for financial accounting and management accounting.

6. Historical costs are used in … accounting.

Task 1.2

Give a definition of each accounting assumption or principle, given below:

1. While determining the financial results comparability of the revenues and the expenses, incurred to obtain such revenues, must be achieved.

2. Accounting information should be presented for specific and distinct reporting units.

3. Assets or income should not be overstated and costs or obligation should not be understated.

4. The fiscal year should be divided into specific measurement intervals.

5. Transactions and other events should be accounted for and disclosed in accordance with their content, not only on the basis of their form.

6. Methods of accounting must be applied permanently.

7. Assets should be valued based on the costs of their production and acquisition.

8. The valuation of assets and liabilities of the enterprise is based on the suggestion that its work will continue in a boundless future.

9. Accounting measures transactions and events in the units of money.

10. All business transactions should be reflected in accounts without any exception.

11. Revenues and expenses should be accounted at the time of their appearance.

Task 1.3

Select an appropriate response to the questions listed below. Give a clear explanation of each case.

1. Which of the following branches of accounting is concerned primarily with external reporting or communicating the results of economic activities to the parties outside the firm?

A. Management accounting.

B. Financial accounting.

2. Which of the following statements about differences between financial and managerial accounting is incorrect?

A. Managerial accounting information is prepared primarily for external parties such as stockholders and creditors; financial accounting is designed for internal users.

B. Financial accounting is aggregated; managerial accounting is focused on products and departments.

C. Managerial accounting pertains to both past and future items; financial accounting focuses primarily on past transactions and events.

D. Financial accounting is based on generally accepted accounting practices; managerial accounting faces no similar constraining factors.

3. Which of the following words DOES NOT describe the main focus of management accounting?

A. Planning.

B. Internal control.

C. External control.

D. Decision-making.

4. CIMA defines management accounting as: "the application of the principles of accounting and financial management to create, protect, preserve and increase value for the … of for-profit and not-for profit enterprises in the public and private sectors".

A. Auditors.

B. Stakeholders.

C. Owners.

5. Which of the following statements are true?

1. The main role of the management accountant is to produce financial accounts.

2. Management accountants always work within the finance function.

3. Management accountants always work in partnership with business managers.

A. 1 and 2 only.

B. 2 and 3 only.

C. 1 and 3 only.

D. None of the above.

6. Which of the following words complete the statement below?

… accounts are prepared for external stakeholders. Management accounts are prepared for … stakeholders.

A. Shadow, internal.

B. Financial, internal.

C. Financial, external.

D. Internal, budget.

7. Cost accounting information can be used for:

A. Budget control and evaluation.

B. Determining standard costs and variances.

C. Pricing and inventory valuation decisions.

D. All of these.

8. Which of these decisions is (are) likely to require the knowledge of financial accounting?

A. Selection of bank loans.

B. Selection of commercial advertising.

C. Selection of the terms of payments.

D. Selection of the equipment service life.

9. Trade accounts receivable:

A. arise from the sale of a company's products.

B. are reported in the noncurrent asset section of the balance sheet.

C. include deposits with utilities.

D. generally comprise the minority of the total receivables balance.

10. In general, accountants measure income using an approach based on:

A. transactions;

B. economics.

11. Which concept holds that an organization's life can be divided into discrete accounting periods (months, quarters, years)?

A. transactions approach;

B. periodicity assumption.

12. The periodicity assumption seems practical and logical; however, it introduces allocation problems when dividing the life of a company into specific units of time.

A. True.

B. False.

13. Under the accrual basis of accounting, revenue should be recognized at the time services are rendered or when goods are sold and delivered to a customer.

A. Right.

B. Wrong.

14. Business expenses should be recognized in the same period as the revenues they helped to produce. This concept is known as the:

A. matching principle;

B. cash basis of accounting.

15. Revenues and expenses that gradually accumulate throughout an accounting period are known as:

A. accruals;

B. deferrals.

Task 1.4

Choose the appropriate response for each statement given in Table 1.1.

