

TOPIC 4: OPERATING ACCOUNTS

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

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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



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

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

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) Debtor balance Loss ▼ Net equity	Cr>Dr (I>E) Creditor balance Profit ▲ Net equity