

# TOPIC 4: OPERATING ACCOUNTS

2º SEM /1º INTRODUCTION TO FINANCIAL ACCOUNTING. SAN PABLO CEU  
UNIVERSITY

2019-2020. NOELIA VICO ROMÁN

# CONTENT

- Operating accounts: concept and usage
- Purchases and expenses accounts: concept and usage
- Sales and income accounts: concept and usage
- Net income calculation process
- The impact on annual statements

# EXPENSES AND INCOMES CLASIFICACION

EXPENSES AND INCOMES ARE CLASIFIED  
BY THE **NATURE OF EVENTS**

# Operating accounts

**EXPENSE:** Decrease Income statement. **Debit side on a Journal Entry. Impact net equity ▼**

- 600. Merchandise purchased
- 621. Leases and royalties
- 622. Repairs and maintenance
- 628. Utilities
- 640. Salaries and wages



## *Let's practice*

- Electricity bill paid by bank up to 150 €.
- Water consumed during the month up to 50€. Will be paid within 30 days.

Bookkeeping in General Ledger.

# Operating accounts

**INCOME:** Contrary to expenses, Income Statement will increase. **Credit side on a Journal Entry. Impact net equity ▲**

- 700. Merchandise sold
- 752. Income from lease agreements
- 759. Income from other services

## *Let's practice*

- Due to a report delivered to a Company, not being our main commercial goal, we have received 300€ by cash.
- A Company issues an invoice for 100€ due to transportation of goods to a customer. It will be recovered within 30 days.

Bookkeeping in General Ledger.

*IMPORTANT!!!*

**INCOMES**



**RECEIPTS**

**EXPENSES**



**PAYMENTS**

# OPERATING EXPENSES

- ✓ 62. External services
  - ✓ 63. Taxes
- ✓ 64. Personnel expenses
  - ✓ 65. Other expenses
  - ✓ 66. Finance expenses
- ✓ 67. Losses on non-current assets and exceptional expenses
  - ✓ 68. Amortisation and depreciation
  - ✓ 69. Impairment losses and other charges

# EXTERNAL SERVICES

## SUBGROUP (62X) EXTERNAL SERVICES

620 - Research and development expenses for the period

621 - Leases and royalties

622 - Repairs and maintenance

623 - Independent professional services

624 -Transport

625 - Insurance premiums

626 - Banking and similar services

627 - Advertising, publicity and public relations

628 - Utilities

629 - Other services

(410) PAYABLES  
FOR THE  
RENDERING OF  
SERVICES  
If is not paid

# Lets practice

Lomitos, S.L., sausage factory, has the following economical events:

1. Marketing campaign, due for payment: 5.000€
2. Consulting service, due for payment: 2.500€
3. Vehicle insurance, paid by bank transfer: 3.200€
4. Machinery maintenance, paid by bank transfer: 1.200€
5. Employee travel expenses paid by the company by bank transfer: 500€

Bookkeeping in General Ledger.

# PERSONNEL EXPENSES

## SUBGROUP (64x) PERSONNEL EXPENSES

(640) Salaries  
and wages



Gross salary

(641)  
Termination  
benefits



Dismissal and  
early  
retirement

(642) Social  
Security payable  
by the company



Company  
contribution to  
social security

(649) Employee benefits  
expenses



Canteen, support for  
schools and professional  
training, scholarships,  
insurance...



# OTHER ACCOUNTS RELATED TO PERSONNEL EXPENSES

## SUBGROUP (47x) PUBLIC ENTITIES

(4751) Taxation  
authorities,  
withholding tax



Withholding  
payable from  
employees to  
authorities

(476) Social security  
payable



Contributions  
corresponding to  
the Company + to  
the employees

## SUBGROUP (46x) PERSONNEL

(465) Salaries  
payable



Payables to  
employees specified  
in accounts 640 and  
641

(460) Salary  
advances



Advance  
payments to  
employees.