Table 1.1

The main features of accounting

Statement	True	False
1. It is optional for a company to have financial accounting		
2. Generally accepted accounting principles constitute the basis for the preparation of management accounting reports in Ukraine		
3. Like financial accounting, management accounting is also concerned only with information which is amenable to being expressed in monetary terms		
4. Management accounting lacks a single unified structure		
5. Financial accounting is tailored to the specific needs of the management		
6. Management accounting caters to internal requirements of the management		
7. Financial accounting lays more emphasis on the future		
8. Management accounting reports are public documents		

Task 1.5

Complete the balance sheet for the beginning of the referenced period based on the information about the ABC company given in Appendix A. The balance sheet form is presented in Appendix C.

Theme 2. The subject and the method of accounting. The forms of accounting

It is imperative that a business develop a reliable accounting system to capture and summarize its voluminous transaction data. The system must be sufficient to fuel the preparation of the financial statements, and be capable of maintaining retrievable documentation for each and every transaction. In other words, some transaction logging process must be in place.

In general terms, an accounting system is a system where transactions and events are reliably processed and summarized into useful financial statements and reports. Whether this system is manual or automated, the heart of the system will contain the basic processing tools: accounts, debits and credits, journals, and the general ledger.

The records that are kept for the individual asset, liability, equity, revenue, expense, and dividend components are known as accounts. In other words, a business would maintain an account for cash, another account for inventory, and so forth for every other financial statement element. All accounts, collectively, are said to comprise a firms general ledger.

A recordable transaction will be evidenced by a source document. A disbursement will be supported by the issuance of a check. A sale might be supported by an invoice issued to a customer. A time report may support payroll costs. A tax statement may document the amount paid for taxes. A cash register tape may show cash sales. A bank deposit slip may show collections of customer receivables. There are many potential source documents, and this is just a small sample. Source documents usually serve as the trigger for initiating the recording of a transaction. The source documents are analyzed to determine the nature of a transaction and what accounts are impacted. Source documents should be retained (perhaps in electronic form) as an important part of the records supporting the various debits and credits that are entered into the accounting records.

A properly designed accounting system will have controls to make sure that all transactions are fully captured. It would not do for transactions to slip through the cracks and go unrecorded. There are many such safeguards that can be put in place, including use of prenumbered documents and regular reconciliations. For example, an individual might maintain a checkbook for recording cash disbursements. A monthly reconciliation should be performed to make sure that the checkbook accounting system has correctly reflected all disbursements. A business must engage in similar activities to make sure that all transactions and events are recorded correctly. Good controls are essential to business success. Much of the work performed by a professional accountant relates to the design, implementation, and evaluation of properly functioning control systems.

The balance of a specific account can be determined by considering its beginning (of period) balance, and then netting or offsetting all of the additional debits and credits to that account during the period.

Revenue and expense generating activities are in constant motion. A periodicity assumption is made that business activity can be divided into measurement intervals, such as months, quarters, and years. Accounting must divide the continuous business process, and produce periodic reports. An annual reporting period may follow the calendar year. Annual periods are usually further divided into quarterly periods.

Task 2

Submit decision sheets (Appendix B) for four subsequent quarters.

Pay attention to the fact that in the third and fourth quarters suppliers changed prices for plastic and wood (Table 2.1).

Table 2.1

Raw material purchasing conditions as per suppliers

Raw material	Supplier	Unit price, inc. VAT	
		3rd quarter	4th quarter
Plastic	P1	€6 900.00 / ton	€8 900.00 / ton
	P2	€7 000.00 / ton	€9 100.00 / ton
	P3	€7 200.00 / ton	€9 360.00 / ton
Wood	W1	€2 400.00 / m³	€3 120.00 / m³
	W2	€2 500.00 / m³	€3 250.00 / m³
	W3	€2 800.00 / m³	€3 500.00 / m³

Starting from June 30, all companies are VAT-payers and income tax-payers. In case of untrue tax liability calculations, the State Tax Agency accrues fines in the amount of 50 % of the tax liability. All companies are allowed to change accounting policy and the top managers team members, starting from June 30.

Theme 3. Accounting of business transactions

Accounting information is general purpose and should be designed to serve the information needs of all types of interested parties. To be useful, information should be helpful in assessing an entity's economic resources, claims against resources, and what causes changes in resources and claims. Such assessments are generally benefited by accrual accounting, coupled with consideration of cash flows. Care must be taken to differentiate between resource changes resulting from economic performance and other factors.

The economic activity of the company consists of separate processes (logistical support, production and services, implementation, etc.) that occur with certain resources of the enterprise (fixed assets, material resources). In turn, these processes are composed of individual business transactions, the basic content of which is the change in assets and liabilities of the company and change in their type.

Inventory for a merchandising business consists of the goods available for resale to customers. Manufacturers also have inventories related to the goods they produce. Goods completed and awaiting sale are termed finished goods inventory. A manufacturer may also have work in process inventory consisting of goods being manufactured but not yet completed. And, a third category of inventory is raw material, consisting of goods to be used in the manufacture of products.

Receivables arise from a variety of trade and nontrade sources. Trade receivables relate to sales of goods and services on account. Among the costs and benefits of selling on account is the risk of uncollectible accounts.

If not material in amount, a business might use the direct write-off method, wherein accounts are charged against income in the period finally deemed uncollectible. However, a better matching of revenues and expenses is achieved with an allowance method, wherein an estimated amount of expense attributed to all sales is recorded each period.

A receivable may be evidenced by a formal instrument called a note. Notes receivable often bear interest. Interest may be calculated by multiplying the principal of the note by the interest rate, times the number of periods. Accountants must be especially careful to accrue interest on notes at the end of each period.

Task 3.1

Use the information of the submitted decision sheets to be completed at the end of each quarter: a statement of the cost of goods manufactured; a statement of the cost of goods sold; an income statement.

The ABC company
statement of raw materials
for the quarter ending _____________

Beginning raw materials inventory.
Plus: Raw materials purchased.
Raw materials available.
Less: Ending raw materials inventory.
<u>Raw materials transferred to the work in process.</u>

The ABC company
statement of work in process
for the quarter ending _____________

Beginning work in process inventory.
Plus: direct materials;
direct labor;
factory overheads.
Total manufacturing costs.
Ending work in process inventory.
<u>Cost of goods manufactured</u>.

The ABC company
statement of cost of goods sold
for the quarter ending _____________

Beginning finished goods inventory.
Plus: Cost of goods manufactured.
Cost of goods available for sale.
Less: Ending finished goods inventory.
<u>Cost of goods sold.</u>

Task 3.2

Prepare the summary journal entries (Table 3.1) for business transactions caused by the submitted decision sheets for four subsequent quarters.

Table 3.1

The general journal

The content of the transactions	Debit	Credit	The amount
1. Issued capital stock			
2. Invested cash in exchange for stock			
3. Received long-term loan from the bank			
4. Accrued interest expenses			
5. Paid off interest expenses			
6. Accrued depreciation expenses			
7. Accrued wages for main employees			
8. Paid off wages			
9. Purchased raw materials on account			
10. Used raw materials in production process			
11. Paid for purchased raw materials			
12. Accrued utility expenses			
13. Paid for utilities			
14. Determined the cost of produced goods			
15. Accrued revenues			
16. Collected payment on accounts			
17. To close the expenses accounts to Income Summary			
18. To close the revenue account to Income Summary			
19. Accrued income tax			
20. To close the income tax expenses account to Income Summary			
21. To close Income Summary to Retained Earnings			

Module 2. The methodology and technology of reporting

Theme 4. Statements and their types

The accounting report at the enterprises is carried out on a daily basis, but in order to summarize the activities for a certain period, the current accounting data should be systematized and summarized. This is achieved through reporting. Reporting is a system of summary indicators characterizing the activities of an enterprise for a certain period. Reporting is the final stage of the entire accounting process.