# PERSONNEL EXPENSES ENTRY

	460. Salary advances	572. Banks	For salary advances	4751. Withheld Tax payable	572. Banks	For the payment of debts owed to the Public Administration
Accrued gross salaries	640. Wages and salaries	4751. Withheld Tax payable	Withheld income tax			
		476. Social Security payable	Social security payable-worker	476. Social Security payable	572. Banks	
		460. Salary advances	Returns of salary advances			
		572. Banks or 465. Salaries payable	Net salaries			
	642. Social security	476. Social Security payable	Accrued employer's share			
	465. Salaries payable	572. Banks	For the payment of pending remuneration			

# Let's practice

A. Payroll paid by bank transfer as follows:

1. Gross salaries: 8.000€
2. Employees withholding taxes: 200€
3. Social Security employees contribution: 800€
4. Social Security company contribution: 2.500€
5. Net salaries to be paid: 7.000€

B. Scholarship 500€.

C. Advance payment to employee paid by bank transfer: 1.000€. It will be discounted in following month.

Bookeeping in General Ledger.

# FINANCE EXPENSES

## SUBGROUP (66X) FINANCE EXPENSES

662 - Interest  
on payables

- Interest on loans received and other payables

669 - Other  
finance  
expenses

- Includes also insurance covering financial risk.

Counterparty:  
(57X) Treasury

# Lets practice

1. Novaland, S.L. has definitely lost a right from customer for 12.000€. Furthermore, they won't commit the delivery date agreed for a construction project sum up to 5.000€.
1. The bank charger fee for creditor balance for 140€. Furthermore, interest on creditor balance has been charged sum up to 650€.

Bookeeping in General Ledger.

# OPERATING INCOMES

- ✓ 73. Work carried out by the company for assets
  - ✓ 74. Grants, donations and bequests
  - ✓ 75. Other income
  - ✓ 76. Finance income
- ✓ 77. Gains on non current assets and exceptional income
- ✓ 79. Surplus and use of provisions and impairment losses

# OTHER INCOME

19

## SUBGROUP (75x) OTHER INCOME

(752) Income  
from lease  
agreements



Rental  
agreements or  
operating leases

(755) Income  
from services to  
personnel



Canteen,  
transportation...

(759) Income from other  
services



Services to other  
companies:  
transportation, repairs,  
advisory services and  
reports.

(440) Other  
receivables



If not  
recovered.

# Let's practice

1. Laboratorios Madrileños, agreed a lease with a third party. Laboratorios Madrileños will receive by bank transfer 1.600€ monthly due to the agreement.
2. Laboratorios Madrileños will received yearly by banks transfer 300.000€ due to an income from transfer of industrial property.
3. Vuela, S.A., provides employee training to a third party, issuing an invoice for 250.000€ that will be recovered within 2 months.
4. The company receives interest on investment in the bank account summing up to 3.000€. Withholding tax: 19%.
5. The company receives interest on obligations in the bank account summing up to 2.000€. Withholding tax: 19%.
6. The company receives interest due to bank account summing up to 300€. Withholding tax: 19%.
7. The company receives interest on a loan given to a third party company summing up to 500€. Withholding tax: 19%.

Bookeeping in General Ledger.



# PREPARING FINANCIAL STATEMENTS AND ANNUAL CLOSING: CLOSING ENTRIES

## STEP 1: Reducing incomes and expenses to zero.



- The difference will be transferred to Balance Sheet, account (129) Profit/loss for the period.
- Usually: Group 6 to credit side and group 7 to debit side.
- The beginning balance for following period will be zero.

## STEP 2: Close assets, liabilities and net equity.

- Closed at the end of the financial year and then must be opened at the beginning of the next period, in the *opening entry*.
- Usually: assets to credit side and equity and liabilities to debit side.

# Profit/loss for the period

129 Profit/loss for the period

Expenses (Group 6XX)		Incomes (Group 7XX)	
Dr>Cr (E>I)		Cr>Dr (I>E)	
Debtor balance		Creditor balance	
Loss		Profit	
 Net equity		 Net equity	