Accounting statements are statements that are prepared on the basis of this accounting to meet the needs of certain users. Financial statements are statements containing information about the financial condition, performance and cash flows of the company for the reporting period.

The purpose of the financial statements is to provide users with complete, truthful and unbiased information about the financial condition and cash flow of the enterprise.

Financial statements consist of a balance sheet, a statement of financial performance, a statement of cash flows, a report on equity and notes to the statements.

The information that is presented in the financial statements must be intelligible and designed to be unambiguously interpreted by the user, provided that they have sufficient knowledge and are interested in the perception of this information. Financial statements should contain only relevant information that influences the users' decision-making, makes it possible to promptly evaluate past, present and future events, confirm and adjust their estimates made in the past.

The information given in the financial statements is reliable if it does not contain errors and distortions that can influence the decision of the users of the statements. Reporting should allow users to compare:

financial statements of the company for different periods;

financial statements of different enterprises.

Task 4

Prepare the turnover balance sheets (Appendix D) as of the end of the referenced periods, based on the submitted general journals.

Theme 5. Formation of financial statements

The accounting profession uses an "all inclusive" approach to measuring income. Virtually all transactions, other than shareholder related transactions like issuing stock and paying dividends, are eventually channeled through the income statement. However, there are certain situations where the accounting rules have evolved in sophistication to provide special disclosures. The reason for the added disclosure is to make it easier for users of financial statements to sort out the effects that are related to ongoing operations versus those that are somehow unique.

Errors consist of mathematical mistakes, incorrect reporting, omissions, oversights, and other things that were simply handled wrong in a previous accounting period. Once an error is discovered, it must be corrected.

A company may adopt an alternative accounting principle. Such accounting changes relate to changes from one acceptable method to another. For instance, a company may conclude that it wishes to adopt FIFO instead of average cost. Such changes should only occur for good cause (not just to improve income), and flip-flopping is not permitted. When a change is made, the company must make retrospective adjustment. This means that the financial statements of prior accounting periods should be reworked as if the new principle had always been used.

Disclosures that must accompany a change in accounting principle are extensive. Notes must indicate why the newly adopted method is preferable. In addition, a substantial presentation is required showing amounts that were previously presented versus the newly derived numbers, with a clear delineation of all changes. And, the cumulative effect of the change that relates to all years prior to the earliest financial data presented must be disclosed.

Task 5

Prepare statements at the end of the referenced periods (Appendix C) according to the National Standards of Accounting of Ukraine based on the information about the ABC company given in Appendix A, the submitted decision sheets and the general journals for four quarters.

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Appendices

Appendix A

Business transactions of the ABC company

The ABC company is a limited liability company with a capital of €3 000 000.00 invested by cash and fixed assets. Your company is in competition with other similar companies, which initially all have an industrial activity based on the production and commercialization of product hulls for fishing, sailing or yachting products.

The production is limited to the hulls, the fitting in plastic and wood finishing. The product hulls are commercialized for retailers.

Today, certain companies have kept the two activities: production and commercialization with their retailers. The retailers equip the products with either an outboard motor or a mast for sailing, and complete the outfitting in order thus to sell the finished product, most often to the general public, less often to communities, companies, etc.

Certain companies can totally or partially renounce selling the product hulls on the competitive retailer market. In this case, they conserve their production activity and become subcontracting companies for their former competitors.

Other companies can totally or partially abandon their production activity; they buy the product hulls from subcontractors and commercialize the products on the competitive retailer market.

Three types of products can be manufactured: product A, product B, product C from two raw materials: plastic and wood, processed in two totally automated workshops: molding and finishing.

Different supplies (screws, nuts, bolts, rivets, products for treating wood), used in very small quantities, cost very little and are included in the cost paid for wood. Raw materials can be bought from specialized suppliers or eventually, to avoid stock out situations, from competitors or from the partners in the Business Center.

Raw materials, plastic and wood, proposed by different suppliers are of equivalent quality (hardness, durability, solidity, ease of use...). Three suppliers of plastic and three suppliers of wood propose the same raw material quality but with different payment terms and prices.

Procurement contracts are quarterly: a company can only change suppliers at the beginning of quarters, either: January, April, July or October.

The month's order is delivered the month following the order. So an order made in January is delivered in February, one made in February – in March and an order made in March is delivered in April the following quarter. According to the same principle, an order in December will be received in January.

Billing and the purchase accounting take place during the delivery month, that is to say one month after the order. Short payment terms are credited/debited as of the delivery month.

Table A.1

The raw material purchasing conditions at the beginning of the referenced period

Raw material	Supplier	Unit price	Payment term
Plastic	P1	€4 100.00 BT / ton	Cash
	P2	€4 200.00 BT / ton	in 1 month
	P3	€4 300.00 BT / ton	in 2 months
Wood	W1	€1 300.00 BT / m³	Cash
	W2	€1 450.00 BT / m³	in 1 month
	W3	€1 600.00 BT / m³	in 2 months

It is possible to buy (or sell) raw materials from competitors, or suppliers. The price is then freely negotiated between the purchaser and the person selling. The negotiations take place at the beginning of each quarter.

The entire order is delivered at the beginning of the 1st month of the quarter. Billing and the purchase accounting take place during the delivery month. In principle, stock entries are determined by the addition of the purchase price and additional purchasing fees. Here, notably because transport costs are ignored in an effort to simplify the simulation, stock entries are valued at the supplier purchase price. Outgoing stock is valued at the weighted average unit cost.

There is enough warehouse space to stock all raw materials. The physical stock inventory takes place at the end of each month, inventory differences are disclosed in Table A.2.

Table A.2

The final raw material stock at the beginning of the referenced period

Item	Plastic	Wood
Quantity	2.10 ton(s)	4.02 m^3
Unit cost	€4 200.00 / ton	€1 450.00 / m^3
Total	€8 820.00	€5 829.00

The production management is entirely assisted by computer. The production process is done by totally automated machines. The 1st phase takes place in the molding workshop: the automated machines mould the plastic hulls. The hulls thus constitute an in-process beta. The 2nd phase takes place in the finishing workshop: the finishing machines add to the in-process beta production, molded beforehand, the wood and other components. The products leaving this workshop are finished products. It is possible to stop or restart the production of one or several products in a quarter.

The measurement of the raw material and machine hour consumption; are presented in Tables A.3 and A.4.

Table A.3

Raw material consumption per product

Raw material	Product A	Product B	Product C
Plastic	0.25 ton	0.40 ton	0.80 ton
Wood	0.08 m^3	0.20 m^3	0.70 m^3

Each workshop is composed of automated machines which determine the workshop's monthly production capacity expressed in the number of machine work hours expressed in MWH.

Table A.4

Production capacity

Workshop	Number of machines	Monthly capacity / machine
Molding	4	180.00 MWH
Finishing	4	200.00 MWH

It is easy to acquire new automated production machines; the order is made at the beginning of the quarter. Acquisition price of new machines corresponds to the average price of the old machines on the basis of the elements in Table A.5. Their delivery and putting into operation is extremely rapid. The billing, purchase accounting and payment of the investment take place in the acquisition month.

These machines can be sold to a supplier at the beginning of each quarter. They will buy them back for a set price, most often at $\frac{1}{4}$ of their acquisition value, no matter its age. Considering the high-tech nature necessary for machine assembly operations, adjustment and dismantling, the machines cannot be sold between companies. Company follows the units-of-output depreciation method for machines and the straight-line depreciation method for other fixed assets the value of which follows.

Table A.5

Fixed assets at the beginning of the period

Item	Original cost, €	Net book value, €	Service life	Salvage value, €
Office building	550 000	250 000	20 years	50 000
Workshop building	270 000	210 000	10 years	70 000
Delivery vehicles	850 000	850 000	5 years	100 000
Molding machines	300 000	300 000	3 years	0
Finishing machines	300 000	300 000	3 years	0
Total	1 670 000	1 310 000	–	220 000

The fabrication time for the products depends on their complexity (Table A.6).

Table A.6

Machine work consumption

Workshop	Machine work hour consumption per product			Unit cost per machine work hour used
	Product A	Product B	Product C	
Molding	10.00 MWH	12.00 MWH	20.00 MWH	€28.00 / MWH
Finishing	8.00 MWH	14.00 MWH	36.00 MWH	€30.00 / MWH

The only direct variable production costs are made up of the MWH costs. In reality the supplies consumed by the machines are proportional to the time the machines work.

The fixed production costs are comprised of the maintenance and upkeep costs for the workshop machines on the one hand (Table A.7) and the machine depreciation costs on the other hand. Maintenance allows conserving the same machine productivity for their entire working life.

Table A.7

Fixed production costs

Costs	Molding	Finishing
Machine maintenance, machine/month	€2 000.00	€3 000.00
Workshop upkeep, month	€10 000.00	€20 000.00

Exceptional costs on transfer of fixed assets can appear when a company gives up or sells a part or all of its machines.

It is frequent that good programming of the production will lead to an in-process stock of zero. If however, in-process stocks appear, it is assumed that the company has the available storage space for that stock. Normally, in-process production is completed the following month.

The finished product stocks are valued at the end of processing (out-going) at their weighted average unit cost (Table A.8).

Table A.8

The final finished product stocks at the beginning of the period

Finished products	Product A	Product B	Product C
Quantity	47	48	0
Unit cost	€2 148 / A	€3 474 / B	€0.00 / C

It is assumed that the company has enough space to store their finished products.

The most classical strategy consists in selling on the competitive retail market. In this case it is possible to have the complete range of three products, or become a specialist and commercialize one or two products only. On the market, one may contend with the competition around: prices, publicity, sales force, or client payment terms.

All manufactured products or products bought from subcontractors are not necessarily sold on the competitive market, they can be sold to competing companies for which the company becomes the subcontractor.

Negotiations take place at the beginning of each quarter. The quantities delivered, the price, and the payment terms are freely negotiated between the buyer and seller.

The entire order is delivered at the beginning of the 1st month of the quarter.

Billing and the purchase accounting take place in the delivery month.

Negotiated sales with other companies (or the organizers in the Business Center) have priority over sales on the competitive market. If the selling company does not have sufficient stock to honor the sale, they are automatically resupplied, at an imposed rate, with enough products to deliver to their buyer.

Further, these sales are directly negotiated between the co-contracting managers, so there is no commission due for representatives.

An agreement between all the competing companies, apart from being attacked in a court of law, would have limited effects because there is existing indirect competition from substitution products like inflatable zodiacs and other leisure products.

There is no competition around quality because the product hulls are supposed to be of the same quality. All the same, these quality objectives can be modified by other components in the commercial mix which can generate a different perceived quality.

The sales force is made up of representatives who present the company product to retailers. The more of them there are, the more they can increase their prospecting and the number of visits they make.

The representatives have a double effect:

by their number, they contribute directly to the increase of what the studies call the company attractiveness index;

by their knowledge, skill and motivation, they contribute to improving the company image.

There is a possibility of hiring or firing representatives. In the latter case, company must pay compensation for laying them off equal to 3 months of salary.

Company manages the qualitative dimension through salaries; a higher salary will give company access to the most qualified and most motivated representatives.

The representatives' salaries/income include:

a set amount determined by your decision and expressed by an index, knowing that the index 100 corresponds to a gross monthly salary of €1 500.00;

a variable part made up of an additional benefit based on the sales for which company decide the commission rate on the turnover. This commission is paid out in the month.

Company decide the monthly advertising budget each quarter, and it remains constant for the three months of the quarter. Its effects are directly linked to the amount allocated. This advertising targets the end client. Retailers should find it easier to convince them:

if they already know the brand (brand advertising budget),

and if the products value was enhanced by efficient communication (specific advertising budget for each type of product).

Otherwise, two communication focuses must be decided among the following: price, comfort, product appeal.

Price is always an efficient tool as the companies deal with professionals who are obliged to either pass on the variations they experience, or modify their own profit margins. The price is set for the three months of the quarter and it is published in a catalogue which is updated quarterly. A sales price of zero means that the product is not commercialized.

The company clients are professional retailers, and are very conscious of client payment terms. The company has the choice between the following modes for each type of product:

The chosen mode is published in the catalogue, and is identical for all the clients the rep visits. It cannot be modified during the quarter.

The Administrative Service is in charge of administration, finance and company commercial management. The Administrative Service is made up of three categories of personnel (Table A.9).

Appendix A (continuation)

Table A.9

Manpower and pay for administration and finance services at the beginning of the period

Category	Manpower	Salary index
Executives	1 salaried	450
Middle managers	2 salaried	240
Employees	5 salaried	110

For all these services, the salary index 100 corresponds to a gross monthly salary of €1 500.00. The quality of the administration services is dependent on two things, one quantitative and the other qualitative:

the quantitative component depends on the number of employees and their salary. A very competent or very motivated employee (better paid) can do a better job than one who is less competent or motivated. Studies have measured this quantitative component by the payroll. As the company becomes increasingly busy, the service must be of better quality and consequently the payroll will reflect that reality;

the qualitative component depends on the service's structure, the relative number of employees in each hierarchy level in relation to the total number of employees and the difference in their salaries. Studies have measured this component by the standard deviation of the total salaries. We assume that here is an ideal dispersion.

Good administrative service quality thus defined, would allow the company to:

limit, if not eliminate, late payments which are a consequence of client dissatisfaction and the number of client reminder letters sent out by administrative services;

avoid, if not do away with, irrecoverable debts.

Occasional increases in salary indexes can pay for overtime and bonuses to face peaks in activity. A decrease in the indexes following this type of occasional increase is then not perceived as a decrease in salary levels but as a return to previous or normal salary levels.

When a company needs funding, especially to invest in material, or the finance their working capital needs, they provide a file for the bank in order to negotiate the loan terms – this is to be written on decision sheets.

The contractual duration of the loan can always be modified by making use of the early repayment terms stipulated in the contract.

These loans are repaid by constant monthly payments.

The company took out a loan at the end of the preceding year, "Year 0", for a sum of €600 000.00 over 60 months at a fixed rate of 25 %; the yearly insurance rate is 2.2 % of the initial capital borrowed.

The company can obtain a loan for very short time periods (seasonal credit) with much more flexible terms and conditions than a standard loan. The only details that have to be specified are: loan amount and annual interest rate. Furthermore, in certain cases the European Credit can grant an overdraft authorization.

The authorization is free, but any overdraft yields interest rate payments at the current rate of 10 % per year. The direct debit of this overdraft interest takes place the month following the overdraft in question.

The general annual interest rate is 2 %. It can be different from one company to another. The monthly, proportional or equivalent interest is paid at the beginning of the month.

Appendix B

DECISION SHEET

Company Name: Quarter

Players:

Sale/purchase list

Item		Sale			Purchase		
		Quantity	Price	Total	Quantity	Price	Total
Finished products	Product A						
	Product B						
	Product C						
Delivery services							
Raw materials	plastic						
	wood						
Delivery vehicles							
Molding machines							
Finishing machines							
Other							

Appendix B (continuation)

Per unit cost calculation

Finished products	Quantity to be produced	Production cost, €/product		Selling expenses, €/product	Administrative and general expenses, €/product	Total €/product
		Variable	Fixed			
Product A						
Product B						
Product C						

Personnel list

	Manpower	Salary index, %	Commission rate, %	Total accrued and paid wages	
				€/month	€/quarter
Sales representatives					
Executives					
Middle managers					
Employees					
Total					

Finance activity

	Cash in		Cash out	
	Amount, €	Rate	Amount, €	Rate
Bank loan		25.00 + 2.2 %		–
Investment securities	–	–		

Appendix B (the end)

Accounting policy for assets

Assets	Subdivision	Selected accounting method
Inventories	Raw materials	
	Finished goods	
Accounts receivable	–	
Fixed assets	Office building	
	Workshop building	
	Delivery vehicles	
	Molding machines	
	Finishing machines	

Tax Payments

Tax	Calculations for amount to be paid
VAT	
Income tax	

Appendix C

FINANCIAL STATEMENT
of a small business entity

	CODES
	01
Enterprise ______________________	
Territory ______________________	
Organizational and legal form of management ______________________	
Type of economic activity ______________________	
Average number of employees, persons ______________________	

1. Balance sheet on _	Form No. 1	Code for SCMD	1801006

Assets	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Fixed assets			
Incomplete capital investment	1005		
Property plant equipment:	1010		
initial value	1011		
depreciation	1012		
Long-term biological assets	1020		
Long-term financial investments	1030		
Other non-current assets	1090		
Total for Section I	**1095**		
II. Current assets			
Supplies:	1100		
including finished products	1103		
Current biological assets	1110		
Accounts receivable for goods, works, services	1125		
Accounts receivable on settlements with the budget	1135		
including income tax	1136		
Other current accounts receivable	1155		
Current financial investments	1160		
Money and its equivalents	1165		
Costs of future periods	1170		
Other current assets	1190		
Total for Section II	**1195**		
III. Non-current assets held for sale and disposal groups	**1200**		
Total	**1300**		

Liability	Line code	At the beginning of the reporting year	At the end of the reporting period
1	2	3	4
I. Own capital			
Registered (share) capital	1400		
Additional capital	1410		
Reserved capital	1415		
Retained earnings	1420		
Non-paid capital	1425		
Total for Section I	**1495**		
II. Long-term liabilities, targeted financing and provision	**1595**		
III. Current liabilities			
Short-term bank credits	1600		
Current payables for: long-term liabilities	1610		
goods, work, services	1615		
calculations with the budget	1620		
including income tax	1621		
insurance calculations	1625		
payroll calculations	1630		
Deferred income	1665		
Other current commitments	1690		
Total for Section III	**1695**		
IV. Liabilities related to non-current assets held for sale and disposal groups	**1700**		
Total	**1900**		

2. Report on financial results
for __ quarter ___ 20

Form No. 2
Code
for SCMD

Article	Line code	For the reporting period	For the same period of the previous year
1	2	3	4
Net income from sales of goods (goods, works, services)	2000		
Other operating income	2120		
Other income	2240		
Total income (2000 + 2120 + 2240)	**2280**		
Cost of sold products (goods, works, services)	2050		
Other operating expenses	2180		
Other expenses	2270		
Total costs (2050 + 2180 + 2270)	**2285**		
Financial result before tax (2280 − 2285)	2290		
Income tax	2300		
Net profit (loss) (2290 − 2300)	**2350**		

Appendix D

Turnover balance sheet

Account	Beginning balance		Turnover		Ending balance	
	Debit	Credit	Debit	Credit	Debit	Credit
31						
23						
20						
36						
46						
40						
501						
684						
685						
661						
631						
641						
44						
95						
92						
903						
98						
703						
79						
Total						

Content

НАВЧАЛЬНЕ ВИДАННЯ

БУХГАЛТЕРСЬКИЙ ОБЛІК ТА ЗВІТНІСТЬ

Методичні рекомендації до самостійної роботи для студентів спеціальності 292 "Міжнародні економічні відносини" першого (бакалаврського) рівня

(англ. мовою)

Самостійне електронне текстове мережеве видання

Укладач **Прокопішина** Олена Вікторівна

Відповідальний за видання *А. А. Пилипенко*

Редактор *З. В. Зобова*

Коректор *З. В. Зобова*

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